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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, 2007

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

Commission file number: 1-8443

TELOS CORPORATION
(Exact name of registrant as specified in its charter)

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

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

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

Securities registered pursuant to Section 12(g) of the Act:
12% Cumulative Exchangeable Redeemable Preferred Stock, par value $.01 per share

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒ Smaller reporting company ☐
(Do not check if a smaller reporting company)

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, 2007: Not applicable

As of December 8, 2008, the registrant had outstanding 24,270,146 shares of Class A Common Stock, no par value; and 4,037,628 shares of Class B Common Stock, no par value.

DOCUMENTS INCORPORATED BY REFERENCE: None

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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.

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 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 a number of important factors could cause results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors include (i) market and interest rate fluctuations; (ii) the effects of, and changes in, fiscal, monetary, trade and tax policies, and currency fluctuations; (iii) political and social developments, including war, civil unrest or terrorist activity; (iv) the Company's ability to maintain sufficient liquidity and access to capital markets; (v) operational factors such as systems failure, human error, or the failure to properly implement procedures; (vi) actions taken by regulators with respect to the Company's business; (vii) the effects on the Company of changes in laws, regulations or accounting policies or practices, (viii) competition in the geographic and business area in which the Company conducts its operations; (ix) the Company's ability to retain and recruit qualified personnel; (x) the Company's ability to maintain its reputation and promote its products and services; (xi) the Company's ability to increase market share and control expenses; (xii) technological changes; (xiii) the timely development and acceptance of its products and services and the perceived overall value of these products and services by users; (xiv) the adverse resolution of litigation and other contingencies; and (xv) the Company's success at managing the risks involved in the foregoing.

The Company cautions you that the foregoing list of important factors is not all inclusive; when evaluating forward-looking statements, you should carefully consider the foregoing factors and other uncertainties and events, as well as the risks identified in its most recent filings with the United States Securities and Exchange Commission.

PART I

Item 1. Business

History and Introduction

Telos Corporation (the "Company" or "Telos") is an information technology solutions and services company addressing the needs of U.S. Government and commercial customers worldwide. The Company owns all of the issued and outstanding share capital of Xacta Corporation, a subsidiary that develops, markets, and sells government-validated secure enterprise solutions to government and commercial customers. The Company also has a 60% ownership interest in Telos Identity Management Solutions, LLC ("TIMS LLC"). See Note 2 – Sale of Assets. Additionally, the Company has a 60% ownership interest in Teloworks, Inc., a Delaware company which owns substantially all of the issued and outstanding share capital of Teloworks Philippines, Inc. (collectively, "Teloworks") as of December 31, 2007. See Note 3 – Investment in Teloworks, Inc.

The Company's principal offices are located at 19886 Ashburn Road, Ashburn, Virginia 20147. The Company was incorporated as a Maryland corporation in October 1971. The Company's web site is www.telos.com, and Xacta's web site is www.xacta.com. You can learn more about the Company by reviewing its SEC filings on the Telos web site. The SEC also maintains a web site at www.sec.gov that contains reports, proxy and information statements and other information regarding SEC registrants, including the Company.

On April 11, 2007, TIMS LLC was formed as a limited liability company under the Delaware Limited Liability Company Act. The Company contributed substantially all of the assets of its Identity Management business line and assigned its rights to perform under its U.S. Government contract with the Defense Manpower Data Center ("DMDC") to TIMS LLC. See Note 2 – Sale of Assets.

Reportable Segments

For the year ended December 31, 2007, Telos generated revenue of $226.6 million. As of December 31, 2007, the Company's operations are comprised of two operating segments, Managed Solutions and Xacta. Descriptions for each of these operating segments are as follows:

Managed Solutions: Develops, markets and sells integration services which address a wide range of government information technology ("IT") requirements. Offerings include innovative IT solutions consisting of industry leading IT products from original equipment manufacturers ("OEMs") with complementary integration and managed support services provided by Telos. Managed Solutions also provides general IT consulting and integration services in support of various U.S. Government customers. For 2007, Managed Solutions generated revenue of $122.7 million.

Xacta: Develops, markets and sells government-validated secure enterprise solutions to the U.S. Government and financial institutions, to address the growing demand for information security solutions. Xacta provides Secure Network solutions, Enterprise Messaging solutions, Identity Management solutions, Information Security Consulting services and IT Security Management software solutions. For 2007, Xacta generated revenue of $103.9 million.

For additional information concerning the Company's reportable segments, see Note 13 to the Consolidated Financial Statements.

For the year 2008, the Company changed the basis that it used internally for evaluating segment performance and deciding how to allocate resources to segments, and thus changed the reportable segment financial information.

Major Markets and Significant Activities

The entire range of Telos' services and solutions are offered to U.S. Government agencies. Accordingly, the Company must maintain expert knowledge of federal agency policies, procedures and operations. The Company's products and services for U.S. Government agencies in many instances combine a wide range of skills drawn from each of its major product and service offerings. The Company's commercial client base presently consists of financial institutions and other large commercial organizations that have purchased Xacta's solutions.

Decisions regarding contract awards by the Company's U.S. Government customers typically are based upon an assessment of the quality of Telos' past performance, responsiveness to proposal requirements, uniqueness of the offering itself, price, and other competitive factors.

Telos has strategic business relationships with certain companies in the information technology industry. These strategic partners have business objectives compatible with those of the Company, and offer products and services that complement those of the Company. The Company intends to continue development of such relationships wherever they support its marketing, growth and service offering objectives.

Marketing and new business development for the Company is undertaken by virtually all officers and managers of the Company, including the chief executive officer, executive officers, vice presidents, and division managers. The Company employs marketing, new business development and sales professionals who identify and qualify contract and sales opportunities, primarily in the U.S. Government marketplace. The Company's proprietary software systems are sold primarily by full-time sales persons. The Company also has established agreements for the resale of certain third party software products.

The majority of the Company's business is awarded through submission of formal competitive bids. Commercial bids are frequently negotiated as to terms and conditions such as schedule, specifications, delivery and payment. However, with respect to bids for U.S. Government proposals, in most cases the customer specifies the terms, conditions and form of the contract. In situations where the customer-imposed contract type and/or terms appear to expose the Company to inordinate or unquantifiable risk, the Company may seek alternative arrangements or opt not to bid for such potentially high risk work.

Essentially all contracts with the U.S. Government agencies permit the customers to terminate the contract at any time at their convenience or for default by the contractor. If the U.S. Government terminated its contracts with the Company, the termination would have a significant adverse impact upon the Company's operations. Throughout the Company's 37 years in business, such terminations have been rare and, generally, have not materially and adversely affected operations. As with other companies that do business with the U.S. Government, the Company's business is subject to Congressional and departmental funding decisions and actions that are beyond its control. The Company's contracts and subcontracts are generally composed of a wide range of contract vehicles including indefinite delivery/indefinite quantity ("IDIQ") and government-wide acquisition contracts (known as "GWACS") which are generally firm fixed-priced or time-and-materials contracts. For 2007, the Company's revenue derived from firm fixed-price and time-and-material contracts was 89.0% and 11.0%, respectively.

In 2007, the Company derived substantially all of its revenues from contracts and subcontracts with the U.S. Government. Revenue by customer sector for the last three fiscal years is as follows:

	2007		2006		2005	
			(amount in thousands)			
Department of Defense	$195,871	86.5%	$121,039	85.9%	$123,905	86.9%
Federal Civilian	29,545	13.0%	17,859	12.7%	12,747	8.9%
Commercial	1,169	0.5%	1,975	1.4%	5,943	4.2%
Total	$226,585	100.0%	$140,873	100.0%	$142,595	100.0%

Competition

Telos operates in a highly competitive marketplace. The Company obtains the majority of its business in response to competitive requests from potential and current customers. Additionally, Telos faces indirect competition from certain U.S. Government agencies that perform “in-house” services similar to those provided by Telos. The Company knows of no single competitor that is dominant in its relative fields of technology, solutions and services.

The Company operates in industry segments that are diverse. Based upon the Company’s current market analysis, there is no single company or small group of companies in a dominant competitive position. Some large competitors offer capabilities in a number of markets that overlap many of the same areas in which the Company offers services, while certain companies are focused upon only one or a few of such markets. In addition, Xacta’s business competes with smaller specialty companies in risk and compliance management, organizational messaging companies, security consulting organizations, as well as companies that provide secure network offerings.

Decisions regarding contract awards by the Company’s U.S. Government customers typically are based upon an assessment of the quality of Telos’ past performance, responsiveness to proposal requirements, uniqueness of the offering itself, price, and other competitive factors.

Employees

As of December 31, 2007, the Company employed 422 people. The services which the Company provides require proficiency in many fields, such as computer science, information security and vulnerability testing, networking technologies, physics, engineering, operations research, economics, and business administration. Of the total Company personnel, 37 operate in Managed Solutions and 294 operate in Xacta. An additional 91 employees provide corporate, sales and administrative services. TIMS LLC employed 62 employees as of December 31, 2007. Teloworks employed 60 employees as of December 31, 2007.

The Company places a high value on its employees and constantly competes for highly skilled professionals in virtually all of its competitive arenas. The success and growth of the Company’s businesses is directly related to its ability to recruit, train, promote and retain highly skilled employees at all levels of the organization. As a result, the Company seeks through internal resources and practices, and through engagement of such professional consultants as may be required, to remain competitive in terms of salary structures, incentive compensation programs, fringe benefits, opportunities for growth, and individual recognition and award programs.

The Company has published policies and procedures that establish high standards of conduct for employees in recognition of its highly regulated U.S. Government contractor responsibility and its legal and regulatory requirements. The Company requires each of its employees, consultants, officers, and directors to annually execute and affirm a code of ethics and other corporate compliance policies and procedures. Each employee must annually reaffirm his or her specific awareness of, and commitment to complying with the corporate code of ethics and related compliance, policies and procedures.

Patents, Trademarks, Trade Secrets and Licenses

Intellectual property is critical to the long-term value and success of the Company and accordingly the Company has invested heavily in intellectual property, in the form of patents, copyrights, trademarks, service marks, and other proprietary assets. The Company is committed to vigilant protection of its intellectual property and proprietary information and will use every available resource to protect such investment. Among other things, the Company requires all employees and consultants to execute confidentiality and non-disclosure agreements which limit the disclosure of confidential information to certain circumstances set forth in such agreements. Patents for the Company’s products extend for varying periods based on the date of the patent filing or grant. Trademark and service mark protection continues for as long as the marks are used. Generally, copyright protection continues for a term of at least 70 years.

Backlog

Many of the Company's contracts with the U.S. Government are funded year to year by the procuring U.S. Government agency as determined by the fiscal requirements of the U.S. Government and the respective procuring agency. Such a contracting process results in two distinct categories of backlog: funded and unfunded. Total backlog consists of the aggregate contract revenues remaining to be earned by the Company at a given time over the life of its contracts, whether funded or not. Funded backlog consists of the aggregate contract revenues remaining to be earned by the Company at a given time, but only to the extent, in the case of U.S. Government contracts, when funded by the procuring U.S. Government agency and allotted to the specific contracts. Unfunded backlog is the difference between total backlog and funded backlog. Included in unfunded backlog are revenues which may be earned only when and if customers exercise delivery orders and/or renewal options to continue such existing contracts.

A number of contracts undertaken by the Company extend beyond one year, and accordingly portions of contracts are carried forward from one year to the next as part of the backlog. Because many factors affect the scheduling and continuation of projects, no assurance can be given as to when revenue will be realized on projects included in the Company's backlog.

At December 31, 2007 and 2006, the Company had total backlog from existing contracts of approximately $118.5 million and $92.1 million, respectively. Of these amounts, approximately $94.1 million and $64.9 million, respectively, were for Xacta's business with the remaining amount attributed to Managed Solutions. Such amounts are the maximum possible value of additional future orders for systems, products, maintenance and other support services presently allowable under those contracts, including renewal options available on the contracts if fully exercised by the customer.

Funded backlog as of December 31, 2007 and 2006 was $99.1 million and $78.8 million, respectively. Of these amounts, approximately $75.5 million and $52.7 million, respectively, were for Xacta's business with the remaining amount attributed to Managed Solutions.

While backlog remains a measurement consideration, in recent years the Company, as well as other U.S. Government contractors, experienced a material change in the manner in which the U.S. Government procures equipment and services. These procurement changes include the growth in the use of General Services Administration ("GSA") schedules which authorize agencies of the U.S. Government to purchase significant amounts of equipment and services. The use of the GSA schedules results in a significantly shorter and much more flexible procurement cycle, as well as increased competition with many companies holding such schedules. Along with the GSA schedules, the U.S. Government is awarding a large number of omnibus contracts with multiple awardees. Such contracts generally require extensive marketing efforts by the multiple awardees to procure such business. The use of GSA schedules and omnibus contracts, while generally not providing immediate backlog, provide areas of growth that the Company continues to aggressively pursue.

Seasonality

The Company derives substantially all of its revenue from U.S. Government contracting, and as such it is annually subject to the seasonality of the U.S. Government purchasing. As the U.S. Government fiscal year ends on September 30, it is not uncommon 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 cyclicality, the Company has historically experienced higher revenues in its third and fourth fiscal quarters, ending September 30, and December 31, respectively, with the pace of orders substantially reduced during the first and second fiscal quarters ending March 31 and June 30, respectively.

Item 1A. Risk Factors

In addition to other information in this Form 10-K, the following risk factors should be carefully considered in evaluating the Company and its business because these factors currently have, or may have, a significant impact on the Company's 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.

The Company's inability to maintain sufficient liquidity and access to capital markets, including the inability to successfully restructure its balance sheet may have a significant impact on its business.

The consolidated financial statements for the year ended December 31, 2007 that are included in this Form 10-K have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company's working capital deficit was $0.4 million and $12.1 million as of December 31, 2007 and 2006, respectively, primarily due to amounts resulting from unreimbursed litigation-related and other legal expenses. Total expenses related to litigation and other legal costs were $5.1 million (net of $4.7 million in reimbursements by the Company's insurers) for 2007, $5.7 million (net of $3.1 million in reimbursements by the Company's insurers) for 2006, and $4.1 million for 2005. Such unreimbursed litigation-related and other legal expenses adversely affected working capital, and $5.8 million of such expenses were unpaid as of December 31, 2007. While the Company has actively worked with its vendors, including law firms, partners, subcontractors, and Wells Fargo Foothill, its lender under its amended credit facility (the "Facility") to mitigate the effect of these working capital constraints during this period, there can be no assurances as to the continuing ability of the Company to successfully work with such parties to mitigate such working capital constraints going forward. See Note 7 – Current Liabilities and Debt Obligations. As of December 31, 2007, the Company was in compliance with the Facility's financial and Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") covenants. Based on the Company's current projection of EBITDA, the Company expects that it will remain in compliance with its EBITDA covenants. Although no assurances can be given, the Company expects that it will continue to be in compliance throughout the term of the Facility with respect to the financial and other covenants.

Although no assurances can be given, the Company believes that available cash and borrowings under the Facility will be sufficient to generate adequate amounts of cash to meet the Company's needs for operating expenses, debt service requirements, and projected capital expenditures for 2008. Although there can be no assurance of continued availability of the Facility, the Company anticipates the continued need for a credit facility upon terms and conditions substantially similar to the Facility in order to meet the Company's long term needs for operating expenses, debt service requirements, and projected capital expenditures.

The Company depends on the U.S. Government for a significant portion of its sales and a significant decline in purchases by the U.S. Government could have an adverse impact on the Company's financial condition and results of operations.

The Company's sales are highly concentrated with the U.S. Government. The customer relationship with the U.S. Government involves certain risks that are unique. In each of the past three years, substantially all of the Company's net sales were to the U.S. Government. U.S. defense spending has historically been cyclical. Defense budgets have received their strongest support when perceived threats to national security raise the level of concern over the country's safety. As these threats subside, spending on the military tends to decrease. Accordingly, while Department of Defense funding has grown rapidly over the past few years, there is no assurance that this trend will continue. Rising budget deficits, the cost of the global war on terrorism and increasing costs for domestic programs continue to put pressure on all areas of discretionary spending, which could ultimately impact the defense budget. Wartime support for defense spending could wane if the country's troop deployments in support of operations in Iraq and Afghanistan are reduced. A decrease in U.S. Government defense spending or changes in spending allocation could result in one or more of the Company's programs being reduced, delayed or terminated. Reductions in the Company's existing programs, unless offset by other programs and opportunities, could adversely affect its ability to sustain and grow its future sales and earnings.

U.S. Government contracts generally are not fully funded at inception and are subject to termination, which places a significant portion of the Company's revenues at risk and could adversely impact the Company's earnings.

The Company's U.S. Government sales are funded by customer budgets, which operate on an October-to-September fiscal year. In February of each year, the President of the United States presents to the Congress the budget for the upcoming fiscal year. This budget proposes funding levels for every federal agency and is the result of months of policy and program reviews throughout the Executive branch. From February through September of each year, the appropriations and authorization committees of Congress review the President's budget proposals and establish the funding levels for the upcoming fiscal year in appropriations and authorization legislation. Once these levels are enacted into law, the Executive Office of the President administers the funds to the agencies. There are two primary risks associated with this process. First, the process may be delayed or disrupted. Changes in congressional schedules, negotiations for program funding levels or unforeseen world events can interrupt the funding for a program or contract. This, in fact, occurred during the 2006 budget process, in which the defense appropriations bill was not approved until three months into the 2006 fiscal year, delaying contract orders that would have been awarded in 2005. 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 indefinite delivery, indefinite quantity ("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 additional element of uncertainty to future funding levels. Delays in the funding process or changes in funding can impact the timing of available funds or can lead to changes in program content or termination at the government's convenience. The loss of anticipated funding or the termination of multiple or large programs could have an adverse effect on the Company's future sales and earnings.

The Company is subject to substantial oversight from federal agencies that have the authority to suspend the Company's ability to bid on contracts.

As a U.S. Government contractor, the Company is subject to oversight by many agencies and entities of the U.S. Government that may investigate and make inquiries of the Company's 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 the Company. 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. To the best of management's knowledge, there are no pending investigations, inquiries, claims or audits against the Company likely to have a material adverse effect on the Company's business or its consolidated results of operations, cash flows or financial position.

The Company depends on third parties in order to fully perform under the Company's contracts and the failure of a third party to perform could have an adverse impact on the Company's earnings.

The Company relies on subcontractors and other companies to provide raw materials, major components and subsystems for its products or to perform a portion of the services that the Company provides to its customers. Occasionally, the Company relies on only one or two sources of supply, which, if disrupted, could have an adverse effect on the company's ability to meet its commitments to customers. The Company depends on these subcontractors and vendors to fulfill their contractual obligations in a timely and satisfactory manner in full compliance with customer requirements. If one or more of the Company's subcontractors or suppliers is unable to satisfactorily provide on a timely basis the agreed-upon supplies or perform the agreed-upon services, the Company's ability to perform its obligations as a prime contractor may be adversely affected.

The Company's future profitability depends, in part, on its ability to develop new technologies and maintain a qualified workforce to meet the needs of its customers.

Virtually all of the products produced and sold by the Company are highly engineered and require sophisticated manufacturing and system integration techniques and capabilities. The government market in which the Company primarily operates is characterized by rapidly changing technologies. The product and program needs of the Company's government and commercial customers change and evolve regularly. Accordingly, the Company's future performance in part depends on its ability to identify emerging technological trends, develop and manufacture competitive products, and bring those products to market quickly at cost-effective prices. In addition, because of the highly specialized nature of its business, the Company must be able to hire and retain the skilled and appropriately qualified personnel necessary to perform the services required by the Company's customers. If the Company is unable to develop new products that meet customers' changing needs or successfully attract and retain qualified personnel, future sales and earnings may be adversely affected.

The business environment is highly competitive and may impair the Company's ability to achieve revenue growth.

The Company operates in industry segments that are diverse. Based upon the Company's current market analysis, there is no single company or small group of companies in a dominant competitive position. Some large competitors offer capabilities in a number of markets that overlap many of the same areas in which the Company offers services, while certain companies are focused upon only one or a few of such markets. Some of the firms that compete with the Company in multiple areas include: Northrop Grumman, Lockheed Martin and General Dynamics. In addition, Xacta's business competes with smaller specialty companies in risk and compliance management companies, organizational messaging companies, security consulting organizations, as well as companies that provide secure network offerings. If the Company does not compete effectively, it may suffer price reductions, reduced gross margins and loss of market share.

Some of the Company's security solutions have lengthy sales and implementation cycles, which could impact significantly the Company's results of operations if projected orders are not realized.

The Company markets the majority of its security solutions directly to U.S. Government customers. The sale and implementation of its services to these entities typically involves a lengthy education process and a significant technical evaluation and commitment of capital and other resources. 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 the Company's services can be lengthy, potentially lasting from three to nine months. The Company's quarterly and annual operating results could be materially harmed if orders forecasted for a specific customer for a particular quarter are not realized.

If the Company is unable to protect its intellectual property, its revenues may be impacted adversely by the unauthorized use of its products and services.

The Company's success depends on its internally developed technologies, patents and other intellectual property. Despite its precautions, it may be possible for a third party to copy or otherwise obtain and use the Company's trade secrets or other forms of intellectual property without authorization. Furthermore, the laws of foreign countries may not protect the Company's 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 the Company does not effectively protect its intellectual property, its business could suffer. In the future, the Company may have to resort to litigation to enforce its intellectual property rights, to protect its trade secrets or to determine the validity and scope of the proprietary rights of others. This type of litigation, regardless of its outcome, could result in substantial costs and diversion of management and technical resources.

If the Company is unable to license third-party technology that is used in its products and services to perform key functions, the loss could have an adverse affect on the Company's revenues.

These third-party technology licenses may not continue to be available on commercially reasonable terms or at all. The Company's business could suffer if it lost the rights to use these technologies. 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 the Company and a third-party could lead to royalty obligations for which the Company is not indemnified or for which indemnification is insufficient, or the Company may not be able to obtain any additional license on commercially reasonable terms or at all. The loss of, or the Company's 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. This could harm the Company's business.

Any potential future acquisitions, strategic investments, divestitures, mergers or joint ventures may subject the Company to significant risks, any of which could harm the Company's business.

The Company's long-term strategy may include identifying and acquiring, investing in or merging with suitable candidates on acceptable terms, or divesting of certain business lines or activities. In particular, over time, the Company may acquire, make investments in, or merge with providers of product offerings that complement its business or may terminate such activities. Mergers, 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 its existing business;
- possible additional 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 the Company;
- 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 under-perform relative to the Company's expectations, and may not achieve the benefits we expect from possible acquisitions. For all these reasons, the Company's pursuit of an acquisition, investment, divestiture, merger, or joint venture could cause its actual results to differ materially from those anticipated.

Item 1B. Unresolved Staff Comments

Not applicable to the Company as the Company is not an “accelerated filer”, “large accelerated filer” or “well-known seasoned issuer” as such terms are defined in Rule 12b-2 under the Exchange Act.

Item 2. Properties

The Company leases 191,700 square feet of space for its corporate headquarters, integration facility, and primary service depot in Ashburn, Virginia. The lease expires in March 2016, with a ten-year extension available at the Company’s option. This facility supports both of the Company’s operating segments.

The Company subleases 5,500 rentable square feet of space at the Ashburn, Virginia facility to its affiliate, Enterworks, Inc. which serves as Enterworks’ corporate headquarters. This sublease will expire on December 31, 2008.

The Company subleases 27,000 rentable square feet of space at the Ashburn, Virginia facility to its affiliate, TIMS LLC which serves as TIMS’ corporate headquarters. This sublease will expire on April 20, 2009.

The Company leases additional office space in 7 separate facilities located in California, Massachusetts, Maryland, New Jersey, Virginia, the District of Columbia and Germany under various leases expiring through October of 2011.

The Company believes that the current space is substantially adequate to meet its operating requirements.

Item 3. Legal Proceedings

Information regarding legal proceedings may be found in Note 15 to the Consolidated Financial Statements.

Item 4. Submission of Matters to a Vote of Security Holders

The Company’s annual meeting of shareholders was held on November 15, 2007. The only matter set forth at the meeting for common stockholders was the election of directors by the holders of Common Stock. The Company did not receive any nominations for Class D directors. As a result, the terms of Seth W. Hamot and Andrew R. Siegel continued after the annual meeting.

The holders of Common Stock necessary to constitute a quorum (representing 83.58% or 21,068,535 shares of a total of 25,208,830 outstanding shares of Common Stock) were present either in person or represented by proxy or attorney. 99.60% of the votes, or 20,984,850 votes represented at the annual meeting were cast for John B. Wood, Bernard C. Bailey, David Borland, William M. Dvoranchik, Bruce R. Harris, Charles S. Mahan, Jr., Robert J. Marino, and Jerry O. Tuttle, who were elected directors for a term of one year, which expires at the next annual meeting of shareholders upon the election of their successors. 0.40% of the votes, or 83,685 votes were withheld and there were no broker non-votes.

A special meeting of the Company’s holders of Common Stock was held on February 21, 2008. The purpose of the special meeting was to approve the Telos Corporation 2008 Omnibus Long-Term Incentive Plan (“2008 Plan”). The holders of Common Stock necessary to constitute a quorum (representing 78.07% or 19,681,291 shares of a total of 25,208,830 outstanding shares of Common Stock) were present either in person or represented by proxy or attorney. 99.64% of the votes, or 19,610,801 votes represented at the special meeting were cast in favor of the 2008 Plan. 0.36% of the votes or 70,490 votes cast against approval of the 2008 Plan and there were no broker non-votes.

PART II

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

No public market exists for the Company's Class A or Class B Common Stock. As of November 14, 2008, there were 198 holders of the Company's Class A Common Stock and 5 holders of the Company's Class B Common Stock. The Company has not paid dividends on either class of its Common Stock during the last two fiscal years. For a discussion of restrictions on the Company's ability to pay dividends, see Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources.

No public market exists for the Company's Series A-1 and Series A-2 Redeemable Preferred Stock ("Senior Redeemable Preferred Stock"). See Note 8 – Redeemable Preferred Stock.

As previously disclosed, effective July 13, 2007, the Company's Public Preferred Stock is no longer quoted on the OTCBB, and is now quoted as TLSRP in the Pink Sheets. See Note 8 – Redeemable Preferred Stock.

Item 6. Selected Financial Data

The following should be read in connection with the accompanying information presented in Item 7 and Item 8 of this Form 10-K.

OPERATING RESULTS

	Years Ended December 31,				
	2007	2006	2005	2004	2003
	(amounts in thousands)				
Sales	$226,585	$140,873	$142,595	$116,340	$88,907
Operating income (loss)	9,353	(9,025)	(5,863)	5,944	(3,347)
Income (loss) before minority interest and income taxes	6,936	(29,669)	(15,051)	(2,894)	1,802
Net income (loss)	5,546	(29,681)	(14,060)	(2,953)	(8,685)

FINANCIAL CONDITION

	As of December 31,				
	2007	2006	2005	2004	2003
	(amounts in thousands)				
Total assets	$ 67,456	$ 48,460	$ 41,862	$ 58,517	$33,611
Senior credit facility (1)	12,849	12,568	12,159	11,416	6,497
Senior subordinated debt (1)	5,179	5,179	5,179	5,179	5,179
Capital lease obligations, long-term (2)	8,129	8,722	9,239	9,727	10,243
Senior redeemable preferred stock (3)	9,447	9,023	8,599	8,175	7,751
Public preferred stock (3)	92,837	87,987	71,008	65,424	59,425

(1) See Note 7 to the Consolidated Financial Statements in Item 8 regarding debt obligations of the Company.
(2) See Note 11 to the Consolidated Financial Statements in Item 8 regarding the capital lease obligations of the Company.
(3) See Note 8 to the Consolidated Financial Statements in Item 8 regarding redeemable preferred stock of the Company.

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

General

As of December 31, 2007, the Company's operations are comprised of two operating segments, Managed Solutions and Xacta.

Managed Solutions: Develops, markets and sells integration services which address a wide range of government information technology ("IT") requirements. Offerings include innovative IT solutions consisting of industry leading IT products from original equipment manufacturers ("OEMs") with complementary integration and managed support services provided by Telos. Managed Solutions also provides general IT consulting and integration services in support of various U.S. Government customers. Telos has global experience with integration engagements to anticipate and address the requirements of defense and federal agencies of any scope. Technical capabilities include a 67,000-square-foot assembly and integration area and warehouse facilities, as well as the Telos Customer Support Center, which provides 24/7/365 help desk and field support. For 2007, Managed Solutions generated revenue of $122.7 million.

Xacta: Develops, markets and sells government-validated secure enterprise solutions to the U.S. Government and financial institutions, to address the growing demand for information security solutions. Xacta provides Secure Network solutions, Enterprise Messaging solutions, Identity Management solutions, Information Security Consulting services and IT Security Management software solutions. For 2007, Xacta generated revenue of $103.9 million.

- Secure Network solutions – Xacta's Secure Network solutions business line ("Secure Network") offers wireless local area network ("WLAN") solutions that enable Department of Defense ("DoD") users to extend their enterprise network beyond offices and other wired facilities. With WLAN technology, users in remote or hard-to-wire locations, including flightlines, on-board ships, in warehouses, or forwardly deployed locations can access databases, information, and applications just as if they were connected to the wired enterprise LAN. Xacta uses extensive proprietary knowledge and experience coupled with commercial-off-the-shelf ("COTS") products to deliver a solution that significantly reduces user costs and enhances efficiency.
- Secure Messaging – Xacta's Secure Messaging business line ("Secure Messaging") designs, sells, deploys and supports a web-based system for secure automated distribution and management of organizational electronic messages across a user's enterprise through its own Automated Message Handling System ("AMHS"). In addition, the Secure Messaging business line provides support services to the U.S. Government's Defense Message System ("DMS"). The goal of DMS and AMHS is to make messaging information available as quickly as possible to those who need it, whether in the office or on the battlefield. AMHS operates at all security levels for DoD, civilian and intelligence community messaging requirements.
- Information Assurance – Xacta's Information Assurance business line ("IA") designs, sells, deploys and manages solutions that protect and support the security of enterprise IT resources throughout the U.S. Government and certain financial federally insured depositary institution businesses. The IA business line offers software and service solutions for compliance assessment, continuous risk and sustained compliance management, and security process enforcement through its software product offering, Xacta IA Manager. Xacta IA Manager is the leading solution for U.S. Government certification and accreditation ("C&A") activities in the marketplace today. In addition, the business line's cleared, highly-skilled, and IA-certified security professionals offer a full range of enterprise security consulting and implementation services.
- Identity Management – Xacta's Identity Management business line (currently known as "TIMS LLC", see Note 2 – Sale of Assets for further discussion) provides identity management solutions. Xacta IM solutions offer control of physical access to military bases, office buildings, disaster sites, workstations, and other facilities, as well as control of logical access to databases, host systems, and other IT resources. They create a perimeter that protects and defends the physical and virtual resources of key defense and civilian agencies. Xacta partners with leading technology companies to deliver integrated solutions that ensure virtually impenetrable physical and logical protection. The Company also has experience with wireless technologies, public key infrastructure security, information assurance, systems integration, maintenance, and support to ensure optimal performance and integrity.

For the year 2008, the Company changed the basis that it used internally for evaluating segment performance and deciding how to allocate resources to segments, and thus changed the reportable segment financial information.

Critical Accounting Policies and Estimates

The preparation of consolidated financial statements requires management to make judgments based upon estimates and assumptions that are inherently uncertain. Such judgments affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. Management continuously evaluates its estimates and assumptions including those related to contract percentage of completion methodology (on a proportional performance basis for service contracts) for revenue recognition purposes, allowance for doubtful accounts receivable, allowance for inventory obsolescence, valuation allowance for deferred tax assets, long-lived assets, warranty obligations, income taxes, contingencies and litigation and the carrying values of assets and liabilities. Management bases its estimates on historical experience and/or on various other assumptions that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

The following is a summary of the most critical accounting policies used in the preparation of the Company's consolidated financial statements.

Revenue Recognition

Estimating future costs and, therefore, revenues and profits, is a process requiring a high degree of management judgment. In the event of a change in total estimated contract cost or profit, the cumulative effect of a change is recorded in the period the change in estimate occurs. In the event cost estimates indicate a loss on a contract, the total amount of such loss, excluding general and administrative expense, is recorded in the period in which the loss is first estimated. Revenue for maintenance contracts is recognized over the term of the maintenance contracts.

Revenues are recognized in accordance with SEC Staff Accounting Bulletin ("SAB") No. 104, "Revenue Recognition." The Company considers amounts earned upon evidence that an arrangement has been obtained, services are delivered, fees are fixed or determinable, and collectability is reasonably assured. Additionally, revenues on arrangements requiring the delivery of more than one product or service are recognized in accordance with EITF 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables" except as the pronouncement states, on contracts where higher-level GAAP (such as Statement of Position ("SOP") 97-2 as described below) prevails.

The Company recognizes revenues for software arrangements upon persuasive evidence of an arrangement, delivery of the software, and determination that collection of a fixed or determinable license fee is probable. Revenues for software licenses sold on a subscription basis are recognized ratably over the related license terms. For arrangements where the sale of software licenses are bundled with other products, including software products, upgrades and enhancements, post-contract customer support ("PCS"), and installation, the relative fair value of each element is determined based on vendor-specific objective evidence ("VSOE"). VSOE is defined by SOP 97-2, "Software Revenue Recognition" ("SOP 97-2"), and SOP 98-9, "Modification of SOP 97-2, Software Revenue Recognition With Respect to Certain Transactions" ("SOP 98-9"), and is limited to the price charged when the element is sold separately or, if the element is not yet sold separately, the fair value assigned under the residual method or the price set by management having the relevant authority. If VSOE does not exist for the allocation of revenue to the various elements of the arrangement, all revenue from the arrangement is deferred until the earlier of the point at which (1) such VSOE does exist or (2) all elements of the arrangement are delivered. PCS revenues, upon being unbundled from a software license fee, are recognized ratably over the PCS period.

Substantially all of the Company's contracts are contracts with the U.S. Government involving the complex delivery of technology products and services. Accordingly, these contracts are within the scope of the American Institute of Certified Public Accountant's Audit and Accounting Guide for Audits of Federal Government Contractors. To the extent contracts are incomplete at the end of an accounting period, revenue is recognized on the percentage-of-completion method, on a proportional performance basis, using costs incurred in relation to total estimated costs.

The Company may use subcontractors in the course of performing on services contracts. Some such arrangements may fall within the scope of EITF 99-19 "Reporting Revenue Gross as a Principal versus Net as an Agent". The Company presumes that revenues on services contracts are recognized on a gross basis, but evaluates the various criteria specified in EITF 99-19 in making the determination of whether revenue should be recognized on a gross or net basis. The revenue recognized on a net basis for the current and prior years has been insignificant.

A description of the business lines, the typical deliverables, and the revenue recognition criteria in general for such deliverables follows:

Managed Solutions – The Company provides information technology equipment, such as laptops, printers, networking equipment and peripherals, as well as services, including warranty services on the sold equipment, to its customers. For product sales, revenue is recognized upon proof of acceptance by the customer, otherwise it is deferred until such time as the proof of acceptance is obtained. For example, in delivery orders for Department of Defense customers, which comprise the majority of the Company's customers, such acceptance is achieved with a signed Department of Defense Form DD-250. Services provided under these contracts are generally provided on a firm-fixed price ("FFP") basis, and as such fall within the scope of SAB 104. Generally, the products sold under delivery orders do not include any services (except for warranty coverage provided), and as such these delivery orders fall within the scope of SAB 104. Revenue is recognized under FFP contracts based upon proportional performance, as the work progresses, or upon other direct costs ("ODC's") as incurred.

Secure Messaging – The Company provides its Automated Message Handling Software ("AMHS") and services to its customers. The software and accompanying services fall within the scope of SOP 97-2, as fully discussed above. Other services fall within the scope of SAB 104 for arrangements that include only time-and-materials ("T&M") contracts and EITF 00-21 for contracts with multiple deliverables such as T&M elements and FFP services where objective reliable evidence of fair value of the elements is available. Under such arrangements, the T&M elements are established by direct costs. Revenue is recognized on T&M contracts according to specified rates as direct labor and other direct costs are incurred. Revenue for FFP services is recognized on a proportional performance basis. FFP services may be billed to the customer on a percentage-of-completion basis or based upon milestones, which may approximate the proportional performance of the services under the agreements, as specified in such agreements. To the extent that customer billings exceed the performance of the specified services, the revenue would be deferred.

Secure Networking Solutions (formerly Secure Wireless) – The Company provides wireless and wired networking solutions consisting of hardware and services to its customers. The solutions are generally sold as FFP bundled solutions. Certain of these networking solutions involve contracts to design, develop, or modify complex electronic equipment configurations to a buyer's specification or to provide network engineering services related to the performance of such contracts, and as such fall within the scope of SOP 81-1, "Accounting for Performance of Construction-Type and Certain Production-Type Contracts." Revenue is earned upon percentage of completion based upon proportional performance, such performance generally being defined by performance milestones. Certain other solutions fall within the scope of SAB 104 and EITF 00-21. Revenue is recognized based upon objective reliable evidence of fair value of the elements, such as upon delivery of the hardware product or ODC's and the ongoing maintenance. Revenue for services is recognized based on proportional performance, as the work progresses. FFP services may be billed to the customer on a percentage-of-completion basis or based upon milestones, which may approximate the proportional performance of the services under the agreements, as specified in such agreements. To the extent that customer billings exceed the performance of the specified services, the revenue would be deferred. Revenue is recognized under T&M services contracts based upon specified billing rates and other direct costs as incurred.

Information Assurance ("IA") Services – The Company provides consulting services to its customers under either a FFP or T&M basis. Such contracts fall under the scope of SAB 104. Revenue for FFP services is recognized on a proportional performance basis. FFP services may be billed to the customer on a percentage-of-completion basis or based upon milestones, which may approximate the proportional performance of the services under the agreements, as specified in such agreements. To the extent that customer billings exceed the performance of the specified services, the revenue would be deferred. Revenue is recognized under T&M contracts based upon specified billing rates and other direct costs as incurred.

Identity Management – The Company provides its identity management services and sells information technology products, such as computer laptops and specialized printers, and consumables, such as identity cards, to its customers. The solutions are generally sold as FFP bundled solutions, which would typically fall within the scope of EITF 00-21 and SAB 104. Revenue is recognized based upon objective reliable evidence of fair value of the elements, such as upon delivery of the hardware product or ODC's and the ongoing maintenance. Revenue for services recognized based on proportional performance, as the work progresses. FFP services may be billed to the customer on a percentage-of-completion basis or based upon milestones, which may approximate the proportional performance of the services under the agreements, as specified in such agreements. To the extent that customer billings exceed the performance of the specified services, the revenue would be deferred. Revenue is recognized under T&M contracts based upon specified billing rates and other direct costs as incurred.

Inventories

Inventories are stated at the lower of cost or market, where cost is determined primarily on the weighted average cost method. Inventories consist primarily of purchased COTS hardware and software, and component computer parts used in connection with system integration services performed by the Company. Inventories also include spare parts utilized to support certain maintenance contracts. Spare parts inventory is amortized on a straight-line basis over two to five years, which represents the shorter of the warranty period or estimated useful life of the asset. An allowance for obsolete, slow-moving or non-salable inventory is provided for all other inventory. This allowance is based on the Company's overall obsolescence experience and its assessment of future inventory requirements.

Warranty Obligations

The Company records a liability in connection with various warranty obligations. Such warranty obligations are affected by product failure rates and material usage and service delivery costs incurred in correcting a product failure. Should actual product failure rates, material usage or service delivery costs differ from estimates, revisions to the estimated warranty liability would be required, resulting in additional income statement charges.

Results of Operations

The Company derived substantially all of its revenues from contracts and subcontracts with the U.S. Government. The Company's revenues are generated from a number of contract vehicles and task orders. In general, the Company believes its contract portfolio is characterized as having low to moderate financial risk due to the limited number of long-term fixed price development contracts. The Company's firm fixed- price contracts consist principally of contracts for the purchase of computer equipment at established contract prices or contracts for certification and accreditation services offerings. The Company's time and material contracts generally allow the pass-through of allowable costs plus a profit margin. For 2007, revenue by contract type was as follows: firm fixed-priced 89.0%, and time-and-materials, 11.0%.

Statement of Operations Data

The following table sets forth certain consolidated financial data and related percentages for the periods indicated:

	Years Ended December 31,					
	2007		2006		2005	
	(dollar amounts in thousands)					
Revenue	$226,585	100.0%	$140,873	100.0%	$142,595	100.0%
Cost of sales	185,005	81.6	119,024	84.5	118,539	83.1
Selling, general and administrative expenses	32,227	14.2	30,874	21.9	29,919	21.0
Operating income (loss)	9,353	4.2	(9,025)	(6.4)	(5,863)	(4.1)
Other income (expenses):						
Gain on sale of TIMS LLC membership interest	5,803	2.5	—	—	—	—
Non-operating income	131	—	67	—	36	—
Losses from affiliates	—	—	(134)	(0.1)	(468)	(0.3)
Interest expense	(8,351)	(3.7)	(20,577)	(14.6)	(8,756)	(6.1)
Income (loss) before minority interest and income taxes	6,936	3.0	(29,669)	(21.1)	(15,051)	(10.5)
Minority interest	1,110	0.5	—	—	—	—
Income (loss) before income taxes	5,826	2.5	(29,669)	(21.1)	(15,051)	(10.5)
Provision for income taxes	280	0.1	12	—	9	—
Income (loss) from continuing operations	5,546	2.4	(29,681)	(21.1)	(15,060)	(10.5)
Gain on sale of TCC – discontinued operations	—	—	—	—	1,000	0.7
Net income (loss)	$ 5,546	2.4%	$ (29,681)	(21.1)%	$ (14,060)	(9.8)%

Financial Data by Operating Segment

As of December 31, 2007, the Company has two reportable operating segments: Managed Solutions and Xacta. Revenue, gross profit and gross margin by market segment for the periods designated below are as follows:

	Years Ended December 31,		
	2007	2006	2005
	(dollar amounts in thousands)		
Revenue:			
Managed Solutions	$122,723	$ 61,997	$ 58,246
Xacta	103,862	78,876	84,349
Total	$226,585	$140,873	$142,595
Gross Profit:			
Managed Solutions	$ 2,673	$ 1,750	$ 4,411
Xacta	38,907	20,099	19,645
Total	$ 41,580	$ 21,849	$ 24,056
Gross Margin:			
Managed Solutions	2.2%	2.8%	7.6%
Xacta	37.5%	25.5%	23.3%
Total	18.4%	15.5%	16.9%

Results of Continuing Operations

Years ended December 31, 2007, 2006 and 2005

Revenue. Revenue increased by 60.8% to $226.6 million for 2007 from $140.9 million for 2006. Such increase consists of a $60.7 million increase in sales from Managed Solutions, primarily attributable to increased sales from the U.S. Air Force NETCENTS (Network-Centric Solutions) contract and the ARISS (Army Recruiting Information Support System) program, and a $25.0 million increase in sales from Xacta, primarily attributable to increased sales from the NETCENTS contract in its Secure Network Solutions and Secure Messaging business lines, which in 2007 performed major site installations of its network solutions. On a nonsegmented basis, as displayed on the face of the Consolidated Statements of Operations, product revenue increased to $141.7 million for 2007 from $76.2 million for 2006, primarily attributable to an increase in product reselling activities in Managed Solutions. Services revenue increased to $84.9 million for 2007 from $64.7 million for 2006, primarily attributable to an increase in revenue in the Secure Network Solutions business line, resulting from major site installations as noted above.

Revenue decreased by 1.2% to $140.9 million for 2006 from $142.6 million for 2005. The decrease in revenue from 2005 to 2006 was due to a decrease of $14.8 million in product revenue, offset by an increase of $13.1 million in services revenue. The decrease in product revenue was primarily attributable to customer delays in the issuance and delivery of Secure Network solutions orders. The increase in services revenue was primarily due to an increase of $4.3 million, $4.6 million, and $5.8 million in Managed Solutions, Secure Messaging, and Information Assurance sales, respectively.

Cost of sales. Cost of sales increased by 55.5% to $185.0 million for 2007 from $119.0 million for 2006. Cost of sales as a percentage of revenue decreased to 81.6% for 2007 from 84.5% for 2006. The cost of sales increase consists of $59.8 million for Managed Solutions and $6.2 million for Xacta.

Cost of sales increased by 0.4% to $119.0 million for 2006 from $118.5 million for 2005. Cost of sales as a percentage of sales increased to 84.5% for 2006 from 83.1% for 2005. Such increase consists of an increase of $6.4 million for Managed Solutions, offset by a decrease of $5.9 million for Xacta, primarily attributable to decreased profits realized on Managed Solutions orders.

Gross profit. Gross profit increased by 90.3% from $21.8 million for 2006 to $41.6 million for 2007. Gross profit increased by 52.8% from $1.8 million for 2006 to $2.7 million for 2007 for Managed Solutions, primarily due to an increase in sales from the NETCENTS contract. Gross profit increased by 93.6% from $20.1 million for 2006 to $38.9 million for 2007 for Xacta, which was attributable to an increase in sales of higher margin business offerings, specifically proprietary software sales in the Secure Messaging business line, and services/solutions in the Secure Network Solutions business line. Gross margin increased 2.9% from 15.5% for 2006 to 18.4% for 2007. Gross margin for Managed Solutions decreased 0.6% from 2.8% for 2006 to 2.2% for 2007. Gross margin for Xacta increased 12.0% from 25.5% for 2006 to 37.5% for 2007.

Gross profit decreased by 9.2% from $24.1 million for 2005 to $21.8 million for 2006. Gross profit decreased by 60.3% from $4.4 million for 2005 to $1.8 million for 2006 for Managed Solutions, primarily attributable to a relatively higher percentage of sales concentrated in lower margin products. Gross profit increased by 2.3% from $19.6 million for 2005 to $20.1 million for 2006 for Xacta. Gross margin decreased 1.4% from 16.9% for 2005 to 15.5% for 2006. Gross margin for Managed Solutions decreased 4.8% from 7.6% for 2005 to 2.8% for 2006. Gross margin for Xacta increased 2.2% from 23.3% for 2005 to 25.5% for 2006.

Selling, general, and administrative expenses. Selling, general, and administrative expenses increased 4.2% from $30.9 million for 2006 to $32.2 million for 2007. Such increases are primarily attributable to $5.0 million for bonuses accrual, offset by a decrease in litigation-related and other legal expenses of $0.6 million, and a reduction of $1.8 million in labor costs and $1.3 million in other costs resulting from a company-wide reorganization and cost reduction plan implemented in 2006.

Selling, general, and administrative expenses increased 3.2% from $29.9 million for 2005 to $30.9 million for 2006, primarily attributable to an increase of $1.6 million in litigation-related and other legal expenses.

Losses from affiliates. The Company recorded $134,000 and $468,000 of losses from affiliate for 2006 and 2005, respectively, representing equity losses from Enterworks in accordance with APB 18. See Note 4 – Investment in Enterworks for more information.

Interest expense. Interest expenses decreased 59.4% from $20.6 million for 2006 to $8.4 million for 2007, primarily due to the accretion and dividend accrual adjustments in 2006 on the Public Preferred Stock. Interest expense increased 135.0% from $8.8 million for 2005 to $20.6 million for 2006, primarily due to the accretion and dividend accrual adjustments in 2006 on the Public Preferred Stock, as discussed in Note 8 – Redeemable Preferred Stock. Components of interest expense are as follows:

	December 31,		
	2007	2006	2005
	(amounts in thousands)		
Commercial and subordinated note interest incurred	$3,077	$ 3,173	$2,749
Preferred stock interest accrued	5,274	17,404	6,007
Total	$8,351	$20,577	$8,756

Provision for income taxes. The Company recorded a provision for income taxes of $280,000, $12,000, and $9,000 for 2007, 2006 and 2005, respectively. The income tax provision of $280,000 for 2007 represents primarily the federal alternative minimum tax and certain state income tax liabilities. The income tax provision of $12,000 and $9,000 for 2006 and 2005, respectively, represents certain minimum state income tax liabilities.

Liquidity and Capital Resources

The Company's capital structure consists of a revolving credit facility, subordinated notes, redeemable preferred stock, and common stock.

Senior Revolving Credit Facility

As of December 31, 2007, the Company had a $15 million revolving credit facility (the "Facility") with Wells Fargo Foothill, Inc. ("Wells Fargo Foothill") that was scheduled to mature on October 21, 2008. The Company amended the Facility, effective January 31, 2008, to increase the limit on the Facility to $20 million through March 31, 2008, and to accommodate increased operational needs, supported by sufficient collateral. The fees associated with this amendment amounted to $10,000. In March 2008, the Company renewed the Facility and amended its terms. Under the amended terms, the maturity on the Facility was extended to September 30, 2011, and the limit on the Facility was increased to $25 million to accommodate current and projected financing needs going forward. Pursuant to the terms of the Facility, the interest rate is established as the Wells Fargo "prime rate" plus 1%, the Federal Funds rate plus 1 1/2%, or 7.00%, whichever is higher. In lieu of having interest charged at the rate based on the Wells Fargo prime rate, the Company has the option to have interest on all or a portion of the advances on such Facility be charged at a rate of interest based on the LIBOR Rate (the greater of the LIBOR rate three business days prior to the commencement of the requested interest period or 3%), plus 4.00%. The fees associated with this renewal and amendment amounted to $150,000.

Borrowings under the Facility are collateralized by substantially all of the Company's assets including inventory, equipment, and accounts receivable. The amount of available borrowings fluctuates based on the underlying asset-borrowing base, as defined in the Facility agreement.

As of December 31, 2007, the interest rate on the Facility was 8.25%. Pursuant to the terms of the Facility, during 2007 the interest rate was the Wells Fargo "prime rate" plus 1% (as of December 31, 2007 the Wells Fargo "prime rate" was 7.25%) or 5.75%, whichever was higher. As of December 31, 2007, the Company had not elected the LIBOR rate option. As of November 30, 2008, the interest rate on the Facility was 7.00%.

Effective January 1, 2007, the Company and Wells Fargo Foothill amended the Facility to provide additional availability through the relief of certain reserves against available collateral through April 30, 2007, to establish Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") covenants for 2007, to give consent to the formation of TIMS LLC and subsequent sale of a portion of the membership interests in TIMS LLC (disclosed in Note 2 – Sale of Assets), and to provide various waivers in accordance with the Facility. The fees associated with such amendments amounted to $160,000.

The Facility has various covenants that may, among other things, affect the ability of the Company to merge with another entity, sell or transfer certain assets, pay dividends and make other distributions beyond certain limitations. The Facility also requires the Company to meet certain financial covenants, including, EBITDA as defined in the Facility. As of December 31, 2007, the Company was in compliance with the Facility's financial and EBITDA covenants. Based on the Company's current projection of EBITDA, the Company expects that it will remain in compliance with its EBITDA covenants, and accordingly, the Facility is classified as a noncurrent liability as of December 31, 2007.

At December 31, 2007, the Company had outstanding borrowings of $12.8 million and unused borrowing availability of $2.2 million on the Facility. As of November 30, 2008, the Company has outstanding borrowings of $15.3 million and availability under its current arrangement of approximately $5.4 million. The effective weighted average interest rates (including various fees charged pursuant to the Facility agreement and related amendments) on the outstanding borrowings under the Facility were 13.32% and 14.13% for the years ended December 31, 2007 and 2006, respectively.

For the year ended December 31, 2007, cash used in continuing operating activities was $5.1 million. Cash provided by investing activities was approximately $5.2 million. Cash used in financing activities was approximately $0.3 million.

Management believes that the Company's borrowing capacity is sufficient to fund its capital and liquidity needs for the foreseeable future.

Senior Subordinated Notes

In 1995, the Company issued Senior Subordinated Notes (“Notes”) to certain shareholders. Such Notes are classified as either Series B or Series C. The Series B Notes are secured by the Company’s property and equipment, but are subordinate to the security interests of Wells Fargo Foothill. The Series C Notes are unsecured. The Company’s Notes are held principally by common shareholders and totaled $5.2 million at December 31, 2007. These subordinated notes bear interest at rates between 14% and 17%, due and payable on December 31, 2011. During 2007, the Company paid $757,000 in interest to subordinated note holders. In addition, these notes have a cumulative prepayment premium of 13.5% per annum payable only upon certain circumstances, which if in effect, would be approximately $20.5 million at December 31, 2007. See Note 7 – Current Liabilities and Debt Obligations.

In June and July of 2008, the Company repaid $1 million of the outstanding Series B Notes. The prepayment penalties on the repayment of such Notes were waived. Wells Fargo Foothill granted a waiver and amendment to the Facility to allow such payment.

Redeemable Preferred Stock

The Company currently has two primary classes of redeemable preferred stock - Senior Redeemable Preferred Stock and Public Preferred Stock. Each class carries cumulative dividend rates of 12% to 14.125%. The Company accrues dividends and provides for accretion related to the redeemable preferred stock. At December 31, 2007, the total carrying amount of redeemable preferred stock, including accumulated and unpaid dividends was $102.3 million. During 2007, the Company accrued $4.2 million of dividends on the two classes of redeemable preferred stock, and such amounts have been included in interest expense.

Senior Redeemable Preferred Stock

Redemption for all shares of the Senior Redeemable Preferred Stock plus all accrued dividends on those shares was scheduled, subject to limitations detailed below, on October 31, 2005. However, on April 14, 2005, Toxford Corporation, the holder of 72.6% of the Senior Redeemable Preferred Stock, extended the maturity of its instruments to October 31, 2008. Subsequently, on March 17, 2008, Toxford Corporation extended the maturity of its instruments to December 31, 2011. Additionally, on June 4, 2008, North Atlantic Smaller Companies Investment Trust PLC and North Atlantic Value LLP A/C B, the holders of 7.9% and .06%, respectively, of the Senior Redeemable Preferred Stock, also extended the maturity of their instruments to December 31, 2011. Among the limitations with regard to the scheduled redemptions of the Senior Redeemable Public Preferred Stock is the legal availability of funds, pursuant to Maryland law. Accordingly, due to the Company's current financial position and the terms of the Facility agreement, it is precluded by Maryland law from making the scheduled payment. As the Senior Redeemable Preferred Stock is not due on demand, or callable, within twelve months from December 31, 2007, the remaining 18.9% is also classified as noncurrent.

Public Preferred Stock

Redemption Provisions

Redemption for the Public Preferred Stock is contractually scheduled from 2005 through 2009. Since 1991, the Company has not declared or paid any dividends on its Public Preferred Stock, based upon its interpretation of restrictions in its Articles of Amendment and Restatement, filed with the State of Maryland on January 5, 1992, as amended on April 14, 1995 ("Charter"), limitations in the terms of the Public Preferred Stock instrument, specific dividend payment restrictions in the Facility entered into with Wells Fargo Foothill, and other senior obligations and limitations pursuant to Maryland law. Pursuant to their terms, the Company is scheduled, but not required, to redeem the Public Preferred Stock in five annual tranches during the period 2005 through 2009. However, due to its substantial senior obligations, limitations set forth in the covenants in the Facility, foreseeable capital and operational requirements, restrictions and prohibitions of its Charter, and provisions of Maryland law, and assuming sufficient liquidity to undertake any stock redemption (which is presently unquantifiable), the Company believes that it will continue to be unable to meet the redemption schedule set forth in the terms of the Public Preferred Stock instrument. Moreover, the Public Preferred Stock is not payable on demand, nor callable, for failure to redeem the Public Preferred Stock in accordance with the redemption schedule set forth in the instrument. Therefore, the Company has classified these securities as noncurrent liabilities in the balance sheet as of December 31, 2006 and 2007.

The Company and certain of its subsidiaries are parties to the Facility agreement with Wells Fargo Foothill, whose term expires on September 30, 2011. Under the Facility, the Company agreed that, so long as any credit under the Facility is available and until full and final payment of the obligations under the Facility, it would not make any distribution or declare or pay any dividends (other than common stock) on its stock, or purchase, acquire, or redeem any stock, or exchange any stock for indebtedness, or retire any stock. The Company continues to actively rely upon the Facility and expects to continue to do so until the Facility expires on September 30, 2011.

Accordingly, as stated above, the Company will continue to classify the entirety of its obligation to redeem the Public Preferred Stock as a long-term obligation. The Facility prohibits, among other things, the redemption of any stock, common or preferred, until September 30, 2011. The Public Preferred Stock by its terms cannot be redeemed if doing so would violate the terms of an agreement regarding the borrowing of funds or the extension of credit which is binding upon the Company or any subsidiary of the Company, and it does not include any other provisions that would otherwise require any acceleration of the redemption of or amortization payments with respect to the Public Preferred Stock. Thus, the Public Preferred Stock is not and will not be due on demand, nor callable, within twelve months from December 31, 2007. This classification is consistent with ARB No. 43 and Statement of Financial Accounting Standard ("SFAS") No. 78, "Classification of Obligations that are Callable by the Creditor."

Paragraph 7 of Chapter 3A of ARB No. 43 defines a current liability, as follows:

> "The term current liabilities is used principally to designate obligations whose liquidation is reasonably expected to require the use of existing resources properly classifiable as current assets, or the creation of other current liabilities. As a balance sheet category, the classification is intended to include obligations for items that have entered into the operating cycle, such as payables incurred in the acquisition of materials and supplies to be used in the production of goods or in providing services to be offered for sale; collections received in advance of the delivery of goods or performance of services; and debts that arise from operations directly related to the operating cycle, such as accruals for wages, salaries, commissions, rentals, royalties, and income and other taxes. Other liabilities whose regular and ordinary liquidation is expected to occur within a relatively short period of time, usually 12 months, are also intended for inclusion, such as short-term debts arising from the acquisition of capital assets, serial maturities of long-term obligations, amounts required to be expended within 1 year under sinking fund provisions, and agency obligations arising from the collection or acceptance of cash or other assets for the account of third persons."

Paragraph 5 of SFAS No. 78, provides the following:

> "The current liability classification is also intended to include obligations that, by their terms, are due on demand or will be due on demand within one year (or operating cycle, if longer) from the balance sheet date, even though liquidation may not be expected within that period. It is also intended to include long-term obligations that are or will be callable by the creditor either because the debtor's violation of a provision of the debt agreement at the balance sheet date makes the obligation callable or because the violation, if not cured within a specified grace period, will make the obligation callable…"

If, pursuant to the terms of the Public Preferred Stock, the Company does not redeem the Public Preferred Stock in accordance with the scheduled redemptions described above, the terms of the Public Preferred Stock require the Company to discharge its obligation to redeem the Public Preferred Stock as soon as the Company is financially capable and legally permitted to do so. Therefore, by its very terms, the Public Preferred Stock is not due on demand or callable for failure to make a scheduled payment pursuant to its redemption provisions and is properly classified as a noncurrent liability.

Dividend Provisions

Dividends on the Public Preferred Stock are paid by the Company, when and if declared by the Board of Directors and are required to be paid out of legally available funds in accordance with Maryland law. The Public Preferred Stock accrues a semiannual dividend at the annual rate of 12% ($1.20) per share, based on the liquidation preference of $10 per share and is fully cumulative. Dividends in additional shares of the Public Preferred Stock for 1990 and 1991 were paid at the rate of 6% of a share for each $.60 of such dividends not paid in cash. For the cash dividends payable since December 1, 1995, the Company has accrued $61.5 million and $57.7 million as of December 31, 2007 and 2006, respectively. In 2007, the Company accrued cumulative Public Preferred Stock dividends of $3.8 million, which was recorded as interest expense.

The carrying value of the accrued Paid-in-Kind ("PIK") dividends on the Public Preferred Stock for the period 1992 through June 1995 was $4.0 million. Had the Company accrued such dividends on a cash basis for this time period, the total amount accrued would have been $15.1 million. However, as a result of the redemption of the 410,000 shares of the Public Preferred Stock in November 1998, such amounts were reduced and adjusted to $3.5 million and $13.4 million, respectively. The Company's Charter, Section 2(a) states, "Any dividends payable with respect to the Exchangeable Preferred Stock ("Public Preferred Stock") during the first six years after the Effective Date (November 20, 1989) may be paid (subject to restrictions under applicable state law), in the sole discretion of the Board of Directors, in cash or by issuing additional fully paid and nonassessable shares of Exchangeable Preferred Stock …". Accordingly, the Board had the discretion to pay the dividends for the referenced period in cash or by the issuance of additional shares of Public Preferred Stock. During the period in which the Company stated its intent to pay PIK dividends, the Company stated its intention to amend its Charter to permit such payment by the issuance of additional shares of Public Preferred Stock. In consequence, as required by applicable accounting requirements, the accrual for these dividends was recorded at the estimated fair value (as the average of the ask and bid prices) on the dividend date of the shares of Public Preferred Stock that would have been (but were not) issued. This accrual was $9.9 million lower than the accrual would be if the intent was only to pay the dividend in cash, at that date or any later date.

In May 2006, the Board concluded that the accrual of PIK dividends for the period 1992 through June 1995 was no longer appropriate. Since 1995, the Company has disclosed in the footnotes to its audited financial statements the carrying value of the accrued PIK dividends on the Public Preferred Stock for the period 1992 through June 1995 was $4.0 million, and that had the Company accrued cash dividends during this time period, the total amount accrued would have been $15.1 million. As stated above, such amounts were reduced and adjusted to $3.5 million and $13.4 million, respectively, due to the redemption of 410,000 shares of the Public Preferred Stock in November 1998. On May 12, 2006, the Board voted to confirm that the Company's intent with respect to the payment of dividends on the Public Preferred Stock for this period changed from its previously stated intent to pay PIK dividends to that of an intent to pay cash dividends. The Company therefore changed the accrual from $3.5 million to $13.4 million, the result of which was to increase the Company's negative shareholder equity by the $9.9 million difference between those two amounts, by recording an additional $9.9 million charge to interest expense for the second quarter of 2006, resulting in a balance of $92.8 million and $88.0 million for the principal amount and all accrued dividends on the Public Preferred Stock as of December 31, 2007 and 2006, respectively. This action is a considered a change in assumption that results in a change in accounting estimate as defined in SFAS 154, "Accounting Changes and Error Corrections" which replaces APB No. 20, "Accounting Changes" and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements."

Borrowing Capacity

At December 31, 2007, the Company had outstanding debt and long-term obligations of $129.0 million, consisting of $12.8 million under the Facility, $5.2 million in subordinated debt, $8.7 million in capital lease obligations and $102.3 million in redeemable preferred stock classified as liability in accordance with SFAS No. 150.

The consolidated financial statements for the year ended December 31, 2007 that are included in this Form 10-K have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company's working capital deficit was $0.4 million and $12.1 million as of December 31, 2007 and 2006, respectively, primarily due to amounts resulting from unreimbursed litigation-related and other legal expenses. Total expenses related to litigation and other legal costs were $5.1 million (net of $4.7 million in reimbursements by the Company's insurers) for 2007, $5.7 million (net of $3.1 million in reimbursements by the Company's insurers) for 2006, and $4.1 million for 2005. Such unreimbursed litigation-related and other legal expenses adversely affected working capital, and $5.8 million of such expenses are unpaid as of December 31, 2007. While the Company has actively worked with its vendors, including law firms, partners, subcontractors, and Wells Fargo Foothill to mitigate the effect of these working capital constraints during this period, there can be no assurances as to the continuing ability of the Company to successfully work with such parties to mitigate such working capital constraints going forward. See Note 7 – Current Liabilities and Debt Obligations. As of December 31, 2007, the Company was in compliance with the Facility's financial and Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") covenants. Based on the Company's current projection of EBITDA, the Company expects that it will remain in compliance with its EBITDA covenants. Although no assurances can be given, the Company expects that it will be in compliance throughout the term of the amended Facility with respect to the financial and other covenants.

Additionally, in April 2007, as a result of the sale of a membership interest in TIMS LLC, the Company received $6 million in cash consideration which was used to address working capital requirements. See Note 2 – Sale of Assets.

Additionally, in late 2007, the Company experienced delayed payments from one of the Company's significant government payment offices due to complications arising from that office's payment system conversion. As a result, anticipated payments from this government payment office have been received significantly later than the payment due dates. The Company has been able to utilize its Facility to mitigate the effect of these payment delays. This slow down in payment has since been resolved.

Additionally, in accordance with the terms of one the Company's government contracts for services, the Company was required to provide a performance bond and a payment bond for a system installation at a customer site. The amount of such bond is approximately $4.1 million and the Company has been required to collateralize the entire amount of the bond. The Company provided such collateral on or about October 31, 2007. The terms of the bond requirement allow for a release of a significant amount of the collateral subject to satisfactory performance. Consequently, $1.7 million, $1.7 million, and $0.6 million in collateral were released in accordance with such satisfactory performance in May, July and November 2008, respectively. As of November 13, 2008, the remaining collateral balance is approximately $103,000, which is expected to be released in December of 2009, which is one year after anticipated satisfactory completion of the contract. The Company believes that the impact of the remaining bond requirement will be mitigated by the Company's ability to utilize the amended Facility.

The Company believes that available cash and borrowings under the amended Facility will be sufficient to generate adequate amounts of cash to meet the Company's needs for operating expenses, debt service requirements, and projected capital expenditures for 2008. The Company anticipates the continued need for a credit facility upon terms and conditions substantially similar to the amended Facility in order to meet the Company's long term needs for operating expenses, debt service requirements, and projected capital expenditures.

Contractual Obligations

The following summarizes the Company's contractual obligations and the Company's redeemable preferred stock at December 31, 2007 (in thousands):

		Payments due by Period			
	Total	2008	2009 - 2011	2012 - 2014	2015 and later
Capital lease obligations (1)	$ 14,918	$1,831	$ 5,462	$5,383	$ 2,242
Senior revolving credit facility (2)	12,849	—	12,849	—	—
Senior subordinated notes	5,179	—	5,179	—	—
Interest on senior subordinated notes (3)	3,027	757	2,270	—	—
Operating lease obligations	1,470	540	911	19	—
	$ 37,443	$3,128	$26,671	$5,402	$ 2,242
Senior preferred stock (4)	$ 9,447				
Public preferred stock (5)	92,837				
	$102,284				
Total	$139,727				
(1) Includes interest expense:	$ 6,171	$1,213	$ 3,019	$1,738	$ 201

(2) Amount does not include interest on the Facility as the Company is unable to predict the amounts of interest due to the short-term nature of the advances and repayments. Interest expense for 2007 was $1.0 million.

(3) Amounts calculated based on principal balance as of December 31, 2007, at interest rates ranging from 14% to 17%.

(4) In accordance with SFAS No. 150, the senior preferred stock was reclassified from equity to liability in July 2003. Amount represents the carrying value as of December 31, 2007, and includes accrual of accumulated dividends of $6.4 million. Payment of such amount presumes conditions precedent being satisfied (See Note 8 – Redeemable Preferred Stock) and as such, redemption date is unknown and accordingly payment is not reflected in a particular period. Amount does not reflect additional dividends through the redemption date as such date is unknown. Such additional dividends accrue annually in the amount of $424,000.

(5) In accordance with SFAS No. 150, the public preferred stock was reclassified from equity to liability in July 2003. Amount represents the carrying value as of December 31, 2007, and includes accrual of accumulated dividends and accretion of $86.5 million. Payment of such amount presumes conditions precedent being satisfied (See Note 8 – Redeemable Preferred Stock) and as such, redemption date is unknown and accordingly payment is not reflected in a particular period. Amount does not reflect additional dividends and accretion through the redemption date as such date is unknown. Such additional dividends accrue annually in the amount of $3.8 million. Such accretion will accrue in the amount of $500,000 in 2008, at which time the public preferred stock will be fully accreted.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements (as defined in Item 303, paragraph (a)(4)(ii) of Regulation S-K) that have or are reasonably likely to have a material current or future effect on its financial condition, changes in financial condition, sales or expenses, results of operations, liquidity, capital expenditures or capital resources.

Capital Expenditures

Capital expenditures for property and equipment were $0.6 million in 2007, $0.8 million in 2006, and $1.4 million in 2005. The Company presently anticipates capital expenditures of approximately $1.2 million in 2008; however, there can be no assurance that this level of capital expenditures will occur.

Capital Leases and Related Obligations

The Company has various lease agreements for property and equipment that, pursuant to SFAS No. 13 "Accounting for Leases," require the Company to record the present value of the minimum lease payments for such equipment and property as an asset in the Company's consolidated financial statements. Such assets are amortized on a straight-line basis over the term of the related lease or their useful life, whichever is shorter.

Inflation

The rate of inflation has been moderate over the past five years and, accordingly, has not had a significant impact on the Company. The Company has generally been able to pass through any increased costs to customers through higher prices to the extent permitted by competitive pressures.

Recent Accounting Pronouncements

See Note 1 – Summary of Significant Accounting Policies of the Consolidated Financial Statements for a discussion of recently issued accounting pronouncements.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

The Company is exposed to interest rate volatility with regard to its variable rate debt obligations under its Facility. Interest on the Facility is charged at 1% over the Wells Fargo “prime rate” (as of December 31, 2007 the Wells Fargo “prime rate” was 7.25%), or 5.75%, whichever is higher. The effective average interest rates, including all bank fees, of the Facility in 2007 and 2006 were 13.32% and 14.13%, respectively. The Facility had an outstanding balance of $12.8 million at December 31, 2007.

The Company’s restricted investments are reported at amortized cost, in accordance with SFAS No. 115. The restricted investments consist of one treasury note with fixed interest rate of 3.849% due June 30, 2009, which the Company intends to hold to the maturity date. At December 31, 2007, the restricted investments also consisted of a treasury bill and a treasury note with fixed interest rate of 1.298%, and 4.019%, respectively, which the Company held to the maturity dates. The balance at December 31, 2007 was pledged as collateral on a performance bond and payment bond for one of the Company’s government contracts for services, a significant amount of which was released upon satisfactory performance in the May, July and November 2008 time periods.

Item 8. Financial Statements and Supplementary Data

INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
Telos Corporation
Ashburn, Virginia

We have audited the accompanying consolidated balance sheet of **Telos Corporation and Subsidiaries** ("the Company") as of December 31, 2007 and the related consolidated statements of operations, changes in stockholders' deficit, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Telos Corporation and Subsidiaries at December 31, 2007, and the results of their operations and their cash flows for the year ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

/s/ BDO Seidman, LLP

Bethesda, Maryland
December 15, 2008

Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
Telos Corporation

We have audited the accompanying consolidated balance sheet of **Telos Corporation and Subsidiaries** (Company) as of December 31, 2006, and the related consolidated statements of operations, changes in stockholders' deficit and cash flows for each of the two years in the period ended December 31, 2006. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of **Telos Corporation and Subsidiaries** as of December 31, 2006, and the consolidated results of their operations and their cash flows for each of the two years in the period ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

/s/ Goodman & Company, L.L.P.

Norfolk, Virginia
April 23, 2007

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

	Years Ended December 31,		
	2007	2006	2005
Revenue			
Products	$141,686	$ 76,179	$ 90,976
Services	84,899	64,694	51,619
	226,585	140,873	142,595
Costs and expenses			
Cost of sales – Products	122,098	71,136	79,782
Cost of sales – Services	62,907	47,888	38,757
Selling, general and administrative expenses	32,227	30,874	29,919
	217,232	149,898	148,458
Operating income (loss)	9,353	(9,025)	(5,863)
Other income (expenses)			
Gain on sale of TIMS LLC membership interest (Note 2)	5,803	—	—
Non-operating income	131	67	36
Losses from affiliates (Note 4)	—	(134)	(468)
Interest expense	(8,351)	(20,577)	(8,756)
Income (loss) before minority interest and income taxes	6,936	(29,669)	(15,051)
Minority interest (Note 2)	1,110	—	—
Income (loss) before income taxes	5,826	(29,669)	(15,051)
Provision for income taxes (Note 10)	280	12	9
Income (loss) from continuing operations	5,546	(29,681)	(15,060)
Discontinued operations:			
Gain on sale of TCC (Note 5)	—	—	1,000
Net income (loss)	$ 5,546	$ (29,681)	$ (14,060)

The accompanying notes are an integral part of these consolidated financial statements.

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

ASSETS

	December 31, 2007	December 31, 2006
Current assets		
Cash and cash equivalents	$ 83	$ 235
Restricted investments	4,005	—
Accounts receivable, net of reserve of $553 and $407, respectively (Note 6)	39,907	25,710
Inventories, net of obsolescence reserve of $1,482 and $922, respectively	11,918	7,078
Other current assets	3,770	6,635
Total current assets	59,683	39,658
Property and equipment		
Furniture and equipment	8,124	7,956
Leasehold improvements	1,425	1,308
Property and equipment under capital leases	14,126	14,432
	23,675	23,696
Accumulated depreciation and amortization	(16,029)	(15,162)
	7,646	8,534
Other assets	127	268
Total assets	$ 67,456	$ 48,460

The accompanying notes are an integral part of these consolidated financial statements.

TELOS CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(amounts in thousands, except share data)

LIABILITIES, REDEEMABLE PREFERRED STOCK,
AND STOCKHOLDERS' DEFICIT

	December 31, 2007	December 31, 2006
Current liabilities		
Accounts payable and other accrued payables (Note 7)	$ 40,765	$ 34,597
Accrued compensation and benefits	8,032	4,798
Deferred revenue	5,549	8,144
Current portion, capital lease obligations (Note 11)	618	594
Other current liabilities	5,070	3,630
Total current liabilities	60,034	51,763
Senior revolving credit facility (Note 7)	12,849	12,568
Senior subordinated notes (Note 7)	5,179	5,179
Capital lease obligations (Note 11)	8,129	8,722
Senior redeemable preferred stock (Note 8)	9,447	9,023
Public preferred stock (Note 8)	92,837	87,987
Total liabilities	188,475	175,242
Minority interest (Note 2)	217	—
Commitments, contingencies, and subsequent events (Note 11 and 15)		
Stockholders' deficit (Note 9)		
Class A common stock, no par value, 50,000,000 shares authorized, 21,171,202 shares issued and outstanding	65	65
Class B common stock, no par value, 5,000,000 shares authorized, 4,037,628 shares issued and outstanding	13	13
Capital in excess of par	103	103
Accumulated deficit	(121,417)	(126,963)
Total stockholders' deficit	(121,236)	(126,782)
	$ 67,456	$ 48,460

The accompanying notes are an integral part of these consolidated financial statements.

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

	Years Ended December 31,		
	2007	2006	2005
Operating activities:			
Income (loss) from continuing operations	$ 5,546	$ (29,681)	$ (15,060)
Adjustments to reconcile loss from continuing operations to cash (used in) provided by operating activities:			
Gain on sale of TIMS LLC membership interest	(5,803)	—	—
Losses from affiliates	—	134	468
Minority interest	1,110	—	—
Dividends and accretion of preferred stock as interest expense	5,274	17,404	6,007
Stock-based compensation	—	103	—
Depreciation and amortization	1,751	1,761	1,634
Provision for inventory obsolescence	739	465	337
Provision for doubtful accounts receivable	155	(86)	(47)
Amortization of debt issuance costs	160	—	—
Changes in assets and liabilities			
(Increase) decrease in accounts receivable	(14,352)	(711)	6,806
(Increase) decrease in inventories	(5,579)	(3,225)	9,617
Decrease (increase) in other assets	2,863	(4,010)	(776)
Increase (decrease) in accounts payable and other accrued payables	6,168	16,015	(3,174)
Increase (decrease) in accrued compensation and benefits	3,234	341	(3,381)
(Decrease) increase in deferred revenue	(2,595)	3,935	(3,972)
Increase (decrease) in other current liabilities	1,440	(998)	1,452
Cash provided by (used in) operating activities	111	1,447	(89)
Investing activities:			
Net proceeds from sale of TIMS LLC membership interest	5,803	—	—
Net proceeds from sale of TCC	—	—	1,000
Purchases of property and equipment	(616)	(753)	(1,389)
Purchases of restricted investments	(4,109)	—	—
Minority interest – TIMS LLC Class B member	7	—	—
Cash provided by (used in) investing activities	1,085	(753)	(389)
Financing activities:			
Proceeds from senior credit facility	192,651	156,224	158,331
Repayment of senior credit facility	(192,370)	(155,815)	(157,588)
(Decrease) increase in book overdrafts	—	(471)	198
Payments under capital lease obligations	(569)	(459)	(468)
Debt issuance costs	(160)	—	—
Distributions to Minority Investor of TIMS LLC	(900)	—	—
Cash (used in) provided by financing activities	(1,348)	(521)	473
(Decrease) increase in cash and cash equivalent	(152)	173	(5)
Cash and cash equivalents at beginning of the year	235	62	67
Cash and cash equivalents at end of year	$ 83	$ 235	$ 62

	Years Ended December 31,		
	2007	2006	2005
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	$3,092	$ 3,173	$2,749
Income taxes	$ 14	$ 11	$ 65
Noncash:			
Interest on redeemable preferred stock	$5,274	$17,404	$6,007

The accompanying notes are an integral part of these consolidated financial statements.

TELOS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' DEFICIT
(amounts in thousands)

	Class A Common Stock	Class B Common Stock	Capital In Excess of Par	Stockholders Accumulated Deficit	Total Deficit
Balance December 31, 2004	$ 65	$ 13	$ —	$ (83,222)	$ (83,144)
Net loss for the year	—	—	—	(14,060)	(14,060)
Balance December 31, 2005	$ 65	$ 13	$ —	$ (97,282)	$ (97,204)
Stock-based compensation	—	—	103	—	103
Net loss for the year	—	—	—	(29,681)	(29,681)
Balance December 31, 2006	$ 65	$ 13	$ 103	$ (126,963)	$(126,782)
Net income for the year	—	—	—	5,546	5,546
Balance December 31, 2007	$ 65	$ 13	$ 103	$ (121,417)	$(121,236)

The accompanying notes are an integral part of these consolidated financial statements.

TELOS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Business and Organization

Telos Corporation (the "Company" or "Telos") is an information technology solutions and services company addressing the needs of U.S. Government and commercial customers worldwide. The Company owns all of the issued and outstanding share capital of Xacta Corporation, a subsidiary that develops, markets and sells government-validated secure enterprise solutions to government and commercial customers. The Company also has a 60% ownership interest in Telos Identity Management Solutions, LLC ("TIMS LLC") and a 60% ownership interest in Teloworks, Inc. ("Teloworks").

Principles of Consolidation and Basis of Presentation

The accompanying consolidated financial statements include the accounts of Telos and its subsidiaries including Ubiquity.com, Inc., a wholly owned subsidiary, Xacta Corporation and Telos Delaware, Inc., all of whose issued and outstanding share capital is owned by the Company (collectively, the "Company"). The Company has consolidated the results of operations of TIMS LLC (see Note 2 – Sale of Assets). Significant intercompany transactions have been eliminated on consolidation. In December 2003, the Company purchased a 50% interest in Teloworks, Inc. ("Teloworks") which, at the time of the transaction, was a wholly owned subsidiary of Enterworks, Inc. ("Enterworks"). Given the Company's indirect investment in Teloworks through Enterworks, and its direct 50% interest in Teloworks, the Company is required to consolidate Teloworks. As the Company's investment in Teloworks was immaterial to its financial position and, as this investment was acquired on December 24, 2003, Teloworks was not consolidated for 2003. Since 2004, the Company has recorded all fundings to Teloworks as expense in its consolidated statement of operations, as the Teloworks balance sheet and operating results not already recorded were and continue to be immaterial to the Company's consolidated financial statements. See Note 3 – Investment in Teloworks. The Company has applied the equity method of accounting for its investment in Enterworks. See Note 4 – Investment in Enterworks.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles ("GAAP") in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant estimates and assumptions used in the preparation of the Company's consolidated financial statements include revenue recognition, allowance for doubtful accounts receivable, allowance for inventory obsolescence, the valuation allowance for deferred tax assets, long-lived assets, warranty obligations, income taxes, contingencies and litigation and the carrying values of assets and liabilities. Actual results could differ from those estimates.

Revenue Recognition

Revenues are recognized in accordance with SEC Staff Accounting Bulletin (SAB) No. 104, "Revenue Recognition." The Company considers amounts earned upon evidence that an arrangement has been obtained, services are delivered, fees are fixed or determinable, and collectibility is reasonably assured. Additionally, revenues on arrangements requiring the delivery of more than one product or service are recognized in accordance with EITF 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables" except as the pronouncement states, on contracts where higher-level GAAP (such as Statement of Position ("SOP") 97-2 as described below) prevails.

The Company recognizes revenues for software arrangements upon persuasive evidence of an arrangement, delivery of the software, and determination that collection of a fixed or determinable license fee is probable. Revenues for software licenses sold on a subscription basis are recognized ratably over the related license terms. For arrangements where the sale of software licenses are bundled with other products, including software products, upgrades and enhancements, post-contract customer support ("PCS"), and installation, the relative fair value of each element is determined based on vendor-specific objective evidence ("VSOE"). VSOE is defined by SOP 97-2, "Software Revenue Recognition" ("SOP 97-2"), and SOP 98-9, "Modification of SOP 97-2, Software Revenue Recognition With Respect to Certain Transactions" ("SOP 98-9"), and is limited to the price charged when the element is sold separately or, if the element is not yet sold separately, the fair value assigned under the residual method or the price set by management having the relevant authority. If VSOE does not exist for the allocation of revenue to the various elements of the arrangement, all revenue from the arrangement is deferred until the earlier of the point at which (1) such VSOE does exist or (2) all elements of the arrangement are delivered. PCS revenues, upon being unbundled from a software license fee, are recognized ratably over the PCS period.

Substantially all of the Company's contracts are contracts with the U.S. Government involving the complex delivery of technology products and services. Accordingly, these contracts are within the scope of the American Institute of Certified Public Accountant's Audit and Accounting Guide for Audits of Federal Government Contractors. To the extent contracts are incomplete at the end of an accounting period, revenue is recognized on the percentage-of-completion method, on a proportional performance basis, using costs incurred in relation to total estimated costs.

The Company may use subcontractors in the course of performing on services contracts. Some such arrangements may fall within the scope of EITF 99-19 "Reporting Revenue Gross as a Principal versus Net as an Agent". The Company presumes that revenues on services contracts are recognized on a gross basis, in accordance with EITF 99-19, as the Company generally provides significant value-added services, assumes credit risk, and reserves the right to select subcontractors, but the Company evaluates the various criteria specified in the guidance in making the determination of whether revenue should be recognized on a gross or net basis. The revenue recognized on a net basis for the current and prior years has been insignificant.

A description of the business lines, the typical deliverables, and the revenue recognition criteria in general for such deliverables follows:

Managed Solutions – The Company provides information technology equipment, such as laptops, printers, networking equipment and peripherals, as well as services, including warranty services on the sold equipment, to its customers. For product sales, revenue is recognized upon proof of acceptance by the customer, otherwise it is deferred until such time as the proof of acceptance is obtained. For example, in delivery orders for Department of Defense customers, which comprise the majority of the Company's customers, such acceptance is achieved with a signed Department of Defense Form DD-250. Services provided under these contracts are generally provided on a firm-fixed price ("FFP") basis, and as such fall within the scope of SAB 104. Generally, the products sold under delivery orders do not include any services (except for warranty coverage provided), and as such these delivery orders fall within the scope of SAB 104. Revenue is recognized under FFP contracts based upon proportional performance, as the work progresses, or upon other direct costs ("ODC's") as incurred.

Secure Messaging – The Company provides its Automated Message Handling Software ("AMHS") and services to its customers. The software and accompanying services fall within the scope of SOP 97-2, as fully discussed above. Other services fall within the scope of SAB 104 for arrangements that include only time-and-materials ("T&M") contracts and EITF 00-21 for contracts with multiple deliverables such as T&M elements and FFP services where objective reliable evidence of fair value of the elements is available. Under such arrangements, the T&M elements are established by direct costs. Revenue for FFP services is recognized on a proportional performance basis. FFP services may be billed to the customer on a percentage-of-completion basis or based upon milestones, which may approximate the proportional performance of the services under the agreements, as specified in such agreements. To the extent that customer billings exceed the performance of the specified services, the revenue would be deferred.

Secure Networking Solutions (formerly Secure Wireless) – The Company provides wireless and wired networking solutions consisting of hardware and services to its customers. The solutions are generally sold as FFP bundled solutions. Certain of these networking solutions involve contracts to design, develop, or modify complex electronic equipment configurations to a buyer's specification or to provide network engineering services related to the performance of such contracts, and as such fall within the scope of SOP 81-1, "Accounting for Performance of Construction-Type and Certain Production-Type Contracts." Revenue is earned upon percentage of completion based upon proportional performance, such performance generally being defined by performance milestones. Certain other solutions fall within the scope of SAB 104 and EITF 00-21. Revenue is recognized based upon objective reliable evidence of fair value of the elements, such as upon delivery of the hardware product or ODC's and the ongoing maintenance. Revenue for services is recognized based on proportional performance, as the work progresses. FFP services may be billed to the customer on a percentage-of-completion basis or based upon milestones, which may approximate the proportional performance of the services under the agreements, as specified in such agreements. To the extent that customer billings exceed the performance of the specified services, the revenue would be deferred. Revenue is recognized under T&M services contracts based upon specified billing rates and other direct costs as incurred.

Information Assurance ("IA") Services – The Company provides consulting services to its customers under either a FFP or T&M basis. Such contracts fall under the scope of SAB 104. Revenue for FFP services is recognized on a proportional performance basis. FFP services may be billed to the customer on a percentage-of-completion basis or based upon milestones, which may approximate the proportional performance of the services under the agreements, as specified in such agreements. To the extent that customer billings exceed the performance of the specified services, the revenue would be deferred. Revenue is recognized under T&M contracts based upon specified billing rates and other direct costs as incurred.

Identity Management – The Company provides its identity management services and sells information technology products, such as computer laptops and specialized printers, and consumables, such as identity cards, to its customers. The solutions are generally sold as FFP bundled solutions, which would typically fall within the scope of EITF 00-21 and SAB 104. Revenue is recognized based upon objective reliable evidence of fair value of the elements, such as upon delivery of the hardware product or ODC's and the ongoing maintenance. Revenue for services recognized based on proportional performance, as the work progresses. FFP services may be billed to the customer on a percentage-of-completion basis or based upon milestones, which may approximate the proportional performance of the services under the agreements, as specified in such agreements. To the extent that customer billings exceed the performance of the specified services, the revenue would be deferred. Revenue is recognized under T&M contracts based upon specified billing rates and other direct costs as incurred.

Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less at the date of purchase to be cash equivalents. The Company's cash management program utilizes zero balance accounts. Accordingly, all book overdraft balances have been reclassified to accounts payable, to the extent that availability of funds exists on the Company's revolving credit facility.

Restricted Investments

At December 31, 2007, the Company's restricted investments consisted of United States Treasury Notes and a United States Treasury Bond, which are held to maturity and carried at amortized cost, in accordance with Statement of Financial Accounting Standards No. 115 "Accounting for Certain Investments in Debt and Equity Securities" ("SFAS No. 115"). The balance of $4.1 million at December 31, 2007 was pledged as collateral on a performance bond and payment bond for one of the Company's government contracts for services. All but $103,000 of which was released upon satisfactory performance in the May, July and November 2008 time periods.

Accounts Receivable

Accounts receivable are stated at the invoiced amount, less allowances for doubtful accounts, which approximates fair value given their short-term due dates. Collectability of accounts receivable is regularly reviewed based upon managements' knowledge of the specific circumstances related to overdue balances. The allowance for doubtful accounts is adjusted based on such evaluation. Accounts receivable balances are written off against the allowance when management deems the balances uncollectible.

Inventories

Inventories are stated at the lower of cost or market, where cost is determined on the weighted average method. Substantially all inventories consist of purchased customer off-the-shelf hardware and software, and component computer parts used in connection with system integration services performed by the Company. Inventories also include spare parts with a net book value of $400,000 and $611,000 at December 31, 2007 and 2006, respectively, which are utilized to support maintenance contracts. Spare parts inventory is amortized on a straight-line basis over two to five years, which represents the shorter of the warranty period or useful life. An allowance for obsolete, slow-moving or nonsalable inventory is provided for all other inventory. This allowance is based on the Company's overall obsolescence experience and its assessment of future inventory requirements. This charge is taken primarily due to the age of the specific inventory and the significant additional costs that would be necessary to upgrade to current standards as well as the lack of forecasted sales for such inventory in the near future. Gross inventory is $13.4 million and $8.0 million at December 31, 2007 and 2006, respectively. As of December 31, 2007, it is management's judgment that the Company has fully provided for any potential inventory obsolescence.

The components of the allowance for inventory obsolescence are set forth below (in thousands):

	Balance Beginning of Year	Additions Charge to Costs and Expense	Deductions	Balance End of Year
Year Ended December 31, 2007	$ 922	$ 739	$ (179)	$1,482
Year Ended December 31, 2006	$ 482	$ 465	$ (25)	$ 922
Year Ended December 31, 2005	$ 184	$ 337	$ (39)	$ 482

Property and Equipment

Property and equipment is recorded at cost. Depreciation is provided on the straight-line method at rates based on the estimated useful lives of the individual assets or classes of assets as follows:

Buildings	20 Years
Machinery and equipment	3-5 Years
Office furniture and fixtures	5 Years
Leasehold improvements	Life of Lease

Leased property meeting certain criteria is capitalized at the present value of the related minimum lease payments. Amortization of property and equipment under capital leases is computed on the straight-line method over the lesser of the term of the related lease and the useful life of the related asset.

Upon sale or retirement of property and equipment, the costs and related accumulated depreciation are eliminated from the accounts, and any gain or loss on such disposition is reflected in the statement of operations. For the years ended December 31, 2007 and 2006, such amounts are negligible. Expenditures for repairs and maintenance are charged to operations as incurred.

The Company's policy on internal use software is in accordance with Statement of Position 98-1 ("SOP 98-1"), "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." This standard requires companies to capitalize qualifying computer software costs which are incurred during the application development stage and amortize them over the software's estimated useful life. The Company expensed all such software development costs in 2007, 2006 and 2005, as it believes that such amounts are immaterial.

Depreciation and amortization expense related to property and equipment, including property and equipment under capital leases, and related to Enterworks Process Exchange™ ("EPX") software in other assets, was $1.8 million, $1.8 million and $1.6 million for the years ended December 31, 2007, 2006 and 2005, respectively.

Other Assets

The balance of other assets at December 31, 2007 consist of the long-term portion of the restricted investments in the amount of $103,000 and refundable deposits in the amount of $24,000. The balance of other assets as of December 31, 2006 consisted primarily of the capitalized costs related to EPX software in the amount of $250,000 and refundable deposits in the amount of $18,000.

Income Taxes

The Company accounts for income taxes under SFAS No. 109, "Accounting for Income Taxes." Under this asset and liability method, 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. The Company records a valuation allowance that reduces deferred tax assets when it is "more likely than not" that deferred tax assets will not be realized.

On January 1, 2007, the Company adopted the provisions of Financial Accounting Standards Board Interpretation No. 48 , "Accounting for Uncertainty in Income Taxes" ("FIN 48"), which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes." FIN 48 provides guidance on the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosures, and transition. The Company's analysis of uncertain tax positions as required under FIN 48 determined that the Company had no significant unrecorded liabilities.

As of January 1, 2007 and December 31, 2007, the Company had no unrecognized tax benefits, nor did it have any that would have an effect on the effective tax rate. Income taxes are provided based on the liability method for financial reporting purposes. No interest or penalties were accrued as of January 1, 2007 as a result of the adoption of FIN 48. For the year ended December 31, 2007, there was no interest or penalties recorded or included in tax expense.

Stock-Based Compensation

In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 123(R), "Share-based Payment", a revision of SFAS No. 123, "Accounting for Stock-Based Compensation." SFAS No. 123(R) supersedes APB Opinion No. 25, ("APB No. 25") "Accounting for Stock Issued to Employees." SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, be recognized in the income statement based on their fair values.

Prior to January 1, 2006, the Company accounted for stock-based compensation using the intrinsic value based method in accordance with APB No. 25. Under APB No. 25, the Company recognized no compensation cost for employee stock options, as the options granted had an exercise price equal to the fair value of the underlying common stock on the date of grant. The Company applied the disclosure provisions of SFAS No. 123, as amended by SFAS No. 148, "Accounting for Stock-Based Compensation and Disclosure, an amendment of SFAS No. 123." Under those provisions, the Company provided pro forma disclosures as if the fair value measurement provisions of SFAS No. 123 had been used in determining compensation expense. The Company used the Black-Scholes option-pricing model to determine the pro forma impact under SFAS Nos. 123 and 148 on the Company's net income. The model utilizes certain information, such as the interest rate on a risk-free security maturing generally at the same time as the option being valued and requires certain other assumptions, such as the expected amount of time an option will be outstanding until it is exercised or expired, to calculate the fair value of stock options granted. Such amount disclosed for 2005 was $121,000. Disclosures for 2007 and 2006 are not presented, because stock-based compensation was accounted for under SFAS 123(R)'s fair value method during these periods.

Significant assumptions used in determining the fair value of each option grant at the date of grant were as follows:

	December 31,		
	2007	2006	2005
Expected dividend yield	—	—	—
Expected stock price volatility	—	—	—
Risk free interest rate	—	—	3.76%
Expected life of options	—	—	4.1yrs
Weighted-average fair value of options granted	—	—	$ 0.09

Effective January 1, 2006, the Company adopted the fair value recognition provisions of SFAS 123(R), using the modified prospective transition method. Under this transition method, stock-based compensation costs recognized in the income statement for the year ended December 31, 2006 in the amount of $103,000, include compensation costs for all unvested stock options that were granted prior to December 31, 2005, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123. There were no options granted after December 31, 2005. Results for prior periods have not been restated.

Recent Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations." SFAS No. 141(R) requires reporting entities to record fair value estimates of contingent consideration and certain other potential liabilities during the original purchase price allocation, expense acquisition costs as incurred and does not permit certain restructuring activities previously allowed under EITF 95-3 to be recorded as a component of purchase accounting. SFAS No. 141(R) is effective for fiscal periods beginning after December 15, 2008 and should be applied prospectively for all business acquisitions entered into after the date of adoption. The Company is currently evaluating the impact that the adoption of SFAS No. 141(R) will have on its consolidated financial position or results of operations.

In February 2006, the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments - an amendment of FASB Statements No. 133 and 140." This statement amends Statements No. 133 and 140 by permitting fair value remeasurement for any hybrid financial instrument with an embedded derivative that otherwise would require bifurcation; clarifying which interest-only strips and principal-only strips are not subject to the requirements of Statement No. 133; establishing a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation; clarifying that concentrations of credit risk in the form of subordination are not embedded derivatives; and amending Statement No. 140 to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. The statement was effective for fiscal years beginning after September 15, 2006. The adoption of this standard did not have a material impact on the Company's financial position and results of operations.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with U.S. GAAP and expands disclosures about fair value measurements. SFAS No. 157 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. The provision of SFAS No. 157 were scheduled to be effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. In February 2008, the FASB issued Staff Position No. FAS 157-2, "Effective Dates of FASB Statement No. 157," which defers the effective date of SFAS No. 157 for all nonrecurring fair value measurements of nonfinancial assets and liabilities until fiscal years beginning after November 15, 2008. The Company is in the process of evaluating the impact, if any, that SFAS No. 157 will have on the its financial condition and results of operations.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities." SFAS No. 159 allows an entity the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities on a contract-by-contract basis. Subsequent changes in fair value of these financial assets and liabilities would by recognized in earnings when they occur. SFAS No. 159 is effective for the Company's financial statements for the year beginning January 1, 2008, with earlier adoption permitted. The Company is currently evaluating the effect that the adoption of this statement will have on its consolidated financial position and results of operations.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interest in Consolidated Financial Statements – an amendment of ARB No. 51." SFAS No. 160 requires (i) that noncontrolling (minority) interests be reported as a component of shareholders' equity, (ii) that net income attributable to the parent and to the noncontrolling interest be separately identified in the consolidated statement of operations, (iii) that changes in a parent's ownership interest while the parent retains its controlling interest be accounted for as equity transactions, (iv) that any retained noncontrolling equity investment upon the deconsolidation of a subsidiary be initially measured at fair value, and (v) that sufficient disclosures are provided that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS No. 160 is effective for fiscal periods beginning after December 15, 2008. The Company is currently evaluating the impact that the adoption of SFAS No. 160 will have on its consolidated financial position or results of operations.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities – an amendment to FASB Statement No. 133." SFAS No. 161 is intended to improve financial standards for derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. Entities are required to provide enhanced disclosures about: (a) how and why an entity uses derivative instruments; (b) how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations; and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. It is effective for financial statements issued for fiscal years beginning after November 15, 2008, with early adoption encouraged. The Company is currently evaluating the impact that the adoption of SFAS 161 will have on its consolidated financial statements.

Research and Development

For all years presented, the Company charges all research and development costs to expense as incurred. For software research and development costs, such costs are capitalized once technological feasibility is reached. Technological feasibility is established when all planning, designing, coding and testing activities have been completed, and all risks have been identified. To date, no such costs have been capitalized, as costs incurred after reaching technological feasibility have been insignificant. During 2007, 2006, and 2005, the Company incurred salary costs for research and development of approximately $0.9 million, $1.0 million and $0.9 million, respectively.

Earnings per Share

As the Company does not have publicly held common stock or potential common stock, no earnings per share data is reported for any of the years presented.

Comprehensive Income

Comprehensive income includes changes in equity (net assets) during a period from non-owner sources. The Company has no comprehensive income (loss) components other than its net income (loss).

Financial Instruments

The Company uses various methods and assumptions to estimate the fair value of its financial instruments. Due to their short-term nature, the carrying value of cash and cash equivalents, accounts receivable, accounts payable and accrued expenses approximates fair value. The fair value of long-term debt is based on the discounted cash flows for similar term borrowings based on market prices for the same or similar issues. See Note 7 – Current Liabilities and Debt Obligations and Note 8 – Redeemable Preferred Stock to the Consolidated Financial Statements for fair value disclosures of senior subordinated notes and senior redeemable preferred stock.

Fair value estimates are made at a specific point in time, based on relevant market information. These estimates are subjective in nature and involve matters of judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Reclassifications

Certain reclassifications have been made to the 2006 and 2005 financial statements to conform to the current year presentation.

Note 2. Sale of Assets

On April 11, 2007, Telos Identity Management Solutions, LLC (“TIMS LLC”) was formed as a limited liability company under the Delaware Limited Liability Company Act. The Company contributed substantially all of the assets of its Identity Management business line and assigned its rights to perform under its U.S. Government contract with the Defense Manpower Data Center (“DMDC”) to TIMS LLC at their stated book values. The net book value of assets contributed by the Company totaled $17,000. Until April 19, 2007, the Company owned 99.999% of the membership interests of TIMS LLC and certain private equity investors (“Investors”) owned 0.001% of the membership interests of TIMS LLC. On April 20, 2007, the Company sold an additional 39.999% of the membership interests to the Investors in exchange for $6 million in cash consideration. In accordance with SAB 51, “Accounting for Sales of Stock by a Subsidiary,” the Company recognized a gain of $5.8 million, which is included in other income (expenses) on the Consolidated Statements of Operations. Legal and investment banking expenses directly associated with the transaction amounted to approximately $190,000. The brother of John B. Wood, the Company’s Chairman and Chief Executive Officer, indirectly held a 2% effective ownership interest in TIMS LLC as a result of the transaction. Such ownership interest was sold in 2008.

The parties signed an Amended and Restated Operating Agreement (“Operating Agreement”) which provides for a Board of Directors comprised of five members. The Operating Agreement also provides for two subclasses of membership units: Class A, consisting of the Company and Class B, consisting of the Investors. The Class A membership unit owns 60% of TIMS LLC, and as such is entitled to receive 60% of the profits, which was $1.7 million for 2007, and to appoint three members of the Board of Directors. The Class B membership unit owns 40% of TIMS LLC, and as such is entitled to receive 40% of the profits, which was $1.1 million for 2007, and to appoint two members of the Board of Directors.

Pursuant to the Operating Agreement, John B. Wood, Chairman and CEO of the Company, has been designated as the Chairman of the Board of TIMS LLC. In addition, in April 2007, the Company entered into a corporate services agreement with TIMS LLC whereby the Company provides certain administrative support services to TIMS LLC, including finance, accounting and human resources services.

During the year ended December 31, 2007, in accordance with the Operating Agreement, quarterly cash distributions in the amount of $900,000 were made to the Class B Member. No distribution was made to the Class A Member.

As indicated above, the Company owns 60% of TIMS LLC, and therefore continues to account for the contributed assets using the consolidation method.

Note 3. Investment in Teloworks, Inc. (formerly Enterworks International, Inc.)

In December 2003, the Company entered into a Stock Purchase Agreement and the Stockholder Agreement ("Teloworks Agreements"), whereby the Company purchased a 50% interest in Teloworks, which at the time of the transaction was a wholly owned subsidiary of Enterworks, for $500,000. The investment was founded upon anticipated future cost savings on projected labor costs, or an acquired "assembled workforce" (an acquired intangible asset). As techniques to measure the value of an assembled workforce and the related intellectual capital with sufficient reliability were not available and, as Teloworks was not expected to generate any substantial cash flows going forward, the investment was written off as of the balance sheet date of December 31, 2003, consistent with paragraph 17 of SFAS 142, "Goodwill and Other Intangible Assets." Furthermore, in accordance with the terms of the Teloworks Agreements, the Company agreed to fund operating costs and certain direct expenses. Since 2004, the Company has recorded all fundings to Teloworks as expense in its consolidated statement of operations, as the Teloworks balance sheet and operating results not already recorded were and continue to be immaterial to the Company's consolidated financial statements.

For 2007, 2006, and 2005, the Company incurred expenses related to Teloworks in the amounts of approximately $1.2 million, $1.0 million and $0.6 million, respectively.

Pursuant to the Teloworks Agreements, the Company and Enterworks are required to fund the operations of Teloworks according to a funding schedule as set forth in the Teloworks Agreements. In 2005, the Company funded in excess of its proportionate share of Teloworks services by $58,000. For calendar year 2005, Enterworks was unable to fund its proportionate share of the scheduled funding, which amounted to $664,000, and as such the $664,000 was separately funded and expensed by the Company. However, as a result of Enterworks' recapitalization effort, the $664,000 was converted into 1,793,903 shares of Enterworks' Series B-1 Preferred Stock and was recorded as an investment in Enterworks. As noted below in Note 4 – Investment in Enterworks, in accordance with APB 18, the Company has recognized its share of Enterworks losses and reduced the investment in Enterworks to zero as of December 31, 2006.

In 2006, Enterworks was unable to fund its proportionate share of the scheduled funding, which amounted to $245,000 as of May 19, 2006. Consistent with subsection 3.4(d) of the Teloworks Agreements, the non-defaulting party (Telos) has the right to transfer ownership (pursuant to a Penalty Ownership calculation) of the defaulting party's interest in Teloworks. The Teloworks Agreements also provide for a cure period for the defaulting party, which was waived by the defaulting party. On May 19, 2006, the Company provided notice to Enterworks of its default and, pursuant to the waiver of the cure period by Enterworks, exercised its rights under the Teloworks Agreements to transfer the calculated ownership percentage to the Company. The amount of the Enterworks default set forth in the notice was approximately $303,000, which was comprised of the $58,000 overfunded amount in 2005 and the $245,000 funding on Enterworks' behalf as stated above. As a result of such exercise of its rights under the Teloworks Agreements, the Company owned 80.0% of Teloworks.

For 2006, the Company funded in excess of its proportionate share of Teloworks operations by approximately $296,000. This amount was comprised of the $245,000 funded on behalf of Enterworks as described above, which was part of the basis for the transfer of an additional 30% ownership interest from Enterworks to Telos. The remaining overfunded amount of $51,000 for 2006 was carried forward to be applied to the Company's 2007 funding requirements.

On March 16, 2007, Enterworks completed a private financing through the issuance of 42,857,143 shares of Series D Preferred Stock to various investors, including Telos. The Company participated in the private financing as a result of amounts credited to the Company by Enterworks, including $500,000 for funding prior Enterworks' obligations to Teloworks (which also resulted in a 20% recapture of Enterworks' forfeited interest in Teloworks for approximately $204,000), and approximately $100,000 due to the Company, which had previously been fully reserved in connection with the services and sublease agreement as described in Note 4 – Investment in Enterworks. As a result of this financing, the Company acquired 8,571,429 shares of Enterworks Series D Preferred Stock, increasing its fully diluted ownership percentage from 4.7% as of December 31, 2006 to 10.8% as of March 16, 2007.

On March 16, 2007, as described above, as a result of the 20% recapture of Enterworks' forfeited interest in Teloworks, the Company owned 60% of Teloworks. Subsequently in 2007, Enterworks was unable to fund its entire share of the scheduled funding obligation to Teloworks. The Company funded $250,000 on Enterworks' behalf for which it received a note from Enterworks and warrants to purchase 1,785,714 underlying common stock shares. The Company recorded this note as a note receivable, however, due to uncertainty regarding the timing and amount of repayment of the note, the Company recorded a full reserve against the note. The Company provided Enterworks with a notice of default in accordance with the Teloworks Agreements due to its repeated defaults on its funding obligations. Enterworks waived its rights under the Teloworks Agreements to cure such default. Accordingly, effective January 1, 2008, Telos owns 100% of Teloworks.

Note 4. Investment in Enterworks

As of December 31, 2007, the Company owns 671,301 shares of common stock, 729,732 shares of Series A-1 Preferred Stock, 1,793,903 shares of Series B-1 Preferred Stock, and 8,571,429 shares of Series D Preferred Stock of Enterworks, and warrants to purchase 1,785,714 underlying common stock shares, representing a fully diluted ownership percentage of 10.6%. Since its initial investment in Enterworks, the Company has accounted for such investment as prescribed by APB Opinion No. 18 ("APB 18"), "The Equity Method of Accounting for Investments in Common Stock," and continues to do so due to the Company's continued significant influence through its representation on the Board of Directors of Enterworks.

Prior to October 14, 2005, the Company owned 17,153,059 shares of Enterworks common stock, 1,785,714 shares of Series B Convertible Preferred Stock, and warrants to purchase 6,374,997 underlying common stock shares, representing a fully diluted ownership percentage of 25.1%. Additionally, the Company owned $4.0 million of notes receivable whose carrying amounts were previously reduced to zero in accordance with APB 18 and Emerging Issues Task Force Issue No. 98-13 "Accounting by an Equity Method Investor for Investee Losses when the Investor has Loans to and Investments in Other Securities of the Investee."

As of December 31, 2005, and as a result of an Enterworks' recapitalization which occurred on October 14, 2005, the Company owned 671,301 shares of common stock, 729,732 shares of Series A-1 Preferred Stock and 1,793,903 shares of Series B-1 Preferred Stock of Enterworks, representing a fully diluted ownership percentage of 19.4%.

On April 30, 2006, Enterworks completed a transaction in which it purchased 100% of the common stock of Ennovative Commerce Solutions, Inc., a content publishing company. In consideration for this purchase, Enterworks issued approximately 8.1 million shares of its common stock to the acquired company's stockholders. As a result of this transaction, Telos' ownership in Enterworks, on a fully diluted basis, was reduced to 12.6%.

In May and June of 2006, Enterworks completed a private financing through the issuance of 13.8 million shares of its Series C Preferred Stock to various investors. As a result of this transaction, Telos' ownership in Enterworks, on a fully diluted basis, was reduced to 8.2%.

On June 30, 2006, Enterworks completed a transaction in which it purchased 100% of the common stock of Saltmine, Inc., a services company. In consideration for this purchase, Enterworks issued approximately 21.1 million shares of its common stock to the acquired company's stockholders. As a result of this transaction, Telos' ownership in Enterworks, on a fully diluted basis, was reduced to 5.3%. As of December 31, 2006, as a result of issuance of additional common stock by Enterworks, Telos' ownership, on a fully diluted basis, was reduced to 4.7%.

In May 2006, the Company and Enterworks amended their Agreement for Services and Sublease ("Agreement") effective as of January 1, 2006. Pursuant to the Agreement, Telos shall continue to sublease office space in its Ashburn facility and provide certain general, administrative and support services to Enterworks, for the amount of $210,000 for a period of one year, payable in 12 equal installments of $17,500 per month. Pursuant to its terms, upon execution of the Agreement, the equivalent of five monthly payments, or $87,500, for the period from January 1, 2006 through May 31, 2006, became due to Telos from Enterworks. Under the terms of the third amendment to the Agreement, Telos and Enterworks had agreed to a payment plan to bring the arrearage current by December 31, 2006. Enterworks was unable to make all payments under the Agreement and arrearage plan, resulting in a balance due to the Company of $100,000 as of December 31, 2006. The Company recorded a full reserve against the balance due because of uncertainty regarding the timing and amount of repayment of the balance.

During the fiscal year ended December 31, 2006, the Company's share of Enterworks losses totaled $134,000. In accordance with APB 18, the Company recognized its share of Enterworks losses by reducing the carrying value of its investment in Enterworks from $92,000 to zero. In accordance with EITF 98-13 – "Accounting by an Equity Method Investor for Investee Losses when the Investor Has Loans to and Investments in Other Securities of the Investee", the Company recorded the remaining $42,000 of its proportional share of Enterworks losses as losses from affiliate, reducing the carrying value of the receivable balance due to $354,000. The Company has evaluated the remaining balance for impairment consistent with SFAS No. 114, "Accounting by Creditors for Impairment of a Loan" and consequently has recorded a full valuation allowance in the amount of $354,000. In 2005, the Company recorded $468,000 of equity losses from Enterworks as losses from affiliate. Additionally in 2005, the Company further evaluated its Enterworks investment and recorded an impairment loss in the amount of $104,000, reducing its investment in Enterworks to approximately $92,000.

On March 16, 2007, Enterworks completed a private financing through the issuance of 42,857,143 shares of Series D Preferred Stock to various investors, including Telos. The Company participated in the private financing through amounts credited to the Company, including $500,000 for funding prior Teloworks obligations on Enterworks behalf (including a 20% recapture of Enterworks' forfeited interest in Teloworks for approximately $204,000), and an amount due to the Company of approximately $100,000, which had previously been fully reserved, in connection with the services and sublease agreement as described above. As a result of this financing, the Company acquired 8,571,429 shares of Enterworks Series D Preferred Stock, increasing its fully diluted ownership percentage from 4.7% as of December 31, 2006 to 10.8% as of March 16, 2007. The private financing did not result in any change to management's belief that the value of the investment in Enterworks was impaired at the time of the transaction; therefore, the recorded value of the investment remains zero as the Company expensed the amounts associated with this transaction.

In April 2007, the Company and Enterworks amended their Agreement effective as of January 1, 2007. Pursuant to the Agreement, Telos continued to sublease office space in its Ashburn facility and provided certain general, administrative and support services to Enterworks, for an the amount of $180,000 for a period of one year, payable in 12 equal installments of $15,000 per month.

Subsequently in 2007, Enterworks was unable to meet the entire share of its scheduled funding obligations to Teloworks. The Company funded $250,000 on Enterworks' behalf for which it received a note from Enterworks, and warrants to purchase 1,785,714 underlying common stock shares. The Company recorded this note as a note receivable, however, due to uncertainty regarding the timing and amount of repayment of the note, the Company recorded a full reserve against the note. The Company has provided Enterworks with a notice of default in accordance with the Teloworks Agreements due to its repeated defaults on its funding obligations to Teloworks. As disclosed in Note 3 – Investment in Teloworks, Enterworks has waived its rights under the Teloworks Agreements to cure such default. Accordingly, effective January 1, 2008 Telos owns 100% of Teloworks.

In March 2008, the Company and Enterworks amended their Agreement effective as of January 1, 2008. Pursuant to the Agreement, Telos shall continue to sublease office space in its Ashburn facility and provide certain general, administrative and support services to Enterworks, for an the amount of $180,000 for a period of one year, payable in 12 equal installments of $15,000 per month.

Separately, in December 2003, the Company entered into a two-year Original Equipment Manufacturer ("OEM") software license agreement ("SLA") with Enterworks that, pursuant to an earn-out provision is comprised of cumulative license fees and/or Company services to Enterworks equal to at least $2.0 million. The Company provided initial consideration of $1.0 million, comprised of a $100,000 cash payment and Company services in the amount of $900,000, including $300,000 for rent and services from July 2003 to December 2003, and an additional $600,000 for rent and services for 2004. In addition to the above-described exchange, as part of the December 2003 agreement, the Company agreed to pay royalties of $1.0 million for a period of two years and, upon payment of cumulative license fees and/or company services to Enterworks equal to at least $2.0 million, would own a worldwide, non-exclusive, perpetual, irrevocable, royalty-free, fully paid-up license for the EPX software. As of December 31, 2004, the Company paid approximately $294,000 in such royalties. In December 2004, the Company entered into an amended agreement with Enterworks in which Enterworks acknowledged that the Company had met the earn-out requirements and now owns the above-mentioned license. As part of the amended agreement, the Company paid an additional $350,000 and waived the $400,000 fee for rent and services for 2005. Additionally, Enterworks agreed to provide the Company with maintenance and OEM technical product support for two years, for a fixed fee of $300,000, such fee being amortized over two years. The Company had the option to renew the maintenance and OEM technical product support for $15,000 per month, and effective as of January 1, 2007 and January 1, 2008, the Company renewed such support. In accordance with FASB Statement No. 142, "Goodwill and Other Intangible Assets," intangible assets acquired shall be initially recognized and measured at fair value. As such, the Company has capitalized $850,000 in consideration paid for EPX software ($100,000 in 2003 and $750,000 in 2004), and has reflected this asset on the balance sheet in "Other Assets." The net carrying value of the asset was zero and $250,000 as of December 31, 2007 and 2006, respectively. Amortization expense for 2007, 2006, and 2005 was $250,000, $250,000, and $300,000, respectively.

Note 5. Sale of Telos Corporation (California)

On July 19, 2002, the Company and L-3 Communications Corporation ("L-3") entered into a Stock Purchase Agreement whereby the Company sold all of the issued and outstanding shares of its wholly owned subsidiary, Telos Corporation (California) ("TCC") to L-3 for a purchase price of approximately $20 million which included: 1) approximately $15.3 million to the Company at closing; 2) $2.0 million held in an escrow account, $1.0 million of which was released and paid in October 2003 and the remaining $1.0 million was released and paid in February 2005; and 3) approximately $2.7 million held back as deposits for liabilities relating to the leased Ashburn facility in which at the time of closing TCC was a lessee or guarantor. Approximately $1 million of such lease-related hold-back was released and paid in August 2002; $0.8 million was paid in August 2004, and the remaining $0.8 million was paid in August 2007. The gain of $10.9 million resulting from the sale of TCC included the write-off of $2.5 million of goodwill previously recorded for TCC.

According to the Stock Purchase Agreement, the purchase price was to be increased or decreased on a dollar for dollar basis by the amount by which the closing date net assets deviated from $2.3 million. The closing date net assets were $4.6 million, an increase of an additional $2.3 million. Such amount was invoiced by the Company and collected in October 2002 from L-3. Accordingly, as a result of the increase in purchase price during the fourth quarter 2002, the Company adjusted the gain by $2.3 million to $13.2 million. The Company recognized a bonus accrual for certain key employees considered critical to the sale in the amount of $560,000 and, accordingly, the gain was adjusted to $12.6 million. In accordance with the Company's Senior Credit Facility, proceeds from the sale were used to pay down the Company's Facility.

As additional consideration for the sale of the shares of TCC, the Company and its affiliates committed to certain "Non-Compete" and "Non-Solicitation" provisions relating primarily to the business and employees associated with its TCC/Ft. Monmouth operations.

The sale of TCC was treated as a discontinued operation in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." Pursuant to SFAS No. 144, the revenue, costs and expenses of TCC had been excluded from their respective captions in the Company's consolidated statements of operations and the net results of these operations have been reported separately as "Income (loss) from discontinued operations." Therefore, the $1.0 million released and paid in February 2005 was recorded as gain on sale from discontinued operations.

Note 6. Revenue and Accounts Receivable

Revenue resulting from contracts and subcontracts with the U.S. Government accounted for 99.5%, 98.6% and 95.8% of consolidated revenue in 2007, 2006, and 2005, respectively. Total consolidated revenue derived from the U.S. Government for 2007, 2006, and 2005 includes 86.5%, 85.9% and 86.9%, respectively, of revenue from contracts with the Department of Defense agencies, and 13.0%, 12.7%, and 8.9%, respectively, of revenue from Federal Civilian Agencies. As the Company's primary customer base includes agencies of the U.S. Government, the Company has a concentration of credit risk associated with its accounts receivable. While the Company acknowledges the potentially material and adverse risk of such a significant concentration of credit risk, the Company's past experience of collecting substantially all of such receivables provide it with an informed basis that such risk, if any, is manageable. The Company performs ongoing credit evaluations of all of its customers and generally does not require collateral or other guarantee from its customers. The Company maintains allowances for potential losses. In the fourth quarter of 2007, the Company recorded a $276,000 adjustment to decrease the accounts receivable reserve estimate.

The components of accounts receivable are as follows (in thousands):

	December 31,	
	2007	2006
Billed accounts receivable	$29,533	$21,317
Amounts currently billable	10,927	4,800
Allowance for doubtful accounts	(553)	(407)
	$39,907	$25,710

The activities in the allowance for doubtful accounts are set forth below (in thousands):

	Balance Beginning of Year	Bad Debt Expenses	Deductions (1)	Balance End of Year
Year ended December 31, 2007	$ 407	$ 155	$ (9)	$ 553
Year ended December 31, 2006	$ 493	$ —	$ (86)	$ 407
Year ended December 31, 2005	$ 540	$ —	$ (47)	$ 493

(1) Accounts receivable written-off, allowance reversals and recoveries, net

Note 7. Current Liabilities and Debt Obligations

Accounts Payable and Other Accrued Payables

As of December 31, 2007 and 2006, the accounts payable and other accrued payables consisted of $32.6 million and $31.9 million, respectively, in trade account payables and $8.2 million and $2.7 million, respectively, in accrued trade payables.

Management has estimated that the carrying value of the Company's accounts payable and other accrued payables as of December 31, 2007 and 2006 are consistent with the fair value.

Senior Revolving Credit Facility

As of December 31, 2007, the Company had a $15 million revolving credit facility (the "Facility") with Wells Fargo Foothill, Inc. ("Wells Fargo Foothill") that was scheduled to mature on October 21, 2008. The Company amended the Facility, effective January 31, 2008, to increase the limit on the Facility to $20 million through March 31, 2008, and to accommodate increased operational needs, supported by sufficient collateral. The fees associated with this amendment amounted to $10,000. In March 2008, the Company renewed the Facility and amended its terms. Under the amended terms, the maturity on the Facility was extended to September 30, 2011 and the limit on the Facility was increased to $25 million to accommodate current and projected financing needs going forward. Pursuant to the terms of the Facility, the interest rate is established as the Wells Fargo "prime rate" plus 1%, the Federal Funds rate plus 1 1/2%, or 7.00%, whichever is higher. In lieu of having interest charged at the rate based on the Wells Fargo prime rate, the Company has the option to have interest on all or a portion of the advances on such Facility be charged at a rate of interest based on the LIBOR Rate (the greater of the LIBOR rate three business days prior to the commencement of the requested interest period or 3%), plus 4.00%. The fees associated with this renewal and amendment amounted to $150,000.

Borrowings under the Facility are collateralized by substantially all of the Company's assets including inventory, equipment, and accounts receivable. The amount of available borrowings fluctuates based on the underlying asset-borrowing base, as defined in the Facility agreement.

As of December 31, 2007, the interest rate on the Facility was 8.25%. Pursuant to the terms of the Facility, during 2007 the interest rate was the Wells Fargo "prime rate" plus 1% (as of December 31, 2007 the Wells Fargo "prime rate" was 7.25%) or 5.75%, whichever was higher. As of December 31, 2007, the Company had not elected the LIBOR rate option. As of November 30, 2008, the interest rate on the Facility was 7.00%. For the years ended December 31, 2007, 2006, and 2005, the Company paid interest expense in the amount of $1.0 million, $1.0 million, and $0.6 million, respectively, on the Facility.

Effective January 1, 2007, the Company and Wells Fargo Foothill amended the Facility to provide additional availability through the relief of certain reserves against available collateral through April 30, 2007, to establish Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") covenants for 2007, to give consent to the formation of TIMS LLC and subsequent sale of a portion of the membership interests in TIMS LLC (disclosed in Note 2 – Sale of Assets), and to provide various waivers in accordance with the Facility. The fees associated with such amendments amounted to $160,000.

The Facility has various covenants that may, among other things, affect the ability of the Company to merge with another entity, sell or transfer certain assets, pay dividends and make other distributions beyond certain limitations. As of December 31, 2007, the Company was in compliance with the Facility's financial covenants, including EBITDA covenants. Based on the Company's current projection of EBITDA, the Company expects that it will remain in compliance with its EBITDA covenants, and accordingly, the Facility is classified as a noncurrent liability as of December 31, 2007.

Senior Subordinated Notes

In 1995, the Company issued Senior Subordinated Notes ("Notes") to certain shareholders. Such Notes are classified as either Series B or Series C. The Series B Notes are secured by the Company's property and equipment, but subordinate to the security interests of Wells Fargo Foothill under the Facility. The Series C Notes are unsecured. The maturity date of such Notes as of December 31, 2007 was October 31, 2008. In March and April of 2008, the maturity date of such Notes was extended to December 31, 2011, with interest rates ranging from 14% to 17%, and paid quarterly on January 1, April 1, July 1, and October 1 of each year. The Notes can be prepaid at the Company's option; however, the Notes contain a cumulative prepayment premium of 13.5% per annum payable upon certain circumstances, which include, but are not limited to, an initial public offering of the Company's common stock or a significant refinancing ("qualifying triggering event"), to the extent that sufficient net proceeds from either of the above events are received to pay such cumulative prepayment premium. Due to the contingent nature of the cumulative prepayment premium, any associated premium expense can only be quantified and recorded subsequent to the occurrence of such a qualifying triggering event. At December 31, 2007, if such a qualifying triggering event had occurred, the cumulative prepayment premium would have been approximately $20.5 million.

The balances of the Series B and C Notes were $2.5 million and $2.7 million, respectively, each at December 31, 2007 and 2006.

In June and July of 2008, the Company repaid $1 million of the outstanding Series B Notes. The prepayment penalties on the repayment of such Notes were waived. Wells Fargo Foothill granted a waiver and amendment to the Facility to allow such payment.

The carrying value of the Notes as of December 31, 2006 is consistent with the fair value as determined by an independent valuation performed by Navigant Consulting, Inc. Management has estimated that as of December 31, 2007 the carrying value is consistent with the fair value. This estimation is based on the 2006 valuation performed by Navigant Consulting, Inc. and consistent with management's assessment that no material factors surrounding the instruments have changed since that time.

For the years ended December 31, 2007, 2006, and 2005, the Company paid interest expense in the amount of $0.8 million on the Notes.

The following are maturities of obligations presented by year (in thousands):

	Year	Obligation Due
Senior Subordinated Debt	2011	$ 5,179[1]
Senior Credit Facility	2011	$ 12,849[2]

1 Pursuant to Section 17 of the Amended and Restated Subordination Agreement entered into in conjunction with the Facility, the senior subordinated note holders and the Company have extended the maturity date of the Notes to December 31, 2011.

2 Balance due represents balance as of December 31, 2007, however, the Senior Credit Facility is a revolving credit facility with fluctuating balances based on working capital requirements of the Company.

Note 8. Redeemable Preferred Stock

Senior Redeemable Preferred Stock

The components of the authorized, issued and outstanding senior redeemable preferred stock ("Senior Redeemable Preferred Stock") are 1,250 Series A-1 and 1,750 Series A-2 senior redeemable preferred shares, respectively, each with $.01 par value. The Senior Redeemable Preferred Stock carries a cumulative per annum dividend rate of 14.125% of its liquidation value of $1,000 per share. The dividends are payable semiannually on June 30 and December 31 of each year. The liquidation preference of the Senior Redeemable Preferred Stock is the face amount of the Series A-1 and A-2 ($1,000 per share), plus all accrued and unpaid dividends. The Company was required to redeem all shares and accrued dividends outstanding on October 31, 2005. However, on April 14, 2005, Toxford Corporation, the holder of 72.6% of the Senior Redeemable Preferred Stock, extended the maturity of its instruments to October 31, 2008. Subsequently, on March 17, 2008, Toxford Corporation extended the maturity of its instruments to December 31, 2011. Additionally, on June 4, 2008, North Atlantic Smaller Companies Investment Trust PLC and North Atlantic Value LLP A/C B, the holder of 7.9% and .06%, respectively, of the Senior Redeemable Preferred Stock, also extended the maturity of their instruments to December 31, 2011. Subject to limitations set forth below, the Company was scheduled to redeem 18.9% of the outstanding shares and accrued dividends outstanding on October 31, 2005. Among the limitations with regard to the mandatory redemptions of the Senior Redeemable Public Preferred Stock is the legal availability of funds, pursuant to Maryland law. Accordingly, due to the Company's current financial position and the terms of the Wells Fargo Foothill agreement, it is precluded by Maryland law from making the scheduled payment. As the Senior Redeemable Preferred Stock is not due on demand, or callable, within twelve months from December 31, 2007, the remaining 18.9% is also classified as noncurrent.

The Senior Redeemable Preferred Stock is senior to all other present equity of the Company, including the 12% Cumulative Exchangeable Redeemable Preferred Stock. The Series A-1 ranks on a parity with the Series A-2. The Company has not declared dividends on its Senior Redeemable Preferred Stock since its issuance. At December 31, 2007 and 2006 cumulative undeclared, unpaid dividends relating to Series A-1 and A-2 Redeemable Preferred stock totaled $6.4 million and $6.0 million, respectively.

During 2007, 2006, and 2005 the Company accrued senior redeemable preferred stock dividends of $424,000 in each year, which were reported as interest expense. Prior to the effective date of SFAS No. 150 on July 1, 2003, such dividends were charged to stockholders' deficit.

The carrying value of the Senior Redeemable Preferred Stock as of December 31, 2006 is consistent with the fair value as determined by an independent valuation performed by Navigant Consulting, Inc. Management has estimated that as of December 31, 2007 the carrying value is consistent with the fair value. This estimation is based on the 2006 valuation performed by Navigant Consulting, Inc. and consistent with management's assessment that no material factors surrounding the instruments have changed since that time.

12% Cumulative Exchangeable Redeemable Preferred Stock

A maximum of 6,000,000 shares of the Public Preferred Stock, par value $.01 per share, has been authorized for issuance. The Company initially issued 2,858,723 shares of the Public Preferred Stock pursuant to the acquisition of the Company during fiscal year 1990. The Public Preferred Stock was recorded at fair value on the date of original issue, November 21, 1989, and the Company makes periodic accretions under the interest method of the excess of the redemption value over the recorded value. The Company adjusted its estimate of accrued accretion in the amount of $1.5 million in the second quarter of 2006. Accretion for the years ended December 31, 2007, 2006, and 2005 was $1.0 million, $3.0 million, and $1.8 million, respectively, which were reported as interest expense in those respective years. The Company declared stock dividends totaling 736,863 shares in 1990 and 1991. Since 1991, no other dividends, in stock or cash, have been declared. In November 1998, the Company retired 410,000 shares of the Public Preferred Stock. The total number of shares issued and outstanding at December 31, 2007 was 3,185,586. The stock is no longer quoted on the OTCBB, and is now quoted as TLSRP in the Pink Sheets. The aggregate fair value of the public preferred stock at December 31, 2007 and 2006 was $63.7 million and $63.4 million, respectively.

Since 1991, the Company has not declared or paid any dividends on its Public Preferred Stock, based upon its interpretation of restrictions in its Articles of Amendment and Restatement, limitations in the terms of the Public Preferred Stock instrument, specific dividend payment restrictions in the Facility entered into with Wells Fargo Foothill, to which the Public Preferred Stock is subject, and other senior obligations, and limitations pursuant to Maryland law. Pursuant to their terms, the Company is scheduled, but not required, to redeem the Public Preferred Stock in five annual tranches during the period 2005 through 2009. However, due to its substantial senior obligations, limitations set forth in the covenants in the Facility, foreseeable capital and operational requirements, restrictions and prohibitions of its Articles of Amendment and Restatement, and provisions of Maryland law, and assuming insufficient liquidity to undertake any stock redemption (which is presently unquantifiable), the Company believes that the likelihood is that it will continue to be unable to meet the redemption schedule set forth in the terms of the Public Preferred Stock. Moreover, the Public Preferred Stock is not payable on demand, nor callable, for failure to redeem the Public Preferred Stock in accordance with the redemption schedule set forth in the instrument. Therefore, the Company has classified these securities as noncurrent liabilities in the consolidated balance sheets as of December 31, 2007 and 2006.

The Company and certain of its subsidiaries are parties to the Facility agreement with Wells Fargo Foothill, whose term expires on September 30, 2011. Under the Facility, the Company agreed that, so long as any credit under the Facility is available and until full and final payment of the obligations under the Facility, it would not make any distribution or declare or pay any dividends (other than common stock) on its stock, or purchase, acquire, or redeem any stock, or exchange any stock for indebtedness, or retire any stock. The Company continues to actively rely upon the Facility and expects to continue to do so until the Facility agreement expires on September 30, 2011.

Accordingly, as stated above, the Company will continue to classify the entirety of its obligation to redeem the Public Preferred Stock as a long-term obligation. The Facility prohibits, among other things, the redemption of any stock, common or preferred, until September 30, 2011. The Public Preferred Stock by its terms cannot be redeemed if doing so would violate the terms of an agreement regarding the borrowing of funds or the extension of credit which is binding upon the Company or any subsidiary of the Company, and it does not include any other provisions that would otherwise require any acceleration of the redemption of or amortization payments with respect to the Public Preferred Stock. Thus, the Public Preferred Stock is not and will not be due on demand, nor callable, within twelve months from December 31, 2007. This classification is consistent with ARB No. 43 and SFAS No. 78, "Classification of Obligations that are Callable by the Creditor".

Paragraph 7 of Chapter 3A of ARB No. 43 defines a current liability, as follows:

"The term current liabilities is used principally to designate obligations whose liquidation is reasonably expected to require the use of existing resources properly classifiable as current assets, or the creation of other current liabilities. As a balance sheet category, the classification is intended to include obligations for items that have entered into the operating cycle, such as payables incurred in the acquisition of materials and supplies to be used in the production of goods or in providing services to be offered for sale; collections received in advance of the delivery of goods or performance of services; and debts that arise from operations directly related to the operating cycle, such as accruals for wages, salaries, commissions, rentals, royalties, and income and other taxes. Other liabilities whose regular and ordinary liquidation is expected to occur within a relatively short period of time, usually 12 months, are also intended for inclusion, such as short-term debts arising from the acquisition of capital assets, serial maturities of long-term obligations, amounts required to be expended within 1 year under sinking fund provisions, and agency obligations arising from the collection or acceptance of cash or other assets for the account of third persons."

Paragraph 5 of SFAS No. 78, provides the following:

"The current liability classification is also intended to include obligations that, by their terms, are due on demand or will be due on demand within one year (or operating cycle, if longer) from the balance sheet date, even though liquidation may not be expected within that period. It is also intended to include long-term obligations that are or will be callable by the creditor either because the debtor's violation of a provision of the debt agreement at the balance sheet date makes the obligation callable or because the violation, if not cured within a specified grace period, will make the obligation callable…".

If, pursuant to the terms of the Public Preferred Stock, the Company does not redeem the Public Preferred Stock in accordance with the scheduled redemptions described above, the terms of the Public Preferred Stock require the Company to discharge its obligation to redeem the Public Preferred Stock as soon as the Company is financially capable and legally permitted to do so. Therefore, by its very terms, the Public Preferred Stock is not due on demand or callable for failure to make a scheduled payment pursuant to its redemption provisions and is properly classified as a noncurrent liability.

On any dividend payment date after November 21, 1991, the Company may exchange the Public Preferred Stock, in whole or in part, for 12% Junior Subordinated Debentures that are redeemable upon terms substantially similar to the Public Preferred Stock and subordinated to all indebtedness for borrowed money and like obligations of the Company.

Dividends on the Public Preferred Stock are paid by the Company, when and if declared by the Board of Directors, and are required to be paid out of legally available funds in accordance with Maryland law. The Public Preferred Stock accrues a semi-annual dividend at the annual rate of 12% ($1.20) per share, based on the liquidation preference of $10 per share and is fully cumulative. Dividends in additional shares of the Public Preferred Stock for 1990 and 1991 were paid at the rate of 6% of a share for each $.60 of such dividends not paid in cash. For the cash dividends payable since December 1, 1995, the Company has accrued $61.5 million and $57.7 million as of December 31, 2007 and 2006, respectively.

In accordance with SFAS No. 150, both the Senior Redeemable Preferred Stock and the Public Preferred Stock have been reclassified from equity to liability. Consequently, for the periods ended December 31, 2007, 2006 and 2005, dividends totaling $4.2 million, $14.4 million, and $4.2 million, respectively, were accrued and reported as interest expense in the respective periods. Prior to the effective date of SFAS No. 150 on July 1, 2003, such dividends were charged to stockholders' accumulated deficit.

The carrying value of the accrued Paid-in-Kind ("PIK") dividends on the Public Preferred Stock for the period 1992 through June 1995 was $4.0 million. Had the Company accrued such dividends on a cash basis for this time period, the total amount accrued would have been $15.1 million. However, as a result of the redemption of the 410,000 shares of the Public Preferred Stock in November 1998, such amounts were reduced and adjusted to $3.5 million and $13.4 million, respectively. The Company's Articles of Amendment and Restatement, Section 2(a) states, "Any dividends payable with respect to the Exchangeable Preferred Stock ("Public Preferred Stock") during the first six years after the Effective Date (November 20, 1989) may be paid (subject to restrictions under applicable state law), in the sole discretion of the Board of Directors, in cash or by issuing additional fully paid and nonassessable shares of Exchangeable Preferred Stock …" Accordingly, the Board had the discretion to pay the dividends for the referenced period in cash or by the issuance of additional shares of Public Preferred Stock. During the period in which the Company stated its intent to pay PIK dividends, the Company stated its intention to amend its Charter to permit such payment by the issuance of additional shares of Public Preferred Stock. In consequence, as required by applicable accounting requirements, the accrual for these dividends was recorded at the estimated fair value (as the average of the ask and bid prices) on the dividend date of the shares of Public Preferred Stock that would have been (but were not) issued. This accrual was $9.9 million lower than the accrual would be if the intent was only to pay the dividend in cash, at that date or any later date.

In May 2006, the Board concluded that the accrual of PIK dividends for the period 1992 through June 1995 was no longer appropriate. Since 1995, the Company has disclosed in the footnotes to its audited financial statements the carrying value of the accrued PIK dividends on the Public Preferred Stock for the period 1992 through June 1995 as $4.0 million, and that had the Company accrued cash dividends during this time period, the total amount accrued would have been $15.1 million. As stated above, such amounts were reduced and adjusted to $3.5 million and $13.4 million, respectively, due to the redemption of 410,000 shares of the Public Preferred Stock in November 1998. On May 12, 2006, the Board voted to confirm that the Company's intent with respect to the payment of dividends on the Public Preferred Stock for this period changed from its previously stated intent to pay PIK dividends to that of an intent to pay cash dividends. The Company therefore changed the accrual from $3.5 million to $13.4 million, the result of which was to increase the Company's negative shareholder equity by the $9.9 million difference between those two amounts, by recording an additional $9.9 million charge to interest expense for the second quarter of 2006, resulting in a balance of $92.8 million and $88.0 million for the principal amount and all accrued dividends on the Public Preferred Stock as of December 31, 2007 and 2006, respectively. This action is considered a change in assumption that results in a change in accounting estimate as defined in SFAS No. 154, "Accounting Changes and Error Corrections" which replaces APB No. 20, "Accounting Changes" and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements."

Note 9. Stockholders' Equity, Option Plan, and Employee Benefit Plan

Common Stock

The relative rights, preferences, and limitations of the Class A common stock and the Class B common stock are in all respects identical. The holders of the common stock have one vote for each share of common stock held. Subject to the priority rights of the Public Preferred Stock and any series of the Senior Preferred Stock, holders of Class A and Class B common stock are entitled to receive such dividends as may be declared.

Stock Options

The Company has granted stock options to certain employees of the Company under five plans. The Long-Term Incentive Compensation Plan was adopted in 1990 ("1990 Stock Option Plan") and had option grants under it through 2000. In 1993, stock option plan agreements were reached with certain employees ("1993 Stock Option Plan"). In 1996, the Board of Directors approved and the shareholders ratified the 1996 Stock Option Plan ("1996 Stock Option Plan").

In 2000, the Board of Directors of the Company approved two new stock option plans, one for Telos Delaware, Inc. ("Telos Delaware Stock Incentive Plan") and one for Xacta Corporation ("Xacta Stock Incentive Plan"), both wholly owned subsidiaries of the Company.

As determined by the members of the Compensation Committee, the Company generally grants options under its respective plans at the estimated fair value at the date of grant, based upon all information available to it at the time.

1990 Stock Option Plan

Under the terms of the 1990 Stock Option Plan, 2,168,215 shares of the Company's Class A common stock were available for issuance under options to key employees, including officers and directors. The options expire 10 years from the date of grant. The option price determined by the Board of Directors was not less than the estimated fair value at the date of the grant and the options generally vest over a four-year period. The 1990 Stock Option Plan expired in 2000, with 923,000 remaining unissued options canceled. There were 901,999 options outstanding as of December 31, 2007.

1993 Option Plan

In 1993, stock option plan agreements were reached to provide Mr. John Wood, Executive Chairman, and Mr. Joseph Beninati, former Chairman, with options to each purchase up to 700,459 shares of the Company's Class A common stock from the Company at $0.50 per share. Under the terms of the agreements, 350,230 shares vested immediately and the remainder vested ratably over the next twelve months. The Company recorded compensation expense related to these options based upon the difference between the exercise price and the estimated fair value of $0.82 per share at the measurement date of the stock option. Mr. Beninati's agreement was terminated in 1996, and Mr. Beninati had not exercised any of the options. The shares subsequently available were administered under the same terms as the 1996 Stock Option Plan. These options expired 10 years from the date of grant. The 1993 Option Plan terminated in 2003. A total of 15,000 options granted under the 1993 Option Plan expired during 2007. There were no options outstanding as of December 31, 2007.

1996 Stock Option Plan

The 1996 Stock Option Plan allowed for the award of options to purchase up to 6,644,974 shares of Class A common stock at an exercise price of not lower than the estimated fair value at the date of grant. Vesting of the stock options for key employees is based both upon the passage of time, generally four years, and certain key events occurring including an initial public offering or a change in control. The stock options may be exercised over a ten-year period subject to the vesting requirements. Effective May 10, 2004, the 1996 Stock Option Plan was amended by the Board of Directors to increase the total amount of authorized shares of Class A common stock to 7,345,433, an increase of 700,459 shares, to reflect those options granted to Mr. Wood that were not exercised under the 1993 Stock Option Plan. The 1996 Stock Option Plan expired in March 2006, with its remaining 516,000 unissued options canceled. A total of 412,500 options and 3,034,990 options granted under the 1996 Stock Option Plan expired during 2007 and 2006, respectively. There were 2,964,250 options outstanding as of December 31, 2007.

Telos Delaware Stock Incentive Plan

During the third quarter of 2000, the Board of Directors of the Company approved a new stock option plan for Telos Delaware, Inc., a wholly owned subsidiary of the Company. Certain key executives and employees of the Company are eligible to receive stock options under the plan. Under the plan, the Company may award up to 3,500,000 shares of common stock as either incentive or non-qualified stock options. An incentive option must have an exercise price of not lower than fair value on the date of grant. A non-qualified option will not have an exercise price any lower than 85% of the fair value on the date of grant. All options have a term of ten years and vest no less rapidly than the rate of 20% per year for each of the first five years unless changed by the option committee of the Board of Directors. There were 1,115,825 options outstanding as of December 31, 2007.

Xacta Stock Incentive Plan

In the third quarter of 2000, Xacta Corporation, a wholly owned subsidiary of the Company, initiated a stock option plan under which up to 3,500,000 shares of Xacta common stock may be awarded to key employees and associates. The options may be awarded as incentive or non-qualified, have a term of ten years, and vest no less rapidly than the rate of 20% per year for each of the first five years unless changed by the option committee of the Board of Directors. The exercise price may not be less than the estimated fair value on the date of grant for an incentive option, or less than 85% of the estimated fair value on the date of grant for a non-qualified stock option. There were 2,586,698 options outstanding as of December 31, 2007.

A summary of the status of the Company's stock options for the years ended December 31, 2007, 2006, and 2005 is as follows:

	Number of Shares (000's)	Weighted Average Exercise Price
2007 Stock Option Activity		
Outstanding at beginning of year	8,217	$ 1.26
Granted	—	—
Exercised	—	—
Canceled	(648)	1.18
Outstanding at end of year	7,569	$ 1.27
2006 Stock Option Activity		
Outstanding at beginning of year	11,876	$ 1.19
Granted	—	—
Exercised	—	—
Canceled	(3,659)	0.94
Outstanding at end of year	8,217	$ 1.26
2005 Stock Option Activity		
Outstanding at beginning of year	12,064	$ 1.17
Granted	60	0.69
Exercised	—	—
Canceled	(248)	1.26
Outstanding at end of year	11,876	$ 1.19

The following table summarizes information about stock options outstanding and exercisable at December 31, 2007:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Average Number Outstanding (000's)	Weighted Remaining Contractual Life in Years	Weighted Average Exercise Price	Number Exercisable (000's)	Weighted Average Exercise Price
$0.50 – $0.99	4,742	5.5 years	$ 0.69	4,198	$ 0.70
$1.00 – $2.00	1,711	1.8 years	$ 1.19	1,711	$ 1.19
$3.85 – $4.00	1,116	2.7 years	$ 3.85	1,116	$ 3.85

Additionally, the Company determined that a significant change in the valuation estimate for common stock would not have a significant effect on the financial statements.

A summary of option activity as of December 31, 2007, and changes during the year ended December 31, 2007 is presented below:

	Number of Options (000's)	Weighted Average Exercise Price	Aggregate Intrinsic Value (in thousands)
Outstanding at beginning of year	8,217	$ 1.26	
Granted	—	—	
Exercised	—	—	
Forfeited or expired	(648)	1.18	
Outstanding at end of year	7,569	$ 1.27	$ 0
Exercisable at year-end	7,025	$ 1.32	$ 0

The aggregate intrinsic value in the table above represents the total pretax intrinsic value (the difference between the Company's fair market value as determined by management and the exercise price, multiplied by the number of share-based awards) that would have been received by the option holders had all option holders exercised their options on December 31, 2007.

A summary of the status of the Company's nonvested shares as of December 31, 2007, and changes during the year ended December 31, 2007 is presented below:

	Number of Shares (000's)	Weighted Average Exercise Price
Nonvested at January 1, 2007	1,436	$ 0.67
Granted	—	—
Vested	(784)	0.68
Forfeited or expired	(108)	0.68
Nonvested at December 31, 2007	544	$ 0.65

As of December 31, 2007, there was no unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the plans.

Telos Shared Savings Plan

The Company sponsors a defined contribution employee savings plan (the "Plan") under which substantially all full-time employees are eligible to participate. The Company has 3,658,536 shares of Telos Class A common stock. Since no public market exists for Telos Class A common stock, the Trustees of the Plan and their professional advisors undertake an annual evaluation, based upon the most recent audited financial statements. To date, the Plan's trustees have priced the stock at the exact midpoint of the evaluated range of the value of the stock. The Company matches one-half of voluntary participant contributions to the Plan up to a maximum Company contribution of 3% of a participant's salary. Total Company contributions to this Plan for 2007, 2006, and 2005 were $660,000, $664,000, and $594,000, respectively.

Additionally, effective September 1, 2007, TIMS LLC sponsors a defined contribution savings plan under which substantially all full-time employees are eligible to participate. TIMS LLC matches one-half of voluntary participant contributions to the Plan up to a maximum Company contribution of 3% of a participant's salary. The total 2007 TIMS LLC contributions to this plan were $16,000.

Note 10. Income Taxes

The provision (benefit) for income taxes attributable to income (loss) from continuing operations includes the following (in thousands):

	For the Years Ended December 31,		
	2007	2006	2005
Current provision			
Federal	$ 234	$ —	$ —
State	46	12	9
Total current	280	12	9
Deferred provision			
Federal	—	—	—
State	—	—	—
Total deferred	—	—	—
Total provision	$ 280	$ 12	$ 9

The provision (benefit) for income taxes related to continuing operations varies from the amount determined by applying the federal income tax statutory rate to the income or loss before income taxes. The reconciliation of these differences is as follows:

	For the Years Ended December 31,		
	2007	2006	2005
Computed expected income tax provision (benefit)	34.0%	(34.0)%	(34.0)%
State income taxes, net of federal income tax benefit	0.8	(1.9)	(1.8)
Change in valuation allowance for deferred tax assets	(64.4)	15.5	18.3
Other permanent differences	2.8	0.4	1.2
Dividend and accretion on preferred stock	30.8	19.9	14.9
Other	0.8	0.1	1.5
	4.8%	0.0%	0.1%

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2007 and 2006 are as follows (in thousands):

	December 31, 2007	December 31, 2006
Deferred tax assets:		
Accounts receivable, principally due to allowance for doubtful accounts	$ 210	$ 106
Allowance for inventory obsolescence and amortization	303	166
Accrued liabilities not currently deductible	2,996	2,535
Accrued compensation	1,443	731
Property and equipment, principally due to differences in depreciation methods	1,127	717
Net operating loss carryforwards	5,948	10,768
Alternative minimum tax credit carry forward	638	404
Total gross deferred tax assets	12,665	15,427
Less valuation allowance	(11,395)	(15,106)
Net deferred tax assets	1,270	321
Deferred tax liabilities:		
Unbilled accounts receivable, deferred for tax purposes	(1,150)	(321)
TIMS LLC basis difference	(20)	—
Total deferred tax liabilities	(1,270)	(321)
Net deferred tax assets	$ —	$ —

The components of the valuation allowance are as follows (in thousands):

	Balance Beginning of Period	Additions (Reductions)	Deductions	Balance End of Period
December 31, 2007	$ 15,106	$ (3,711)	$ —	$ 11,395
December 31, 2006	$ 10,136	$ 4,970	$ —	$ 15,106
December 31, 2005	$ 7,687	$ 2,449	$ —	$ 10,136

In accordance with SFAS 109, “Accounting for Income Taxes,” a full valuation allowance has been provided at December 31, 2007, due principally to the evidence that it is more likely than not that the deferred tax assets will not be realized.

At December 31, 2007, for federal income tax purposes there were approximately $14.2 million net operating loss carryforwards to offset future regular taxable income. These net operating loss carryforwards expire in 2027. Additionally, approximately $15.2 million of alternative minimum tax net operating loss carryforwards are available to offset future alternative minimum taxable income. These alternative minimum tax net operating loss carryforwards also expire in 2027. In addition, the Company has $638,000 of alternative minimum tax credits available to be carried forward indefinitely to reduce future regular tax liabilities.

The Company adopted the provisions of FIN 48 as of January 1, 2007 and determined that there were no significant unrecognized tax benefits required to be recorded for the year ended December 31, 2007. The Company believes 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, 2005 to 2007, has not been extended beyond applicable statute of limitations.

Note 11. Commitments

Leases

The Company leases office space and equipment under noncancelable operating and capital leases with various expiration dates, some of which contain renewal options.

On March 1, 1996, the Company entered into a twenty-year capital lease for a building in Ashburn, Virginia, that serves as its corporate headquarters. The Company has accounted for this transaction as a capital lease and has accordingly recorded assets and a corresponding liability of approximately $12.3 million.

The following is a schedule by years of future minimum payments under capital leases together with the present value of the net minimum lease payments as of December 31, 2007 (in thousands):

	Property	Equipment	Total
2008	$ 1,793	$ 38	$ 1,831
2009	1,793	38	1,831
2010	1,793	38	1,831
2011	1,793	7	1,800
2012	1,793	2	1,795
Remainder	5,830	—	5,830
Total minimum obligations	14,795	123	14,918
Less amounts representing interest	(6,146)	(25)	(6,171)
Net present value of minimum obligations	8,649	98	8,747
Less current portion	(591)	(27)	(618)
Long-term capital lease obligations at December 31, 2007	$ 8,058	$ 71	$ 8,129

In accordance with the Ashburn lease agreement, every three years the rent is subject to adjustments in accordance with changes in the United States Department of Labor, Bureau of Labor Statistics Consumer Price Index (“CPI”). Accordingly, effective April 2008, the adjustment in monthly rent payment based on the change in CPI is $16,000 per month, from $149,000 to $165,000.

Accumulated amortization for property and equipment under capital leases at December 31, 2007 and 2006 is $8.4 million and $8.0 million, respectively.

Future minimum lease payments for all noncancelable operating leases at December 31, 2007 are as follows (in thousands):

2008	$ 540
2009	432
2010	368
2011	111
2012	19
Total minimum lease payments	$1,470

Net rent expense charged to operations for 2007, 2006, and 2005, totaled $767,000, $585,000, and $535,000, respectively.

Warranties

The Company provides product warranties for products sold through certain U.S. Government contract vehicles. The Company accrues a warranty liability at the time that it recognizes revenue for the estimated costs that may be incurred in connection with providing warranty coverage. Warranties are valued using historical warranty usage trends; however, if actual product failure rates or service delivery costs differ from estimates, revisions to the estimated warranty liability may be required. Accrued warranties are reported as other current liabilities on the Consolidated Balance Sheets.

	Balance Beginning of Year	Accruals	Warranty Expenses	Balance End of Year
		(amount in thousands)		
Year Ended December 31, 2007	$ 1,380	$ 1,673	$ (647)	$ 2,406
Year Ended December 31, 2006	$ 1,627	$ 810	$ (1,057)	$ 1,380
Year Ended December 31, 2005	$ 1,423	$ 1,195	$ (991)	$ 1,627

Note 12. Certain Relationships and Related Transactions

Information concerning certain relationships and related transactions between the Company and certain of its current shareholders and former officers is set forth below.

Mr. John R. C. Porter, the owner of 2% of the Company's Class A Common Stock, has a consulting agreement with the Company whereby he is compensated for consulting services provided to the Company in the areas of marketing, product development, strategic planning and finance as requested by the Company. The Company expensed $260,000 in 2007 for Mr. Porter's consulting services. Mr. Porter was paid $260,000 by the Company in 2006 and 2005 pursuant to this agreement, which amounts were determined by negotiation between the Company and Mr. Porter.

The brother of the Company's Chairman and CEO, Emmett Wood, has been an employee of the Company since 1996. The amounts paid to this individual as compensation for 2007, 2006, and 2005 were $205,000, $144,000 and $137,000, respectively.

As reported in Note 2 – Sale of Assets, as a member of certain private equity investors, the brother of the Company's Chairman and CEO, Nicholas Wood, indirectly held a 2% effective ownership interest in TIMS LLC. Such ownership interest was sold in 2008.

Mr. David S. Aldrich, former President and Chief Executive Officer of the Company, entered into an agreement with the Company whereby Mr. Aldrich served as an advisor to the Company from December 31, 2002 through March 31, 2005. In return, Mr. Aldrich was paid $350,000 per annum from January 1, 2003 through March 31, 2005. In December 2005, pursuant to a mutual release agreement with Mr. Aldrich to resolve a dispute concerning salary and medical benefits, the Company paid Mr. Aldrich $25,000.

Note 13. Reportable Segments

At December 31, 2007, the Company's operations are comprised of two operating segments, Managed Solutions and Xacta. Descriptions for each of these operating segments are as follows:

Managed Solutions: Develops, markets and sells integration services that address a wide range of government information technology ("IT") requirements. Offerings include innovative IT solutions that consist of industry leading IT products from original equipment manufacturers ("OEMs") with complementary integration and managed support services provided by Telos. Managed Solutions also provides general IT consulting and integration services in support of various U.S. Government customers.

Xacta: Develops, markets and sells government-validated secure enterprise solutions to the U.S. Government, financial institutions and other large commercial organizations, to address the growing demand for information security solutions. Xacta provides Secure Network solutions, Enterprise Messaging solutions, Identity Management solutions, Information Assurance product and consulting services.

The accounting policies of the reportable segments are the same as those described in Note 1 – Summary of Significant Accounting Policies. The Company evaluates the performance of its operating segments based on revenue, gross profit, segment profit (loss) before minority interest, income taxes and other income or expenses.

Summarized financial information concerning the Company's reportable segments is shown in the following table. The "Other" column includes corporate related items.

	Managed Solutions	Xacta	Other (1)	Total
		(amount in thousands)		
2007				
External revenues	$122,723	$103,862	$ —	$226,585
Gross profit	2,673	38,907	—	41,580
Segment profit (loss) (2)	(7,463)	16,816	—	9,353
Total assets	30,823	24,555	12,078	67,456
Capital expenditures	1	242	373	616
Depreciation and amortization (3)	24	521	1,206	1,751
2006				
External revenues	$ 61,997	$ 78,876	$ —	$140,873
Gross profit	1,750	20,099	—	21,849
Segment loss (2)	(5,108)	(3,917)	—	(9,025)
Total assets	18,558	20,390	9,512	48,460
Capital expenditures	12	181	560	753
Depreciation and amortization (3)	15	539	1,207	1,761
2005				
External revenues	$ 58,246	$ 84,349	$ —	$142,595
Gross profit	4,411	19,645	—	24,056
Segment loss (2)	(3,233)	(2,526)	(104)	(5,863)
Total assets	13,673	18,088	10,101	41,862
Capital expenditures	21	414	954	1,389
Depreciation and amortization (3)	12	568	1,054	1,634

(1) Corporate assets are property and equipment, cash and other assets.
(2) Segment profit (loss) represents operating income (loss).
(3) Depreciation and amortization includes amounts relating to property and equipment, capital leases.

The Company maintains a facility in Germany; however, the Company does not have material international revenues, profit (loss), assets or capital expenditures. The Company's business is not concentrated in a specific geographical area within the United States, as it has 6 separate facilities located in various states and the District of Columbia.

Revenue by Major Market and Significant Customers

The Company derived substantially all of its revenues from contracts and subcontracts with the U.S. Government. Revenue by customer sector for the last three fiscal years is as follows:

	2007		2006		2005	
			(amount in thousands)			
Department of Defense	$195,871	86.5%	$121,039	85.9%	$123,905	86.9%
Federal Civilian	29,545	13.0%	17,859	12.7%	12,747	8.9%
Commercial	1,169	0.5%	1,975	1.4%	5,943	4.2%
Total	$226,585	100.0%	$140,873	100.0%	$142,595	100.0%

Segment revenue by customer sector for the last three fiscal years is as follows:

	2007		2006		2005	
			(amount in thousands)			
	Managed Solutions	Xacta	Managed Solutions	Xacta	Managed Solutions	Xacta
Department of Defense	$100,880	$ 94,991	$ 50,603	$70,436	$ 46,934	$76,971
Federal Civilian	21,681	7,864	11,172	6,687	7,889	4,858
Commercial	162	1,007	222	1,753	3,423	2,520
Total	$122,723	$103,862	$ 61,997	$78,876	$ 58,246	$84,349

Note 14. Summary of Selected Quarterly Financial Data (Unaudited)

The following is a summary of selected quarterly financial data for the previous two fiscal years (in thousands):

	Quarters Ended			
	March 31	June 30	Sept. 30	Dec. 31
2007				
Revenue	$40,215	$ 61,395	$60,993	$63,982
Gross profit	12,868	11,415	8,985	8,312
Income (loss) before minority interest and income taxes	1,712	7,891	798	(3,465)
Net income (loss) (1)	1,712	7,823	337	(4,326)
2006				
Revenue	$25,174	$ 35,813	$35,093	$44,793
Gross profit	4,495	6,960	3,587	6,807
Loss before minority interest and income taxes	(8,119)	(13,900)	(5,881)	(1,769)
Net loss	(8,119)	(13,900)	(5,881)	(1,781)

(1) Changes in net income (loss) are the result of several factors, including: (a) changes in the product mix (specifically higher sales of proprietary software) from the first quarter to the following quarters resulting in lower gross margins, specifically in the third and fourth quarters, (b) the sale of TIMS LLC membership interest (see Note 2 – Sale of Assets), produced significantly higher net income in the second quarter, (c) the accrual of $2.2 million for the corporate bonus pool in the fourth quarter, and (d) litigation-related expenses, net of reimbursements by the Company's insurers, in the amount of $1.7 million in the fourth quarter.

Note 15. Contingencies and Subsequent Events

Financial Condition and Liquidity

The consolidated financial statements for the year ended December 31, 2007 that are included in this Form 10-K have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company's working capital deficit was $0.4 million and $12.1 million as of December 31, 2007 and 2006, respectively, primarily due to amounts resulting from unreimbursed litigation-related and other legal expenses. Total expenses related to litigation and other legal costs were $5.1 million (net of $4.7 million in reimbursements by the Company's insurers) for 2007, $5.7 million (net of $3.1 million in reimbursements by the Company's insurers) for 2006, and $4.1 million for 2005. Such unreimbursed litigation-related and other legal expenses adversely affected working capital, and $5.8 million of such expenses are unpaid as of December 31, 2007. While the Company has actively worked with its vendors, including law firms, partners, subcontractors, and Wells Fargo Foothill to mitigate the effect of these working capital constraints during this period, there can be no assurances as to the continuing ability of the Company to successfully work with such parties to mitigate such working capital constraints going forward. See Note 7 – Current Liabilities and Debt Obligations. Although no assurances can be given, the Company expects that it will be in compliance throughout the term of the amended Facility with respect to the financial and other covenants.

Additionally, in April 2007, as a result of the sale of a membership interest in TIMS LLC, the Company received $6 million in cash consideration which was used to address working capital requirements. See Note 2 – Sale of Assets.

Additionally, in late 2007, the Company experienced delayed payments from one of the Company's significant government payment offices due to complications arising from that office's payment system conversion. As a result, anticipated payments from this government payment office have been received significantly later than the payment due dates. The Company has been able to utilize its Facility to mitigate the effect of these payment delays. This slow down in payment has since been resolved.

Additionally, in accordance with the terms of one the Company's government contracts for services, the Company was required to provide a performance bond and a payment bond for a system installation at a customer site. The amount of such bond is approximately $4.1 million and the Company has been required to collateralize the entire amount of the bond. The Company provided such collateral on or about October 31, 2007. The terms of the bond requirement allow for a release of a significant amount of the collateral subject to satisfactory performance. Consequently, $1.7 million, $1.7 million, and $0.6 million in collateral were released in accordance with such satisfactory performance in May, July and November 2008, respectively. As of November 13, 2008, the remaining collateral balance is approximately $103,000, which is expected to be released in December of 2009, which is one year after anticipated satisfactory completion of the contract. The Company believes that the impact of the remaining bond requirement will be mitigated by the Company's ability to utilize the amended Facility.

The Company believes that available cash and borrowings under the amended Facility will be sufficient to generate adequate amounts of cash to meet the Company's needs for operating expenses, debt service requirements, and projected capital expenditures for 2008. The Company anticipates the continued need for a credit facility upon terms and conditions substantially similar to the amended Facility in order to meet the Company's long term needs for operating expenses, debt service requirements, and projected capital expenditures.

Legal Proceedings

Costa Brava Partnership III, L.P. et al. v. Telos Corporation, et al.

As previously reported, Costa Brava Partnership III, L.P. ("Costa Brava"), a holder of the Company's 12% Cumulative Exchangeable Redeemable Preferred Stock ("ERPS" or "Public Preferred Stock"), filed a lawsuit (hereinafter the "Complaint") on October 17, 2005 in the Circuit Court for the City of Baltimore in the State of Maryland ("the Court") against the Company, its directors, and certain of its officers. As of December 31, 2007, Costa Brava owns 16.4% of the outstanding Public Preferred Stock.

The Complaint alleged that the Company and its officers and directors had engaged in tactics to avoid paying mandatory dividends on the Public Preferred Stock, and asserted that the Public Preferred Stock had characteristics of debt instruments even though it was issued by the Company in the form of stock. Costa Brava alleged, among other things, that the Company and an independent committee of the Board of Directors had done nothing to improve what they claimed to be the Company's insolvency, or its ability to redeem the Public Preferred Stock and pay accrued dividends. They also challenged the bonus payments to the Company's officers and directors, and consulting fees paid to the holder of a majority of the Company's common stock.

On December 22, 2005, the Company's Board of Directors established a special litigation committee ("Special Litigation Committee") composed of independent directors to review and evaluate the matters raised in the derivative suit filed against the Company by Costa Brava.

On January 9, 2006, the Company filed a motion to dismiss the Complaint or, in the alternative, to stay the action until the Special Litigation Committee had sufficient time to properly investigate and respond to Costa Brava's demands. On March 30, 2006, the Court granted the motion to dismiss in part and denied it in part, and denied the alternative request for a stay.

On February 8, 2006, Wynnefield Small Cap Value, L.P. ("Wynnefield") filed a motion to intervene. An order was entered on May 25, 2006 by the Court, designating Wynnefield Partners as the plaintiff with Costa Brava in the lawsuit. On May 31, 2006, an Amended Complaint was filed in which Wynnefield joined as a Plaintiff. Costa Brava and Wynnefield are hereinafter referred to as "Plaintiffs."

On May 26, 2006, Plaintiffs filed a motion for a preliminary injunction to prevent the sale or disposal of Xacta Corporation, a subsidiary of the Company, or any of its assets until the lawsuit is resolved on the merits. Subsequently, an order was issued dismissing the motion without prejudice on October 26, 2006, and then reissued on January 26, 2007.

On August 30, 2006, Plaintiffs filed a motion for receivership following the resignations of six of the nine members of the Board of Directors on August 16, 2006. Within a week of the resignations, three new independent board members were added and then two more were added in October 2006, bringing the total board membership to eight. Thus, the board and all board committees, including the Special Litigation Committee and the Transaction Committee, were fully reconstituted. The Plaintiffs' motion for receivership was denied on November 29, 2006. In its Memorandum Opinion denying the motion for receivership, the Court concluded that the Plaintiffs' holdings in the Public Preferred Stock represented a minority equity interest, (not a fixed liability), and that their minority equity interest did not provide a guarantee to payment of dividends or redemption of their shares. The Court further stated that it could not find that the Plaintiffs' expectations were objectively reasonable, and concluded that the Plaintiffs had not been denied any rights as defined by the proxy statement and prospectus forming the terms of the Public Preferred Stock.

On February 15, 2007, the Plaintiffs filed their second Motion for Preliminary Injunction to prevent the sale or disposal of any corporate assets outside the ordinary course of business until such time that two new Class D directors could be elected. On April 19, 2007, the Court denied the Plaintiffs' motion. Two new Class D Directors, Messrs. Seth W. Hamot and Andrew R. Siegel, were elected at the June 18, 2007 special meeting of the holders of Public Preferred Stock.

On February 27, 2007, the Plaintiffs filed a Second Amended Complaint and added Mr. John R. C. Porter, then majority shareholder, as a defendant. The Company filed its motion to strike/dismiss and motion for summary judgment on March 28, 2007. On June 6, 2007, the Court granted the motion to dismiss in part and denied it in part. The following counts were dismissed: allegations of fraudulent conveyance (Count I); request for permanent and preliminary injunction related to the fraudulent conveyance allegations (Count II); and allegations of shareholder oppression against Mr. John Porter (Count V). The following counts were not dismissed: request for appointment of a receiver (Count III); request to dissolve the corporation (Count IV); breach of fiduciary duty by directors (Count VI); and breach of fiduciary duty by officers (Count VII).

On May 29, 2007, Telos filed a Counterclaim against the Plaintiffs alleging interference with its relationship with Wells Fargo Foothill, and a related motion for a preliminary injunction. On June 4, 2007, the Court entered a consent order in which the Plaintiffs agreed to cease and desist communications with Wells Fargo Foothill. On August 28, 2007, the Court issued a ruling granting Telos' motion for a preliminary injunction.

On July 20, 2007, counsel for the Special Litigation Committee issued its final report, which found that the available evidence did not support the derivative claims, and there was no instance of bad faith, breach of fiduciary duty or self-interested action or inaction that would make it in the Company's best interests to support the derivative claims. Further, Special Litigation Committee counsel recommended that the Company take all action necessary, appropriate and consistent with such findings.

Thus, on August 24, 2007, the Company filed a motion to dismiss the derivative claims as recommended by the Special Litigation Committee and its report. On January 7, 2008, the Court granted the Company's motion to dismiss the derivative claims and dismissed Counts VI and VII of the Second Amended Complaint, leaving only Counts III and IV remaining. Accordingly, all counts against the individual defendants were dismissed. Subsequently, the Company filed a motion for Summary Judgment on February 1, 2008 to dismiss the remaining counts.

On February 12, 2008, the Plaintiffs filed a Third Amended Complaint which included all the previous counts from the original Complaint and the Second Amended Complaint as well as additional counts. The additional counts are as follows: breach of contract against Telos (Count VIII); preliminary and permanent injunction to prevent the Company from entering into a transaction to dispose of assets that allegedly would unjustly enrich the officers and directors (Count IX); and a request for an accounting alleging that the Company failed to prepare financial statements as required under Maryland law (Count X). The Company filed a Motion to Dismiss or to Strike the Third Amended Complaint or for Summary Judgment on February 19, 2008.

On March 3, 2008, the Plaintiffs and all the Defendants to the litigation entered into a Stipulation regarding the Third Amended Complaint. All parties stipulated that the Third Amended Complaint alleges causes of action against the Company only and not against the individual defendants. The parties stipulated that, for purposes of appellate preservation only, the Third Amended Complaint contained allegations concerning parties who, and causes of action which, had been dismissed by prior orders of the Court. The parties further stipulated that all causes of action asserted against the individual defendants in the Third Amended Complaint, and Counts I, II, V, VI and VII of the Third Amended Complaint, were dismissed with prejudice in accordance with the Court's prior rulings. The parties stipulated that the Plaintiffs were not seeking reconsideration of the Court's previous rulings concerning parties or causes of action that had been dismissed.

On April 15, 2008, the Court issued an order dismissing with prejudice the remaining counts (Counts III, IV, VIII, IX, and X) of the Plaintiff's Third Amended Complaint against the Company.

At this time, the only remaining action in Costa Brava v. Telos is the Company's counterclaim against Costa Brava that was filed in May 2007. The preliminary injunction issued by the Court in August 2007 in connection with this counterclaim is still in place. On December 2, 2008, the Company filed a motion for voluntary dismissal of the counterclaim without prejudice, which is currently pending.

At this stage of the litigation, it is impossible to reasonably determine the degree of probability related to Plaintiffs' success in any of their assertions. Although there can be no assurance as to the ultimate outcome of this litigation, the Company and its officers and directors strenuously deny Plaintiffs' claims, and will continue to vigorously defend the matter and oppose the relief sought.

Hamot et al. v. Telos Corporation

On August 2, 2007, Messrs. Seth W. Hamot and Mr. Andrew R. Siegel, principals of Costa Brava Partnership III L.P. ("Costa Brava") and Class D Directors of Telos ("Class D Directors"), filed a complaint against the Company and a motion for a temporary restraining order in the Circuit Court for the City of Baltimore, Maryland ("the Court" or "Circuit Court"). The complaint alleged that certain company documents and records had not been promptly provided to them as requested, and that these documents were necessary to fulfill their fiduciary duty as directors.

On August 22, 2007 the Class D Directors filed an amended complaint which alleged that the Company was denying them the ability to effectively review, examine, consider and question future regulatory filings and all other important actions and undertakings of the Company.

On August 28, 2007, the Court converted the motion for temporary restraining order into a request for a preliminary injunction and stated that the Class D Directors were entitled to documents in response to reasonable requests for information pertinent and necessary to perform their duties as members of the Board. In addition, the Court noted that during the pendency of the shareholder litigation, it was not inclined to permit the Class D Directors, through the guise of their newly acquired director status, to avoid their currently binding commitments under the stipulation and protective order entered on July 7, 2006. Pursuant to the terms of such order the Company is entitled to designate documents produced in discovery or submitted to the Court as "confidential" or "highly confidential" and to withhold from the Class D Directors information protected by the work product doctrine or attorney-client privilege.

On September 24, 2007, the Class D Directors filed a new motion for temporary restraining order as well as a second amended verified complaint in which they requested that the Court "compel Telos to adhere to the Telos Amended and Restated Bylaws" and alleged that provisions concerning the noticing of Board committee meetings and the recording of Board meeting minutes had been violated and that Mr. Wood's service as both CEO and Chairman of the Board was improper and impermissible under the Company's Bylaws. The Court denied the Class D Directors' motion on October 12, 2007. On the same day, the Court issued an amended preliminary injunction stating that the Class D Directors are entitled to receive written responses to requests for Board of Directors or Board committee minutes within seven (7) days of any such requests and copies of such minutes within fifteen (15) days of any such requests, as well as written responses to all other requests for information and/or documents related to their duties as directors within seven (7) days of such requests, and all Board of Directors appropriate information and/or documents within thirty (30) days of any such requests. The Court further stated that in all other respects, the preliminary injunction order of August 28, 2007 shall remain in full force and effect.

On April 16, 2008, the Company's independent auditor, Reznick Group, P.C. ("Reznick"), resigned. In its resignation letter addressed to the Chairman of the Audit Committee, Reznick stated that it believed that its independence had been impaired due to communications from the Class D Directors that it perceived as threats of litigation and attempts to influence its opinion on certain accounting issues. The communications included a March 28, 2008 letter that was sent on the letterhead of Roark, Rearden & Hamot Capital Management, LLC ("RRHCM"), which is the general partner of Costa Brava, and of which Seth Hamot, Class D Director, is the managing member, to Goodman & Company, LLP ("Goodman"), which had served as the Company's independent auditor prior to the engagement of Reznick. The letter also was blind-copied to Reznick. The letter demanded that Goodman withdraw its audit opinion for the years 2006, 2005, and 2004, and threatened further legal action against Goodman, stating "Costa Brava reserves its right to bring claims against Goodman for any damages resulting from clean audit opinions relating to past or future financial statements."

After Reznick resigned citing impairment to its independence as a result of communications from the Class D Directors, the Company filed a Counterclaim on April 23, 2008, in an effort to prevent the Class D Directors from engaging in any further acts of misrepresentation, interference and improper influence upon the Company's independent auditors regarding, among other things, a specific accounting treatment (from that of a non-current liability to that of a current liability) for their holdings in the Company's 12% Cumulative Exchangeable Redeemable Preferred Stock ("ERPS" or "Public Preferred Stock"). The Counterclaim states claims against the Class D Directors for Tortuous Interference with Contractual Relationship with Goodman (Count I); Tortuous Interference with Contractual Relationship with Reznick (Count II); Tortuous Inference with Economic or Business Relations with Goodman (Count III); Tortuous Inference with Economic or Business Relations with Reznick (Count IV); Breach of Fiduciary Duty by Hamot (Count V); and Breach of Fiduciary Duty by Siegel (Count VI).

On May 1, 2008, the Court issued an order "to preserve the status quo until a hearing may be conducted." The Status Quo Order, among other things, stated that the Class D Directors must "cease, desist and refrain from any and all direct or indirect, verbal or written, contact or communication with the Company's past, current and future auditors, including without limitation Goodman & Company, LLP, ("Goodman") and Reznick Group ("Reznick"), acting either singly or in concert with others, and either directly with any such auditors and/or with their agents or employees."

On June 20, 2008, the Company filed its First Amended Counterclaim supplementing and updating its allegations.

On June 27, 2008, the Court granted the Company's motion for Preliminary Injunction against the Class D Directors regarding their interference with the Company's relationship with its current and former auditors. The Court ordered Hamot and Siegel to:

> … cease, desist and refrain from any and all direct and indirect contact or communications (whether verbal, written, or otherwise) with Goodman, Reznick, or any other former, current or future auditors of Telos Corporation, or with any agents or representatives of any such auditors, regarding the conduct herein prohibited, during the pendency of this litigation or until such time as Telos obtains audited financial statements for 2007 and files its 10-K with the SEC.

The Court further prohibited Hamot and Siegel from:

> … engaging in contacts, communications or other conduct prohibited by this Order acting either singly or in concert with others, including any entities that they control or through which they operate, including, but not limited to, Costa Brava, RRHCM and RRH [Roark, Rearden, & Hamot Capital Management, LLC and Roark, Rearden & Hamot entities, respectively]. It also specifically prohibits any such actions or conduct undertaken through or in concert or collusion with other persons or entities, including, but not limited to, Wynnefield Partners Small Cap Value, L.P. ("Wynnefield"), Paul Berger or any other ERPS holders.

The Order further states:

> In this case, Telos has contractual relationships with both Reznick and Goodman, which are reflected in their engagement letters with Telos, and Hamot and Siegel had knowledge of these relationships. The record further indicates that Hamot and Siegel intentionally interfered with these relationships, and that their interference caused the non-performance by Reznick and Goodman of the services they were engaged to perform, as well as Reznick's termination of the engagement. Thus, Telos has raised a substantial claim for tortuous interference with contract under the facts presented.
>
> … As discussed above, the record indicates that Telos is likely to demonstrate that Hamot and Siegel intentionally sought to interfere with Reznick's audit through questionable and potentially misleading communications and barely-veiled threats of litigation, and that their interference caused Reznick to resign. Telos, therefore, has also raised claims going to the merits of its count for tortuous interference with business or economic relations.

The Order also states that "Telos is likely to demonstrate that their conduct was not just wrongful, but unlawful." It further states that "Telos is likely to show that Hamot and Siegel used potentially misleading communications and threats of litigation in an effort to dictate the accounting treatment that Reznick should adopt, thereby running afoul of Sarbanes-Oxley section 303 and SEC Rule 13b2-2 and providing another basis for liability for tortuous interference with business or economic relations."

In addition, the Order states:

> Here, the conduct by Hamot and Siegel indicates that they put their interests ahead of the corporation they were supposed to be serving and sought to disrupt the company's essential relationships to serve their own ends. Indeed, even after being advised at Telos' April 2, 2008, board meeting that their conduct was jeopardizing the company's relationship with its auditor, they continued to send more communications to Reznick attempting to influence its opinions. … Given the record before the Court, it appears that Telos likely will be able to demonstrate that Hamot and Siegel breached their fiduciary duties to the company.

Lastly, the Order states that "the public interest favors Telos." It states:

> When directors with conflicted interests are allowed to interfere with [the audit] process, the public's interest in the integrity of the process – and its interest in the integrity of the financial information that ultimately will be provided to the investing public – suffers. Moreover, it also is in the public interest to protect the operational status quo of an ongoing viable business, which employs over 500 people and provides essential services to the United States military.

The Class D Directors filed a Motion to Dismiss the Counterclaim on May 21, 2008 and it was denied on July 24, 2008.

On July 16, 2008, the Class D Directors filed a Motion for Stay of Enforcement of Interlocutory Order in the Circuit Court seeking a stay of enforcement of the June 27, 2008 preliminary injunction. The Circuit Court denied the Class D Directors' motion on August 15, 2008.

On July 25, 2008, the Class D Directors filed a Notice of Appeal of the June 27, 2008 Preliminary Injunction with the Court of Special Appeals of Maryland.

On July 30, 2008, the Class D Directors filed in the Court of Special Appeals of Maryland a motion to stay enforcement of the June 27, 2008 preliminary injunction pending appeal of the preliminary injunction. The motion was denied without prejudice on August 5, 2008. The Class D Directors filed a renewed motion to stay the preliminary injunction in the Court of Special Appeals on August 20, 2008 and that motion was denied on September 15, 2008.

On October 2, 2008, the Company filed a Second Amended Counterclaim which added a Count VII, requesting that the Court issue a declaratory judgment that the Class D Directors are not entitled to indemnification or the advancement of expenses under Maryland law.

The oral argument on the Class D Directors' appeal of the June 27, 2008 preliminary injunction took place before the Court of Special Appeals of Maryland on November 3, 2008. The Court of Special Appeals took the matter under advisement and, to date, has not issued a decision on the appeal.

At this stage of the litigation, it is impossible to reasonably determine the degree of probability related to the Class D Directors' success in any of their assertions. Although there can be no assurance as to the ultimate outcome of this litigation, the Company and its officers and directors strenuously deny the Class D Directors' claims, will vigorously defend the matter, and continue to oppose the relief sought.

Other Litigation

In addition, the Company is a party to litigation arising in the ordinary course of business. In the opinion of management, while the results of such litigation cannot be predicted with any reasonable degree of certainty, the final outcome of such known matters will not, based upon all available information, have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

Restricted Stock Grants

In June 2008, the Company issued 4,774,273 shares of restricted stock (Class A common) in exchange for the majority of stock options outstanding under the Telos Corporation, Xacta Corporation and Telos Delaware, Inc. stock option plans. In addition, the Company granted 7,141,501 shares of restricted stock to its executive officers and employees. In September 2008, the Company granted 480,000 shares of restricted stock to certain of its directors. Such stock is subject to a vesting schedule as follows: 25% of the restricted stock vest immediately on the date of grant, thereafter, an additional 25% will vest annually on the anniversary of the date of grant subject to continued employment or services. The Company is still evaluating the impact of the restricted stock grant on the financial statements but does not expect it to result in a material charge.

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

As previously disclosed in public filings, on July 9, 2007, the Company's previous principal independent registered public accountant, Goodman & Company, L.L.P. ("Goodman") resigned as the Company's independent accountant effective July 24, 2007. Goodman resigned because it believed that its independence had been impaired. In particular, Goodman determined that it could no longer serve as the Company's independent accountant because Seth W. Hamot and Andrew R. Siegel, the Class D members of the Board of Directors, had been elected to the Company's Board effective June 18, 2007.

Following such resignation, effective September 17, 2007, the Audit Committee of the Board of Directors retained Reznick Group, P.C. ("Reznick") as the Company's principal independent registered public accountant. However, on April 16, 2008, Reznick resigned, stating that "As a result of certain communications from Class D members of the Board of Directors, Reznick Group believes that its independence has been impaired." Reznick perceived these communications as threatening litigation and attempts to influence its opinion on certain accounting issues. On April 23, 2008, the Company filed a Counterclaim and a Motion for Preliminary Injunction against the Class D members for their improper communications with Reznick. On June 27, 2008, the Court entered a Preliminary Injunction and ordered Mr. Seth Hamot and Mr. Andrew Siegel, the Class D members, to:

> … cease, desist and refrain from any and all direct and indirect contact or communications (whether verbal, written, or otherwise) with Goodman, Reznick, or any other former, current or future auditors of Telos Corporation, or with any agents or representatives of any such auditors, regarding the conduct herein prohibited, during the pendency of this litigation or until such time as Telos obtains audited financial statements for 2007 and files its 10-K with the SEC.

Following such resignation, effective September 5, 2008, the Audit Committee of the Company engaged BDO Seidman, LLP ("BDO") as the Company's principal independent registered public accountant. Pursuant to such engagement, BDO was retained to audit the Company's financial statements for the fiscal year ended December 31, 2007. BDO will also perform a review of the unaudited condensed quarterly financial statements to be included in Form 10-Qs filed with the SEC for quarters ended June 30, 2007, March 31, 2008, June 30, 2008, and September 30, 2008; and of the unaudited financial information for the quarters ended March 31, 2007, September 30, 2007 and December 31, 2007 to be included in a note to the annual financial statements to be included in this Form 10-K.

During the Company's two most recent fiscal years and subsequent interim periods, there have been no disagreements, as defined in Item 304 of Regulation S-K, with the Company's former principal independent registered public accountants on any matter of accounting principles or practices, financial statement disclosures, or auditing scope or procedure, which disagreements if not resolved to the satisfaction of such accountants would have caused them to make reference thereto in their report on the financial statements for such years as required by Item 304(a)(1)(iv) of Regulation S-K. In addition, during such periods, there have been no reportable events as defined by Item 304(a)(1)(v) of Regulation S-K.

Item 9A(T). Controls and Procedures

Inherent Limitations on the Effectiveness of Controls

The Company's management, including the Chief Executive Officer and Chief Financial Officer, believes that the Company's disclosure controls and procedures and internal control over financial reporting are effective at the reasonable assurance level. However, management does not expect that such disclosure controls and procedures or internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the controls. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Evaluation of Disclosure Controls and Procedures

As of December 31, 2007, an evaluation of the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) promulgated under the Exchange Act, was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in its reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms, and that information required to be disclosed by the Company in the reports the Company files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Management's Annual Report on Internal Control Over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) and Rule 15d-15(f) under the Exchange Act as a process designed by, or under the supervision of, the company's principal executive and principal financial officers and effected by the company's board of directors, management and other personnel, 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. Internal control over financial reporting includes policies and procedures that:

(1) Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company;

(2) Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. 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

(3) 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.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2007 based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission, known as COSO, in *Internal Control — Integrated Framework*. Based on that assessment, management has concluded that the Company's internal control over financial reporting was effective as of December 31, 2007.

This annual report does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's independent registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

Changes in Internal Control Over Financial Reporting

There has been no change in the Company's internal control over financial reporting during the quarter ended December 31, 2007 that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

Item 9B. Other Information

As previously disclosed, effective July 13, 2007, the Company's Public Preferred Stock is no longer quoted on the OTCBB, and is now quoted as TLSRP in the Pink Sheets.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The following is certain biographical information concerning the directors and executive officers of the Company. The term of each of the directors to be elected at the Annual Meeting continues until the next annual meeting of shareholders and until his successor is elected and qualified, except the Class D Directors, whose terms will expire when all accumulated dividends on the Public Preferred Stock have been paid, or their successors are elected and qualified, whichever occurs earlier.

Directors

Name	Age	Biographical Information
John B. Wood	45	President, Chief Executive Officer and Chairman of the Board of the Company. Mr. Wood joined the Company in 1992 as Executive Vice President and Chief Operating Officer ("COO") and in 1994 was named President and Chief Executive Officer ("CEO"). In March 2000, he was appointed to the newly created position of Executive Chairman of the Board, which he held until he became Chairman of the Board subsequent to a restructuring of the Board of Directors in 2002. In January 2003, Mr. Wood resumed the positions of President and CEO. Mr. Wood has also served as Chairman of Enterworks, Inc., a Company affiliate, since January 1996; and as CEO of Enterworks, Inc. from January 1996 to November 2005. Prior to joining the Company, Mr. Wood worked on Wall Street for Dean Witter Reynolds, UBS Securities, and his own boutique investment bank. Mr. Wood graduated from Georgetown University where he earned a Bachelor of Science in Business Administration in finance and computer science. Mr. Wood also serves on several advisory boards and one foundation board.
Bernard C. Bailey	55	President and CEO of Paraquis Solutions LLC, a privately held consulting and IT services firm, since 2006. Mr. Bailey's career spans over two decades of management experience in the high technology and security industries. He served most recently from August 2002 to September 2006 as the President and CEO of Viisage Technology, Inc., a leading provider of advanced technology identity solutions. Under his four years of leadership, Viisage's market capitalization grew from $60 million to over $1 billion. During that period, the company executed nine acquisitions, eventually culminating in the formation of L1 Identity Solutions, a NYSE listed company. Prior to Viisage, from January 2001 to August 2002, Mr. Bailey served in various executive roles, including COO at Art Technology Group, a leading provider of e-commerce software. From 1984 to 2001, Mr. Bailey held a variety of finance, sales, marketing, and operations positions at IBM, where he also served in executive roles involved in the growth and development of IBM Global Service's systems integration and consulting business lines. Mr. Bailey has been a member of the Company's Board of Directors since October 2006. In addition to his duties with Telos, Mr. Bailey serves as a director on the board of Lasercard Corporation (NASDAQ: LCRD) and Spectrum Control, Inc. (NASDAQ:SPEC).
David Borland	60	President of the Borland Group, an information technology consulting company, since January 2004. Mr. Borland was elected to the Board of Directors in March 2004 after retiring as Deputy Chief Information Officer ("CIO") of the U.S. Army with more than 30 years of experience in the U.S. Government. Mr. Borland's career Army experience also includes serving as Vice Director of Information Systems for Command, Control, Communications, and Computers; Director of the Information Systems Selection and Acquisition Agency; and numerous other positions. From 1966 through 1970, Mr. Borland served in the U.S. Air Force. Mr. Borland has received numerous awards, including the Meritorious Presidential Rank Award for Senior Executive Service Members (1996 and 2003), the Distinguished Presidential Rank Award (2000), and the United States Army Decoration for Exceptional Civilian Service (1998 and 2003).
William M. Dvoranchik	62	Retired President, Electronic Data Systems ("EDS") Federal Government. Mr. Dvoranchik was elected to the Company's Board of Directors in October 2006. From 1999 to 2001, Mr. Dvoranchik was President of EDS Federal Government, where he oversaw all aspects of EDS' relationship with the U.S. Government. He retired in August 2001 after more than 30 years with EDS. Mr. Dvoranchik joined EDS as a systems engineer in 1971, and later was appointed manager of the National Information Systems account. He next served as Vice President for EDS's savings and loan business division, and as division manager for banking and thrift institutions. He became Vice President of EDS Government Services in 1986 and President in 1989. Mr. Dvoranchik was appointed President of EDS State and Local Government in 1997. He was appointed President of EDS Government Enterprise Solutions in January 1999 and assumed the position of President of EDS Federal Government in September of that year. For over 20 years, Mr. Dvoranchik served as chairman of the board of the EDS Employees Federal Credit Union, with assets of more than $400 million.
Seth W. Hamot	46	Managing Member, Roark, Rearden & Hamot Capital Management, LLC ("RRHCM"), and owner of Roark, Rearden & Hamot, Inc. ("RRHI"), since 1997, and President of Roark, Rearden & Hamot, LLC ("RRH") since 2002. Mr. Hamot has been a director of the Company since June 18, 2007. Mr. Hamot was nominated for election to the Board of the Company by Costa Brava Partnership III L.P. ("Costa Brava"), an investment fund and a holder of the Company's Public Preferred Stock. Since 1997, Mr. Hamot has been the Managing Member of RRHCM and the owner of RRHI, the corporate predecessor of RRHCM. RRHCM is the investment manager to Costa Brava, whose principal business is to make

Name	Age	Biographical Information
		investments in, buy, sell, hold, pledge and assign securities. Mr. Hamot is also the President of RRH, the general partner of Costa Brava. Prior to 1997, Mr. Hamot was one of the partners of the Actionvest entities. Mr. Hamot is currently the Interim Non-executive Chairman of the Board of Bradley Pharmaceuticals Inc., a NYSE listed specialty pharmaceutical company, and serves as a member of that company's audit committee. Mr. Hamot is also a Director of CCA Industries, Inc., an AMEX listed manufacturer of health and beauty aids, and serves as a member of the audit and compensation committees of CCA Industries, Inc.
Lieutenant General Bruce R. Harris (USA, Ret.)	74	Retired, United States Army Lieutenant General. Mr. Harris was elected to the Board in August 2006. He retired from the United States Army in September of 1989 after more than 33 years of continuous active duty. At the time of his retirement, Mr. Harris was the Director of Information Systems for Command, Control, Communications and Computers in the Office of the Secretary of the Army, Washington, D.C. In that capacity, he served as the principal advisor to the Secretary and Chief of Staff of the Army on all aspects of policy, planning, resourcing and acquisition of communications, automation, information management and command and control systems in the United States Army. Since his retirement, Mr. Harris has worked with many of America's leading corporations as a consultant on matters relating to the development of strategic and business plans, resource planning and budget formulation. Mr. Harris is also a director of Hunter Defense Technologies, a privately held company focused on the development of comprehensive solutions to provide shelter, heat, power generation and chem/bio protection for a wide variety of military and homeland security applications.
Lieutenant General Charles S. Mahan, Jr. (USA, Ret.)	62	Retired Vice President and General Manager of the Law Enforcement and Security strategic business unit of DynCorp International, a company providing technology and professional services solutions to government and commercial clients worldwide, where he served from January 2007 to July 2008. From July 2006 to December 2006, he served first as President and Chief Operating Officer of Horne Engineering Services, LLC, an engineering services firm, and then as Chief Operating Officer of Horne International, an affiliate of Home Engineering Services, LLC. From July 2005 to July 2006, he was Vice President of Homeland Security and Defense for SAP Public Services, Inc. (a U.S. business unit of the German software giant, SAP AG), where he led both SAP's Homeland Defense practice and its business development efforts supporting federal, state, and local government organizations. Immediately following his November 2003 retirement from the Army, where he attained the rank of Lieutenant General and served as the Army's Deputy Chief of Staff for Logistics, Mr. Mahan joined The Home Depot, Inc., a home repair materials company, serving as Senior Director of its Government Solutions Group. Mr. Mahan has been a member of the Telos' Board of Directors since August 2006. He currently serves on the National Board of Directors of The Society of International Logistics, the National Board of Trustees for the Fisher House Foundation, and the National Defense Industrial Association (Washington Chapter).
Robert J. Marino	71	Executive Vice President, Special Projects for the Company. Mr. Marino joined the Company in 1988 as Senior Vice President of Sales and Marketing. In 1990, his responsibilities were expanded to include Program Management in addition to Sales and Marketing. In January 1994, Mr. Marino was appointed to President of Telos Systems Integration, a division of the Company, and in January 1998, he was appointed to Chief Sales and Marketing Officer, a position he held until June 2004 at which time he was appointed Executive Vice President for Special Projects. Prior to joining the Company in February 1988, Mr. Marino held the position of Senior Vice President of Sales and Marketing with Centel Federal Systems and M/A.com Information Systems, both of which are U.S. Government contractors. Mr. Marino was elected to the Board of Directors of the Company in June 2004.
Andrew R. Siegel	39	Senior Vice President, RRHCM since 2005. Mr. Siegel has been a director of the Company since June 18, 2007. Mr. Siegel was nominated by Costa Brava, a holder of the Company's Public Preferred Stock. Mr. Siegel is currently a director of TechTeam Global Inc., a NASDAQ company, and serves as a member of that company's audit committee. Prior to joining RRHCM, from 2003 to 2004, Mr. Siegel was a member of DebtTraders Ltd. Prior to that, from 2000 to 2002, he worked for Deutsche Bank Securities. In addition, in 2002, he was the founding member of White Bay Capital LLC of which he remains a member. Mr. Siegel received a Bachelor's Degree from American University and a Masters Degree in Business Administration from the University of Maryland.
Jerry O. Tuttle	73	Retired United States Navy Vice Admiral. Mr. Tuttle was elected to the Board of Directors in August 2006. He retired from the United States Navy in 1993 following a 39-year career that included assignments to numerous attack and fighter squadrons as well as leadership of key information technology programs. Mr. Tuttle is widely regarded as an information technology strategist, having created Navy's 4I Joint Operations Tactical System. In 1989, he became Director, Space and Electronic Warfare, an assignment he held until retirement. Since February 2002, he has been President and CEO of J.O.T. Enterprises, an information systems and command, control, communications, intelligence, surveillance and reconnaissance consulting company. Previous executive positions were, from June 2000 to February 2002, as President of REL-TEK Systems & Design (now Savantage Financial Services), an employee-owned software development firm; from 1996 to 2000, as President of ManTech International's largest subsidiary, ManTech Systems Engineering; and, from 1993 to 1996, as Vice President for business development and chief staff officer with Oracle Government.

Audit Committee

Members: Bernard C. Bailey (Chairman), William M. Dvoranchik, Charles S. Mahan

The Audit Committee was established in accordance with Section 3(a)(58)(a) of the Securities Exchange Act of 1934, as amended. Pursuant to Rule 4200(a)(15) of the NASDAQ Marketplace, the Audit Committee consists of independent directors Bailey (Chairman), Dvoranchik, and Mahan, and was established to review, in consultation with the independent auditors, the Company's financial statements, accounting and other policies, accounting systems and systems of internal controls. Mr. Bailey and Mr. Dvoranchik serve as the financial experts as defined in the SEC rules on the committee. The Board of Directors has adopted an Audit Committee charter which is available on the Company's website at www.telos.com.

Management Development and Compensation Committee ("Compensation Committee")

Members: William M. Dvoranchik (Chairman), David Borland, Bruce R. Harris

The Management Development and Compensation Committee is comprised of three members of the Board of Directors, who meet the independence requirements pursuant to Rule 4200(a)(15) of the NASDAQ Marketplace. The Compensation Committee is comprised of independent directors William M. Dvoranchik (Chairman), David Borland, and Bruce R. Harris. None of these individuals is a former officer or employee of Telos or has served as an officer or employee of Telos during the fiscal year ended December 31, 2007. In addition, no member of the Compensation Committee was engaged in any related person transactions as defined under the Exchange Act. The Board of Directors has adopted a Compensation Committee charter which is available on the Company's website at www.telos.com.

Nominating and Corporate Governance Committee ("Nominating Committee")

Members: John B. Wood (Chairman), David Borland, Bruce R. Harris, Robert J. Marino, Jerry O. Tuttle

The Nominating and Corporate Governance Committee is comprised of five members of the Board of Directors, with a majority of independent directors. The Nominating Committee consists of directors Borland, Harris and Tuttle, serving as independent directors pursuant to Rule 4200(a)(15) of the NASD; and Messrs. Marino and Wood (Chairman) who, pursuant to that rule, are not independent. The Board of Directors has adopted a Nominating Committee charter which is available on the Company's website at www.telos.com.

Meetings of the Board of Directors and Committees of the Board of Directors

During the fiscal year ended December 31, 2007, the Board of Directors held 16 meetings. Each director attended over 75 percent of the aggregate number of meetings of the Board and the committees of the Board on which he served.

Eight directors, namely Messrs. Bailey, Dvoranchik, Harris, Mahan, Marino, Siegel, Tuttle, and Wood attended the Company's 2007 annual meeting of shareholders.

Executive Officers

Set forth below is biographical information concerning the Company's executive officers, who are appointed by the Board of Directors and serve until their successors are appointed and qualified.

Name	Age	Biographical Information
Michael P. Flaherty	63	Executive Vice President, General Counsel and Chief Administrative Officer. Mr. Flaherty joined the Company in January 2001 as Executive Vice President, General Counsel and Chief Administrative Officer. Prior to joining the Company, Mr. Flaherty was "of counsel" with the law firm of O'Donnell & Shaeffer, LLC and principal shareholder and CEO of First Continental Group, Inc. Mr. Flaherty has extensive experience in all aspects of civil litigation, serving as lead trial counsel for major corporations. Mr. Flaherty has also served as General Counsel of the U.S. House of Representatives Committee on Banking, Finance and Urban Affairs and Counsel to the Speaker of the House of Representatives. Additionally, Mr. Flaherty is the past chairman of the Executive Committee of the Federal Bar Association's Banking Law Committee. Mr. Flaherty holds a Bachelor of Arts from Boston University and a Juris Doctor from the Columbus School of Law of Catholic University of America.
Edward L. Williams	48	Executive Vice President and Chief Operating Officer. Mr. Williams joined the Company in 1993 as a Senior Vice President responsible for finance, pricing, purchasing, and Defense Contract Audit Agency compliance. In 1994, his responsibilities were expanded to include accounting and business development. In 1996, Mr. Williams was appointed to manage the Company's networking business unit. In 2000, his responsibilities were expanded to include management of the Company's operations. Mr. Williams was named Executive Vice President and COO in 2003 and Interim CFO in October 2003. He stepped down as Interim CFO of the Company in January 2005. Prior to joining the Company, Mr. Williams was the CFO for Centel Federal Systems and M/A.com Information Systems, both of which are U.S. Government contractors. Mr. Williams has a Bachelor of Science in Finance from the University of Maryland.

Name	Age	Biographical Information
Michele Nakazawa	51	Senior Vice President, Chief Financial Officer. Ms. Nakazawa joined the Company in March 2004 as Vice President and Controller. In January 2005, Ms. Nakazawa was promoted to Senior Vice President and appointed to serve as CFO. Ms. Nakazawa has over 20 years experience in finance and accounting. Prior to joining the Company, she held various positions, including CFO of Ubizen, Inc., a U.S. subsidiary of a publicly-held Belgian company, from 1999 to 2003; Controller and Treasurer of National Security Analysts, Inc. from 1991 to 1997, and financial analyst for Federal Systems Division of IBM, Inc. from 1983 to 1990. Ms. Nakazawa is a Certified Public Accountant and holds a Masters of Science in Accounting from American University and a Bachelor of Arts in Chemistry from Goucher College.
Robert J. Brandewie	60	Senior Vice President, Identity and Security Solutions. Mr. Brandewie joined the Company in November 2007 as Senior Vice President of Identity and Security Solutions. He is responsible for directing the Company's efforts in assisting government organizations in effectively meeting increased security challenges with innovative services and software solutions. Prior to joining the Company, Mr. Brandewie was a Public Sector Solutions group vice president for ActivIdentity Corp., a provider of identity assurance solutions for business and government worldwide, from July 2006 to November 2007, and a director of the Defense Manpower Data Center ("DMDC") from July 2004 to July 2006. Mr. Brandewie had joined DMDC in 1974 and in his 32 years at DMDC, was responsible for the management of a dozen major operational programs. He was an architect of DoD's Common Access Smart Card system, and was responsible for the oversight of the largest and most comprehensive automated personnel database in the department. Mr. Brandewie has a Bachelor of Arts in psychology from the University of Connecticut and a Master of Arts in administrative sciences from Yale University. Mr. Brandewie has received numerous awards, including the Presidential Rank Award of Distinguished Executive (2006) and the Secretary of Defense Medals for Meritorious and Exceptional Civilian Service, respectively.
Richard P. Tracy	47	Senior Vice President, Chief Security Officer, Chief Technology Officer. Mr. Tracy joined the Company in October 1986 and held a number of management positions within the Company's New Jersey operation. In February 1996, he was promoted to Vice President of the Telos information security group and in this capacity established a formidable information security consulting practice. In February 2000, Mr. Tracy was promoted to Senior Vice President for operations and helped launch the Xacta business lines, the Company's segment focusing on information security. Since that time, Mr. Tracy has pioneered the development of innovative and highly scaleable enterprise risk management technologies that have become industry-leading solutions within the federal government and the financial services verticals. He is the principal inventor listed on four patents and seven patents pending for Xacta software. Mr. Tracy assumed the role of Chief Security Officer for Telos and Xacta in 2004 and Chief Technology Officer in 2005 and President of the Company's subsidiary, Teloworks, Inc. in 2008.
Alvin F. Whitehead	59	Senior Vice President, General Manager, Xacta Division, since 2008. Mr. Whitehead joined Telos in 1999 as Vice President of New Business Opportunities, focusing on emerging business areas including Information Security, Secure Messaging and Data Integration. In 2000, he became Vice President, Program Management. Prior to Telos, Mr. Whitehead spent 28 years in the Army, retiring as Chief of Staff of the Defense Information Systems Agency ("DISA"). During his four years as Chief of Staff, he was responsible for coordinating the Agency's 8000-person staff and its $4.0 billion budget. He was instrumental in establishing the DoD's Computer Emergency Response Team and integrating it into the Global Network Operations Center. Mr. Whitehead has a Bachelor of Arts from Virginia Polytechnic Institute and State University, and a Master of Public Administration from George Washington University.
Brendan D. Malloy	43	Senior Vice President, General Manager, Secure Networks Division, since 2008. Mr. Malloy joined the Company in 1996, serving initially as a senior account executive before being promoted to director of DoD Sales, and later to Vice President of DoD Sales. In January 2005, he was appointed Senior Vice President of sales. He currently leads the Secure Networking Solutions organization in support of opportunities in DoD, federal agencies, and the intelligence community, as well as channel relationships through the Telos Partner Program. He held previous sales positions with QMS Federal and Printer Plus. Mr. Malloy is a 1988 graduate of Curry College.
Ralph M. Buona	53	Vice President, Business Development. Mr. Buona joined the Company in September 1994 and was promoted to Vice President of Business Development in September 1995, cultivating new business in the areas of information operations/assurance, enterprise management, enterprise integration, wireless networking, advanced messaging, and traditional systems integration. During the year 2007, he oversaw the Company's Managed Solutions division and in 2008, he returned to lead the Company's business development. Prior to joining the Company, he served with Contel Information Systems, Federal Information Technologies, and Cincinnati Bell Information Systems. Mr. Buona began his career as an Air Force officer and concluded with the Air Force Space Command and NORAD where he was responsible for managing software development and IA activities associated with the advanced early warning missile defense systems. He holds a Bachelor of Science degree in Management from the United States Air Force Academy and a Masters of Science in Systems Management from the University of Southern California.
Ronald J. Dorman	46	Vice President, Information Assurance. Mr. Dorman joined the Company in July 2004 as program director for messaging and information security. He was promoted to Vice President of Information Assurance in November 2005 and presently provides oversight and program management for IA solutions including Xacta IA Manager and IA services engagements for DoD and federal customers. From August 1999 to July 2004, Mr. Dorman served with DISA, becoming Deputy Director of the C4I Program Integration, then Principal Director for Interoperability, where he was responsible for end-to-end interoperability between systems within the Global Information Grid. Mr. Dorman led the DoD PKI Program's design, implementation, and operations, and successfully partnered with other agencies and services to field Common Access Cards

Name	Age	Biographical Information
		globally at military bases and other sites. He served earlier with NATO, the Department of the Navy, and with McLaughlin Research Corporation. Mr. Dorman has a Bachelor of Science in Mechanical Engineering from Virginia Polytechnic Institute and State University.
Mark Griffin	48	President, General Manager, Telos Identity Management Solutions LLC. Mr. Griffin joined the Company in 1984 as program manager. He was promoted to Vice President for the Company's Traditional Business Division in January 2004 and to Vice President, Identity Management, effective January 2007. He was appointed in April 2007 to head the newly formed Telos Identity Management Solutions, LLC (doing business as Xacta Identity Management Solutions). Mr. Griffin has over 20 years experience in government IT contracting, materials management and systems integration projects in the electronics and communications fields. He has been involved in day-to-day operations of and has had overall management responsibility for many of Telos' most critical programs for the Army, Navy, Federal Aviation Administration, DMDC, General Services Administration and Immigration and Naturalization Services. Mr. Griffin holds a Bachelor of Science in Engineering from Virginia Polytechnic Institute and State University.
David S. Easley	37	Controller. Mr. Easley joined the Company in April 2005 as Director of Finance & Accounting. In October 2005, Mr. Easley was promoted to Controller. Prior to joining the Company, Mr. Easley held various positions, including Controller for Applied Predictive Technologies, Inc., a software and consulting company from 2000 until joining the Company; and Senior Accountant with Beers & Cutler PLLC in Washington, D.C. Mr. Easley is a Certified Public Accountant and holds a Bachelor of Science in Accounting from the University of Kentucky.
Masters, Francis M.	64	Vice President, Secure Messaging Solutions. Mr. Masters joined the Company in 1999 as an automated message handling systems engineer and program manager and was appointed Vice President, Secure Messaging Solutions, in October 2005. Before joining Telos, Mr. Masters served in the U.S. Air Force for 20 years as an air intelligence officer, targeting officer and signals intelligence officer**.** He also has extensive experience as a systems architect and project engineer and served as Vice President of Communications Systems at California Microwave Inc., now the California Microwave Systems division of Northrop Grumman, between February 1987 and July 1999. Mr. Masters earned a Bachelor of Arts in government and economics from the University of North Texas in 1966 and attended the Law School at the University of Houston beginning in 1967. Additionally, he is a graduate of the Air Force School of Applied Crypotologic Sciences and the U.S. Air Force's Squadron Officer School and Air Command and Staff College. He is a member of the Armed Forces Communications and Electronics Association.

Each of the directors and executive officers of the Company is a United States citizen.

Legal Proceedings Involving Directors, Officers, Affiliates and/or Beneficial Owners

For a discussion of legal proceedings involving current and former directors, officers, and beneficial owners, see Item 3 – Legal Proceedings.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1933 requires officers, directors and owners of more than 10% of any class of the Company's equity securities to file reports, including reports of changes in ownership of the Company's registered equity securities, with the Securities and Exchange Commission and to furnish the Company with copies of all Section 16(a) reports so filed.

Based on a review of the copies of reports received and on written representations from the Company's reporting persons, the Company has determined that Mr. Hamot and Mr. Siegel did not file Form 4, reporting their election as directors, until April 2008. In addition, the Form 3 reporting Mr. Brandewie's and Mr. Malloy's appointment as an executive officers of the Company were not filed until January 2008 and April 2008, respectively.

Corporate Governance

The Company has adopted a Code of Ethics applicable to all employees of the Company including the Chief Executive Officer, the Chief Financial Officer, and the Controller, which is available on its website at www.telos.com. In the event that the Company amends its Code of Ethics or grants a waiver from its restrictions to a person covered by the Code of Ethics, the Company intends to provide this information on its website.

There have been no changes in the procedures by which shareholders may recommend nominees to the Company's board of directors.

Item 11. Executive Compensation

Compensation Discussion and Analysis

For discussion concerning the Company's Management Development and Compensation Committee, see Item 10 – Directors, Executive Officers, and Corporate Governance, Management Development and Compensation Committee.

Compensation Philosophy and Objectives

The Company's compensation program is designed to support the achievement of the Company's business and financial goals. The program is periodically reviewed by the Management Development and Compensation Committee ("Compensation Committee") which is responsible for implementing and monitoring adherence to the Company's compensation philosophy.

The primary objectives of the compensation program are:

- To attract and retain highly talented and results-oriented executives who are critical to the Company's long-term success and growth;
- To align the goals of the Company's key employees, including its named executive officers, with the best interests of the Company;
- To reward performance; and
- To achieve shareholder value.

The individual components of the compensation program (annual salary; short-term incentive compensation; long-term incentive compensation; and perquisites) are designed to meet these objectives and together are intended to be competitive in the marketplace. The overall compensation package is based on the following considerations:

- Compensation should consist of fixed and at-risk compensation, with the at-risk compensation encouraging improved annual and long-term performance;
- Compensation should be a mix of annual and long-term compensation, with the long-term compensation encouraging retention and attainment of long-term performance goals;
- Compensation should be a mix of cash and equity, with cash rewarding achievement of goals and equity encouraging retention and long-term performance. Additionally, the Board continues to support equity ownership by the management team to align the interests of management with the Company's long-term corporate performance.

Elements of Compensation and Benefits

For 2007, the Compensation Committee relied on a competitive analysis of top executive positions conducted for the Company in late 2006 by Watson Wyatt, an independent compensation consulting firm. Watson Wyatt benchmarked all aspects of executive compensation of the chief executive officer, executive vice presidents, senior vice presidents, and vice presidents and reported its data at the 50th and 75th percentiles of the competitive market. Watson Wyatt selected a comparative group from technology solutions companies of similar size. The comparative group was comprised of the following sixteen companies: Actuate Corp.; Advent Software; Ansys Inc.; Blackboard; Epicor Software Corp; Informatica Corp; Interwoven; Lion Bridge Technologies, Inc.; Microstrategy, Inc.; Netscout Systems, Inc.; Open Solutions, Inc.; Radiant Systems, Inc.; Telecommunications Systems, Inc.; Tyler Technologies, Inc.; WebMethods, Inc.; Wind River Systems, Inc.

Determination of management's compensation is primarily discretionary. Individual performance, teamwork, and other qualitative judgments are also part of this compensation process.

Base Salary

The Company provides its executive officers and employees with a base salary to compensate them for services rendered during the fiscal year. The relative levels of base salary for executive officers are designed to reflect each executive officer's professional expertise and scope of responsibility and accountability within the Company. Base salaries are generally established at levels sufficient to attract and retain an effective management team when considered in connection with the performance-based components of the Company's overall compensation program. Based on the Watson Wyatt analysis, base salaries were increased during 2007, as follows:

Name	(1) 2006 Base Salary	(1) 2007 Base Salary	Increase	Percentage Increase
John B. Wood	$ 350,000	$ 450,000 (2)	$100,000	28.6%
Michele Nakazawa	$ 160,000	$ 235,000	$ 75,000	46.9%
Michael P. Flaherty	$ 300,000	$ 315,000	$ 15,000	5.0%
Edward L. Williams	$ 255,000	$ 325,000	$ 70,000	27.5%
Brendan D. Malloy	$ 175,000	$ 200,000	$ 25,000	14.3%

(1) Amount represents the base salary in effect at the end of year

(2) Mr. Wood received two increases in 2007. The first increase was on January 1, 2007, to $400,000, and the second was on May 1, 2007, to $450,000

In 2008, the Compensation Committee approved increases in the base salaries for certain of the named executive officers. Effective July 1, 2008, Ms. Nakazawa's salary was increased to $280,000. Effective March 1, 2008, the salaries of Messrs. Flaherty, Williams and Malloy were increased to $325,000, $338,000, and $207,979, respectively.

Each year, the CEO of the Company proposes the compensation level for the executives reporting directly to him as well as for their direct reports. The Compensation Committee reviews these recommendations and, following discussion with the CEO, makes final recommendations with respect to the compensation for those executives. The CEO has no role in the establishment of his compensation.

Incentive Bonus Plan

The short-term incentive compensation for executive officers and key employees is the performance-based cash bonus paid during and subsequent to fiscal year end. Participants in the incentive bonus plan are senior managers, including the named executive officers. A portion of the bonus pool may be utilized to recognize and reward other key contributors company-wide.

For 2007, the bonus plan had two distinct pools: the quarterly bonus pool to award division business line management and their respective employees based on achievement of quarterly targets, and the management incentive plan pool which includes the executive management and the business line management and is paid on an annual basis after the performance is known. Awards under this plan to the named executive officers, except the chief executive officer, are based upon achievement of annual performance metrics. Based on the Watson Wyatt analysis, the 2007 bonus pool target for achievement at plan was established at $3.7 million. Annual performance targets were established to measure actual performance against plan and determine the total earned bonus pool amount for 2007. The performance targets are weighted as follows (in thousands):

Budgeted orders	$190,000	10%
Budgeted revenue	$195,000	10%
Budgeted Earnings Before Interest, Taxes, Depreciation, and Amortization ("EBITDA")	$ 13,600	45%
Budgeted working capital improvement	$ 10,000	35%

Each metric is evaluated based upon actual performance versus budget. Actual achievement is measured as a percentage over or under plan, weighted in accordance with the established metrics and applied against the planned bonus pool to determine the total earned bonus pool for the year. Pursuant to the incentive bonus plan and in accordance with actual 2007 achievement of established metrics, the earned 2007 bonus pools funded at $5 million.

No performance-based bonuses were paid to the named executive officers for the years 2005 and 2006. In 2007, the targets established for the incentive bonus plan were greatly exceeded and resulted in the following bonuses paid and/or accrued for 2007: Mr. Williams $500,000; Mr. Flaherty $300,000; Ms. Nakazawa $270,000; and Mr. Malloy $200,000. Some portion of the accrued bonus will be deferred and paid after year-end 2008. These amounts are as follows: Mr. Williams $100,000; Mr. Flaherty $50,000; and Ms. Nakazawa $50,000.

The metrics established to determine the CEO's participation in the incentive bonus plan are similar to the performance targets for other senior managers except that the metrics include a general management subcomponent and are weighted as follows (in thousands):

Budgeted orders	$190,000	15%
Budgeted revenue	$195,000	20%
Budgeted EBITDA	$ 13,600	15%
Budgeted Earnings Before Interest and Taxes ("EBIT")	$ 11,600	15%
Budgeted working capital improvement	$ 10,000	15%
General management		20%

At least 80% of the goals, which are based on the Company's 2007 budget, must be attained to achieve the targeted bonus. Pursuant to the incentive bonus plan for the chief executive officer, and in accordance with 2007 achievement of established metrics, Mr. Wood was awarded a bonus in the amount of $600,000. Of that amount, $150,000 will be deferred and paid after year-end 2008.

Long-Term Incentive Compensation

As of December 31, 2007, the Company had not issued any long-term incentive compensation, including options, to any of its named executives since 2004.

In 2007, the Compensation Committee obtained the advice of a compensation consulting firm, Watson Wyatt, concerning the replacement of the Company's stock option plans and the stock option plans of two of its subsidiaries, Xacta Corporation and Telos Delaware, Inc., with the goal of providing a better plan for long-term compensation. Watson Wyatt recommended establishing an omnibus long-term incentive plan, allowing, among other things, for the issuance of stock options and restricted stock. As a consequence, at the recommendation of the Compensation Committee, on February 5, 2008 the Board adopted the Telos Corporation 2008 Omnibus Long-Term Incentive Plan ("2008 Plan") which was subsequently approved by the Company's Class A and Class B Common Stockholders at a special meeting of stockholders held on February 21, 2008.

The Compensation Committee determined that the interests of the Company, its employees, as well as its stockholders would be served best if the holders of stock options were given the choice to exchange their stock options for restricted stock. Such approach would provide the employees with the opportunity to choose between the more certain benefit associated with restricted stock rights and the potentially more valuable, though less certain, benefit they might realize by retaining their stock options, and better align the employees' interests with the Company's goals.

On March 10, 2008, the Board, at the recommendation of the Compensation Committee, approved the grant of up to 15,000,000 shares of restricted stock pursuant to the 2008 Omnibus Long-Term Incentive Plan, in exchange for the stock options outstanding under the Telos Corporation, Xacta Corporation and Telos Delaware, Inc. stock option plans. In June 2008, the Company exchanged and additionally granted the following restricted stock to its named executives: Mr. Wood: 1,172,500 shares exchanged and 2,589,965 shares granted; Ms. Nakazawa: 10,000 shares exchanged and 690,250 shares granted; Mr. Flaherty: 635,000 shares exchanged and 230,000 shares granted; Mr. Williams: 480,300 shares exchanged and 594,700 shares granted; Mr. Malloy: 91,600 shares exchanged and 408,400 shares granted.

Perquisites

The Company provides a limited number of perquisites to its executive officers, designed to allow the executives to work more efficiently and to help the Company remain competitive by retaining talented and dedicated executives. The Compensation Committee believes that the perquisites are consistent with the Company's overall compensation program. See "All Other Compensation" of the Summary Compensation Table below for details about perquisites provided to the named executive officers.

- Health club allowance in the amount of $1,200 per year
- Executive long-term care insurance ranging, depending on age, between $10,779 and $13,717 per year
- Payment of golf club membership, ranging between $4,645 and $25,575 per year
- Home office expense reimbursement of up to $3,000 per year
- Option to make charitable contributions ranging from $5,000 to $20,000 per year
- Car allowance in the amount of $12,000 per year
- Executive life insurance premiums in the following amounts per year: Mr. Wood $1,300; Mr. Flaherty $7,475; and Mr. Williams $945

Executive Officer Employment Agreements

As of December 31, 2007, the Company is a party to employment agreements with certain of its named executive officers, namely Mr. John B. Wood, President, CEO, Chairman and Director; Mr. Michael P. Flaherty, Executive Vice President, General Counsel and CAO; Mr. Robert J. Marino, Executive Vice President – Special Projects and Director; Mr. Edward J. Williams, Executive Vice President and COO; and Ms. Michele Nakazawa, Senior Vice President and CFO. The agreements of Messrs. Wood, Flaherty and Williams, and Ms. Nakazawa are for a one-year term, and thereafter automatically renew for consecutive one-year periods unless terminated in accordance with the provisions thereof. The agreements provide for payment of a base salary, discretionary bonus (based upon the Company's annual short-term incentive compensation and performance achievements of the Company and the executive), eligibility for stock option grants under the Company's stock option plans, vacation days, and participation in all plans maintained by the Company, including, without limitation, pension, profit-sharing or other retirement plans, life, accident, disability, medical, hospital or similar group insurance programs and any other benefit plan, subject to the normal terms and conditions of such plans.

According to the employment agreements with Messrs. Wood, Flaherty and Williams, and Ms. Nakazawa, in case of termination of the respective executive without cause, or due to disability, or death, the employment agreements provide for (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 benefits are earned and vested or are required by law to be offered), (iv) in the case of Mr. Wood, a payment equivalent to 24 months of base salary then in effect, and for Mr. Flaherty, Mr. Williams, and Ms. Nakazawa a payment equivalent to 18 months base salary then in effect, payable in a lump sum or in accordance with the Company's payroll cycle. In addition, each executive is also entitled to continued coverage under the medical, dental, short and long-term disability, and life insurance and other similar plans, as if the executive was still employed by the Company for 18 months for Messrs. Wood, Flaherty, Williams, and 24 months for Mr. Wood following termination. If, pursuant to the terms and conditions of such benefit programs, such continued coverage cannot be provided, each executive is entitled to payment of the cash equivalent of such benefits based on the terms and conditions of the programs then in place. Each executive is also entitled to immediate vesting of the unvested portion of any outstanding stock options.

Pursuant to the agreements with Messrs. Wood, Flaherty and Williams, and Ms. Nakazawa, in the case of termination for cause, or if the executive terminates the agreement for any reason, such executive would only be entitled to receive (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, and (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 benefits are earned and vested or are required by law to be offered) through the date of termination.

Pursuant to the agreements with Messrs. Wood, Flaherty and Williams, and Ms. Nakazawa, termination by the Company "without cause" means involuntary termination at the discretion of the Company which is not based on cause, death, or disability. "Cause" is defined as 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); executive's dishonesty, fraudulent misrepresentation, willful misconduct, malfeasance, violation of fiduciary duty relating to the business of the Company, or conviction of a felony. The executive is deemed "disabled" if he or she is eligible for disability benefits under the Company's long-term disability plan, or has a physical or mental disability which renders the executive incapable, after reasonable accommodation, of performing substantially all of executive's duties under the agreement for a period of 180 consecutive or non-consecutive days in any 12-month period.

2008 Changes to Executive Officer Employment Contracts

On December 11, 2008, the Company entered into Amendments to the Employment Agreements ("Amendment") with Messrs. Wood, Williams and Flaherty, and Ms. Nakazawa to ensure compliance with the requirements of Section 409A of the Internal Revenue Code of 1986, as amended ("Section 409A"). Generally, the provisions in each Amendment regarding the performance of services and compensation remain the same, but the Amendments clarify the language to alleviate any confusion in the existing agreement. The Amendment states that, in the case of termination without cause, death or disability, the unvested portion of any outstanding stock option and any outstanding share of restricted stock would immediately vest notwithstanding any contrary terms in any restricted stock agreement applicable to such executive. Also, any bonus which has been earned by the executive but which remains unpaid as of the date of the executive's termination of employment shall be paid to executive at such time and in such manner as if the executive had continued to be employed by the Company. In addition, in the event of termination following a change in control, the executive would receive compensation equivalent to the amount payable in the case of a termination without cause.

On December 11, 2008, the Company is a party to a new agreement with Mr. Robert Marino. The new agreement contains terms that are consistent with the terms and conditions of the other executives. In case of termination without cause, disability, death, or following a termination after change in control for any reason, the new employment agreement provides for (i) a lump-sum payment equivalent to the remaining unpaid portion of Mr. Marino's salary for the period ending on the date of termination, (ii) any bonus which has been earned by Mr. Marino but which remains unpaid as of the date of his employment termination, paid at such time and in such manner as if he had continued to be employed by the Company, (iii) a lump-sum payment for all accrued and unused vacation days, (iv) any other payments or benefits to be provided to Mr. Marino by the Company pursuant to any employee benefit plans or arrangements adopted by the Company (to the extent such benefits are earned and vested or are required by law to be offered) for 3 months following termination, and (v) a payment equivalent to 3 months of base salary then in effect, payable in a lump sum or in accordance with the Company's payroll cycle and subject to the requirements of Section 409A. Accordingly, effective as of March 1, 2008, Mr. Marino would receive payment equivalent to 3 months of annual base salary of $236,178. The definition of "cause" and "disabled" are the same as the agreements with the other executives. In the case of termination for cause, if Mr. Marino terminates the agreement for any reason, he would only be entitled to receive (i) a lump-sum payment equivalent to the remaining unpaid portion of his salary for the period ending on the date of termination, (ii) any bonus which has been earned by Mr. Marino but which remains unpaid as of the date of his employment termination, paid at such time and in such manner as if he had continued to be employed by the Company, (iii) a lump-sum payment for all accrued and unused vacation days, and (iv) any other payments or benefits to be provided to Mr. Marino by the Company pursuant to any employee benefit plans or arrangements adopted by the Company (to the extent such benefits are earned and vested or are required by law to be offered) through the date of termination.

Other Employment Benefits

The Company maintains employee benefit and perquisite programs for its executive officers and other employees. The Company has no current plans to implement any additional benefits for its executive officers. The Company believes that the benefits provided are competitive and consistent with industry practice.

Welfare Benefits. The Company has broad-based health, dental, vision, life and disability benefit programs that are available to all employees on an equal basis.

401(k) Savings Plan ("Telos Shared Savings Plan"). The Company sponsors a defined contribution employee savings plan which enables employees to contribute a certain percentage of their base salary to their savings plan accounts on a pre-tax basis, subject to federal tax limitations under the Internal Revenue Code. Presently, the Company matches one half of employee contributions to the Telos Shared Savings Plan up to a maximum of 3% of such employee's yearly base salary. Participant contributions vest immediately; Company contributions vest at the rate of 20% for each year, with full vesting to occur after completion of five years of service. For additional information concerning the Telos Shared Savings Plan, see also Note 9 – Stockholders' Equity, Option Plan, and Employee Benefit Plan.

Compensation Committee Interlocks and Insider Participation

None of the individuals that served as a member of the Compensation Committee during the fiscal year ended December 31, 2007 were at any time officers or employees of the Company or any of its subsidiaries or had any relationship requiring disclosure under the Securities and Exchange Commission's regulations.

Management Development and Compensation Committee Report

The Management Development and Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with management and, based on such review and discussions, the Compensation Committee recommended to the Board that the Compensation Discussion and Analysis be included in this Annual Report on Form 10-K.

Submitted by the Management Development and Compensation Committee of the Board,

William M. Dvoranchik
David Borland
Bruce R. Harris

The following table summarizes the compensation earned for the years ended December 31, 2006 and December 31, 2007 by the chief executive officer, chief financial officer, and the three other most highly-compensated executive officers.

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Salary	Bonus	Option Awards	(7) All Other Compensation	Total
John B. Wood	2007	$429,167	$600,000 (1)	$ —	$ 57,742	$1,086,909
(Chairman, President and CEO)	2006	350,002	—	21,595 (6)	45,092	416,689
Michele Nakazawa	2007	231,875	270,000 (2)	—	36,602	538,477
(Senior V.P. and CFO)	2006	160,000	—	269 (6)	32,635	192,904
Michael P. Flaherty	2007	314,376	300,000 (3)	—	66,650	681,026
(Exec. V.P., General Counsel and CAO)	2006	300,019	—	9,917 (6)	52,695	362,631
Edward L. Williams	2007	322,084	501,500 (4)	—	58,092	881,676
(Exec. V.P. and COO)	2006	255,008	—	9,917 (6)	45,581	310,506
Brendan D. Malloy	2007	198,958	200,000 (5)	—	35,623	434,581
(Senior V.P.- Secure Networks)						

(1) Amount earned in 2007; $450,000 paid in 2008; $150,000 to be paid in 2009
(2) Amount earned in 2007; $25,000 paid in 2007;$195,000 paid in 2008; $50,000 to be paid in 2009
(3) Amount earned in 2007; $25,000 paid in 2007; $225,000 paid in 2008; $50,000 to be paid in 2009
(4) Amount earned in 2007; $101,500 paid in 2007 which included $1,500 anniversary bonus; $300,000 paid in 2008; $100,000 to be paid in 2009
(5) Amount earned in 2007; $60,000 paid in 2007; $140,000 paid in 2008
(6) Represents the dollar amount recognized for financial statement reporting purposes with respect to fiscal year 2006 computed in accordance with SFAS No. 123(R), primarily related to Telos and Xacta stock options granted in 2004. See Note 1 – Summary of Significant Accounting Policies.
(7) Amounts presented consist of the following:

Name	Year	Car Allowance	Health Club Allowance	Life Insurance and Long-Term Disability Premiums	Savings Plan Company Match	Golf Club Membership	Long-Term Care	Total All Other Compensation
John B. Wood	2007	$ 12,000	$ 1,200	$ 1,708	$ 6,750	$ 25,305	$10,779	$ 57,742
	2006	12,000	1,200	1,708	6,600	12,805	10,779	45,092
Michele Nakazawa	2007	12,000	1,200	272	6,750	4,645	11,735	36,602
	2006	12,000	1,200	272	3,031	4,397	11,735	32,635
Michael P. Flaherty	2007	12,000	1,200	7,883	6,750	25,100	13,717	66,650
	2006	12,000	1,200	7,883	5,090	12,805	13,717	52,695
Edward L. Williams	2007	12,000	1,200	1,353	6,750	25,575	11,214	58,092
	2006	12,000	1,200	1,353	6,600	13,214	11,214	45,581
Brendan D. Malloy	2007	12,000	1,200	297	6,750	4,920	10,456	35,623

The following table summarizes all outstanding equity awards for the named executive officers at December 31, 2007:

OUTSTANDING EQUITY AWARDS AT 2007 FISCAL YEAR-END

	Options Awards			
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price	Option Expiration Date
John B. Wood	10,000 (1)	—	$ 1.07	05/23/2011
	250,000 (2)	—	3.85	01/22/2011
	250,000 (3)	—	0.75	01/22/2011
	10,000 (1)	—	1.00	10/23/2012
	378,000 (3)	22,000 (4)	0.75	01/22/2014
	480,000(1)	120,000 (4)	0.62	01/22/2014
Michele Nakazawa	4,725 (3)	275 (4)	$ 0.75	01/22/2014
	6,000 (1)	1,500 (4)	0.62	01/22/2014
Michael P. Flaherty	40,000 (1)	—	$ 1.40	10/01/2008
	60,000 (1)	—	1.35	01/01/2009
	30,000 (1)	—	1.35	05/24/2010
	100,000 (1)	—	1.07	05/23/2011
	100,000 (2)	—	3.85	01/22/2011
	100,000 (3)	—	0.75	01/22/2011
	189,000 (3)	11,000 (4)	0.75	01/22/2014
	200,000 (1)	50,000 (4)	0.62	01/22/2014
Edward L. Williams	65,000 (1)	—	$ 1.07	05/11/2008
	65,000 (1)	—	1.07	05/11/2008
	25,000 (1)	—	1.35	08/30/2009
	64,000 (2)	—	3.85	09/18/2010
	64,000 (3)	—	0.75	09/18/2010
	189,000 (3)	11,000 (4)	0.75	01/22/2014
	200,000 (1)	50,000 (4)	0.62	01/22/2014
Brendan D. Malloy	15,000 (1)	—	$ 1.07	05/11/2008
	15,000 (1)	—	1.07	05/11/2008
	20,000 (1)	—	1.35	08/30/2009
	8,000 (2)	—	3.85	09/18/2010
	4,000 (3)	—	0.75	09/18/2010
	37,800 (3)	2,200 (4)	0.75	01/22/2014
	40,000 (1)	10,000 (4)	0.62	01/22/2014

(1) Options to purchase the Class A Common Stock of the Company
(2) Options to purchase the Common Stock of Telos Delaware, Inc.
(3) Options to purchase the Common Stock of Xacta Corporation
(4) Options vested on January 22, 2008

On April 23, 2007, 195,000 options held by Mr. Williams expired. On May 31, 2006, 2,657,990 options held by Mr. Wood and 50,000 options held by Mr. Williams expired. Subsequently, in June 2008, all options held by the above named executives were exchanged for the Company's restricted stock. The Company exchanged and additionally granted the following shares of restricted stock to its named executive officers: Mr. Wood: 1,172,500 shares exchanged and 2,589,965 shares granted; Ms. Nakazawa: 10,000 shares exchanged and 690,250 shares granted; Mr. Flaherty: 635,000 shares exchanged and 230,000 shares granted; Mr. Williams: 480,300 shares exchanged and 594,700 shares granted; Mr. Malloy: 91,600 shares exchanged and 408,400 shares granted.

Potential Payments Upon Termination

As disclosed above, the Company has entered into employment agreements with each of the named executive officers which provide for potential payments upon termination. The table below summarizes the potential payouts to Messrs. Wood, Flaherty, Williams, Malloy and Ms. Nakazawa, for the termination events described above assuming such termination occurred on December 31, 2007, the last business day of the Company's last completed fiscal year.

John B. Wood	Salary Continuation for 24 Months	2007 Bonus Earned but Unpaid	Accrued and Unused Vacation as of December 31, 2007	Continuation of Medical/ Welfare Benefits for 24 Months	Cash Equivalent of Company Match to 401(k) for 24 Months	Total	Number of Vesting Options on December 31, 2007 (1)
Termination without cause	$ 900,000	$ 600,000	$ 302,862	$ 86,858	$ 13,500	$ 1,903,220	142,000
Termination due to disability	$ 900,000	$ 600,000	$ 302,862	$ 86,858	$ 13,500	$ 1,903,220	142,000
Termination due to death	$ 900,000	$ 600,000	$ 302,862	$ 86,858	$ 13,500	$ 1,903,220	142,000
Termination for cause	—	$ 600,000	$ 302,862	—	—	$ 902,862	—
Voluntary termination	—	$ 600,000	$ 302,862	—	—	$ 902,862	—

Michele Nakazawa	Salary Continuation for 18 Months	2007 Bonus Earned but Unpaid	Accrued and Unused Vacation as of December 31, 2007	Continuation of Medical/ Welfare Benefits for 18 Months	Cash Equivalent of Company Match to 401(k) for 18 Months	Total	Number of Vesting Options on December 31, 2007 (2)
Termination without cause	$ 352,500	$ 245,000	$ 22,596	$ 59,046	$ 10,125	$ 689,267	1,775
Termination due to disability	$ 352,500	$ 245,000	$ 22,596	$ 59,046	$ 10,125	$ 689,267	1,775
Termination due to death	$ 352,500	$ 245,000	$ 22,596	$ 59,046	$ 10,125	$ 689,267	1,775
Termination for cause	—	$ 245,000	$ 22,596	—	—	$ 267,596	—
Voluntary termination	—	$ 245,000	$ 22,596	—	—	$ 267,596	—

Michael P. Flaherty	Salary Continuation for 18 Months	2007 Bonus Earned but Unpaid	Accrued and Unused Vacation as of December 31, 2007	Continuation of Medical/ Welfare Benefits for 18 Months	Cash Equivalent of Company Match to 401(k) for 18 Months	Total	Number of Vesting Options on December 31, 2007 (3)
Termination without cause	$ 472,500	$ 275,000	$ 77,726	$ 70,715	$ 10,125	$ 906,066	61,000
Termination due to disability	$ 472,500	$ 275,000	$ 77,726	$ 70,715	$ 10,125	$ 906,066	61,000
Termination due to death	$ 472,500	$ 275,000	$ 77,726	$ 70,715	$ 10,125	$ 906,066	61,000
Termination for cause	—	$ 275,000	$ 77,726	—	—	$ 352,726	—
Voluntary termination	—	$ 275,000	$ 77,726	—	—	$ 352,726	—

Edward L. Williams	Salary Continuation for 18 Months	2007 Bonus Earned but Unpaid	Accrued and Unused Vacation as of December 31, 2007	Continuation of Medical/ Welfare Benefits for 18 Months	Cash Equivalent of Company Match to 401(k) for 18 Months	Total	Number of Vesting Options on December 31, 2007 (4)
Termination without cause	$ 487,500	$ 400,000	$ 85,537	$ 62,704	$ 10,125	$ 1,045,866	61,000
Termination due to disability	$ 487,500	$ 400,000	$ 85,537	$ 62,704	$ 10,125	$ 1,045,866	61,000
Termination due to death	$ 487,500	$ 400,000	$ 85,537	$ 62,704	$ 10,125	$ 1,045,866	61,000
Termination for cause	—	$ 400,000	$ 85,537	—	—	$ 485,537	—
Voluntary termination	—	$ 400,000	$ 85,537	—	—	$ 485,537	—

Brendan D. Malloy	Salary Continuation	2007 Bonus Earned but Unpaid	Accrued and Unused Vacation as of December 31, 2007	Continuation of Medical/ Welfare Benefits for 18 Months	Cash Equivalent of Company Match to 401(k) for 18 Months	Total	Number of Vesting Options on December 31, 2007 (5)
Termination without cause	—	$ 140,000	$ 13,743	—	—	$ 153,743	12,200
Termination due to disability	—	$ 140,000	$ 13,743	—	—	$ 153,743	12,200
Termination due to death	—	$ 140,000	$ 13,743	—	—	$ 153,743	12,200
Termination for cause	—	$ 140,000	$ 13,743	—	—	$ 153,743	—
Voluntary termination	—	$ 140,000	$ 13,743	—	—	$ 153,743	—

(1) All stock options were exchanged for 1,172,500 shares of restricted stock in June 2008
(2) All stock options were exchanged for 10,000 shares of restricted stock in June 2008
(3) All stock options were exchanged for 635,000 shares of restricted stock in June 2008
(4) All stock options were exchanged for 480,300 shares of restricted stock in June 2008
(5) All stock options were exchanged for 91,600 shares of restricted stock in June 2008

Non-Competition, Confidentiality, Non-Solicitation, and Release Provisions

Pursuant to their respective employment agreements, Messrs. Flaherty and Williams, and Ms. Nakazawa are subject to non-competition, confidentiality, and non-solicitation provisions which are applicable to each executive during their respective employment terms and for a period of 18 months subsequent to the date of any termination. Similarly, Mr. Wood is subject to non-competition, confidentiality, and non-solicitation provisions during his employment term and for a period of 24 months subsequent to the date of any termination.

Compensation of Directors

Effective October 2006, the Board of Directors adopted a new structure for the annual compensation of the Board members which provides for the following: for non-employee directors, a basic fee of $10,000 per quarter and $500 for each Board meeting attended in excess of two meetings per quarter; $1,250 per quarter for each committee chairman; $2,500 per quarter for Proxy Board members[1], $625 per quarter for committee members.

The following table summarizes the director compensation earned during the year ended December 31, 2007:

DIRECTOR COMPENSATION FOR 2007

Name	Fees Earned or Paid in Cash	Total
Bernard Bailey	$ 54,000 (1)	$54,000
David Borland	49,000 (1)	49,000
William Dvoranchik	52,500 (1)	52,500
Seth W. Hamot	21,500 (2)	21,500
Bruce Harris	61,125 (1)	61,125
Charles Mahan	56,000 (1)	56,000
Robert J. Marino	— (3)	—
Andrew R. Siegel	21,500 (2)	21,500
Jerry Tuttle	61,500 (1)	61,500
John B. Wood	— (3)	—

(1) Paid in cash
(2) Earned but not paid
(3) Employee directors received no compensation for service as directors

In 2008, the Company changed the compensation policy for the Board of Directors. Additionally, in September 2008, the Company granted 80,000 shares of restricted stock each to the following Board members: Mr. Bailey, Mr. Borland, Mr. Dvoranchik, Mr. Harris, Mr. Mahan, and Mr. Tuttle.

1 The Company operates under a Proxy Agreement which governs the relationship between the Company and the foreign shareholders that, directly and indirectly, own a majority stake in the Company. Pursuant to such Proxy Agreement, a Proxy Board has been established which consists of independent Board members Harris, Mahan, and Tuttle.

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

Title of Class	Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership as of November 1, 2008	Percent of Class
Class A Common Stock	Toxford Corporation Place de Saint Gervais 1 1211 Geneva Switzerland	15,328,480 shares	63.2%
Class A Common Stock	John R.C. Porter Chalet Petit Monde 1936 Verbier Switzerland	473.322 shares	2.0%
Class A Common Stock	Telos Corporation Shared Savings Plan 19886 Ashburn Road Ashburn, VA 20147	3,658,536 shares	15.1%
Class B Common Stock	Graphite Enterprise Trust PLC Berkley Square House, 4 th Floor London W1J 6BQ England	1,681,960 shares (A)	41.7%
Class B Common Stock	Graphite Enterprise Trust LP Berkley Square House, 4 th Floor London W1J 6BQ England	420,490 shares (A)	10.4%
Class B Common Stock	North Atlantic Smaller Companies Investment Trust PLC c/o North Atlantic Value LLP Ground Floor, Ryder Court 14 Ryder Street London SW1Y 6QB England	1,186,720 shares	29.4%
Class B Common Stock	Cudd & Company c/o INVESCO Asset Management Limited 30 Finsbury Square London EC2A 1AG England	669,888 shares	16.6%
Class A Common Stock	John B. Wood	988,692 shares (B)	4.1%
Class A Common Stock	Michael P. Flaherty	222,495 shares (B)	0.9%
Class A Common Stock	Edward L. Williams	370,853 shares (B)	1.5%
Class A Common Stock	Michele Nakazawa	175,280 shares (B)	0.7%
Class A Common Stock	Brendan D. Malloy	130,325 shares (B)	0.5%
Class A Common Stock	Robert J. Marino	271,797 shares (B)	1.1%
Class A Common Stock	Bernard C. Bailey	20,000 shares (C)	0.1%
Class A Common Stock	David Borland	40,000 shares (C)(D)	0.2%
Class A Common Stock	William M. Dvoranchik	20,000 shares (C)	0.1%
Class A Common Stock	Seth W. Hamot	—	—
Class A Common Stock	Bruce R. Harris	20,000 shares (C)	0.1%
Class A Common Stock	Charles S. Mahan, Jr.	20,000 shares (C)	0.1%
Class A Common Stock	Andrew R. Siegel	—	—
Class A Common Stock	Jerry O. Tuttle	20,000 shares (C)	0.1%
Class A Common Stock	All officers and directors As a group (22 persons)	2,760,735 shares (E)	11.4%
Series A-1 Redeemable Preferred Stock	North Atlantic Smaller Companies Investment Trust PLC c/o North Atlantic Value LLP Ground Floor, Ryder Court 14 Ryder Street London SW1Y 6QB England	99 shares	7.9%
Series A-1 Redeemable Preferred Stock	Graphite Enterprise Trust PLC Berkley Square House, 4 th Floor London W1J 6BQ England	140 shares	11.2%

Series A-1 Redeemable Preferred Stock	Toxford Corporation Place de Saint Gervais 1 1211 Geneva Switzerland	908 shares	72.6%
Series A-2 Redeemable Preferred Stock	North Atlantic Smaller Companies Investment Trust PLC c/o North Atlantic Value LLP Ground Floor, Ryder Court 14 Ryder Street London SW1Y 6QB England	139 shares	7.9%
Series A-2 Redeemable Preferred Stock	Graphite Enterprise Trust PLC Berkley Square House, 4 th Floor London W1J 6BQ England	196 shares	11.2%
Series A-2 Redeemable Preferred Stock	Toxford Corporation Place de Saint Gervais 1 1211 Geneva, Switzerland	1,271 shares	72.6%
12% Cumulative Exchangeable Redeemable Preferred Stock	Value Partners, Ltd. Ewing & Partners Timothy G. Ewing 4514 Cole Avenue, Suite 808 Dallas, TX 75205	501,317 shares (F)	15.7%
12% Cumulative Exchangeable Redeemable Preferred Stock	Wynnefield Partners Small Cap Value, L.P. Wynnefield Partners Small Cap Value, L.P. I Channel Partnership II, L.P. Wynnefield Small Cap Value Offshore Fund, Ltd. Wynnefield Capital Management, LLC Wynnefield Capital, Inc. Nelson Obus Joshua Landes 450 Seventh Avenue, Suite 509 New York, NY 10123	373,500 shares (G)	11.7%
12% Cumulative Exchangeable Redeemable Preferred Stock	Athena Capital Management, Inc. Minerva Group, LP David P. Cohen 50 Monument Road, Suite 201 Bala Cynwyd, PA 19004	161,789 shares (H)	5.1%
12% Cumulative Exchangeable Redeemable Preferred Stock	Victor Morgenstern Faye Morgenstern Judd Morgenstern Morningstar Trust - Faye Morgenstern Trustee c/o Harris Associates, LP Two North LaSalle Street, Suite 500 Chicago, IL 60602	182,000 (I)	5.7%
12% Cumulative Exchangeable Redeemable Preferred Stock	Costa Brava Partnership III, LP Roark, Rearden & Hamot, LLC Seth W. Hamot White Bay Capital Management, LLC Andrew R. Siegel 237 Park Avenue, Suite 800 New York, NY 10017	521,287 (J)	16.4%
12% Cumulative Exchangeable Redeemable Preferred Stock	Grand Slam Asset Management, LLC Grand Slam Capital Master Fund, Ltd. 2200 Fletcher Avenue Fort Lee, NJ 07024	164,477 (K)	5.2%

12% Cumulative Exchangeable Redeemable Preferred Stock	Brown Advisory Holdings Incorporated Brown Advisory Securities, LLC Brown Investment Advisory & Trust Company 901 South Bond Street, Suite 400 Baltimore, MD 21231	203,820 (L)	6.4%

(A) Graphite Enterprise Trust PLC and Graphite Enterprise Trust LP did not provide the Company with the addresses of the respective beneficial owners.

(B) Messrs. Wood, Marino and Williams hold 8,392; 2,052 and 70,976 shares of the Company's Class A Common Stock, respectively. In addition, the common stock holdings of Messrs. Wood, Flaherty, Williams, Malloy, Marino and Ms. Nakazawa include 39,683; 6,245; 31,127; 5,325; 25,995 and 218 shares of the Company's Class A Common Stock, respectively, held for their beneficial interest by the Telos Corporation Savings Plan. Additionally, in June 2008, as a result of the 2008 Omnibus Long-Term Incentive Plan, Messrs. Wood, Flaherty, Williams, Malloy, Marino and Ms. Nakazawa hold 940,616; 216,250; 268,750; 125,000; 243,750 and 175,063 shares of the Company's vested restricted Class A Common Stock, respectively.

(C) These holdings are comprised of vested restricted Class A Common Stock granted in September 2008 under the 2008 Omnibus Long-Term Incentive Plan.

(D) Mr. Borland holds options to acquire 20,000 shares of the Company's Class A Common Stock, which may be purchased upon exercise of the options which are exercisable within 60 days of November 1, 2008.

(E) The common stock holdings of the Company's executive officers and directors as a group include 100,220 shares of the Company's Class A Common Stock; 165,249 shares of the Company's Class A Common Stock held for their beneficial interest by the Telos Corporation Savings Plan, and 2,475,266 shares of restricted Class A Common Stock issued under the 2008 Omnibus Long-Term Incentive Plan.

(F) Value Partners Ltd. ("VP"), Ewing & Partners ("E&P"), and Timothy G. Ewing have filed a joint Schedule 13D under which they disclosed that they may act as a "group" within the meaning of Section 13(d) of the Securities Exchange Act. Each of the reporting persons disclosed that it might be deemed to beneficially own the aggregate of 501,317 shares of the Public Preferred Stock held of record by the reporting persons collectively. According to the Schedule 13D, VP has the sole power to vote or direct the vote and the sole power to dispose and to direct the disposition of, and E&P and Timothy G. Ewing have the shared power to vote or direct the vote and the shared power to dispose and to direct the disposition of 501,317 shares.

(G) Wynnefield Partners Small Cap Value, L.P., ("WPSCV"), Wynnefield Partners Small Cap Value L.P. I ("WPSCVI"), Channel Partnership II, L.P. ("CP"), Wynnefield Small Cap Value Offshore Fund, Ltd. ("WSCVOF"), Wynnefield Capital Management, LLC ("WCM"), Wynnefield Capital, Inc. ("WCI"), Mr. Nelson Obus and Mr. Joshua H. Landes have filed a joint Schedule 13D under which they disclosed that they may be deemed to act as a "group" within the meaning of Section 13(d) of the Securities Exchange Act and that such group might be deemed to beneficially own the aggregate of 373,500 shares of the Public Preferred Stock held of record by the reporting persons collectively. According to the Schedule 13D, WCM is the sole general partner of WPSCV and WPSCVI and has the sole power to direct the voting and disposition of the shares beneficially owned by WPSCV and WPSCVI. Messrs. Obus and Landes are the co-managing members of WCM and each shares with the other the power to direct the voting and disposition of the shares that WCM may be deemed to beneficially own. WCI is the sole investment manager of WSCVOF and has the sole power to direct the voting and disposition of the shares that WSCVOF beneficially owns. Messrs. Obus and Landes are executive officers of WCI and each shares with the other the power to direct the voting and disposition of the shares that WCI may be deemed to beneficially own. Mr. Obus is the general partner of CP and has the sole power to direct the voting and disposition of the shares beneficially owned by CP. WPSCV has the sole power to vote or direct the vote and the sole power to dispose or direct the disposition of 131,800 shares. WSCVOF has the sole power to vote or direct the vote and the sole power to dispose or direct the disposition of 85,400 shares. WPSCVI has the sole power to vote or direct the vote and the sole power to dispose or direct the disposition of 142,800 shares. CP has the sole power to vote or direct the vote and the sole power to dispose or direct the disposition of 13,500 shares. Mr. Obus has the sole power to vote or direct the vote and the sole power to dispose or direct the disposition of 13,500 shares, and shared power to vote or direct the vote and the sole power to dispose or direct the disposition of 360,000 shares. Mr. Landes has shared power to vote or direct the vote and the shared power to dispose or direct the disposition of 360,000 shares. WCM has the sole power to vote or direct the vote and the sole power to dispose or direct the disposition of 274,600 shares. WCI has the sole power to vote or direct the vote and the sole power to dispose or direct the disposition of 85,400 shares.

(H) Athena Capital Management, Inc. ("ACM"), Minerva Group, LP ("MG"), and Mr. David Cohen have filed a joint Schedule 13G pursuant to which ACM has the shared power to vote or to direct the vote and the shared power to dispose or to direct the disposition of 110,146 shares; MG and Mr. Cohen have the sole power to vote or to direct the vote and the sole power to dispose or to direct the disposition of 44,210 and 7,433 shares, respectively.

(I) Victor Morgenstern ("VM"), Faye Morgenstern ("FM"), Judd Morgenstern ("JM") and Morningstar Trust - Faye Morgenstern Trustee ("MT") have filed a joint Schedule 13D in which VM has the sole power to vote and dispose of 50,000 shares, and the shared power to dispose of 132,000 shares; FM has the sole power to vote or direct the vote of 17,000 shares and shared power to dispose or direct the disposition of 92,000 shares; JM has the sole power to vote or direct the vote of 40,000 shares and shared power to dispose or direct the disposition of 115,000 shares; MT has the sole power to vote or direct the vote of and shared power to dispose or direct the disposition of 75,000 shares.

(J) Costa Brava Partnership III, LP ("CBP"), Roark, Rearden & Hamot, LLC ("RRH"), White Bay Capital Management, LLC ("WBCM"). Mr. Seth W. Hamot and Mr. Andrew R. Siegel have filed a joint Schedule 13D in which CBP has the sole power to vote or to direct the vote and to dispose or direct the disposition of 506,811 shares; RRH, WBCM and Mr. Hamot have the shared power to vote or to direct the vote and dispose or direct the disposition of 506,811 shares; Mr. Siegel has the sole power to vote or direct the vote and to dispose or direct the disposition of 14,476 shares, and the shared power to vote and dispose or direct the vote or disposition of 506,811 shares.

(K) Grand Slam Asset Management, LLC ("GSAM") and Grand Slam Capital Master Fund, Ltd. ("GSCMF") have filed a joint Schedule 13D in which GSCMF directly owns and has the power to vote or direct the vote and to dispose or direct the disposition of 164,477 shares. GSAM may be deemed to control GSCMF, directly or indirectly, GSAM may be deemed to have shared power to vote or direct the vote and dispose or direct the disposition of the shares and may be deemed to beneficially own the shares held by GSCMF.

(L) Brown Advisory Holdings Incorporated ("BAHI"), Brown Advisory Securities, LLC ("BAS"), and Brown Investment Advisory & Trust Company ("BIATC") have filed a joint schedule 13G in which 203,205 shares are owned by the clients of BAS, 615 shares are owned by the clients of BIATC. Those clients have the right to receive, or the power to direct the receipt of, dividends from, or the proceeds from the sale of, such securities. BAHI has the sole power to dispose or to direct the disposition of 615 shares; BAHI and BAS have the shared power to dispose or to direct the disposition of 203,205 shares.

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

Certain Relationships and Related Transactions

Mr. John R.C. Porter, the owner of 2% of the Company's Class A Common Stock, has a consulting agreement with the Company whereby he is compensated for consulting services provided to the Company in the areas of marketing, product development, strategic planning and finance as requested by the Company. The Company expensed $260,000 in 2007 for Mr. Porter's consulting services. Mr. Porter was paid $260,000 by the Company in 2006 and 2005 pursuant to this agreement, which amounts were determined by negotiation between the Company and Mr. Porter.

The brother of the Company's Chairman and CEO, Emmett Wood, has been an employee of the Company since 1996. The amounts paid to this individual as compensation for 2007, 2006, and 2005 were $205,000, $144,000 and $137,000, respectively.

As reported in Note 2 – Sale of Assets, as a member of certain private equity investors, the brother of the Company's Chairman and CEO, Nicholas Wood, indirectly held a 2% effective ownership interest in TIMS LLC. Such ownership interest was sold in 2008.

Mr. David S. Aldrich, former President and Chief Executive Officer of the Company, entered into an agreement with the Company whereby Mr. Aldrich served as an advisor to the Company from December 31, 2002 through March 31, 2005. In return, Mr. Aldrich was paid $350,000 per annum from January 1, 2003 through March 31, 2005. In December 2005, pursuant to a mutual release agreement with Mr. Aldrich to resolve a dispute concerning salary and medical benefits, the Company paid Mr. Aldrich $25,000.

The Company's policies and practices with respect to related person transactions were adopted on October 25, 2007, and are available on its website at www.telos.com. The policy is set forth below:

I. Purpose

This Related Person Transaction Policy was adopted by the Board of Directors of Telos Corporation (the "Company") to ensure the timely identification, review, approval and ratification of transactions with related persons and to assist the Company in the timely disclosure of such transactions in the Company's filings with the SEC, as required by the Securities Act of 1933 and the Securities Exchange Act of 1934 and related rules and regulations.

This policy is intended to supersede other policies of the Company such as the Code of Conduct and the Corporate Governance Principles that may be applicable to transactions with related persons.

II. Definitions

For purposes of this policy, the following definitions apply:

"Related Person Transaction" means any transaction or series of transactions in which (i) the Company or a subsidiary is a participant, (ii) the aggregate amount involved exceeds $120,000 and (iii) any "Related Person" has a direct or indirect material interest.

"**Related Person**" means:

- Any director or executive officer of the Company;
- Any immediate family member of a director or executive officer of the Company;
- Any nominee for director and the immediate family members of such nominee;
- A 5% beneficial owner of the Company's voting securities or any immediate family member of such owner; and
- Any firm, corporation or other entity in which any of the foregoing persons is employed or is a partner or principal or in a similar position or in which such person has a 10% or greater beneficial ownership interest.

"Immediate Family Member" means any child, stepchild, parent, stepparent, spouse, sibling, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, sister-in-law of a person, and any person (other than a tenant or employee) sharing the household of such person.

III. Review/Report

Related Person Transactions shall be reviewed by the Board of Directors acting through the Audit Committee at regularly scheduled committee meetings, except that the Chairman of the Audit Committee may call a special committee meeting to review a proposed Related Person Transaction. That transaction is subject to the approval and/or ratification of the full Board of Directors. If the proposed Related Person Transaction involves a director, then that director may participate in the deliberations pursuant to the last paragraph of this policy below, but may not vote with respect to such approval or ratification.

Each individual executive officer and director shall be responsible for reporting any potential Related Person Transaction to the General Counsel and/or the Audit Committee. The Company shall take such steps as it deems reasonable and appropriate to inform such executive officers and directors about this Related Person Transactions policy, which shall include:

- Distributing (as soon as reasonably practicable following the completion of each fiscal year) a formal questionnaire to all executive officers and directors requiring these persons to evaluate and disclose whether or not during the preceding fiscal year they were involved in, or aware of, any Related Person Transaction;
- Posting this policy on the Company website and including it in the Company's 2007 proxy statement;
- Periodically distributing this policy to the Company's executive officers and directors; and
- Periodically making internal inquiries regarding Company relationships with known entities that qualify as Related Persons.

Whether the Related Person's interest in a proposed transaction is material or not will depend on all facts and circumstances, including whether a reasonable investor would consider the person's interest in the transaction important, together with all other available information, in deciding whether to buy, sell or hold the Company's securities. In preparing the Company's SEC filings and in determining whether a transaction is subject to this policy, the Company's General Counsel is entitled to make the determinations of whether a particular relationship constitutes a material interest by a Related Person. In administering this policy, the Audit Committee shall be entitled (but not required) to rely upon such determinations of materiality by the Company's General Counsel.

In reviewing a proposed Related Person Transaction, the Committee shall consider all relevant facts and circumstances, including the commercial reasonableness of the terms, the benefit, or lack thereof, to the Company, opportunity costs of alternate transactions, the materiality and character of the Related Person's direct or indirect interest, and the actual or apparent conflict of interest of the Related Person. The Audit Committee shall forward to the full Board of Directors its recommendations in regards to any Related Person Transaction involving a director or an executive officer of the Company, for final determination.

Independence of the Board of Directors

The Company has adopted director independence standards which are summarized below. The Company's director independence standards are based upon NASD Rules 4200(a)(15) and 4350. Pursuant to such rules, a majority of directors of the Board will be independent. Pursuant to NASD Rule 4200(a)(15), a director will not be independent if,

(A) At any time during the past three years he was employed by the Company;

(B) He accepted, or has a family member who accepted, any compensation from the Company in excess of $120,000 during any period of twelve consecutive months within the three years preceding the determination of independence other than the following: (i) compensation for board or board committee service; (ii) compensation paid to a family member who is an employee (other than an executive officer) of the Company; (iii) benefits under a tax-qualified retirement plan, or non-discretionary compensation;

(C) He is a family member of an individual who is, or at any time during the past three years was, employed by the Company as an executive officer;

(D) He is, or has a family member who is, a partner in, or a controlling shareholder or executive officer of, any organization to which the Company made, or from which the Company received, payments for property or services in the current or any of the past three fiscal years that exceed 5% of the recipient's consolidated gross revenues for that year, or $200,000, whichever is more, other than the following: (i) payments arising solely from investments in the Company's securities; or (ii) payments under non-discretionary charitable contribution matching programs.

(E) He is, or has a family member who is, employed as an executive officer of another entity where at any time during the past three years any of the executive officers of the issuer served on the compensation committee of such other entity.

(F) He is, or has a family member who is, a current partner of the Company's outside auditor, or was a partner or employee of the Company's outside auditor who worked on the Company's audit at any time during any of the past three years.

Pursuant to the independence standards set forth above, the Board has determined that the following directors meet the Company's independence standards and therefore are independent: Bernard C. Bailey, David Borland, William M. Dvoranchik, Bruce R. Harris, Charles S. Mahan, and Jerry O. Tuttle. Based on these standards, the Board determined that the following directors are not independent: Seth W. Hamot, Robert J. Marino, Andrew R. Siegel, and John B. Wood.

Item 14. Principal Accountant Fees and Services

BDO Seidman, LLP ("BDO") has served as the principal independent registered public accounting firm effective September 5, 2008. BDO was engaged to audit the Company's financial statements for the year ended December 31, 2007 which are included in the Company's 2007 Form 10-K, and to review the Company's financial statements for the quarter ended June 30, 2007 which are included in the Company's 2007 Form 10-Q. The Company's Form 10-Q for the quarter ended September 30, 2007 was reviewed by Reznick Group P.C. ("Reznick"). Reznick resigned as the Company's principal independent registered public accounting firm effective April 16, 2008. Goodman & Company, LLP ("Goodman") served as the principal independent registered public accounting firm for the Company from the quarter ended June 30, 2004 to the quarter ended March 31, 2007, and audited the Company's financial statements included in the Form 10-K for the years ended December 31, 2004, 2005 and 2006. Aggregate fees for professional services rendered to the Company by BDO and Goodman for the year ended December 31, 2007 and 2006 are summarized as follows:

	2007	2006
BDO Seidman, LLP:		
Audit fees	$600,000	$ —
Audit-related fees	—	—
Tax fees (2)	14,000	—
All other fees	—	—
Total	$614,000	$ —
Goodman & Company, LLP:		
Audit fees	$ 15,049	$138,724
Audit-related fees (1)	21,077	16,756
Tax fees (2)	—	49,644
All other fees (3)	—	15,021
Total	$ 36,126	$220,145

(1) Audit-related fees relate to services rendered in connection with the change in principal independent accountant, Audit Committee meeting attendance, travel and out-of-pocket costs.

(2) Tax fees relate to services rendered for tax compliance, tax planning and advice.

(3) All other fees relate to services in connection with reviews of SEC filings and compliance with Section 404 of the Sarbanes-Oxley Act.

PART IV

Item 15. Exhibits and Financial Statement Schedules

1. Financial Statements

As listed in the Index to Financial Statements and Supplementary Data on page 22.

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 or related notes.

3. Exhibits:

Exhibit Number	Description
3.1	Articles of Amendment and Restatement of C3, Inc. (Incorporated by reference to the Company's Registration Statement No. 2-84171 filed June 2, 1983)
3.2	Articles of Amendment of C3, Inc. dated August 31, 1981 (Incorporated by reference to the Company's Registration Statement No. 2-84171 filed June 2, 1983)
3.3	Articles supplementary of C3, Inc. dated May 31, 1984 (Incorporated by reference to the Company's Form 10-K report for the fiscal year ended March 31, 1987)
3.4	Articles of Amendment of C3, Inc. dated August 18, 1988 (Incorporated by reference to the Company's Form 10-K report for the fiscal year ended March 31, 1989)
3.5	Articles of Amendment and Restatement Supplementary to the Articles of Incorporation dated August 3, 1990. (Incorporated by reference to C3, Inc. 10-Q for the quarter ended June 30, 1990)
3.6	Articles of Amendment and Restatement of the Company, filed with the Secretary of State of the State of Maryland on January 14, 1992 (Incorporated by reference to C3, Inc. Form 8-K filed January 29, 1992)
3.7	Articles of Amendment of C3, Inc. dated April 13, 1995 (Incorporated by reference to Exhibit 3.7 filed with the Company's Form 10-K report for the year ended December 31, 1995)
3.8	Amended and Restated Bylaws of the Company, as amended on October 3, 2007. (Incorporated by reference to Exhibit 3.1 to the Company's Form 8-K filed on October 5, 2007)
4.1	Form of Indenture between the Registrant and Bankers Trust Company, as Trustee, relating to the 12% Junior Subordinated Debentures Due 2009. (Incorporated by reference to C3's Registration Statement on Form S-4 filed October 20, 1989)
4.2	Form of the terms of the 12% Cumulative Exchangeable Redeemable Preferred Stock of the Registrant (Incorporated by reference to C3's Registration Statement on Form S-4 filed October 20, 1989)
10.1	Series B Senior Subordinated Secured Note due October 1, 2000 as of October 13, 1995 between Telos Corporation (Maryland) and Mr. John R.C. Porter (Incorporated by reference to Exhibit 10.61 filed with the Company's Form 10-Q report for the quarter ended September 30, 1995)
10.2	Series B Senior Subordinated Secured Note due October 1, 2000 as of October 13, 1995 between Telos Corporation (Maryland) and Sir Leslie Porter (Incorporated by reference to Exhibit 10.62 filed with the Company's Form 10-Q report for the quarter ended September 30, 1995)
10.3	Series B Senior Subordinated Secured Note due October 1, 2000 as of October 13, 1995 between Telos Corporation (Maryland) and Toxford Corporation (Incorporated by reference to Exhibit 10.64 filed with the Company's Form 10-Q report for the quarter ended September 30, 1995)
10.4	Series C Senior Subordinated Unsecured Note due October 1, 2000 as of October 13, 1995 between Telos Corporation (Maryland) and Sir Leslie Porter (Incorporated by reference to Exhibit 10.69 filed with the Company's Form 10-Q report for the quarter ended September 30, 1995)
10.5	Series C Senior Subordinated Unsecured Note due October 1, 2000 as of October 13, 1995 between Telos Corporation (Maryland) and Toxford Corporation (Incorporated by reference to Exhibit 10.71 filed with the Company's Form 10-Q report for the quarter ended September 30, 1995)
10.6	1996 Stock Option Plan (Incorporated by reference to Exhibit 10.74 filed with the Company's Form 10-Q report for the quarter ended March 31, 1996)
10.7	Loan and Security Agreement between Telos Corporation, a Maryland corporation, and Foothill Capital Corporation, dated as of October 21, 2002 including related documents and amendments 1 through 8 (Incorporated by reference to Exhibit 10.97 filed with the Company's Form 10-Q report for the quarter ended September 30, 2005)
10.8	Employment Agreement – Michael P. Flaherty (Incorporated by reference to Exhibit 10.98 filed with the Company's Form 10-K report for the year ended December 31, 2005)
10.9	Employment Agreement – Robert J. Marino (Incorporated by reference to Exhibit 10.99 filed with the Company's Form 10-K report for the year ended December 31, 2005)
10.10	Employment Agreement – Michele Nakazawa (Incorporated by reference to Exhibit 10.100 filed with the Company's Form 10-K report for the year ended December 31, 2005)
10.11	Employment Agreement – Edward L. Williams (Incorporated by reference to Exhibit 10.101 filed with the Company's Form 10-K report for the year ended December 31, 2005)
10.12	Employment Agreement – John B. Wood (Incorporated by reference to Exhibit 10.102 filed with the Company's Form 10-K report for the year ended December 31, 2005)

10.13	Waiver and Ninth Amendment to Loan and Security Agreement between Telos Corporation, a Maryland corporation, and Wells Fargo Foothill, Inc. (Incorporated by reference to Exhibit 10.103 filed with the Company's Form 10-K report for the year ended December 31, 2005)
10.14	Waiver and Tenth Amendment to Loan and Security Agreement between Telos Corporation, a Maryland corporation, and Wells Fargo Foothill, Inc. (Incorporated by reference to Exhibit 10.105 filed with the Company's Form 10-Q report for the quarter ended March 31, 2006)
10.15	Eleventh Amendment to Loan and Security Agreement between Telos Corporation, a Maryland corporation, and Wells Fargo Foothill, Inc. (Incorporated by reference to Exhibit 10.106 filed with the Company's Form 10-Q report for the quarter ended June 30, 2006)
10.16	Twelfth Amendment to Loan and Security Agreement between Telos Corporation, a Maryland corporation, and Wells Fargo Foothill, Inc. (Incorporated by reference to Exhibit 10.106 filed with the Company's Form 10-Q report for the quarter ended September 30, 2006)
10.17	Thirteenth Amendment to Loan and Security Agreement between Telos Corporation, a Maryland corporation, and Wells Fargo Foothill, Inc. (Incorporated by reference to Exhibit 10.17 filed with the Company's Form 10-Q report for the quarter ended March 31, 2007)
10.18	Consent, Waiver, and Fourteenth Amendment to Loan and Security Agreement between Telos Corporation, a Maryland corporation, and Wells Fargo Foothill, Inc. (Incorporated by reference to Exhibit 10.18 filed with the Company's Form 10-Q report for the quarter ended March 31, 2007)
10.19	TIMS LLC Membership Interest Purchase Assignment Agreement and Other Related Transaction Documents (Incorporated by reference to Exhibit 10.19 filed with the Company's Form 10-Q report for the quarter ended June 30, 2007)
10.20	Policy with Respect to Related Person Transactions (Incorporated by reference to Exhibit 10.17 filed with the Company's Form 10-Q report for the quarter ended September 30, 2007)
10.21*	Telos Corporation 2008 Omnibus Long-Term Incentive Plan
10.22*	Amended and Restated Loan and Security Agreement between Telos Corporation, a Maryland corporation, and Wells Fargo Foothill, Inc.
10.23*	Waiver and First Amendment to the Amended and Restated Loan and Security Agreement between Telos Corporation, a Maryland corporation, and Wells Fargo Foothill, Inc.
10.24*	Amendment to Employment Agreement – John B. Wood
10.25*	Amendment to Employment Agreement – Michele Nakazawa
10.26*	Amendment to Employment Agreement – Michael P. Flaherty
10.27*	Amendment to Employment Agreement – Edward L. Williams
10.28*	Employment Agreement – Robert J. Marino
10.29*	Waiver Under Amended and Restated Loan and Security Agreement
10.30*	Waiver Under Amended and Restated Loan and Security Agreement
21*	List of subsidiaries of Telos Corporation
23.1	Consent of Navigant Consulting, Inc. (Incorporated by reference to Exhibit 23.1 filed with the Company's Form 10-K report for the year ended December 31, 2006)
31.1*	Certification pursuant to Rule 13a-14(a)/15d-14(a) under the Securities Exchange Act of 1934.
31.2*	Certification pursuant to Rule 13a-14(a)/15d-14(a) under the Securities Exchange Act of 1934.
32*	Certification pursuant to 18 USC Section 1350.

* filed herewith

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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

By: /s/ John B. Wood
John B. Wood
Chief Executive Officer and Chairman of the Board

Date: December 16, 2008

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.

Signature	Title	Date
/s/ John B. Wood John B. Wood	Chief Executive Officer and Chairman of the Board	December 16, 2008
/s/ Michele Nakazawa Michele Nakazawa	Chief Financial Officer	December 16, 2008
/s/ Bernard C. Bailey Bernard C. Bailey	Director	December 16, 2008
/s/ David Borland David Borland	Director	December 16, 2008
/s/ William M. Dvoranchik William M. Dvoranchik	Director	December 16, 2008
Seth W. Hamot	Director	
/s/ Bruce R. Harris Bruce R. Harris, Lt. Gen., U.S. Army (Ret.)	Director	December 16, 2008
/s/ Charles S. Mahan, Jr. Charles S. Mahan, Jr. Lt. Gen., U.S. Army (Ret)	Director	December 16, 2008
/s/ Robert J. Marino Robert J. Marino	Director	December 16, 2008
Andrew R. Siegel	Director	
/s/ Jerry O. Tuttle Jerry O. Tuttle, Vice Admiral, USN (Ret.)	Director	December 16, 2008

TELOS CORPORATION

2008 OMNIBUS LONG-TERM INCENTIVE PLAN

Telos Corporation, a Maryland corporation (the "Company"), sets forth herein the terms of its 2008 Omnibus Long-Term Incentive Plan (the "Plan"), as follows:

1. PURPOSE. The Plan is intended to enhance the Company's and its Subsidiaries' ability to attract and retain highly qualified directors, officers, key employees and other persons and to motivate such persons to serve the Company and its Subsidiaries and to improve the business results and earnings of the Company, by providing to such persons an opportunity to acquire or increase a direct proprietary interest in the operations and future success of the Company. To this end, the Plan provides for the grant of Share options, Share appreciation rights, restricted Shares, restricted Share units, unrestricted Shares and dividend equivalent rights. Any of these awards may, but need not, be made as performance incentives to reward attainment of performance goals in accordance with the terms hereof. Share options granted under the Plan may be incentive stock options or non-qualified options, as provided herein.

2. DEFINITIONS. For purposes of interpreting the Plan and related documents (including Award Agreements), the following definitions shall apply:

2.1 **"Award"** means a grant of an Option, Share Appreciation Right, Restricted Shares, Restricted Share Units, Unrestricted Shares or Dividend Equivalent Rights under the Plan.

2.2 **"Award Agreement"** means the written agreement between the Company and a Participant that evidences and sets out the terms and conditions of an Award.

2.3 **"Benefit Arrangement"** shall have the meaning set forth in **Section 15** hereof.

2.4 **"Board"** means the Board of Directors of the Company.

2.5 **"Cause"** means, as determined by the Board and unless otherwise provided in an applicable agreement with the Company or a Subsidiary,(i) commission by a Participant of a felony or crime of moral turpitude; (ii) conduct in the performance of a Participant's duties which is illegal, dishonest, fraudulent or disloyal; (iii) the breach of any fiduciary duty the Participant owes to the Company; or (iv) gross neglect of duty or poor performance which is not cured by the Participant to the reasonable satisfaction of the Company within 30 days of Participant's receipt of written notice from the Company advising Participant of said gross neglect or poor performance.

2.6 **"Change in Control"** means an occasion upon which (i) any "person" (as such term is used in Section 13(d) and 14(d) of the Exchange Act) other than a trustee or other fiduciary holding securities under an employee benefit plan of the Company or a corporation controlled by the Company, is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 30% or more of the combined voting power of the Company's then outstanding securities; or (ii) during any period of twelve (12) consecutive months (not including any period prior to the adoption of this Plan), individuals who at the beginning of such period constitute the Board and any new director

(other than a director designated by a person who has entered into an agreement with the Company to effect a transaction described in clauses (i) or (iii) of this Paragraph) whose election by the Board or nomination for election by the Company's shareholders was approved by a vote of at least a majority of the directors then still in office who either were directors at the beginning of the period or whose election or nomination for election was previously so approved, cease for any reason to constitute a majority thereof; or (iii) any of (a) the Company consummates a merger, consolidation, reorganization, recapitalization or statutory share exchange (a "Business Combination"), other than a Business Combination which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least 50% of the combined voting power of the securities of the Company or such surviving entity outstanding immediately after such Business Combination, (b) the Company's shareholders approve a plan of complete liquidation of the Company, or (c) the Company completes the sale or other disposition of all or substantially all of its assets in one or a series of transactions.

2.7 **"Code"** means the Internal Revenue Code of 1986, as now in effect or as hereafter amended.

2.8 **"Committee"** means the Company's Management Development and Compensation Committee.

2.9 **"Company"** means Telos Corporation.

2.10 **"Corporate Transaction"** means (i) the dissolution or liquidation of the Company or a merger, consolidation, or reorganization of the Company with one or more other entities in which the Company is not the surviving entity, (ii) a sale of substantially all of the assets of the Company to another person or entity which does not constitute a "related person" to the Company, as such term is defined in the Treasury Regulations issued in connection with Section 409A of the Code, or (iii) any transaction (including without limitation a merger or reorganization in which the Company is the surviving entity) which results in any person or entity (other than persons who are shareholders or affiliates immediately prior to the transaction) owning more than 50% of the combined voting power of all classes of share of the Company.

2.11 **"Covered Employee"** means a Participant who is a Covered Employee within the meaning of Section 162(m)(3) of the Code.

2.12 **"Dividend Equivalent Right"** means a right, granted to a Participant under **Section 13** hereof, to receive cash, Shares, other Awards or other property equal in value to dividends paid with respect to a specified number of Shares, or other periodic payments.

2.13 **"Effective Date"** means February 5, 2008, the date the Plan is approved by the Board.

2.14 **"Exchange Act"** means the Securities Exchange Act of 1934, as now in effect or as hereafter amended.

2.15 **"Fair Market Value"** means the value of a Share, determined as follows: if on the Grant Date or other determination date the Shares are listed on an established national or regional share exchange, is admitted to quotation on The Nasdaq Stock Market, Inc. or is publicly traded on an established securities market, the Fair Market Value of a Share shall be the closing price of the Shares on such exchange or in such market (if there is more than one such exchange or market

the Board shall determine the appropriate exchange or market) on the Grant Date or such other determination date (or if there is no such reported closing price, the Fair Market Value shall be the mean between the highest bid and lowest asked prices or between the high and low sale prices on such trading day) or, if no sale of Shares is reported for such trading day, on the next preceding day on which any sale shall have been reported. If the Shares are not listed on such an exchange, quoted on such system or traded on such a market, Fair Market Value shall be the value of the Shares as determined by the Board in good faith, including the use by the Board, as appropriate, of an outside consultant or adviser, and taking into account, without limitation, Section 409A of the Code.

2.16 **"Family Member"** means a person who is a spouse, former spouse, child, stepchild, grandchild, parent, stepparent, grandparent, niece, nephew, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother, sister, brother-in-law, or sister-in-law, including adoptive relationships, of the Participant, any person sharing the Participant's household (other than a tenant or employee), a Company in which any one or more of these persons have more than fifty percent of the beneficial interest, a foundation in which any one or more of these persons (or the Participant) control the management of assets, and any other entity in which one or more of these persons (or the Participant) own more than fifty percent of the voting interests.

2.17 **"Grant Date"** means the date on which the Board or the Committee, as the case may be, approves an Award or such later date as may be specified by the Committee in situations where the Committee chooses to request that the Board ratify the grant of an Award.

2.18 **"Incentive Stock Option"** means an "incentive stock option" within the meaning of Section 422 of the Code, or the corresponding provision of any subsequently enacted tax statute, as amended from time to time.

2.19 **"Non-Qualified Option"** means an Option that is not an Incentive Stock Option.

2.20 **"Option"** means an option to purchase Shares pursuant to the Plan.

2.21 **"Option Price"** means the exercise price for each Share subject to an Option.

2.22 **"Other Agreement"** shall have the meaning set forth in **Section 15** hereof.

2.23 **"Outside Director"** means a member of the Board who is not an officer or employee of the Company.

2.24 **"Participant"** means a person who receives or holds an Award under the Plan.

2.25 **"Performance Award"** means an Award made subject to the attainment of performance goals (as described in **Section 14**) over a performance period of up to ten (10) years.

2.26 **"Plan"** means this Telos Maryland 2008 Omnibus Long-Term Incentive Plan.

2.27 **"Purchase Price"** means the purchase price, if any, for each Share pursuant to a grant of Restricted Shares or Unrestricted Shares.

2.28 **"Restricted Share Unit"** means a bookkeeping entry representing the equivalent of a Share awarded to a Participant pursuant to **Section 10** hereof.

2.29 **"Restricted Shares"** means Shares awarded to a Participant pursuant to **Section 10** hereof.

2.30 **"SAR Exercise Price"** means the per share exercise price of an SAR granted to a Participant under **Section 9** hereof.

2.31 **"Securities Act"** means the Securities Act of 1933, as now in effect or as hereafter amended.

2.32 **"Service"** means service as a Service Provider to the Company or a Subsidiary. Unless otherwise stated in the applicable Award Agreement, a Participant's change in position or duties shall not result in interrupted or terminated Service, so long as such Participant continues to be a Service Provider to the Company or a Subsidiary. Subject to the preceding sentence, whether a termination of Service shall have occurred for purposes of the Plan shall be determined by the Board or the Committee, as the case may be, which determination shall be final, binding and conclusive.

2.33 **"Service Provider"** means an employee, officer or director of the Company or a Subsidiary, or a consultant or adviser currently providing services to the Company or a Subsidiary.

2.34 **"Share"** or **"Shares"** means shares of Common Stock of the Company.

2.35 **"Share Appreciation Right"** or **"SAR"** means a right granted to a Participant under **Section 9** hereof.

2.36 **"Subsidiary"** means any "subsidiary corporation" of the Company within the meaning of Section 424(f) of the Code.

2.37 **"Substitute Awards"** means Awards granted upon assumption of, or in substitution for, outstanding awards previously granted (whether pursuant to this Plan or pursuant to any other program or contract) by the Company or a Subsidiary or by a company or other entity acquired by the Company or any Subsidiary or with which the Company or any Subsidiary combines.

2.38 **"Ten Percent Shareholder"** means an individual who owns more than ten percent (10%) of the total combined voting power of all classes of outstanding shares of the Company, its parent or any of its Subsidiaries. In determining share ownership, the attribution rules of Section 424(d) of the Code shall be applied.

2.39 **"Termination Date"** means the date upon which an Option shall terminate or expire, as set forth in **Section 8.3** hereof.

2.40 **"Unrestricted Shares"** means an Award pursuant to **Section 11** hereof.

3. ADMINISTRATION OF THE PLAN

3.1. Board. Subject to the delegation described in Section 3.2, below, the Board shall have such powers and authorities related to the administration of the Plan as are consistent with the Company's governing documents and applicable law. The Board shall have full power and authority to take all actions and to make all determinations required or provided for under the

Plan, any Award or any Award Agreement and shall have full power and authority to take all such other actions and make all such other determinations not inconsistent with the specific terms and provisions of the Plan that the Board deems to be necessary or appropriate to the administration of the Plan, any Award or any Award Agreement. All such actions and determinations shall be by the affirmative vote of a majority of the members of the Board present at a meeting or by unanimous consent of the Board executed in writing in accordance with the Company's governing documents and applicable law. The interpretation and construction by the Board of any provision of the Plan, any Award or any Award Agreement shall be final, binding and conclusive.

3.2. Committee. The Board from time to time may delegate to the Committee such powers and authorities related to the administration and implementation of the Plan, as set forth in **Section 3.1** above and other applicable provisions, as the Board shall determine, consistent with the Company's governing documents and applicable law. As of the Effective Date, the Board has delegated, until further written notice, full authority to the Committee to operate the Plan and to grant and interpret Awards thereunder. If the Plan, any Award or any Award Agreement entered into hereunder provides for any action to be taken by or determination to be made by the Board, such action may be taken or such determination may be made by the Committee if the power and authority to do so has been delegated to the Committee by the Board as provided for in this Section. Unless otherwise expressly determined by the Board, any such action or determination by the Committee shall be final, binding and conclusive.

3.3. Terms of Awards. Subject to the other terms and conditions of the Plan, the Board or the Committee, as the case may be, shall have full and final authority to:

(i) designate Participants,

(ii) determine the type or types of Awards to be made to a Participant, including Substitute Awards made, inter alia, in consideration of the cancellation of prior outstanding stock options,

(iii) determine the number of Shares to be subject to an Award,

(iv) establish the terms and conditions of each Award (including, but not limited to, the exercise price of any Option, the nature and duration of any restriction or condition (or provision for lapse thereof) relating to the vesting, exercise, transfer, or forfeiture of an Award or the Shares subject thereto, and any terms or conditions that may be necessary to qualify Options as Incentive Stock Options),

(v) prescribe the form of each Award Agreement evidencing an Award, and

(vi) amend, modify, or supplement the terms of any outstanding Award. Notwithstanding the foregoing, no amendment, modification or supplement of any Award shall, without the consent of the Participant, impair the Participant's rights under such Award.

The Company may retain the right in an Award Agreement to cause a forfeiture of the gain realized by a Participant on account of actions taken by the Participant in violation or breach of or in conflict with any employment agreement, non-competition agreement, any agreement

prohibiting solicitation of employees or clients of the Company or any Subsidiary thereof or any confidentiality obligation with respect to the Company or any Subsidiary thereof or otherwise in competition with the Company or any Subsidiary thereof, to the extent specified in such Award Agreement applicable to the participant. Furthermore, unless the Board provides otherwise in the applicable Award Agreement, the Company may annul an Award if the Participant is an employee of the Company or a Subsidiary thereof and is terminated for Cause as defined in the applicable Award Agreement or the Plan, as applicable.

Notwithstanding the foregoing, no amendment or modification may be made to an outstanding Option or SAR which reduces the Option Price or SAR Exercise Price, either by lowering the Option Price or SAR Exercise Price or by canceling the outstanding Option or SAR and granting a replacement Option or SAR with a lower exercise price without the approval of Company's shareholders, provided, that, appropriate adjustments may be made to outstanding Options and SARs pursuant to Section 17.

3.4. Deferral Arrangement. The Board may permit or require the deferral of any award payment into a deferred compensation arrangement, subject to compliance with Section 409A, where applicable, and such rules and procedures as it may establish, which may include provisions for the payment or crediting of interest or dividend equivalents.

3.5. No Liability. No member of the Board or of the Committee shall be liable for any action or determination made in good faith with respect to the Plan or any Award or Award Agreement.

3.6. Book Entry. Notwithstanding any other provision of this Plan to the contrary, the Company may elect to satisfy any requirement under this Plan for the delivery of Share certificates through the use of book-entry.

4. SHARES SUBJECT TO THE PLAN

Subject to adjustment as provided in **Section 17** hereof, the number of Shares available for issuance under the Plan shall be fifteen million (15,000,000). Shares issued or to be issued under the Plan shall be authorized but unissued Shares or issued Shares that have been reacquired by the Company. If any Shares covered by an Award are not purchased or are forfeited, or if an Award otherwise terminates without delivery of Shares subject thereto, then the number of Shares counted against the aggregate number of Shares available under the Plan with respect to such Award shall, to the extent of any such forfeiture or termination, again be available for making Awards under the Plan. If an Award (other than a Dividend Equivalent Right) is denominated in Shares, the number of Shares covered by such Award, or to which such Award relates, shall be counted on the date of grant of such Award against the aggregate number of Shares available for granting Awards under the Plan. Notwithstanding anything herein to the contrary, Shares subject to an Award under the Plan may not again be made available for issuance under the Plan if such Shares are Shares delivered to or withheld by the Company to pay the exercise price or the withholding taxes under Options or Share Appreciation Rights.

The Board shall have the right to substitute or assume Awards in connection with mergers, reorganizations, separations, or other transactions to which Section 424(a) of the Code applies. The number of Shares reserved pursuant to **Section 4** may be increased by the corresponding number of Awards assumed and, in the case of a substitution, by the net increase in the number of Shares subject to Awards before and after the substitution.

5. EFFECTIVE DATE, DURATION AND AMENDMENTS

5.1. Effective Date. The Plan shall be effective as of the Effective Date, subject to approval of the Plan by the Company's shareholders within one year of the Effective Date. Upon approval of the Plan by the Company's shareholders as set forth above, all Awards made under the Plan on or after the Effective Date shall be fully effective as if the Company's shareholders had approved the Plan on the Effective Date. If the shareholders fail to approve the Plan within one year after the Effective Date, any Awards made hereunder shall be null and void and of no effect.

5.2. Term. The Plan shall terminate automatically ten (10) years after its adoption by the Board and may be terminated on any earlier date as provided in **Section 5.3**.

5.3. Amendment and Termination of the Plan. The Board may, at any time and from time to time, amend, suspend, or terminate the Plan as to any Shares as to which Awards have not been made. An amendment shall be contingent on approval of the Company's shareholders to the extent stated by the Board, required by applicable law or required by applicable stock exchange listing requirements. In addition, an amendment will be contingent on approval of the Company's shareholders if the amendment would: (i) materially increase the benefits accruing to Participants under the Plan, (ii) materially increase the aggregate number of Shares that may be issued under the Plan, or (iii) materially modify the requirements as to eligibility for participation in the Plan. No Awards shall be made after termination of the Plan. No amendment, suspension or termination of the Plan shall, without the consent of the Participant, impair rights or obligations under any Award theretofore awarded under the Plan.

6. AWARD ELIGIBILITY AND LIMITATIONS

6.1. Service Providers and Other Persons. Subject to this **Section 6**, Awards may be made under the Plan to: (i) any Service Provider to the Company or any Subsidiary, including any Service Provider who is an officer or director of the Company or any Subsidiary, as the Board or the Committee, as the case may be, shall determine and designate from time to time, (ii) any other individual whose participation in the Plan is determined to be in the best interests of the Company by the Board.

6.2. Successive Awards and Substitute Awards. An eligible person may receive more than one Award, subject to such restrictions as are provided herein. Notwithstanding **Sections 8.1** and **9.1**, the Option Price of an Option or the grant price of an SAR that is a Substitute Award may be less than 100% of the Fair Market Value of a Share on the original Grant Date and provided that the Option Price or grant price is determined in accordance with the principles of Code Section 424 and the regulations thereunder.

7. AWARD AGREEMENT

Each Award granted pursuant to the Plan shall be evidenced by an Award Agreement, in such form or forms as the Board or the Committee, as the case may be, shall from time to time determine. Award Agreements granted from time to time or at the same time need not contain similar provisions but shall be consistent with the terms of the Plan. Each Award Agreement evidencing an Award of Options shall specify whether such Options are intended to be Non-Qualified Options or Incentive Stock Options, and in the absence of such specification such options shall be deemed Non-Qualified Options.

8. TERMS AND CONDITIONS OF OPTIONS

8.1. Option Price. The Option Price of each Option shall be fixed by the Board or the Committee, as the case may be, and stated in the Award Agreement evidencing such Option. The Option Price of each Option shall be at least the Fair Market Value on the Grant Date of a Share; provided, however, that in the event that a Participant is a Ten Percent Shareholder, the Option Price of an Option granted to such Participant that is intended to be an Incentive Stock Option shall be not less than 110 percent of the Fair Market Value of a Share on the Grant Date. In no case shall the Option Price of any Option be less than the par value of a Share.

8.2. Vesting. Subject to **Sections 8.3, 8.4, 8.5 and 17.3** hereof, each Option granted under the Plan shall become exercisable at such times and under such conditions (including based on achievement of performance goals and/or future service requirements) as shall be determined by the Board or the Committee, as the case may be, and stated in the Award Agreement. For purposes of this **Section 8.2**, fractional numbers of Shares subject to an Option shall be rounded down to the next nearest whole number.

8.3. Term. Each Option granted under the Plan shall terminate, and all rights to purchase Shares thereunder shall cease, upon the expiration of ten years from the date such Option is granted, or under such circumstances and on such date prior thereto as is set forth in the Plan or as may be fixed and stated in the Award Agreement relating to such Option (the "Termination Date"); provided, however, that in the event that the Participant is a Ten Percent Shareholder, an Option granted to such Participant that is intended to be an Incentive Stock Option shall not be exercisable after the expiration of five years from its Grant Date.

8.4. Termination of Service. Unless otherwise provided for in an Award Agreement or in writing after the Award Agreement is issued, upon the termination of a Participant's Service, except to the extent that such termination is due to death, or Change in Control of the Company or as otherwise specified in the Award Agreement, any Option held by such Participant that have not vested shall immediately be deemed forfeited and any otherwise vested Option or unexercised portion thereof shall terminate three (3) months after the date of such termination of Service, but in no event later than the date of expiration of the Option. If a Participant's Service is terminated for Cause, the Option or unexercised portion thereof shall terminate as of the date of such termination. Unless otherwise provided for in an Award Agreement or in writing after the Award Agreement is issued, if a Participant's Service is terminated due to death, any Option of the deceased Participant shall become fully vested and shall continue in accordance with its terms, may be exercised, to the extent of the number of Shares with respect to which he/she could have exercised the Option on the date of his/her death, by his/her estate, personal representative or beneficiary who acquires the Option by will or by the laws of descent and distribution, and shall expire on its normal date of expiration unless previously exercised (except that an Incentive Stock Option shall cease to be an Incentive Stock Option upon the expiration of twelve (12) months from the date of the Participant's death and thereafter shall be a Non-Qualified Option). Such provisions shall be determined in the sole discretion of the Board or the Committee, as the case may be, need not be uniform among all Options issued pursuant to the Plan, and may reflect distinctions based on the reasons for termination of Service.

8.5. Change in Control. Unless otherwise provided for in an Award Agreement or in writing

after the Award Agreement is issued, in the event of a Change in Control, a Participant's unvested Options shall become fully vested and may be exercised until their normal date of expiration.

8.6. Limitations on Exercise of Option. Notwithstanding any other provision of the Plan, in no event may any Option be exercised, in whole or in part, prior to the date the Plan is approved by the Company's shareholders as provided herein or after the occurrence of an event referred to in **Section 17** hereof which results in termination of the Option.

8.7. Method of Exercise. An Option that is exercisable may be exercised by the Participant's delivery to the Company of written notice of exercise on any business day, at the Company's principal office, on the form specified by the Board or the Committee, as the case may be. Such notice shall specify the number of Shares with respect to which the Option is being exercised and shall be accompanied by payment in full of the Option Price of the Shares for which the Option is being exercised plus the amount (if any) of federal and/or other taxes which the Company may, in its judgment, be required to withhold with respect to an Award.

8.8. Rights of Holders of Options. Unless otherwise stated in the applicable Award Agreement, a Participant holding or exercising an Option shall have none of the rights of a shareholder (for example, the right to receive cash or dividend payments or distributions attributable to the subject Shares or to direct the voting of the subject Shares) until the Shares covered thereby are fully paid and issued to the Participant. Except as provided in **Section 17** hereof, no adjustment shall be made for dividends, distributions or other rights for which the record date is prior to the date of such issuance.

8.9. Delivery of Share Certificates. Promptly after the exercise of an Option by a Participant and the payment in full of the Option Price, such Participant shall be entitled to the issuance of a Share certificate or certificates evidencing his/her ownership of the Shares purchased upon such exercise.

8.10. Transferability of Options. Except as provided in **Section 8.11**, during the lifetime of a Participant, only the Participant (or, in the event of legal incapacity or incompetency, the Participant's guardian or legal representative) may exercise an Option. Except as provided in **Section 8.11**, no Option shall be assignable or transferable by the Participant to whom it is granted, other than by will or the laws of descent and distribution.

8.11. Family Transfers. If authorized in the applicable Award Agreement, a Participant may transfer, not for value, all or part of an Option which is not an Incentive Stock Option to any Family Member. For the purpose of this **Section 8.11**, a "not for value" transfer is a transfer which is (i) a gift, (ii) a transfer under a domestic relations order in settlement of marital property rights; or (iii) a transfer to an entity in which more than fifty percent of the voting interests are owned by Family Members (or the Participant) in exchange for an interest in that entity. Following a transfer under this **Section 8.11**, any such Option shall continue to be subject to the same terms and conditions as were applicable immediately prior to transfer. Subsequent transfers of transferred Options are prohibited except to Family Members of the original Participant in accordance with this **Section 8.11** or by will or the laws of descent and distribution. The events of termination of Service of **Section 8.4** hereof shall continue to be applied with respect to the original Participant, following which the Option shall be exercisable by the transferee only to the extent, and for the periods specified, in **Section 8.4**.

8.11. Limitations on Incentive Stock Options. An Option shall constitute an Incentive Stock Option only (i) if the Participant of such Option is an employee of the Company or any Subsidiary of the Company; (ii) to the extent specifically provided in the related Award Agreement; and (iii) to the extent that the aggregate Fair Market Value (determined at the time the Option is granted) of the Shares with respect to which all Incentive Stock Options held by such Participant become exercisable for the first time during any calendar year (under the Plan and all other plans of the Participant's employer and its affiliates) does not exceed $100,000. This limitation shall be applied by taking Options into account in the order in which they were granted.

9. TERMS AND CONDITIONS OF SHARE APPRECIATION RIGHTS

9.1. Right to Payment and Grant Price. An SAR shall confer on the Participant to whom it is granted a right to receive, upon exercise thereof, the excess of (A) the Fair Market Value of one Share on the date of exercise over (B) the grant price of the SAR as determined by the Board or the Committee, as the case may be. The Award Agreement for an SAR shall specify the grant price of the SAR, which shall be at least the Fair Market Value of a Share on the Grant Date. SARs may be granted in conjunction with all or part of an Option granted under the Plan or at any subsequent time during the term of such Option, in conjunction with all or part of any other Award or without regard to any Option or other Award.

9.2. Other Terms. The Board or the Committee, as the case may be, shall determine at the Grant Date or thereafter, the time or times at which and the conditions under which an SAR may be exercised (including based on achievement of performance goals and/or future service requirements), the time or times at which SARs shall cease to be or become exercisable following termination of Service or upon other conditions, the method of exercise, method of settlement, form of consideration payable in settlement, method by or forms in which Shares will be delivered or deemed to be delivered to Participants, whether or not an SAR shall be in tandem or in combination with any other Award, and any other terms and conditions of any SAR.

10. TERMS AND CONDITIONS OF RESTRICTED SHARES AND RESTRICTED SHARE UNITS

10.1. Grant of Restricted Shares or Restricted Share Units. Awards of Restricted Shares or Restricted Share Units may be made to eligible persons. Restricted Shares or Restricted Share Units may be awarded for no consideration (other than par value of the Shares which is deemed paid by Services already rendered). Restricted Shares or Restricted Share Units may also be referred to as performance shares or performance share units.

10.2. Restrictions. At the time an Award of Restricted Shares or Restricted Share Units is made, the Board or the Committee, as the case may be, may, in its sole discretion, establish a period of time (a "restricted period") applicable to such Restricted Shares or Restricted Share Units. Unless a different restricted period is specified, the default restricted period shall, for an employee be three (3) years with respect to which twenty-five percent (25%) of the Shares shall be vested upon the Grant Date and twenty-five percent (25%) of the Shares related to such Award shall become nonforfeitable or vest on each of the first three (3) anniversaries of the Grant Date, and shall, for a Director be the period for which such Director continues to serve as a Director. Each Award of Restricted Shares or Restricted Share Units may be subject to a

different restricted period. The Board or the Committee, as the case may be, may, in its sole discretion, at the time a grant of Restricted Shares or Restricted Share Units is made, prescribe restrictions in addition to or other than the expiration of the restricted period, including the satisfaction of corporate or individual performance conditions, which may be applicable to all or any portion of the Restricted Shares or Restricted Share Units in accordance with **Section 14.1** and **14.2**. Neither Restricted Shares nor Restricted Share Units may be sold, transferred, assigned, pledged or otherwise encumbered or disposed of during the restricted period or prior to the satisfaction of any other restrictions prescribed with respect to such Restricted Shares or Restricted Share Units. Each Participant may designate a beneficiary for the Restricted Shares or Restricted Share Units awarded to him or her under the Plan. If a Participant fails to designate a beneficiary, the Participant shall be deemed to have designated his or her estate as his or her beneficiary.

10.3. Restricted Shares Certificates. The Company shall issue, in the name of each Participant to whom Restricted Shares has been granted, Share certificates representing the total number of Restricted Shares granted to the Participant, as soon as reasonably practicable after the Grant Date. The Board or the Committee, as the case may be, may provide in an Award Agreement that either (i) the Company shall hold such certificates for the Participant's benefit until such time as the Restricted Shares are forfeited to the Company or the restrictions lapse, or (ii) such certificates shall be delivered to the Participant, provided, however, that such certificates shall bear a legend or legends that comply with the applicable securities laws and regulations and makes appropriate reference to the restrictions imposed under the Plan and the Award Agreement.

10.4. Rights of Holders of Restricted Shares. Unless otherwise provided for in an Award Agreement, holders of Restricted Shares shall have the right to vote such Shares and the right to receive any dividends declared or paid with respect to such Shares. All distributions, if any, received by a Participant with respect to Restricted Shares as a result of any share split, share dividend, combination of shares, or other similar transaction shall be subject to the restrictions applicable to the original Award.

10.5. Rights of Holders of Restricted Share Units.

10.5.1. Dividend Rights. Unless the Board otherwise provides in an Award Agreement, holders of Restricted Share Units shall have no rights as shareholders of the Company. The Award Agreement evidencing a grant of Restricted Share Units may provide that the holder of such Restricted Share Units shall be entitled to receive, upon the Company's payment of a cash dividend on its outstanding Shares, a cash payment for each Restricted Share Unit held equal to the per-share dividend paid on the Shares in accordance with **Section 13**.

10.5.2. Creditor's Rights. A holder of Restricted Share Units shall have no rights other than those of a general creditor of the Company. Restricted Share Units represent an unfunded and unsecured obligation of the Company, subject to the terms and conditions of the applicable Award Agreement.

10.6. Termination of Service. Unless otherwise provided for in an Award Agreement or in writing after the Award Agreement is issued, upon the termination of a Participant's Service, any Restricted Shares or Restricted Share Units held by such Participant that have not vested, or with respect to which all applicable restrictions and conditions have not lapsed, shall immediately be

deemed forfeited, except to the extent that such termination is due to death or Change in Control of the Company or as otherwise specified in the Award Agreement. Further, the Award Agreement may specify that the vested portion of the Award shall continue to be subject to the terms of any applicable transfer or other restriction. Upon forfeiture of Restricted Shares or Restricted Share Units, the Participant shall have no further rights with respect to such Award, including but not limited to any right to vote Restricted Shares or any right to receive dividends with respect to Restricted Shares or Restricted Share Units.

10.7. Purchase of Restricted Shares. If a Participant receives an Award consisting of Restricted Shares and the Participant subsequently satisfies the conditions necessary to enable the Participant to retain the Restricted Shares, for purposes of satisfying any corporate law requirement to demonstrate that the Company has received consideration in return for such Restricted Shares at least equal to the par value of such Restricted Shares, the Participant may be deemed, in the discretion of the Board or the Committee, as the case may be, to have provided consideration to the Company in an amount equal to the aggregate par value of such Restricted Shares through the performance of past Services to the Company or a Subsidiary.

10.8. Delivery of Share. Except as otherwise specified with respect to a particular Award of Restricted Shares, within thirty (30) days of the expiration or termination of the restricted period, a certificate or certificates representing all Shares relating to such Award which have not been forfeited shall be delivered to the Participant or to the Participant's beneficiary or estate, as the case may be. Except as otherwise specified with respect to a particular Award of Restricted Share Units, within thirty (30) days of the satisfaction of the vesting criterion applicable to such Award, a certificate or certificates representing all Shares relating to such Award which have vested shall be issued or transferred to the Participant.

11. TERMS AND CONDITIONS OF UNRESTRICTED SHARES AWARDS

The Board or the Committee, as the case may be, may, in its sole discretion, grant (or sell at par value or such other higher purchase price as it may determine) an Unrestricted Shares Award to any Participant pursuant to which such Participant may receive Shares free of any restrictions ("Unrestricted Shares") under the Plan. Unrestricted Shares Awards may be granted or sold as described in the preceding sentence in respect of past services and other valid consideration, or in lieu of, or in addition to, any cash compensation due to such Participant.

12. FORM OF PAYMENT FOR OPTIONS AND RESTRICTED SHARES

12.1. General Rule. Payment of the Option Price for the Shares purchased pursuant to the exercise of an Option or the Purchase Price for Restricted Shares shall be made in cash or in cash equivalents acceptable to the Company.

12.2. Surrender of Shares. To the extent the Award Agreement so provides, payment of the Option Price for Shares purchased pursuant to the exercise of an Option or the Purchase Price for Restricted Shares may be made all or in part through the tender to the Company of Shares, which Shares, if acquired from the Company, shall have been held for at least six months at the time of tender and which shall be valued, for purposes of determining the extent to which the Option Price or Purchase Price has been paid thereby, at their Fair Market Value on the date of exercise or surrender.

12.3. Cashless Exercise. With respect to an Option only to the extent permitted by law and to the extent the Award Agreement so provides, payment of the Option Price for Shares purchased pursuant to the exercise of an Option may be made all or in part by delivery (on a form acceptable to the Board or the Committee, as the case may be), of an irrevocable direction to a registered securities broker acceptable to the Company to sell Shares and to deliver all or part of the sales proceeds to the Company in payment of the Option Price and any withholding taxes described in **Section 18.3**.

12.4. Other Forms of Payment. To the extent the Award Agreement so provides, payment of the Option Price for Shares purchased pursuant to exercise of an Option or the Purchase Price for Restricted Shares may be made in any other form that is consistent with applicable laws, regulations and rules.

13. TERMS AND CONDITIONS OF DIVIDEND EQUIVALENT RIGHTS

13.1. Dividend Equivalent Rights. A Dividend Equivalent Right is an Award entitling the recipient to receive credits based on cash distributions that would have been paid on the Shares specified in the Dividend Equivalent Right (or other Award to which it relates) if such Shares had been issued to and held by the recipient. A Dividend Equivalent Right may be granted hereunder to any Participant. The terms and conditions of Dividend Equivalent Rights shall be specified in the Award. Dividend equivalents credited to the holder of a Dividend Equivalent Right may be paid currently or may be deemed to be reinvested in additional Shares, which may thereafter accrue additional equivalents. Any such reinvestment shall be at Fair Market Value on the date of reinvestment. Dividend Equivalent Rights may be settled in cash or Shares or a combination thereof, in a single installment or installments, all determined in the sole discretion of the Board. A Dividend Equivalent Right granted as a component of another Award may provide that such Dividend Equivalent Right shall be settled upon exercise, settlement, or payment of, or lapse of restrictions on, such other Award, and that such Dividend Equivalent Right shall expire or be forfeited or annulled under the same conditions as such other Award. A Dividend Equivalent Right granted as a component of another Award may also contain terms and conditions different from such other Award.

13.2. Termination of Service. Except as may otherwise be provided by the Board either in the Award Agreement or in writing after the Award Agreement is issued, a Participant's rights in all Dividend Equivalent Rights shall automatically terminate upon the Participant's termination of Service for any reason.

14. TERMS AND CONDITIONS OF PERFORMANCE AWARDS

14.1. Performance Conditions. The right of a Participant to exercise or receive a grant or settlement of any Award, and the timing thereof, may be subject to such corporate or individual performance conditions as may be specified by the Board or the Committee, as the case may be. The Board or the Committee, as the case may be, may use such business criteria and other measures of performance as it may deem appropriate in establishing any performance conditions, and may exercise its discretion to reduce the amounts payable under any Award subject to performance conditions, except as limited under **Sections 14.2** hereof in the case of a Performance Award intended to qualify under Code Section 162(m). If and to the extent required under Code Section 162(m), any power or authority relating to a Performance Award intended to qualify under Code Section 162(m), shall be exercised by the Committee and not the Board.

14.2. Performance Awards Granted to Designated Covered Employees. If and to the extent that the Committee determines that a Performance Award to be granted to a Participant who is designated by the Committee as likely to be a Covered Employee should qualify as "performance-based compensation" for purposes of Code Section 162(m), the grant, exercise and/or settlement of such Performance Award shall be contingent upon achievement of pre-established performance goals and other terms set forth in this **Section 14.2**.

14.2.1. Performance Goals Generally. The performance goals for such Performance Awards shall consist of one or more business criteria and a targeted level or levels of performance with respect to each of such criteria, as specified by the Committee consistent with this **Section 14.2**. Performance goals shall be objective and shall otherwise meet the requirements of Code Section 162(m) and regulations thereunder including the requirement that the level or levels of performance targeted by the Committee result in the achievement of performance goals being "substantially uncertain." The Committee may determine that such Performance Awards shall be granted, exercised and/or settled upon achievement of any one performance goal or that two or more of the performance goals must be achieved as a condition to grant, exercise and/or settlement of such Performance Awards. Performance goals may differ for Performance Awards granted to any one Participant or to different Participants.

14.2.2. Business Criteria. One or more of the following business criteria for the Company, on a consolidated basis, and/or specified Subsidiaries or business units of the Company (except with respect to the total shareholder return and earnings per share criteria), shall be used exclusively by the Committee in establishing performance goals for such Performance Awards: (1) total shareholder return (share price appreciation plus dividends), (2) net income, (3) earnings per share, (4) funds from operations, (5) funds from operations per share, (6) return on equity, (7) return on assets, (8) return on invested capital, (9) increase in the market price of Shares or other securities, (10) revenues, (11) operating income, (12) operating margin (operating income divided by revenues), (13) earnings before interest, taxes, depreciation and amortization (EBITDA), (14) the performance of the Company in any one or more of the items mentioned in clauses (1) through (13) in comparison to the average performance of the companies used in a self-constructed peer group for measuring performance under an Award, or (15) the performance of the Company in any one or more of the items mentioned in clauses (1) through (13) in comparison to a budget or target for measuring performance under an Award. Business criteria may be measured on an absolute basis or on a relative basis (i.e., performance relative to peer companies) and on a GAAP or non-GAAP basis.

14.2.3. Timing For Establishing Performance Goals. Performance goals shall be established, in writing, not later than 90 days after the beginning of any performance period applicable to such Performance Awards, or at such other date as may be required for "performance-based compensation" under Code Section 162(m).

14.2.4. Settlement of Performance Awards; Other Terms. Settlement of such Performance Awards shall be in Shares, other Awards or other property, in the discretion of the Committee. The Committee may, in its discretion, reduce the amount of a settlement otherwise to be made in connection with such Performance Awards. The Committee shall specify the circumstances in which such Performance Awards shall be paid or forfeited in the event of termination of Service by the Participant prior to the end of a performance period or settlement of Performance Awards.

14.3. Written Determinations. All determinations by the Committee as to the establishment of performance goals, the amount of any Performance Award pool or potential individual Performance Awards and as to the achievement of performance goals relating to Performance Awards shall be made in writing in the case of any Award intended to qualify under Code Section 162(m). To the extent required to comply with Code Section 162(m), the Committee may delegate any responsibility relating to such Performance Awards.

14.4. Status of Section 14.2 Awards Under Code Section 162(m). It is the intent of the Company that Performance Awards under **Section 14.2** hereof granted to persons who are designated by the Committee as likely to be Covered Employees within the meaning of Code Section 162(m) and regulations thereunder shall, if so designated by the Committee, constitute "qualified performance-based compensation" within the meaning of Code Section 162(m) and regulations thereunder. Accordingly, the terms of **Section 14.2**, including the definitions of Covered Employee and other terms used therein, shall be interpreted in a manner consistent with Code Section 162(m) and regulations thereunder. The foregoing notwithstanding, because the Committee cannot determine with certainty whether a given Participant will be a Covered Employee with respect to a fiscal year that has not yet been completed, the term Covered Employee as used herein shall mean only a person designated by the Committee, at the time of grant of Performance Awards, as likely to be a Covered Employee with respect to that fiscal year. If any provision of the Plan or any agreement relating to such Performance Awards does not comply or is inconsistent with the requirements of Code Section 162(m) or regulations thereunder, such provision shall be construed or deemed amended to the extent necessary to conform to such requirements.

15. PARACHUTE LIMITATIONS. Notwithstanding any other provision of this Plan or of any other agreement, contract, or understanding heretofore or hereafter entered into by a Participant with the Company or any Subsidiary, except an agreement, contract, or understanding hereafter entered into that expressly modifies or excludes application of this paragraph (an "Other Agreement"), and notwithstanding any formal or informal plan or other arrangement for the direct or indirect provision of compensation to the Participant (including groups or classes of Participants or beneficiaries of which the Participant is a member), whether or not such compensation is deferred, is in cash, or is in the form of a benefit to or for the Participant (a "Benefit Arrangement"), if the Participant is a "disqualified individual," as defined in Section 280G(c) of the Code, any Option, Restricted Shares or Restricted Share Units held by that Participant and any right to receive any payment or other benefit under this Plan shall not become exercisable or vested (i) to the extent that such right to exercise, vesting, payment, or benefit, taking into account all other rights, payments, or benefits to or for the Participant under this Plan, all Other Agreements, and all Benefit Arrangements, would cause any payment or benefit to the Participant under this Plan to be considered a "parachute payment" within the meaning of Section 280G(b)(2) of the Code as then in effect (a "Parachute Payment") and (ii) if, as a result of

receiving a Parachute Payment, the aggregate after-tax amounts received by the Participant from the Company under this Plan, all Other Agreements, and all Benefit Arrangements would be less than the maximum after-tax amount that could be received by the Participant without causing any such payment or benefit to be considered a Parachute Payment. In the event that the receipt of any such right to exercise, vesting, payment, or benefit under this Plan, in conjunction with all other rights, payments, or benefits to or for the Participant under any Other Agreement or any Benefit Arrangement would cause the Participant to be considered to have received a Parachute Payment under this Plan that would have the effect of decreasing the after-tax amount received by the Participant as described in clause (ii) of the preceding sentence, then the Participant shall have the right, in the Participant's sole discretion, to designate those rights, payments, or benefits under this Plan, any Other Agreements, and any Benefit Arrangements that should be reduced or eliminated so as to avoid having the payment or benefit to the Participant under this Plan be deemed to be a Parachute Payment.

16. REQUIREMENTS OF LAW

16.1. General. The Company shall not be required to sell or issue any Shares under any Award if the sale or issuance of such Shares would constitute a violation by the Participant, any other individual exercising an Option, or the Company of any provision of any law or regulation of any governmental authority, including without limitation any federal or state securities laws or regulations. If at any time the Company shall determine, in its discretion, that the listing, registration or qualification of any Shares subject to an Award upon any securities exchange or under any governmental regulatory body is necessary or desirable as a condition of, or in connection with, the issuance or purchase of shares hereunder, no Shares may be issued or sold to the Participant or any other individual exercising an Option pursuant to such Award unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Company, and any delay caused thereby shall in no way affect the date of termination of the Award. Specifically, in connection with the Securities Act, upon the exercise of any Option or the delivery of any Shares underlying an Award, unless a registration statement under such Act is in effect with respect to the Shares covered by such Award, the Company shall not be required to sell or issue such shares unless the Company has received evidence satisfactory to it that the Participant or any other individual exercising an Option may acquire such Shares pursuant to an exemption from registration under the Securities Act. Any determination in this connection by the Company shall be final, binding, and conclusive. The Company may, but shall in no event be obligated to, register any securities covered hereby pursuant to the Securities Act. The Company shall not be obligated to take any affirmative action in order to cause the exercise of an Option or the issuance of Shares pursuant to the Plan to comply with any law or regulation of any governmental authority. As to any jurisdiction that expressly imposes the requirement that an Option shall not be exercisable until the Shares covered by such Option are registered or are exempt from registration, the exercise of such Option (under circumstances in which the laws of such jurisdiction apply) shall be deemed conditioned upon the effectiveness of such registration or the availability of such an exemption.

16.2. Rule 16b-3. During any time when the Company has a class of equity security registered under Section 12 of the Exchange Act, it is the intent of the Company that Awards pursuant to the Plan and the exercise of Options granted hereunder will qualify for the exemption provided by Rule 16b-3 under the Exchange Act. To the extent that any provision of the Plan or action by the Board does not comply with the requirements of Rule 16b-3, it shall be deemed inoperative to the extent permitted by law and deemed advisable by the Board and shall not affect the validity

of the Plan. In the event that Rule 16b-3 is revised or replaced, the Board or the Committee, as the case may be, may exercise its discretion to modify this Plan in any respect necessary to satisfy the requirements of, or to take advantage of any features of, the revised exemption or its replacement.

17. EFFECT OF CHANGES IN CAPITALIZATION

17.1. Changes in Shares. If the number of outstanding Shares is increased or decreased or the Shares are changed into or exchanged for a different number or kind of shares or other securities of the Company on account of any recapitalization, reclassification, share split, reverse split, combination of shares, exchange of shares, share dividend or other distribution payable in capital stock, or other increase or decrease in such Shares effected without receipt of consideration by the Company occurring after the Effective Date, the number and kinds of Shares for which grants of Options and other Awards may be made under the Plan shall be adjusted proportionately and accordingly by the Company. In addition, the number and kind of Shares for which Awards are outstanding shall be adjusted proportionately and accordingly so that the proportionate interest of the Participant immediately following such event shall, to the extent practicable, be the same as immediately before such event. Any such adjustment in outstanding Options or SARs shall not change the aggregate Option Price or SAR Exercise Price payable with respect to Shares that are subject to the unexercised portion of an outstanding Option or SAR, as applicable, but shall include a corresponding proportionate adjustment in the Option Price or SAR Exercise Price per Share. The conversion of any convertible securities of the Company shall not be treated as an increase in Shares effected without receipt of consideration. Notwithstanding the foregoing, in the event of any distribution to the Company's shareholders of securities of any other entity or other assets (including an extraordinary cash dividend but excluding a non-extraordinary dividend payable in cash or in shares of common stock of the Company) without receipt of consideration by the Company, the Company may, in such manner as the Company deems appropriate, adjust (i) the number and kind of Shares subject to outstanding Awards and/or (ii) the exercise price of outstanding Options and Share Appreciation Rights to reflect such distribution.

17.2. Reorganization in which the Company is the Surviving Entity. Subject to **Section 17.3** hereof, if the Company shall be the surviving entity in any reorganization, merger, or consolidation of the Company with one or more other entities which does not constitute a Corporate Transaction, any Option or SAR theretofore granted pursuant to the Plan shall pertain to and apply to the securities to which a holder of the number of Shares subject to such Option or SAR would have been entitled immediately following such reorganization, merger, or consolidation, with a corresponding proportionate adjustment of the Option Price or SAR Exercise Price per share so that the aggregate Option Price or SAR Exercise Price thereafter shall be the same as the aggregate Option Price or SAR Exercise Price of the Shares remaining subject to the Option or SAR immediately prior to such reorganization, merger, or consolidation. Subject to any contrary language in an Award Agreement, any restrictions applicable to such Award shall apply as well to any replacement shares received by the Participant as a result of the reorganization, merger or consolidation. In the event of a transaction described in this Section 17.2, Restricted Share Units shall be adjusted so as to apply to the securities that a holder of the number of Shares subject to the Restricted Share Units would have been entitled to receive immediately following such transaction.

17.3. Corporate Transaction. Subject to the exceptions set forth in the last sentence of this **Section 17.3**, the last sentence of **Section 17.4** and the requirements of Section 409A of the Code**:**

(i) upon the occurrence of a Corporate Transaction, all outstanding Options and Restricted Shares shall be deemed to have vested, and all Restricted Share Units shall be deemed to have vested and the Shares subject thereto shall be delivered, immediately prior to the occurrence of such Corporate Transaction, and

(ii) either of the following two actions shall be taken:

(A) fifteen days prior to the scheduled consummation of a Corporate Transaction, all Options and SARs outstanding hereunder shall become immediately exercisable and shall remain exercisable for a period of fifteen days, or

(B) the Board may elect, in its sole discretion, to cancel any outstanding Awards of Options, Restricted Shares, Restricted Share Units, and/or SARs and pay or deliver, or cause to be paid or delivered, to the holder thereof an amount in cash or securities having a value, in the case of Restricted Shares or Restricted Share Units, equal to the formula or fixed price per Share paid to holders of Shares and, in the case of Options or SARs, equal to the product of the number of Shares subject to the Option or SAR (the "Award Shares") multiplied by the amount, if any, by which (I) the formula or fixed price per Share paid to holders of Shares pursuant to such transaction exceeds (II) the Option Price or SAR Exercise Price applicable to such Award Shares.

With respect to the Company's establishment of an exercise window, (i) any exercise of an Option or SAR during such fifteen-day period shall be conditioned upon the consummation of the event and shall be effective only immediately before the consummation of the event, and (ii) upon consummation of any Corporate Transaction, the Plan and all outstanding but unexercised Options and SARs shall terminate. The Board shall send written notice of an event that will result in such a termination to all individuals who hold Options and SARs not later than the time at which the Company gives notice thereof to its shareholders. This **Section 17.3** shall not apply to any Corporate Transaction to the extent that provision is made in writing in connection with such Corporate Transaction for the assumption or continuation of the Options, SARs, Restricted Shares and Restricted Share units theretofore granted, or for the substitution for such Options, SARs, Restricted Shares and Restricted Share Units for new options, SARs, restricted share and restricted shares units relating to the shares of a successor entity, or a parent or subsidiary thereof, with appropriate adjustments as to the number of shares (disregarding any consideration that is not common shares) and option and share appreciation right exercise prices, in which event the Plan, Options, SARs, Restricted Shares and Restricted Share Units theretofore granted shall continue in the manner and under the terms so provided.

17.4. Adjustments. Adjustments under this **Section 17** related to Shares or other securities of the Company shall be made by the Board, whose determination in that respect shall be final, binding and conclusive. No fractional Shares or other securities shall be issued pursuant to any such adjustment, and any fractions resulting from any such adjustment shall be eliminated in each case by rounding downward to the nearest whole Share. The Board shall determine the

effect of a Corporate Transaction upon Awards other than Options, SARs, Restricted Shares and Restricted Share Units, and such effect shall be set forth in the appropriate Award Agreement. The Board may provide in the Award Agreements at the Grant Date, or any time thereafter with the consent of the Participant, for different provisions to apply to an Award in place of those described in **Sections 17.1, 17.2** and **17.3**.

17.5. No Limitations on Company. The making of Awards pursuant to the Plan shall not affect or limit in any way the right or power of the Company to make adjustments, reclassifications, reorganizations, or changes of its capital or business structure or to merge, consolidate, dissolve, or liquidate, or to sell or transfer all or any part of its business or assets.

18. GENERAL PROVISIONS

18.1. Disclaimer of Rights. No provision in the Plan or in any Award or Award Agreement shall be construed to confer upon any individual the right to remain in the employ or service of the Company or any Subsidiary, or to interfere in any way with any contractual or other right or authority of the Company either to increase or decrease the compensation or other payments to any individual at any time, or to terminate any employment or other relationship between any individual and the Company or any Subsidiary. In addition, notwithstanding anything contained in the Plan to the contrary, unless otherwise stated in the applicable Award Agreement, no Award granted under the Plan shall be affected by any change of duties or position of the Participant, so long as such Participant continues to be a trustee, officer, consultant or employee of the Company or a Subsidiary. The obligation of the Company to pay any benefits pursuant to this Plan shall be interpreted as a contractual obligation to pay only those amounts described herein, in the manner and under the conditions prescribed herein. The Plan shall in no way be interpreted to require the Company to transfer any amounts to a third party trustee or otherwise hold any amounts in Company or escrow for payment to any Participant or beneficiary under the terms of the Plan.

18.2. Nonexclusivity of the Plan. Neither the adoption of the Plan nor the submission of the Plan to the Company's shareholders for approval shall be construed as creating any limitations upon the right and authority of the Board to adopt such other incentive compensation arrangements (which arrangements may be applicable either generally to a class or classes of individuals or specifically to a particular individual or particular individuals) as the Board in its discretion determines desirable, including, without limitation, the granting of Share options otherwise than under the Plan.

18.3. Withholding Taxes. The Company or a Subsidiary, as the case may be, shall have the right to deduct from payments of any kind otherwise due to a Participant any federal, state, or local taxes of any kind required by law to be withheld with respect to the vesting of or other lapse of restrictions applicable to an Award or upon the issuance of any Shares upon the exercise of an Option or pursuant to an Award. At the time of such vesting, lapse, or exercise, the Participant shall pay to the Company or the Subsidiary, as the case may be, any amount that the Company or the Subsidiary may reasonably determine to be necessary to satisfy such withholding obligation. Subject to the prior approval of the Company or the Subsidiary, which may be withheld by the Company or the Subsidiary, as the case may be, in its sole discretion, the Participant may elect to satisfy such obligations, in whole or in part, (i) by causing the Company or the Subsidiary to withhold Shares otherwise issuable to the Participant or (ii) by delivering to the Company or the Subsidiary Shares already owned by the Participant. The Shares so delivered or withheld shall

have an aggregate Fair Market Value equal to such withholding obligations. The Fair Market Value of the Shares used to satisfy such withholding obligation shall be determined by the Company or the Subsidiary as of the date that the amount of tax to be withheld is to be determined. A Participant who has made an election pursuant to this **Section 18.3** may satisfy his/her withholding obligation only with Shares that are not subject to any repurchase, forfeiture, unfulfilled vesting, or other similar requirements.

18.4. Captions. The use of captions in this Plan or any Award Agreement is for the convenience of reference only and shall not affect the meaning of any provision of the Plan or such Award Agreement.

18.5. Other Provisions. Each Award granted under the Plan may contain such other terms and conditions not inconsistent with the Plan as may be determined by the Board, in its sole discretion.

18.6. Number and Gender. With respect to words used in this Plan, the singular form shall include the plural form, the masculine gender shall include the feminine gender, etc., as the context requires.

18.7. Severability. If any provision of the Plan or any Award Agreement shall be determined to be illegal or unenforceable by any court of law in any jurisdiction, the remaining provisions hereof and thereof shall be severable and enforceable in accordance with their terms, and all provisions shall remain enforceable in any other jurisdiction.

18.8. Governing Law. The validity and construction of this Plan and the instruments evidencing the Awards hereunder shall be governed by the laws of the State of Maryland, other than any conflicts or choice of law rule or principle that might otherwise refer construction or interpretation of this Plan and the instruments evidencing the Awards granted hereunder to the substantive laws of any other jurisdiction.

18.9. Section 409A of the Code. The Board intends to comply with Section 409A of Code ("Section 409A"), or an exemption to Section 409A, with regard to Awards hereunder that constitute nonqualified deferred compensation within the meaning of Section 409A. To the extent that the Board determines that a Participant would be subject to the additional 20% tax imposed on certain nonqualified deferred compensation arrangements pursuant to Section 409A, as a result of any provision of any Award granted under this Plan, such provision shall be deemed amended to the minimum extent necessary to avoid application of such additional tax. The nature of any such amendment shall be determined by the Board.

* * *

To record adoption of the Plan by the Board as of February 5, 2008, the Company has caused its authorized officer to execute the Plan.

Telos Corporation

By: /s/ Therese K. Hathaway
Title: V.P., Corporate Counsel, Secretary

Exhibit 10.22

AMENDED AND RESTATED LOAN AND SECURITY AGREEMENT

by and among

TELOS CORPORATION

and

XACTA CORPORATION

as Borrowers,

and

TELOS DELAWARE, INC.
UBIQUITY.COM, INC.
TELOS INTERNATIONAL CORP.
TELOS INTERNATIONAL ASIA, INC.
SECURE TRADE, INC.
TELOS FIELD ENGINEERING, INC.
TELOWORKS, INC.

as Credit Parties

THE LENDERS THAT ARE SIGNATORIES HERETO

as the Lenders,

and

WELLS FARGO FOOTHILL, INC.

as the Arranger and Administrative Agent

Dated as of April 3, 2008, but effective as of March 31, 2008

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LOAN AND SECURITY AGREEMENT

THIS LOAN AND SECURITY AGREEMENT (this "Agreement"), is dated as of April 3, 2008, but effective as of March 31, 2008, between and among, on the one hand, the lenders identified on the signature pages hereof (such lenders, together with their respective successors and assigns, are referred to hereinafter each individually as a "Lender" and collectively as the "Lenders"), **WELLS FARGO FOOTHILL, INC.** (formerly known as Foothill Capital Corporation), a California corporation, as the arranger and administrative agent for the Lenders ("Agent"), and, on the other hand, **TELOS CORPORATION**, a Maryland corporation ("Parent"), **XACTA CORPORATION**, a Delaware corporation ("Xacta"; Parent and Xacta are referred to hereinafter each individually as a "Borrower", and individually and collectively, jointly and severally, as the "Borrowers"), **TELOS DELAWARE, INC.**, a Delaware corporation ("Telos-Delaware"), **UBIQUITY.COM, INC.**, a Delaware corporation ("Ubiquity"), **TELOS INTERNATIONAL CORP.**, a Delaware corporation ("TIC"), **TELOS INTERNATIONAL ASIA, INC.**, a Delaware corporation ("TIA"), **SECURE TRADE, INC.**, a Delaware corporation ("STI"), **TELOS FIELD ENGINEERING, INC.**, a Delaware corporation ("TFE"), and Teloworks, Inc., a Delaware corporation ("Teloworks"; Telos-Delaware, Ubiquity, TIC, TIA, STI, TFE, and Teloworks are referred to hereinafter each individually as a "Credit Party" and collectively, jointly and severally, as the "Credit Parties").

Lenders, Agent, Borrowers and Credit Parties were party to a certain Loan and Security Agreement dated as of October 21, 2002 (as previously modified, the "Original Loan and Security Agreement"). The parties to the Original Loan and Security Agreement desire to amend and restate the Original Loan and Security Agreement on the terms provided herein.

The parties agree as follows:

1. DEFINITIONS AND CONSTRUCTION.

1.1. Definitions.

As used in this Agreement, the following terms shall have the following definitions:

"Account Debtor" means any Person who is or who may become obligated under, with respect to, or on account of, an Account, chattel paper, or a General Intangible.

"Accounts" means all of Companies' now owned or hereafter acquired right, title, and interest with respect to "accounts" (as that term is defined in the Code), and any and all supporting obligations in respect thereof.

"ACH Transactions" means any cash management or related services (including the Automated Clearing House processing of electronic funds transfers through the direct Federal Reserve Fedline system) provided by Wells Fargo or its Affiliates for the account of Administrative Borrower or its Subsidiaries.

"Additional Documents" has the meaning set forth in Section 4.4.

"Administrative Borrower" has the meaning set forth in Section 17.9.

"Advances" has the meaning set forth in Section 2.1.

"Affiliate" means, as applied to any Person, any other Person who, directly or indirectly, controls, is controlled by, or is under common control with, such Person. For purposes of this definition, "control" means the possession, directly or indirectly, of the power to direct the management and policies of a Person, whether through the ownership of Stock, by contract, or otherwise; provided, however, that, for purposes of the definition of Eligible Accounts and Section 7.14 hereof: (a) any Person which owns directly or indirectly 10% or more of the securities having ordinary voting power for the election of directors or other members of the governing body of a Person or 10% or more of the partnership or other ownership interests of a Person (other than as a limited partner of such Person) shall be deemed to control such Person; (b) each director (or comparable manager) of a Person shall be deemed to be an Affiliate of such Person; and (c) each partnership or joint venture in which a Person is a partner or joint venturer shall be deemed to be an Affiliate of such Person.

"Agent" means Foothill, solely in its capacity as agent for the Lenders hereunder, and any successor thereto.

"Agent's Account" means the account identified on Schedule A-1.

"Agent Advances" has the meaning set forth in Section 2.3(e)(i).

"Agent's Liens" means the Liens granted by Companies to Agent for the benefit of the Lender Group under this Agreement or the other Loan Documents.

"Agent-Related Persons" means Agent together with its Affiliates, officers, directors, employees, and agents.

"Agreement" has the meaning set forth in the preamble hereto.

"Amended and Restated Fee Letter" means that certain fee letter, dated as of even date herewith, between Borrowers and Agent, in form and substance satisfactory to Agent.

"Applicable Prepayment Premium" means, as of any date of determination, an amount equal to (a) during the period of time from and after the Closing Date up to the date that is the first anniversary of the Closing Date, 3% *times* the Maximum Revolver Amount, (b) during the period of time from and including the date that is the first anniversary of the Closing Date up to the date that is the second anniversary of the Closing Date, 2% *times* the Maximum Revolver Amount, and (c) during the period of time from and including the date that is the second anniversary of the Closing Date up to the Maturity Date, 1% *times* the Maximum Revolver Amount.

"Assignee" has the meaning set forth in Section 14.1.

"Assignment and Acceptance" means an Assignment and Acceptance in the form of Exhibit A-1.

"Authorized Person" means any officer or other employee of Administrative Borrower.

"Availability" means, as of any date of determination, if such date is a Business Day, and determined at the close of business on the immediately preceding Business Day, if such date of determination is not a Business Day, the amount that Borrowers are entitled to borrow as Advances under Section 2.1 (after giving effect to all then outstanding Obligations (other than Bank Products Obligations) and all sublimits and reserves applicable hereunder).

"Availability Block" means an amount equal to $500,000.

"Bank Product Agreements" means those certain cash management service agreements entered into from time to time by Administrative Borrower or its Subsidiaries in connection with any of the Bank Products.

"Bank Product Obligations" means all obligations, liabilities, contingent reimbursement obligations, fees, and expenses owing by Administrative Borrower or its Subsidiaries to Wells Fargo or its Affiliates pursuant to or evidenced by the Bank Product Agreements and irrespective of whether for the payment of money, whether direct or indirect, absolute or contingent, due or to become due, now existing or hereafter arising, and including all such amounts that Administrative Borrower or any of its Subsidiaries is obligated to reimburse to Agent or any member of the Lender Group as a result of Agent or such member of the Lender Group purchasing participations or executing indemnities or reimbursement obligations with respect to the Bank Products provided to Administrative Borrower or its Subsidiaries pursuant to the Bank Product Agreements.

"Bank Products" means any service or facility extended to Administrative Borrower or its Subsidiaries by Wells Fargo or any Affiliate of Wells Fargo including: (a) credit cards, (b) credit card processing services, (c) debit cards, (d) purchase cards, (e) ACH Transactions, (f) cash management, including controlled disbursement, accounts or services, or (g) Hedge Agreements.

"Bank Product Reserves" means, as of any date of determination, the amount of reserves that Agent has established (based upon Wells Fargo's or its Affiliate's reasonable determination of the credit exposure in respect of then extant Bank Products) for Bank Products then provided or outstanding.

"Bankruptcy Code" means the United States Bankruptcy Code, as in effect from time to time.

"Base LIBOR Rate" means the greater of (a) 3.00 percent per annum, and (b) the rate per annum rate appearing on Bloomberg L.P.'s (the "Service") Page BBAM1/(Official BBA USD Dollar Libor Fixings) (or on any successor or substitute page of such Service, or any successor to or substitute for such Service) 2 Business Days prior to the commencement of the requested Interest Period, for a term and in an amount comparable to the Interest Period and the amount of the LIBOR Rate Loan requested (whether as an initial LIBOR Rate Loan or as a continuation of a LIBOR Rate Loan or as a conversion of a Base Rate Loan to a LIBOR Rate Loan) by Borrower in accordance with the Agreement, which determination shall be conclusive in the absence of manifest error.

"Base Rate" means the greatest of (a) 6.00 percent per annum, (b) the Federal Funds Rate plus $^1/_2$%, and (c) the rate of interest announced, from time to time, within Wells Fargo at its principal office in San Francisco as its "prime rate", with the understanding that the "prime rate" is one of Wells Fargo's base rates (not necessarily the lowest of such rates) and serves as the basis upon which effective rates of interest are calculated for those loans making reference thereto and is evidenced by the recording thereof after its announcement in such internal publications as Wells Fargo may designate.

"Base Rate Loan" means each portion of an Advance that bears interest at a rate determined by reference to the Base Rate.

"Base Rate Margin" means 1.00 percentage points.

"Benefit Plan" means a "defined benefit plan" (as defined in Section 3(35) of ERISA) for which any Borrower or any Subsidiary or ERISA Affiliate of any Borrower has been an "employer" (as defined in Section 3(5) of ERISA) within the past six years.

"Board of Directors" means the board of directors (or comparable managers) of Parent or any committee thereof duly authorized to act on behalf thereof.

"Books" means all of each Borrower's and its Subsidiaries' now owned or hereafter acquired books and records (including all of its Records indicating, summarizing, or evidencing its assets (including the Collateral) or liabilities, all of each Borrower's or its Subsidiaries' Records relating to its or their business operations or financial condition, and all of its or their goods or General Intangibles related to such information).

"Borrower" and "Borrowers" have the respective meanings set forth in the preamble to this Agreement.

"Borrowing" means a borrowing hereunder consisting of Advances made on the same day by the Lenders (or Agent on behalf thereof), or by Swing Lender in the case of a Swing Loan, or by Agent in the case of an Agent Advance, in each case, to Administrative Borrower.

"Borrowing Base" has the meaning set forth in Section 2.1.

"Business Day" means any day that is not a Saturday, Sunday, or other day on which national banks are authorized or required to close, except that, if a determination of a Business Day shall relate to a LIBOR Rate Loan, the term "Business Day" also shall exclude any day on which banks are closed for dealings in Dollar deposits in the London interbank market.

"Capital Lease" means a lease that is required to be capitalized for financial reporting purposes in accordance with GAAP.

"Capitalized Lease Obligation" means any Indebtedness represented by obligations under a Capital Lease.

"Cash Equivalents" means (a) marketable direct obligations issued or unconditionally guaranteed by the United States or issued by any agency thereof and backed by the full faith and credit of the United States, in each case maturing within one year from the date of acquisition thereof, (b) marketable direct obligations issued by any state of the United States or any political subdivision of any such state or any public instrumentality thereof maturing within one year from the date of acquisition thereof and, at the time of acquisition, having the highest rating obtainable from either S&P or Moody's, (c) commercial paper maturing no more than 270 days from the date of acquisition thereof and, at the time of acquisition, having a rating of A-1 or P-1, or better, from S&P or Moody's, and (d) certificates of deposit or bankers' acceptances maturing within one year from the date of acquisition thereof either (i) issued by any bank organized under the laws of the United States or any state thereof which bank has a rating of A or A2, or better, from S&P or Moody's, or (ii) certificates of deposit less than or equal to $100,000 in the aggregate issued by any other bank insured by the Federal Deposit Insurance Corporation.

"Cash Management Bank" has the meaning set forth in Section 2.7(a).

"Cash Management Account" has the meaning set forth in Section 2.7(a).

"Cash Management Agreements" means those certain cash management service agreements, in form and substance satisfactory to Agent, each of which is among Administrative Borrower, Agent, and one of the Cash Management Banks.

"Change of Control" means (a) any "person" or "group" (within the meaning of Sections 13(d) and 14(d) of the Exchange Act), other than Permitted Holders, becomes the beneficial owner (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of 10%, or more, of the Stock of Parent having the right to vote for the election of members of the Board of Directors, or (b) John R.C. Porter shall cease to own and control that percentage of the Stock of Parent necessary at all times to elect a majority of the members of the Board of Directors, or (c) a majority of the members of the Board of Directors do not constitute Continuing Directors, or (d) Parent ceases to directly own and control at least 95% of the outstanding capital Stock of Xacta extant as of the Closing Date.

"Closing Date" means March 31, 2008.

"Closing Date Business Plan" means the set of Projections of Companies for the 2 year period following the Closing Date (on a year by year basis, and for the one year period following the Closing Date, on a month by month basis), in form and substance (including as to scope and underlying assumptions) reasonably satisfactory to Agent.

"Code" means the Illinois Uniform Commercial Code, as in effect from time to time.

"Collateral" means all of each Company's now owned or hereafter acquired right, title, and interest in and to each of the following:

(a) Accounts,

(b) Books,

(c) Equipment,

(d) General Intangibles,

(e) Inventory,

(f) Investment Property,

(g) Negotiable Collateral,

(h) money or other assets of each such Company that now or hereafter come into the possession, custody, or control of any member of the Lender Group,

(i) deposit accounts of each such Company,

(j) commercial tort claims of each such Company;

(k) all other personal property of each such Company; and

(l) the proceeds and products, whether tangible or intangible, of any of the foregoing, including proceeds of insurance covering any or all of the foregoing, and any and all Accounts, Books, Equipment, General Intangibles, Inventory, Investment Property, Negotiable Collateral, money, deposit accounts, or other tangible or intangible property resulting from the sale, exchange, collection, or other disposition of any of the foregoing, or any portion thereof or interest therein, and the proceeds thereof.

"Collateral Access Agreement" means a landlord waiver, bailee letter, or acknowledgement agreement of any lessor, warehouseman, processor, consignee, or other Person in possession of, having a Lien upon, or having rights or interests in the Equipment or Inventory, in each case, in form and substance satisfactory to Agent.

"Collections" means *all* cash, checks, notes, instruments, and other items of payment (including insurance proceeds, proceeds of cash sales, rental proceeds, and tax refunds) of Companies.

"Commitment" means, with respect to each Lender, its Revolver Commitment, or its Total Commitment, as the context requires, and, with respect to all Lenders, their Revolver Commitments, or their Total Commitments, as the context requires, in each case as such Dollar amounts are set forth beside such Lender's name under the applicable heading on Schedule C-1 or on the signature page of the Assignment and Acceptance pursuant to which such Lender became a Lender hereunder in accordance with the provisions of Section 14.1.

"Companies" means Borrowers and Credit Parties.

"Compliance Certificate" means a certificate substantially in the form of Exhibit C-1 delivered by the chief financial officer of Parent to Agent.

"Continuing Director" means (a) any member of the Board of Directors who was a director (or comparable manager) of Parent on December 31, 2006, and (b) any individual who became or becomes a member of the Board of Directors after December 31, 2006 if such individual was appointed or nominated for election to the Board of Directors by a majority of the Continuing Directors, but excluding any such individual originally proposed for election in opposition to the Board of Directors in office on December 31, 2006 or the members of the Board of Directors that became members pursuant to clause (b) above in an actual or threatened election contest relating to the election of the directors (or comparable managers) of Parent (as such terms are used in Rule 14a-11 under the Exchange Act) and whose initial assumption of office resulted from such contest or the settlement thereof.

"Control Agreement" means a control agreement, in form and substance satisfactory to Agent, executed and delivered by the applicable Company, Agent, and the applicable securities intermediary with respect to a Securities Account or a bank with respect to a deposit account.

"Copyrights" means copyrights and copyright registrations, owned by any Company, including, without limitation, the copyright registrations and recordings thereof and all applications in connection therewith listed on Schedule 3.1.

"Copyright Security Agreement" means a copyright security agreement executed and delivered by each Company and Agent, the form and substance of which is satisfactory to Agent.

"Customer" means the end user of the product or services provided.

"Daily Balance" means, with respect to each day during the term of this Agreement, the amount of an Obligation owed at the end of such day.

"DDA" means any checking or other demand deposit account maintained by any Borrower.

"Default" means an event, condition, or default that, with the giving of notice, the passage of time, or both, would be an Event of Default.

"Defaulting Lender" means any Lender that fails to make any Advance (or other extension of credit) that it is required to make hereunder on the date that it is required to do so hereunder.

"Defaulting Lender Rate" means (a) the Base Rate for the first 3 days from and after the date the relevant payment is due, and (b) thereafter, at the interest rate then applicable to Advances that are Base Rate Loans (inclusive of the Base Rate Margin applicable thereto.

"Deferred Revenue Reserve" means reserves established by Agent in its Permitted Discretion for (i) warranty claims that may be asserted against a Borrower, (ii) potential claims under maintenance agreements with respect to which a Borrower is obligated to provide services which services have already been paid for by the applicable Account Debtor, and (iii) potential claims under subscription arrangements with respect to which a Borrower is obligated to provide services or maintain such subscription which services and/or subscription have already been paid for by the applicable Account Debtor. The formula for calculating the Deferred Revenue Reserve shall be as follows: for any of the items described in clauses (i) (ii) or (iii) above, if there is an Eligible Account that is also in the Deferred Revenue Reserve as defined in clauses (i), (ii) or (iii) above and it is owing by the same Customer, the Deferred Revenue Reserve with respect to such Account shall be the lesser of the Eligible Account or the Deferred Revenue Reserve.

"Designated Account" means certain DDA of Administrative Borrower identified on Schedule D-1.

"Dilution" means, as of any date of determination, a percentage, based upon the experience of the immediately prior 12 months, that is the result of dividing the Dollar amount of (a) bad debt write-downs, discounts, advertising allowances, credits, or other dilutive items with respect to the Accounts during such period, by (b) Borrowers' Collections with respect to Accounts during such period (excluding extraordinary items) *plus* the Dollar amount of clause (a).

"Dilution Reserve" means, as of any date of determination, an amount sufficient to reduce the advance rate against Eligible Accounts by one percentage point for each percentage point by which Dilution is in excess of 5%.

"Dollars" or "$" means United States dollars.

"EBITDA" means, with respect to any fiscal period, Parent's and its Subsidiaries' consolidated net earnings (or loss), minus extraordinary gains, interest income, and any software development costs to the extent capitalized during such period, plus non-cash

extraordinary losses, plus interest expense, income taxes, and depreciation and amortization for such period, as determined in accordance with GAAP. Notwithstanding anything herein to the contrary, for purposes of the determination of EBITDA, TIMS LLC shall not be deemed to be a Subsidiary of Parent.

"Eligible Accounts" means those Accounts created by one of Borrowers in the ordinary course of its business, that arise out of its sale of goods or rendition of services, that comply with each of the representations and warranties respecting Eligible Accounts made by Borrowers under the Loan Documents, and that are not excluded as ineligible by virtue of one or more of the criteria set forth below; provided, however, that such criteria may be fixed and revised from time to time by Agent in Agent's Permitted Discretion to address the results of any audit performed by Agent from time to time after the Closing Date or otherwise. In determining the amount to be included, Eligible Accounts shall be calculated net of customer deposits and unapplied cash remitted to Borrowers. Eligible Accounts shall not include the following:

(a) Accounts that the Account Debtor has failed to pay within 120 days of original invoice date or within 90 days of due date, or Accounts with selling terms of more than 60 days (unless such Accounts are owing by the United States or any department, agency or instrumentality of the United States in which case such selling terms shall not be more than 30 days),

(b) Accounts owed by an Account Debtor (or its Affiliates) where 50% or more of all Accounts owed by that Account Debtor (or its Affiliates) are deemed ineligible under clause (a) above,

(c) Accounts with respect to which the Account Debtor is an employee, Affiliate, or agent of any Borrower,

(d) Accounts arising in a transaction wherein goods are placed on consignment or are sold pursuant to a guaranteed sale, a sale or return, a sale on approval, a bill and hold (unless such Account is owing by the United States or any department, agency or instrumentality of the United States, such goods are segregated from such Borrower's other goods, and either (1) within 14 days of the date such goods are segregated, such Account Debtor shall have executed a DD250 document accepting such goods that are held by a Borrower (provided, that the aggregate amount of such Accounts that may be Eligible Accounts under this clause (d)(1) with respect to which a DD250 has not been issued shall not exceed $250,000), or (2) the contract under which such goods are sold authorizes such Borrower to bill such Account Debtor prior to delivery of such goods and Agent has consented to include such Accounts as Eligible Accounts), or any other terms by reason of which the payment by the Account Debtor may be conditional,

(e) Accounts that are not payable in Dollars,

(f) Accounts with respect to which the Account Debtor either (i) does not maintain its chief executive office in the United States, or (ii) is not organized under the laws

of the United States or any state thereof, or (iii) is the government of any foreign country or sovereign state, or of any state, province, municipality, or other political subdivision thereof, or of any department, agency, public corporation, or other instrumentality thereof, unless (y) the Account is supported by an irrevocable letter of credit satisfactory to Agent (as to form, substance, and issuer or domestic confirming bank) that has been delivered to Agent and is directly drawable by Agent, or (z) the Account is covered by credit insurance in form, substance, and amount, and by an insurer, satisfactory to Agent,

(g) Accounts with respect to which the Account Debtor is either (i) the United States or any department, agency, or instrumentality of the United States (exclusive, however, of Accounts with respect to which either the applicable Borrower has complied, to the reasonable satisfaction of Agent, with the Assignment of Claims Act, 31 U.S.C. § 3727, 41 U.S.C. §15 or Agent has otherwise agreed not to require compliance with the Assignment of Claims Act, 31 U.S.C. §3727, 41 U.S.C. §15 with respect to any particular Account or group of Accounts (provided, that Borrowers acknowledge and agree that Agent's agreement not to require such compliance may be revoked by Agent at any time)), or (ii) any state of the United States (exclusive, however, of (y) Accounts owed by any state that does not have a statutory counterpart to the Assignment of Claims Act or (z) Accounts owed by any state that does have a statutory counterpart to the Assignment of Claims Act as to which the applicable Borrower has complied to Agent's satisfaction),

(h) Accounts with respect to which the Account Debtor is a creditor of any Borrower, has or has asserted a right of setoff, has disputed its liability, or has made any claim with respect to its obligation to pay the Account, to the extent of such claim, right of setoff, or dispute,

(i) Accounts with respect to an Account Debtor (other than the United States or any department, agency or instrumentality of the United States) whose total obligations owing to Borrowers exceed 10% (such percentage as applied to a particular Account Debtor being subject to reduction by Agent in its Permitted Discretion if the creditworthiness of such Account Debtor deteriorates) of all Eligible Accounts, to the extent of the obligations owing by such Account Debtor in excess of such percentage,

(j) Accounts with respect to which the Account Debtor is subject to an Insolvency Proceeding, is not Solvent, has gone out of business, or as to which a Borrower has received notice of an imminent Insolvency Proceeding or a material impairment of the financial condition of such Account Debtor,

(k) Accounts with respect to which the Account Debtor is located in the states of New Jersey, Minnesota, or West Virginia (or any other state that requires a creditor to file a business activity report or similar document in order to bring suit or otherwise enforce its remedies against such Account Debtor in the courts or through any judicial process of such state), unless the applicable Borrower has qualified to do business in New Jersey, Minnesota, West Virginia, or such other states, or has filed a business activities report with the applicable division of taxation, the department of revenue, or with such other state offices, as appropriate, for the then-current year, or is exempt from such filing requirement,

(l) Accounts, the collection of which, Agent, in its Permitted Discretion, believes to be doubtful by reason of the Account Debtor's financial condition,

(m) Accounts that are not subject to a valid and perfected first priority Agent's Lien,

(n) Accounts with respect to which the goods giving rise to such Account have not been shipped (unless such Account is owing by the United States or any department, agency or instrumentality of the United States, such goods are segregated from Borrower's other goods and either (1) within 14 days of the date such goods are segregated, such Account Debtor shall have executed a DD250 document accepting such goods that are held by a Borrower (provided, that the aggregate amount of such Accounts that may be Eligible Accounts under this clause (d)(1) with respect to which a DD250 has not been issued shall not exceed $250,000), or (2) the contract under which such goods are sold authorizes such Borrower to bill such Account Debtor prior to delivery of such goods and Agent has consented to include such Accounts as Eligible Accounts) and billed to the Account Debtor,

(o) Accounts which are unbilled, or

(p) Accounts that represent the right to receive progress payments or other advance billings that are due prior to the completion of performance by the applicable Borrower of the subject contract for goods or services, unless such progress payments or advance billings are unconditionally owing by such Account Debtor and not subject to offset regardless of whether the applicable Borrower completes performance under the subject contract (Agent reserves the right to review such contracts to determine the offset rights of the Account Debtors thereunder).

"Eligible Transferee" means (a) a commercial bank organized under the laws of the United States, or any state thereof, and having total assets in excess of $250,000,000, (b) a commercial bank organized under the laws of any other country which is a member of the Organization for Economic Cooperation and Development or a political subdivision of any such country and which has total assets in excess of $250,000,000, provided that such bank is acting through a branch or agency located in the United States, (c) a finance company, insurance company, or other financial institution or fund that is engaged in making, purchasing, or otherwise investing in commercial loans in the ordinary course of its business and having (together with its Affiliates) total assets in excess of $250,000,000, (d) any Affiliate (other than individuals) of a Lender that was party hereto as of the Closing Date, (e) so long as no Event of Default has occurred and is continuing, any other Person approved by Agent and Administrative Borrower, and (f) during the continuation of an Event of Default, any other Person approved by Agent.

"Environmental Actions" means any complaint, summons, citation, notice, directive, order, claim, litigation, investigation, judicial or administrative proceeding, judgment, letter, or other communication from any Governmental Authority, or any third party involving violations of Environmental Laws or releases of Hazardous Materials from

(a) any assets, properties, or businesses of any Company or any predecessor in interest, (b) from adjoining properties or businesses, or (c) from or onto any facilities which received Hazardous Materials generated by any Company or any predecessor in interest.

"Environmental Law" means any applicable federal, state, provincial, foreign or local statute, law, rule, regulation, ordinance, code, binding and enforceable guideline, binding and enforceable written policy or rule of common law now or hereafter in effect and in each case as amended, or any judicial or administrative interpretation thereof, including any judicial or administrative order, consent decree or judgment, to the extent binding on Companies, relating to the environment, employee health and safety, or Hazardous Materials, including CERCLA; RCRA; the Federal Water Pollution Control Act, 33 U.S.C. § 1251 et seq; the Toxic Substances Control Act, 15 U.S.C., § 2601 et seq; the Clean Air Act, 42 U.S.C. § 7401 et seq.; the Safe Drinking Water Act, 42 U.S.C. § 3803 et seq.; the Oil Pollution Act of 1990, 33 U.S.C. § 2701 et seq.; the Emergency Planning and the Community Right-to-Know Act of 1986, 42 U.S.C. § 11001 et seq.; the Hazardous Material Transportation Act, 49 U.S.C. § 1801 et seq.; and the Occupational Safety and Health Act, 29 U.S.C. §651 et seq. (to the extent it regulates occupational exposure to Hazardous Materials); any state and local or foreign counterparts or equivalents, in each case as amended from time to time.

"Environmental Liabilities and Costs" means all liabilities, monetary obligations, Remedial Actions, losses, damages, punitive damages, consequential damages, treble damages, costs and expenses (including all reasonable fees, disbursements and expenses of counsel, experts, or consultants, and costs of investigation and feasibility studies), fines, penalties, sanctions, and interest incurred as a result of any claim or demand by any Governmental Authority or any third party, and which relate to any Environmental Action.

"Environmental Lien" means any Lien in favor of any Governmental Authority for Environmental Liabilities and Costs.

"Equipment" means all of Companies' now owned or hereafter acquired right, title, and interest with respect to equipment, machinery, machine tools, motors, furniture, furnishings, fixtures, vehicles (including motor vehicles), tools, parts, goods (other than consumer goods, farm products, or Inventory), wherever located, including all attachments, accessories, accessions, replacements, substitutions, additions, and improvements to any of the foregoing.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended, and any successor statute thereto.

"ERISA Affiliate" means (a) any Person subject to ERISA whose employees are treated as employed by the same employer as the employees of a Company under IRC Section 414(b), (b) any trade or business subject to ERISA whose employees are treated as employed by the same employer as the employees of a Company under IRC Section 414(c), (c) solely for purposes of Section 302 of ERISA and Section 412 of the IRC, any

organization subject to ERISA that is a member of an affiliated service group of which a Company is a member under IRC Section 414(m), or (d) solely for purposes of Section 302 of ERISA and Section 412 of the IRC, any Person subject to ERISA that is a party to an arrangement with a Company and whose employees are aggregated with the employees of a Company under IRC Section 414(o).

"Event of Default" has the meaning set forth in Section 8.

"Excess Availability" means the amount, as of the date any determination thereof is to be made, equal to Availability *minus* the aggregate amount, if any, of all trade payables of Borrowers aged in excess of their historical levels with respect thereto and all book overdrafts in excess of their historical practices with respect thereto, in each case as determined by Agent in its Permitted Discretion.

"Exchange Act" means the Securities Exchange Act of 1934, as in effect from time to time.

"Federal Funds Rate" means, for any period, a fluctuating interest rate per annum equal to, for each day during such period, the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published on the next succeeding Business Day by the Federal Reserve Bank of New York, or, if such rate is not so published for any day which is a Business Day, the average of the quotations for such day on such transactions received by Agent from three Federal funds brokers of recognized standing selected by it.

"FEIN" means Federal Employer Identification Number.

"Foothill" means Wells Fargo Foothill, Inc. (formerly known as Foothill Capital Corporation), a California corporation, currently an Affiliate of Wells Fargo.

"Foreign Transfer Account" means that certain bank account number 2000024576136 maintained by Teloworks, Inc. with Wachovia Bank, N.A..

"Funding Date" means the date on which a Borrowing occurs.

"Funding Losses" has the meaning set forth in Section 2.13(b)(ii).

"GAAP" means generally accepted accounting principles as in effect from time to time in the United States, consistently applied.

"General Intangibles" means all of Companies' now owned or hereafter acquired right, title, and interest with respect to general intangibles (including payment intangibles, contract rights, rights to payment, rights arising under common law, statutes, or regulations, choses or things in action, goodwill, patents, trade names, trademarks, servicemarks, copyrights, blueprints, drawings, purchase orders, customer lists, monies due or recoverable from pension funds, route lists, rights to payment and other rights under any royalty or licensing agreements, infringement claims, computer programs, information

contained on computer disks or tapes, software, literature, reports, catalogs, money, deposit accounts, insurance premium rebates, tax refunds, and tax refund claims), and any and all supporting obligations in respect thereof, and any other personal property other than goods, Accounts, Investment Property, and Negotiable Collateral.

"Governing Documents" means, with respect to any Person, the certificate or articles of incorporation, by-laws, or other organizational documents of such Person.

"Governmental Authority" means any federal, state, local, or other governmental or administrative body, instrumentality, department, or agency or any court, tribunal, administrative hearing body, arbitration panel, commission, or other similar dispute-resolving panel or body.

"Hazardous Materials" means (a) substances that are defined or listed in, or otherwise classified pursuant to, any applicable laws or regulations as "hazardous substances," "hazardous materials," "hazardous wastes," "toxic substances," or any other formulation intended to define, list, or classify substances by reason of deleterious properties such as ignitability, corrosivity, reactivity, carcinogenicity, reproductive toxicity, or "EP toxicity", (b) oil, petroleum, or petroleum derived substances, natural gas, natural gas liquids, synthetic gas, drilling fluids, produced waters, and other wastes associated with the exploration, development, or production of crude oil, natural gas, or geothermal resources, (c) any flammable substances or explosives or any radioactive materials, and (d) asbestos in any form or electrical equipment that contains any oil or dielectric fluid containing levels of polychlorinated biphenyls in excess of 50 parts per million.

"Hedge Agreement" means any and all transactions, agreements, or documents now existing or hereafter entered into between Administrative Borrower or its Subsidiaries and Wells Fargo or its Affiliates, which provide for an interest rate, credit, commodity or equity swap, cap, floor, collar, forward foreign exchange transaction, currency swap, cross currency rate swap, currency option, or any combination of, or option with respect to, these or similar transactions, for the purpose of hedging Administrative Borrower's or its Subsidiaries' exposure to fluctuations in interest or exchange rates, loan, credit exchange, security or currency valuations or commodity prices.

"Indebtedness" means (a) all obligations for borrowed money, (b) all obligations evidenced by bonds, debentures, notes, or other similar instruments and all reimbursement or other obligations in respect of letters of credit, bankers acceptances, or other financial products, (c) all obligations as a lessee under Capital Leases, (d) all obligations or liabilities of others secured by a Lien on any asset of a Person or its Subsidiaries, irrespective of whether such obligation or liability is assumed, (e) all obligations to pay the deferred purchase price of assets (other than trade payables incurred in the ordinary course of business and repayable in accordance with customary trade practices), (f) all obligations owing under Hedge Agreements (which amount shall be calculated based on the amount that would be payable by such Person if the Hedge Agreement were terminated on the date of determination), and (g) any obligation guaranteeing or intended to guarantee (whether directly or indirectly guaranteed, endorsed, co-made, discounted, or sold

with recourse) any obligation of any other Person that constitutes Indebtedness under any of clauses (a) through (f) above. For purposes of this definition, (i) the amount of any Indebtedness represented by a guaranty or other similar instrument shall be the lesser of the principal amount of the obligations guaranteed and still outstanding and the maximum amount for which the guaranteeing Person may be liable pursuant to the terms of the instrument embodying such Indebtedness, and (ii) the amount of any Indebtedness described in clause (d) above shall be the lower of the amount of the obligation and the fair market value of the assets securing such obligation.

"Indemnified Liabilities" has the meaning set forth in Section 11.3.

"Indemnified Person" has the meaning set forth in Section 11.3.

"Insolvency Proceeding" means any proceeding commenced by or against any Person under any provision of the Bankruptcy Code or under any other state or federal bankruptcy or insolvency law, assignments for the benefit of creditors, formal or informal moratoria, compositions, extensions generally with creditors, or proceedings seeking reorganization, arrangement, or other similar relief.

"Intellectual Property Licenses" means all of the rights under or interest in any patent, trademark, copyright or other intellectual property, including software license agreements that Grantor has with any other party, whether the applicable Grantor is a licensee or licensor under any such license agreement.

"Intercompany Subordination Agreement" means a subordination agreement executed and delivered by Borrowers and Agent, the form and substance of which is satisfactory to Agent.

"Interest Period" means, with respect to each LIBOR Rate Loan, a period commencing on the date of the making of such LIBOR Rate Loan and ending 1, 2, or 3 months thereafter; provided, however, that (a) if any Interest Period would end on a day that is not a Business Day, such Interest Period shall be extended (subject to clauses (c)-(e) below) to the next succeeding Business Day, (b) interest shall accrue at the applicable rate based upon the LIBOR Rate from and including the first day of each Interest Period to, but excluding, the day on which any Interest Period expires, (c) any Interest Period that would end on a day that is not a Business Day shall be extended to the next succeeding Business Day unless such Business Day falls in another calendar month, in which case such Interest Period shall end on the next preceding Business Day, (d) with respect to an Interest Period that begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period), the Interest Period shall end on the last Business Day of the calendar month that is 1, 2, or 3 months after the date on which the Interest Period began, as applicable, and (e) Borrowers (or Administrative Borrower on behalf thereof) may not elect an Interest Period which will end after the Maturity Date.

"Inventory" means all Companies' now owned or hereafter acquired right, title, and interest with respect to inventory, including goods held for sale or lease or to be furnished under a contract of service, goods that are leased by a Company as lessor, goods that are furnished by a Company under a contract of service, and raw materials, work in process, or materials used or consumed in a Company's business.

"Investment" means, with respect to any Person, any investment by such Person in any other Person (including Affiliates) in the form of loans, guarantees, advances, or capital contributions (excluding (a) commission, travel, and similar advances to officers and employees of such Person made in the ordinary course of business, and (b) bona fide Accounts arising in the ordinary course of business consistent with past practices), purchases or other acquisitions for consideration of Indebtedness or Stock, and any other items that are or would be classified as investments on a balance sheet prepared in accordance with GAAP.

"Investment Property" means all of Companies' now owned or hereafter acquired right, title, and interest with respect to "investment property" as that term is defined in the Code, and any and all supporting obligations in respect thereof.

"IRC" means the Internal Revenue Code of 1986, as in effect from time to time.

"Issuing Lender" means Foothill or any other Lender that, at the request of Administrative Borrower and with the consent of Agent agrees, in such Lender's sole discretion, to become an Issuing Lender for the purpose of issuing L/Cs or L/C Undertakings pursuant to Section 2.12.

"Joint and Several Guaranty" means that certain general continuing guaranty executed and delivered by Credit Parties in favor of Agent, for the benefit of the Lender Group, in form and substance satisfactory to Agent.

"L/C" has the meaning set forth in Section 2.12(a).

"L/C Disbursement" means a payment made by the Issuing Lender pursuant to a Letter of Credit.

"L/C Undertaking" has the meaning set forth in Section 2.12(a).

"Lender" and "Lenders" have the respective meanings set forth in the preamble to this Agreement, and shall include any other Person made a party to this Agreement in accordance with the provisions of Section 14.1.

"Lender Group" means, individually and collectively, each of the Lenders (including the Issuing Lender) and Agent.

"Lender Group Expenses" means all (a) costs or expenses (including taxes, and insurance premiums) required to be paid by a Company under any of the Loan Documents that are paid or incurred by the Lender Group, (b) fees or charges paid or

incurred by Agent in connection with the Lender Group's transactions with Companies, including, fees or charges for photocopying, notarization, couriers and messengers, telecommunication, public record searches (including tax lien, litigation, and UCC searches and including searches with the patent and trademark office, the copyright office, or the department of motor vehicles), filing, recording, publication, appraisal (including periodic Collateral appraisals or business valuations to the extent of the fees and charges (and up to the amount of any limitation) contained in this Agreement, real estate surveys, real estate title policies and endorsements, and environmental audits, (c) costs and expenses incurred by Agent in the disbursement of funds to or for the account of Borrowers (by wire transfer or otherwise), (d) charges paid or incurred by Agent resulting from the dishonor of checks, (e) reasonable costs and expenses paid or incurred by the Lender Group to correct any default or enforce any provision of the Loan Documents, or in gaining possession of, maintaining, handling, preserving, storing, shipping, selling, preparing for sale, or advertising to sell the Collateral, or any portion thereof, irrespective of whether a sale is consummated, (f) audit fees and expenses of Agent related to audit examinations of the Books to the extent of the fees and charges (and up to the amount of any limitation) contained in this Agreement, (g) reasonable costs and expenses of third party claims or any other suit paid or incurred by the Lender Group in enforcing or defending the Loan Documents or in connection with the transactions contemplated by the Loan Documents or the Lender Group's relationship with any Company or any guarantor of the Obligations, (h) Agent's reasonable fees and expenses (including attorneys fees) incurred in advising, structuring, drafting, reviewing, administering, or amending the Loan Documents, and (i) Agent's and each Lender's reasonable fees and expenses (including attorneys fees) incurred in terminating, enforcing (including attorneys fees and expenses incurred in connection with a "workout," a "restructuring," or an Insolvency Proceeding concerning any Company or in exercising rights or remedies under the Loan Documents), or defending the Loan Documents, irrespective of whether suit is brought, or in taking any Remedial Action concerning the Collateral.

"Lender-Related Person" means, with respect to any Lender, such Lender, together with such Lender's Affiliates, and the officers, directors, employees, and agents of such Lender.

"Letter of Credit" means an L/C or an L/C Undertaking, as the context requires.

"Letter of Credit Usage" means, as of any date of determination, the aggregate undrawn amount of all outstanding Letters of Credit *plus* 100% of the amount of outstanding time drafts accepted by an Underlying Issuer as a result of drawings under Underlying Letters of Credit and not reimbursed by Borrowers.

"LIBOR Deadline" has the meaning set forth in Section 2.13(b)(i).

"LIBOR Notice" means a written notice in the form of Exhibit L-1.

"LIBOR Rate" means, for each Interest Period for each LIBOR Rate Loan, the rate per annum determined by Agent by *dividing* (a) the Base LIBOR Rate for such Interest Period, by (b) 100% *minus* the Reserve Percentage. The LIBOR Rate shall be adjusted on and as of the effective day of any change in the Reserve Percentage.

"LIBOR Rate Loan" means each portion of an Advance that bears interest at a rate determined by reference to the LIBOR Rate.

"LIBOR Rate Margin" means 4.00 percentage points.

"Lien" means any interest in an asset securing an obligation owed to, or a claim by, any Person other than the owner of the asset, whether such interest shall be based on the common law, statute, or contract, whether such interest shall be recorded or perfected, and whether such interest shall be contingent upon the occurrence of some future event or events or the existence of some future circumstance or circumstances, including the lien or security interest arising from a mortgage, deed of trust, encumbrance, pledge, hypothecation, assignment, deposit arrangement, security agreement, conditional sale or trust receipt, or from a lease, consignment, or bailment for security purposes and also including reservations, exceptions, encroachments, easements, rights-of-way, covenants, conditions, restrictions, leases, and other title exceptions and encumbrances affecting Real Property.

"Loan Account" has the meaning set forth in Section 2.10.

"Loan Documents" means this Agreement, the Bank Product Agreements, the Cash Management Agreements, the Control Agreements, the Copyright Security Agreement, the Amended and Restated Fee Letter, the Joint and Several Guaranty, the Letters of Credit, the Officers' Certificate, the Patent Security Agreement, the Stock Pledge Agreements, the Trademark Security Agreement, the Intercompany Subordination Agreement, any note or notes executed by a Borrower in connection with this Agreement and payable to a member of the Lender Group, and any other agreement entered into, now or in the future, by any Company and the Lender Group in connection with this Agreement or the Original Loan and Security Agreement.

"Material Adverse Change" means (a) a material adverse change in the business, operations, results of operations, assets, liabilities or condition (financial or otherwise) of Borrowers taken as a whole, (b) a material impairment of a Company's ability to perform its obligations under the Loan Documents to which it is a party or of the Lender Group's ability to enforce the Obligations or realize upon the Collateral, or (c) a material impairment of the enforceability or priority of the Agent's Liens with respect to the Collateral as a result of an action or failure to act on the part of a Company.

"Maturity Date" has the meaning set forth in Section 3.4.

"Maximum Revolver Amount" means $25,000,000.

"Negotiable Collateral" means all of Companies' now owned and hereafter acquired right, title, and interest with respect to letters of credit, letter of credit rights,

instruments, promissory notes, drafts, documents, and chattel paper (including electronic chattel paper and tangible chattel paper), and any and all supporting obligations in respect thereof.

"Net Cash Proceeds" means, with respect to the issuance by a Company or any of its Subsidiaries of any shares of its Stock, the aggregate amount of cash received (directly or indirectly) from time to time (whether as initial consideration or through the payment or disposition of deferred consideration) by or on behalf of such Company or such Subsidiary in connection with such issuance, after deducting therefrom only (i) reasonable fees, commissions, and expenses related thereto and required to be paid by such Company or such Subsidiary in connection with such issuance, (ii) taxes paid or payable to any taxing authorities by such Company or such Subsidiary in connection with such issuance, to the extent, but only to the extent, that the amounts so deducted are, at the time of receipt of such cash, actually paid or payable to a Person that is not an Affiliate of a Company or any of its Subsidiaries, and are properly attributable to such transaction.

"Obligations" means (a) all loans, Advances, debts, principal, interest (including any interest that, but for the provisions of the Bankruptcy Code, would have accrued), contingent reimbursement obligations with respect to outstanding Letters of Credit, premiums, liabilities (including all amounts charged to Borrowers' Loan Account pursuant hereto), obligations, fees (including the fees provided for in the Amended and Restated Fee Letter), charges, costs, Lender Group Expenses (including any fees or expenses that, but for the provisions of the Bankruptcy Code, would have accrued), lease payments, guaranties (including, without limitation, obligations under the Joint and Several Guaranty), covenants, and duties of any kind and description owing by Companies, or any of them, to the Lender Group pursuant to or evidenced by the Loan Documents and irrespective of whether for the payment of money, whether direct or indirect, absolute or contingent, due or to become due, now existing or hereafter arising, and including all interest not paid when due and all Lender Group Expenses that Companies, or any of them, are required to pay or reimburse by the Loan Documents, by law, or otherwise, and (b) all Bank Product Obligations. Any reference in this Agreement or in the Loan Documents to the Obligations shall include all amendments, changes, extensions, modifications, renewals replacements, substitutions, and supplements, thereto and thereof, as applicable, both prior and subsequent to any Insolvency Proceeding.

"OFAC" means The Office of Foreign Assets Control of the U.S. Department of the Treasury.

"Officers' Certificate" means the representations and warranties of officers form submitted by Agent to Administrative Borrower, together with Companies' completed responses to the inquiries set forth therein, the form and substance of such responses to be satisfactory to Agent.

"Original Loan and Security Agreement" has the meaning set forth in the Recitals hereto.

"Original Obligations" means all Obligations under and as defined in the Original Loan and Security Agreement.

"Originating Lender" has the meaning set forth in Section 14.1(e).

"Overadvance" has the meaning set forth in Section 2.5.

"Parent" has the meaning set forth in the preamble to this Agreement.

"Participant" has the meaning set forth in Section 14.1(e).

"Patents" means patents and patent applications, owned by any Company.

"Patent Security Agreement" means a patent security agreement executed and delivered by Companies and Agent, the form and substance of which is satisfactory to Agent.

"Patriot Act" has the meaning specified therefor in Section 5.22 of the Agreement.

"Permitted Discretion" means a determination made in good faith and in the exercise of reasonable (from the perspective of a secured asset-based lender) business judgment.

"Permitted Dispositions" means (a) sales or other dispositions by Administrative Borrower or its Subsidiaries of Equipment that is substantially worn, damaged, or obsolete in the ordinary course of business, (b) sales by Administrative Borrower or its Subsidiaries of Inventory to buyers in the ordinary course of business, and (c) the use or transfer of money or Cash Equivalents by Administrative Borrower or its Subsidiaries in a manner that is not prohibited by the terms of this Agreement or the other Loan Documents.

"Permitted Holders" means the holders of the Class A Common Stock and Class B Common Stock of Parent set forth in Part III, Item 12 of Parent's Form 10-K filing for the fiscal year ending December 31, 2006.

"Permitted Indebtedness" means the Indebtedness evidenced by the Series B Senior Subordinated Secured Notes attached as Exhibit A-1 to the Subordination Agreement and the Series C Senior Subordinated Unsecured Notes attached as Exhibit A-2 to the Subordination Agreement, issued by Parent.

"Permitted Investments" means (a) investments in Cash Equivalents, (b) investments in negotiable instruments for collection, (c) advances made in connection with purchases of goods or services in the ordinary course of business, (d) investments by any Borrower in any other Borrower or any Credit Party provided that if any such investment is in the form of Indebtedness, such Indebtedness investment shall be subject to the terms and conditions of the Intercompany Subordination Agreement and provided, further, that Borrowers may not invest more than $50,000 in the aggregate in the Credit Parties and then

only so long as the proceeds of such investments are used to facilitate the dissolution of such Credit Parties, and (e) investments by Parent of up to $1,000,000 in the aggregate in TIMS LLC made on or prior to October 20, 2007.

"Permitted Liens" means (a) Liens held by Agent for the benefit of Agent and the Lenders, (b) Liens for unpaid taxes that either (i) are not yet delinquent, or (ii) do not constitute an Event of Default hereunder and are the subject of Permitted Protests, (c) Liens set forth on Schedule P-1, (d) the interests of lessors under operating leases, (e) purchase money Liens or the interests of lessors under Capital Leases to the extent that such Liens or interests secure Permitted Purchase Money Indebtedness and so long as such Lien attaches only to the asset purchased or acquired and the proceeds thereof, (f) Liens arising by operation of law in favor of warehousemen, landlords, carriers, mechanics, materialmen, laborers, or suppliers, incurred in the ordinary course of business and not in connection with the borrowing of money, and which Liens either (i) are for sums not yet delinquent, or (ii) are the subject of Permitted Protests, (g) Liens arising from deposits made in connection with obtaining worker's compensation or other unemployment insurance, (h) Liens or deposits to secure performance of bids, tenders, or leases incurred in the ordinary course of business and not in connection with the borrowing of money, (i) Liens granted as security for surety or appeal bonds in connection with obtaining such bonds in the ordinary course of business, (j) Liens resulting from any judgment or award that is not an Event of Default hereunder, and (k) with respect to any Real Property, easements, rights of way, and zoning restrictions that do not materially interfere with or impair the use or operation thereof.

"Permitted Protest" means the right of Administrative Borrower or any of its Subsidiaries, as applicable to protest any Lien (other than any such Lien that secures the Obligations), taxes (other than payroll taxes or taxes that are the subject of a United States federal tax lien), or rental payment, provided that (a) a reserve with respect to such obligation is established on the Books in such amount as is required under GAAP, (b) any such protest is instituted promptly and prosecuted diligently by Administrative Borrower or any of its Subsidiaries, as applicable, in good faith, and (c) Agent is satisfied that, while any such protest is pending, there will be no impairment of the enforceability, validity, or priority of any of the Agent's Liens.

"Permitted Purchase Money Indebtedness" means, as of any date of determination, Purchase Money Indebtedness incurred after the Closing Date in an aggregate amount outstanding at any one time not in excess of $2,000,000.

"Person" means natural persons, corporations, limited liability companies, limited partnerships, general partnerships, limited liability partnerships, joint ventures, trusts, land trusts, business trusts, or other organizations, irrespective of whether they are legal entities, and governments and agencies and political subdivisions thereof.

"Preferred Stockholders Standby Agreement" means the Preferred Stockholders Standby Agreement, in form and substance satisfactory to Agent, executed and delivered by each holder of the Private Preferred Stock and Agent.

"Private Preferred Stock " means the Series A-1 Redeemable Preferred Stock and the Series A-2 Redeemable Preferred Stock, in each case as more particularly described in the Parent's Articles of Amendment and Restatement dated as of January 14, 1992.

"Projections" means Parent's forecasted (a) balance sheets, (b) profit and loss statements, and (c) cash flow statements, all prepared on a consistent basis with Parent's historical financial statements, together with appropriate supporting details and a statement of underlying assumptions.

"Pro Rata Share" means:

(a) with respect to a Lender's obligation to make Advances and receive payments of principal, interest, fees, costs, and expenses with respect thereto, the percentage obtained by dividing (i) such Lender's Revolver Commitment, by (ii) the aggregate Revolver Commitments of all Lenders,

(b) with respect to a Lender's obligation to participate in Letters of Credit, to reimburse the Issuing Lender, and to receive payments of fees with respect thereto, the percentage obtained by dividing (i) such Lender's Revolver Commitment, by (ii) the aggregate Revolver Commitments of all Lenders, and

(c) with respect to all other matters (including the indemnification obligations arising under Section 16.7), the percentage obtained by dividing (i) such Lender's Total Commitment, by (ii) the aggregate amount of Total Commitments of all Lenders; provided, however, that, in each case, in the event all Commitments have been terminated, Pro Rata Share shall be determined according to the Commitments in effect immediately prior to such termination.

"Purchase Money Indebtedness" means Indebtedness (other than the Obligations, but including Capitalized Lease Obligations), incurred at the time of, or within 20 days after, the acquisition of any fixed assets for the purpose of financing all or any part of the acquisition cost thereof.

"Real Property" means any estates or interests in real property now owned or hereafter acquired by any Company and the improvements thereto.

"Record" means information that is inscribed on a tangible medium or which is stored in an electronic or other medium and is retrievable in perceivable form.

"Remedial Action" means all actions taken to (a) clean up, remove, remediate, contain, treat, monitor, assess, evaluate, or in any way address Hazardous Materials in the indoor or outdoor environment, (b) prevent or minimize a release or threatened release of Hazardous Materials so they do not migrate or endanger or threaten to endanger public health or welfare or the indoor or outdoor environment, (c) perform any pre-remedial studies, investigations, or post-remedial operation and maintenance activities, or (d) conduct any other actions authorized by 42 U.S.C. § 9601.

"Report" has the meaning set forth in Section 16.17.

"Required Availability" means Excess Availability and unrestricted cash and Cash Equivalents in an amount of not less than $1,000,000.

"Required Lenders" means, at any time, Lenders whose Pro Rata Shares aggregate 66.67% of the Total Commitments, or if the Commitments have been terminated irrevocably, 66.67% of the Obligations (other than Bank Product Obligations) then outstanding.

"Required Library" means, as of any date of determination, the copyrights of the Companies that are based on or derived from those computer software programs or other technology of the Companies that at the time account for not less than 80% of the total amount of the net product and subscription revenues of the Parent and its Subsidiaries for the immediately preceding fiscal quarter.

"Reserve Percentage" means, on any day, for any Lender, the maximum percentage prescribed by the Board of Governors of the Federal Reserve System (or any successor Governmental Authority) for determining the reserve requirements (including any basic, supplemental, marginal, or emergency reserves) that are in effect on such date with respect to eurocurrency funding (currently referred to as "eurocurrency liabilities") of that Lender, but so long as such Lender is not required or directed under applicable regulations to maintain such reserves, the Reserve Percentage shall be zero.

"Revolver Commitment" means, with respect to each Lender, its Revolver Commitment, and, with respect to all Lenders, their Revolver Commitments, in each case as such Dollar amounts are set forth beside such Lender's name under the applicable heading on Schedule C-1 or on the signature page of the Assignment and Acceptance pursuant to which such Lender became a Lender hereunder in accordance with the provisions of Section 14.1.

"Revolver Usage" means, as of any date of determination, the sum of (a) the then extant amount of outstanding Advances, *plus* (b) the then extant amount of the Letter of Credit Usage.

"Risk Participation Liability" means, as to each Letter of Credit, all reimbursement obligations of Borrowers to the Issuing Lender with respect to an L/C Undertaking, consisting of (a) the amount available to be drawn or which may become available to be drawn, (b) all amounts that have been paid by the Issuing Lender to the Underlying Issuer to the extent not reimbursed by Borrowers, whether by the making of an Advance or otherwise, and (c) all accrued and unpaid interest, fees, and expenses payable with respect thereto.

"Sanctioned Entity" means (a) a country or a government of a country, (b) an agency of the government of a country, (c) an organization directly or indirectly controlled by a country or its government, (d) a Person resident in or determined to be a resident in a country, in each case, that is subject to a country sanctions program administered and enforced by OFAC.

"Sanctioned Person" means a person named on the list of Specially Designated Nationals maintained by OFAC.

"SEC" means the United States Securities and Exchange Commission and any successor thereto.

"Securities Account" means a "securities account" as that term is defined in the Code.

"Settlement" has the meaning set forth in Section 2.3(f)(i).

"Settlement Date" has the meaning set forth in Section 2.3(f)(i).

"Solvent" means, with respect to any Person on a particular date, that such Person is not insolvent (as such term is defined in the Uniform Fraudulent Transfer Act).

"Stock" means all shares, options, warrants, interests, participations, or other equivalents (regardless of how designated) of or in a Person, whether voting or nonvoting, including common stock, preferred stock, or any other "equity security" (as such term is defined in Rule 3a11-1 of the General Rules and Regulations promulgated by the SEC under the Exchange Act).

"Stock Pledge Agreement" means a stock pledge agreement, in form and substance satisfactory to Agent, executed and delivered by each Company that owns Stock of a Subsidiary of Parent other than TIMS LLC.

"Subordination Agreement" means a subordination agreement, in form and substance satisfactory to Agent, executed and delivered by each creditor that holds a Series B Senior Subordinated Secured Note or a Series C Subordinated Unsecured Note, State Street Bank and Trust Company, and Agent, as amended from time to time.

"Subsidiary" of a Person means a corporation, partnership, limited liability company, or other entity in which that Person directly or indirectly owns or controls the shares of Stock having ordinary voting power to elect a majority of the board of directors (or appoint other comparable managers) of such corporation, partnership, limited liability company, or other entity.

"Swing Lender" means Foothill or any other Lender that, at the request of Administrative Borrower and with the consent of Agent agrees, in such Lender's sole discretion, to become the Swing Lender hereunder.

"Swing Loan" has the meaning set forth in Section 2.3(d)(i).

"Taxes" has the meaning set forth in Section 2.2.

"TIMS LLC" means Telos Identity Management Solutions, LLC (d/b/a XACTA Identity Management Solutions), a Delaware limited liability company.

"Total Commitment" means, with respect to each Lender, its Total Commitment, and, with respect to all Lenders, their Total Commitments, in each case as such Dollar amounts are set forth beside such Lender's name under the applicable heading on Schedule C-1 attached hereto or on the signature page of the Assignment and Acceptance pursuant to which such Lender became a Lender hereunder in accordance with the provisions of Section 14.1.

"Trademarks" means trademarks, trade names, registered trademarks, trademark applications, service marks, registered service marks and service mark applications, owned by any Company, and (i) all renewals thereof and (ii) the goodwill of each Company's business symbolized by the foregoing and connected therewith.

"Trademark Security Agreement" means a trademark security agreement executed and delivered by each Company and Agent, the form and substance of which is satisfactory to Agent.

"Underlying Issuer" means a third Person which is the beneficiary of an L/C Undertaking and which has issued a letter of credit at the request of the Issuing Lender for the benefit of Borrowers.

"Underlying Letter of Credit" means a letter of credit that has been issued by an Underlying Issuer.

"Voidable Transfer" has the meaning set forth in Section 17.7.

"Wells Fargo" means Wells Fargo Bank, National Association, a national banking association.

1.2. Accounting Terms.

All accounting terms not specifically defined herein shall be construed in accordance with GAAP. When used herein, the term "financial statements" shall include the notes and schedules thereto. Whenever the term "Borrowers" or the term "Parent" is used in respect of a financial covenant or a related definition, it shall be understood to mean Parent and its Subsidiaries on a consolidated basis unless the context clearly requires otherwise.

1.3. Code.

Any terms used in this Agreement that are defined in the Code shall be construed and defined as set forth in the Code unless otherwise defined herein.

1.4. Construction.

Unless the context of this Agreement or any other Loan Document clearly requires otherwise, references to the plural include the singular, references to the singular include the plural, the term "including" is not limiting, and the term "or" has, except where otherwise indicated, the inclusive meaning represented by the phrase "and/or." The words "hereof," "herein," "hereby," "hereunder," and similar terms in this Agreement or any other Loan Document refer to this Agreement or such other Loan Document, as the case may be, as a whole and not to any particular provision of this Agreement or such other Loan Document, as the case may be. Section, subsection, clause, schedule, and exhibit references herein are to this Agreement unless otherwise specified. Any reference in this Agreement or in the other Loan Documents to any agreement, instrument, or document shall include all alterations, amendments, changes, extensions, modifications, renewals, replacements, substitutions, joinders, and supplements, thereto and thereof, as applicable (subject to any restrictions on such alterations, amendments, changes, extensions, modifications, renewals, replacements, substitutions, joinders, and supplements set forth herein). Any reference herein to any Person shall be construed to include such Person's successors and assigns. Any requirement of a writing contained herein or in the other Loan Documents shall be satisfied by the transmission of a Record and any Record transmitted shall constitute a representation and warranty as to the accuracy and completeness of the information contained therein.

1.5. Schedules and Exhibits.

All of the schedules and exhibits attached to this Agreement shall be deemed incorporated herein by reference.

1.6. Effect of Amendment and Restatement; No Novation.

On the Closing Date, all of the Original Obligations shall continue in full force and effect, but shall be "Obligations" under, and governed by the terms and conditions set forth in, this Agreement. The outstanding Original Obligations, together with any and all additional liabilities incurred by Borrowers under this Agreement or under any of the other Loan Documents, shall continue to be secured by, among other things, the Collateral, whether now existing or hereafter acquired and wheresoever located, all as more specifically set forth in the Loan Documents. Each Company hereby reaffirms its obligations, liabilities, grants of security interests, pledges and the validity of all covenants by such Company contained in any and all Loan Documents. The execution and delivery of this Agreement shall not constitute a novation or repayment of the indebtedness outstanding under the Original Loan and Security Agreement. Each Company hereby acknowledges and agrees that on and after the Closing Date any and all references in any Loan Documents to the Original Loan and Security Agreement shall be deemed to be amended to refer to this Agreement. Each Company hereby reaffirms its obligations, liabilities and indebtedness arising under each of the Loan Documents (as amended or otherwise modified through and including the Closing Date), in each case after giving effect to the provisions of the preceding sentence.

2. LOAN AND TERMS OF PAYMENT.

2.1. Revolver Advances.

(a) Subject to the terms and conditions of this Agreement, and during the term of this Agreement, each Lender with a Revolver Commitment agrees (severally, not jointly or jointly and severally) to make advances ("Advances") to Borrowers in an amount at any one time outstanding not to exceed such Lender's Pro Rata Share of an amount equal to *the lesser of* (i) the Maximum Revolver Amount *less* the Letter of Credit Usage, or (ii) the Borrowing Base *less* the Letter of Credit Usage. For purposes of this Agreement, "Borrowing Base," as of any date of determination, shall mean the result of:

(x) *the lesser of*

(i) 85% of the amount of Eligible Accounts (net of the Deferred Revenue Reserve), *less* the amount, if any, of the Dilution Reserve, and

(ii) an amount equal to Borrowers' Collections with respect to Accounts for the immediately preceding 60 day period, *minus*

(y) the sum of (i) the Bank Products Reserve, (ii) the Availability Block, and (iii) the aggregate amount of reserves, if any, established by Agent under Section 2.1(b).

(b) Anything to the contrary in this Section 2.1 notwithstanding, Agent shall have the right to establish reserves in such amounts, and with respect to such matters, as Agent in its Permitted Discretion shall deem necessary or appropriate, against the Borrowing Base, including reserves with respect to (i) sums that Companies are required to pay (such as taxes, assessments, insurance premiums, or, in the case of leased assets, rents or other amounts payable under such leases) and has failed to pay under any Section of this Agreement or any other Loan Document, and (ii) amounts owing by Companies to any Person to the extent secured by a Lien on, or trust over, any of the Collateral (other than any existing Permitted Lien set forth on Schedule P-1 which is specifically identified thereon as entitled to have priority over the Agent's Liens), which Lien or trust, in the Permitted Discretion of Agent likely would have a priority superior to the Agent's Liens (such as Liens or trusts in favor of landlords, warehousemen, carriers, mechanics, materialmen, laborers, or suppliers, or Liens or trusts for *ad valorem*, excise, sales, or other taxes where given priority under applicable law) in and to such item of the Collateral.

(c) The Lenders with Revolver Commitments shall have no obligation to make additional Advances hereunder to the extent such additional Advances would cause the Revolver Usage to exceed the Maximum Revolver Amount.

(d) Amounts borrowed pursuant to this Section may be repaid and, subject to the terms and conditions of this Agreement, reborrowed at any time during the term of this Agreement.

2.2. Intentionally Omitted.

2.3. Borrowing Procedures and Settlements.

(a) **Procedure for Borrowing.** Each Borrowing shall be made by an irrevocable written request by an Authorized Person delivered to Agent (which notice must be received by Agent no later than 10:00 a.m. (California time) on the Business Day prior to the date that is the requested Funding Date in the case of a request for an Advance specifying (i) the amount of such Borrowing, and (ii) the requested Funding Date, which shall be a Business Day; provided, however, that in the case of a request for Swing Loan in an amount of $5,000,000, or less, such notice will be timely received if it is received by Agent no later than 10:00 a.m. (California time) on the Business Day that is the requested Funding Date) specifying (i) the amount of such Borrowing, and (ii) the requested Funding Date, which shall be a Business Day. At Agent's election, in lieu of delivering the above-described written request, any Authorized Person may give Agent telephonic notice of such request by the required time, with such telephonic notice to be confirmed in writing within 24 hours of the giving of such notice.

(b) **Agent's Election.** Promptly after receipt of a request for a Borrowing pursuant to Section 2.3(a), Agent shall elect, in its discretion, (i) to have the terms of Section 2.3(c) apply to such requested Borrowing, or (ii) if the Borrowing is for an Advance, to request Swing Lender to make a Swing Loan pursuant to the terms of Section 2.3(d) in the amount of the requested Borrowing; provided, however, that if Swing Lender declines in its sole discretion to make a Swing Loan pursuant to Section 2.3(d), Agent shall elect to have the terms of Section 2.3(c) apply to such requested Borrowing.

(c) **Making of Advances.**

(i) In the event that Agent shall elect to have the terms of this Section 2.3(c) apply to a requested Borrowing as described in Section 2.3(b), then promptly after receipt of a request for a Borrowing pursuant to Section 2.3(a), Agent shall notify the Lenders, not later than 1:00 p.m. (California time) on the Business Day immediately preceding the Funding Date applicable thereto, by telecopy, telephone, or other similar form of transmission, of the requested Borrowing. Each Lender shall make the amount of such Lender's Pro Rata Share of the requested Borrowing available to Agent in immediately available funds, to Agent's Account, not later than 10:00 a.m. (California time) on the Funding Date applicable thereto. After Agent's receipt of the proceeds of such Advances, upon satisfaction of the applicable conditions precedent set forth in Section 3 hereof, Agent shall make the proceeds thereof available to Administrative Borrower on the applicable Funding Date by transferring immediately available funds equal to such proceeds received by Agent to Administrative Borrower's Designated Account; provided, however, that, subject to

the provisions of Section 2.3(i), Agent shall not request any Lender to make, and no Lender shall have the obligation to make, any Advance if Agent shall have actual knowledge that (1) one or more of the applicable conditions precedent set forth in Section 3 will not be satisfied on the requested Funding Date for the applicable Borrowing unless such condition has been waived, or (2) the requested Borrowing would exceed the Availability on such Funding Date.

(ii) Unless Agent receives notice from a Lender on or prior to the Closing Date or, with respect to any Borrowing after the Closing Date, at least 1 Business Day prior to the date of such Borrowing, that such Lender will not make available as and when required hereunder to Agent for the account of Borrowers the amount of that Lender's Pro Rata Share of the Borrowing, Agent may assume that each Lender has made or will make such amount available to Agent in immediately available funds on the Funding Date and Agent may (but shall not be so required), in reliance upon such assumption, make available to Borrowers on such date a corresponding amount. If and to the extent any Lender shall not have made its full amount available to Agent in immediately available funds and Agent in such circumstances has made available to Borrowers such amount, that Lender shall on the Business Day following such Funding Date make such amount available to Agent, together with interest at the Defaulting Lender Rate for each day during such period. A notice submitted by Agent to any Lender with respect to amounts owing under this subsection shall be conclusive, absent manifest error. If such amount is so made available, such payment to Agent shall constitute such Lender's Advance on the date of Borrowing for all purposes of this Agreement. If such amount is not made available to Agent on the Business Day following the Funding Date, Agent will notify Administrative Borrower of such failure to fund and, upon demand by Agent, Borrowers shall pay such amount to Agent for Agent's account, together with interest thereon for each day elapsed since the date of such Borrowing, at a rate per annum equal to the interest rate applicable at the time to the Advances composing such Borrowing. The failure of any Lender to make any Advance on any Funding Date shall not relieve any other Lender of any obligation hereunder to make an Advance on such Funding Date, but no Lender shall be responsible for the failure of any other Lender to make the Advance to be made by such other Lender on any Funding Date.

(iii) Agent shall not be obligated to transfer to a Defaulting Lender any payments made by Borrowers to Agent for the Defaulting Lender's benefit, and, in the absence of such transfer to the Defaulting Lender, Agent shall transfer any such payments to each other non-Defaulting Lender member of the Lender Group ratably in accordance with their Commitments (but only to the extent that such Defaulting Lender's Advance was funded by the other members of the Lender Group) or, if so directed by Administrative Borrower and if no Default or Event of Default had occurred and is continuing (and to the extent such Defaulting Lender's Advance was not funded by the Lender Group), retain same to be re-advanced to Borrowers as if such Defaulting Lender had made Advances to Borrowers. Subject to the foregoing, Agent may hold and, in its Permitted Discretion, re-lend to Borrowers for the account

of such Defaulting Lender the amount of all such payments received and retained by it for the account of such Defaulting Lender. Solely for the purposes of voting or consenting to matters with respect to the Loan Documents, such Defaulting Lender shall be deemed not to be a "Lender" and such Lender's Commitment shall be deemed to be zero. This Section shall remain effective with respect to such Lender until (x) the Obligations under this Agreement shall have been declared or shall have become immediately due and payable, (y) the non-Defaulting Lenders, Agent, and Administrative Borrower shall have waived such Defaulting Lender's default in writing, or (z) the Defaulting Lender makes its Pro Rata Share of the applicable Advance and pays to Agent all amounts owing by Defaulting Lender in respect thereof. The operation of this Section shall not be construed to increase or otherwise affect the Commitment of any Lender, to relieve or excuse the performance by such Defaulting Lender or any other Lender of its duties and obligations hereunder, or to relieve or excuse the performance by Borrowers of their duties and obligations hereunder to Agent or to the Lenders other than such Defaulting Lender. Any such failure to fund by any Defaulting Lender shall constitute a material breach by such Defaulting Lender of this Agreement and shall entitle Administrative Borrower at its option, upon written notice to Agent, to arrange for a substitute Lender to assume the Commitment of such Defaulting Lender, such substitute Lender to be acceptable to Agent and Borrowers. In connection with the arrangement of such a substitute Lender, the Defaulting Lender shall have no right to refuse to be replaced hereunder, and agrees to execute and deliver a completed form of Assignment and Acceptance Agreement in favor of the substitute Lender (and agrees that it shall be deemed to have executed and delivered such document if it fails to do so) subject only to being repaid its share of the outstanding Obligations (other than Bank Product Obligations) (including an assumption of its Pro Rata Share of the Risk Participation Liability) without any premium or penalty of any kind whatsoever; provided further, however, that any such assumption of the Commitment of such Defaulting Lender shall not be deemed to constitute a waiver of any of the Lender Groups' or Borrowers' rights or remedies against any such Defaulting Lender arising out of or in relation to such failure to fund.

(d) **Making of Swing Loans.**

(i) In the event Agent shall elect, with the consent of Swing Lender, as a Lender, to have the terms of this Section 2.3(d) apply to a requested Borrowing as described in Section 2.3(b), Swing Lender as a Lender shall make such Advance in the amount of such Borrowing (any such Advance made solely by Swing Lender as a Lender pursuant to this Section 2.3(d) being referred to as a "Swing Loan" and such Advances being referred to collectively as "Swing Loans") available to Borrowers on the Funding Date applicable thereto by transferring immediately available funds to Administrative Borrower's Designated Account. Each Swing Loan is an Advance hereunder and shall be subject to all the terms and conditions applicable to other Advances, except that no such Swing Loan shall be eligible for the LIBOR Option and all payments on any Swing Loan shall be payable to Swing

Lender as a Lender solely for its own account (and for the account of the holder of any participation interest with respect to such Swing Loan). Subject to the provisions of Section 2.3(i), Agent shall not request Swing Lender as a Lender to make, and Swing Lender as a Lender shall not make, any Swing Loan if Agent has actual knowledge that (i) one or more of the applicable conditions precedent set forth in Section 3 will not be satisfied on the requested Funding Date for the applicable Borrowing unless such condition has been waived, or (ii) the requested Borrowing would exceed the Availability on such Funding Date. Swing Lender as a Lender shall not otherwise be required to determine whether the applicable conditions precedent set forth in Section 3 have been satisfied on the Funding Date applicable thereto prior to making, in its sole discretion, any Swing Loan.

(ii) The Swing Loans shall be secured by the Agent's Liens, shall constitute Advances and Obligations hereunder, and shall bear interest at the rate applicable from time to time to Advances that are Base Rate Loans.

(e) **Agent Advances.**

(i) Agent hereby is authorized by Borrowers and the Lenders, from time to time in Agent's sole discretion, (1) after the occurrence and during the continuance of a Default or an Event of Default, or (2) at any time that any of the other applicable conditions precedent set forth in Section 3 have not been satisfied, to make Advances to Borrowers on behalf of the Lenders that Agent, in its Permitted Discretion deems necessary or desirable (A) to preserve or protect the Collateral, or any portion thereof, (B) to enhance the likelihood of repayment of the Obligations (other than the Bank Product Obligations), or (C) to pay any other amount chargeable to Borrowers pursuant to the terms of this Agreement, including Lender Group Expenses and the costs, fees, and expenses described in Section 10 (any of the Advances described in this Section 2.3(e) shall be referred to as "Agent Advances"). Each Agent Advance is an Advance hereunder and shall be subject to all the terms and conditions applicable to other Advances, except that no such Agent Advance shall be eligible for the LIBOR Option and all payments thereon shall be payable to Agent solely for its own account (and for the account of the holder of any participation interest with respect to such Agent Advance).

(ii) The Agent Advances shall be repayable on demand and secured by the Agent's Liens granted to Agent under the Loan Documents, shall constitute Advances and Obligations hereunder, and shall bear interest at the rate applicable from time to time to Advances that are Base Rate Loans.

(f) **Settlement.** It is agreed that each Lender's funded portion of the Advances is intended by the Lenders to equal, at all times, such Lender's Pro Rata Share of the outstanding Advances. Such agreement notwithstanding, Agent, Swing Lender, and the other Lenders agree (which agreement shall not be for the benefit of or enforceable by Borrowers) that in order to facilitate the administration of this Agreement and the other Loan Documents, settlement among them as to the Advances, the Swing Loans, and the Agent Advances shall take place on a periodic basis in accordance with the following provisions:

(i) Agent shall request settlement ("Settlement") with the Lenders on a weekly basis, or on a more frequent basis if so determined by Agent, (1) on behalf of Swing Lender, with respect to each outstanding Swing Loan, (2) for itself, with respect to each Agent Advance, and (3) with respect to Collections received, as to each by notifying the Lenders by telecopy, telephone, or other similar form of transmission, of such requested Settlement, no later than 2:00 p.m. (California time) on the Business Day immediately prior to the date of such requested Settlement (the date of such requested Settlement being the "Settlement Date"). Such notice of a Settlement Date shall include a summary statement of the amount of outstanding Advances, Swing Loans, and Agent Advances for the period since the prior Settlement Date. Subject to the terms and conditions contained herein (including Section 2.3(c)(iii)): (y) if a Lender's balance of the Advances, Swing Loans, and Agent Advances exceeds such Lender's Pro Rata Share of the Advances, Swing Loans, and Agent Advances as of a Settlement Date, then Agent shall, by no later than 12:00 p.m. (California time) on the Settlement Date, transfer in immediately available funds to the account of such Lender as such Lender may designate, an amount such that each such Lender shall, upon receipt of such amount, have as of the Settlement Date, its Pro Rata Share of the Advances, Swing Loans, and Agent Advances, and (z) if a Lender's balance of the Advances, Swing Loans, and Agent Advances is less than such Lender's Pro Rata Share of the Advances, Swing Loans, and Agent Advances as of a Settlement Date, such Lender shall no later than 12:00 p.m. (California time) on the Settlement Date transfer in immediately available funds to the Agent's Account, an amount such that each such Lender shall, upon transfer of such amount, have as of the Settlement Date, its Pro Rata Share of the Advances, Swing Loans, and Agent Advances. Such amounts made available to Agent under clause (z) of the immediately preceding sentence shall be applied against the amounts of the applicable Swing Loan or Agent Advance and, together with the portion of such Swing Loan or Agent Advance representing Swing Lender's Pro Rata Share thereof, shall constitute Advances of such Lenders. If any such amount is not made available to Agent by any Lender on the Settlement Date applicable thereto to the extent required by the terms hereof, Agent shall be entitled to recover for its account such amount on demand from such Lender together with interest thereon at the Defaulting Lender Rate.

(ii) In determining whether a Lender's balance of the Advances, Swing Loans, and Agent Advances is less than, equal to, or greater than such Lender's Pro Rata Share of the Advances, Swing Loans, and Agent Advances as of a Settlement Date, Agent shall, as part of the relevant Settlement, apply to such balance the portion of payments actually received in good funds by Agent with respect to principal, interest, fees payable by Borrowers and allocable to the Lenders hereunder, and proceeds of Collateral. To the extent that a net amount is owed to any such Lender after such application, such net amount shall be distributed by Agent to that Lender as part of such next Settlement.

(iii) Between Settlement Dates, Agent, to the extent no Agent Advances or Swing Loans are outstanding, may pay over to Swing Lender any payments received by Agent, that in accordance with the terms of this Agreement would be applied to the reduction of the Advances, for application to Swing Lender's Pro Rata Share of the Advances. If, as of any Settlement Date, Collections received since the then immediately preceding Settlement Date have been applied to Swing Lender's Pro Rata Share of the Advances other than to Swing Loans, as provided for in the previous sentence, Swing Lender shall pay to Agent for the accounts of the Lenders, and Agent shall pay to the Lenders, to be applied to the outstanding Advances of such Lenders, an amount such that each Lender shall, upon receipt of such amount, have, as of such Settlement Date, its Pro Rata Share of the Advances. During the period between Settlement Dates, Swing Lender with respect to Swing Loans, Agent with respect to Agent Advances, and each Lender (subject to the effect of letter agreements between Agent and individual Lenders) with respect to the Advances other than Swing Loans and Agent Advances, shall be entitled to interest at the applicable rate or rates payable under this Agreement on the daily amount of funds employed by Swing Lender, Agent, or the Lenders, as applicable.

(g) **Notation.** Agent shall record on its books the principal amount of the Advances owing to each Lender, including the Swing Loans owing to Swing Lender, and Agent Advances owing to Agent, and the interests therein of each Lender, from time to time. In addition, each Lender is authorized, at such Lender's option, to note the date and amount of each payment or prepayment of principal of such Lender's Advances in its books and records, including computer records, such books and records constituting conclusive evidence, absent manifest error, of the accuracy of the information contained therein.

(h) **Lenders' Failure to Perform.** All Advances (other than Swing Loans and Agent Advances) shall be made by the Lenders contemporaneously and in accordance with their Pro Rata Shares. It is understood that (i) no Lender shall be responsible for any failure by any other Lender to perform its obligation to make any Advance (or other extension of credit) hereunder, nor shall any Commitment of any Lender be increased or decreased as a result of any failure by any other Lender to perform its obligations hereunder, and (ii) no failure by any Lender to perform its obligations hereunder shall excuse any other Lender from its obligations hereunder.

(i) **Optional Overadvances.** Any contrary provision of this Agreement notwithstanding, the Lenders hereby authorize Agent or Swing Lender, as applicable, and Agent or Swing Lender, as applicable, may, but is not obligated to, knowingly and intentionally, continue to make Advances (including Swing Loans) to Borrowers notwithstanding that an Overadvance exists or thereby would be created, so long as (i) after giving effect to such Advances (including a Swing Loan), the Revolver Usage does not exceed the Borrowing Base by more than $2,500,000, (ii) after giving effect to such Advances (including a Swing Loan) the outstanding Revolver Usage (except for and

excluding amounts charged to the Loan Account for interest, fees, or Lender Group Expenses) does not exceed the Maximum Revolver Amount, and (iii) at the time of the making of any such Advance (including a Swing Loan), Agent does not believe, in good faith, that the Overadvance created by such Advance will be outstanding for more than 90 days. The foregoing provisions are for the exclusive benefit of Agent, Swing Lender, and the Lenders and are not intended to benefit Borrowers in any way. The Advances and Swing Loans, as applicable, that are made pursuant to this Section 2.3(i) shall be subject to the same terms and conditions as any other Advance or Swing Loan, as applicable, except that they shall not be eligible for the LIBOR Option and the rate of interest applicable thereto shall be the rate applicable to Advances that are Base Rate Loans under Section 2.6(c) hereof without regard to the presence or absence of a Default or Event of Default.

(i) In the event Agent obtains actual knowledge that the Revolver Usage exceeds the amounts permitted by the preceding paragraph, regardless of the amount of, or reason for, such excess, Agent shall notify Lenders as soon as practicable (and prior to making any (or any additional) intentional Overadvances (except for and excluding amounts charged to the Loan Account for interest, fees, or Lender Group Expenses) unless Agent determines that prior notice would result in imminent harm to the Collateral or its value), and the Lenders with Revolver Commitments thereupon shall, together with Agent, jointly determine the terms of arrangements that shall be implemented with Borrowers and intended to reduce, within a reasonable time, the outstanding principal amount of the Advances to Borrowers to an amount permitted by the preceding paragraph. In the event Agent or any Lender disagrees over the terms of reduction or repayment of any Overadvance, the terms of reduction or repayment thereof shall be implemented according to the determination of the Required Lenders.

(ii) Each Lender with a Revolver Commitment shall be obligated to settle with Agent as provided in Section 2.3(f) for the amount of such Lender's Pro Rata Share of any unintentional Overadvances by Agent reported to such Lender, any intentional Overadvances made as permitted under this Section 2.3(i), and any Overadvances resulting from the charging to the Loan Account of interest, fees, or Lender Group Expenses.

2.4. Payments.

(a) **Payments by Borrowers.**

(i) Except as otherwise expressly provided herein, all payments by Borrowers shall be made to Agent's Account for the account of the Lender Group and shall be made in immediately available funds, no later than 11:00 a.m. (California time) on the date specified herein. Any payment received by Agent later than 11:00 a.m. (California time), shall be deemed to have been received on the following Business Day and any applicable interest or fee shall continue to accrue until such following Business Day.

(ii) Unless Agent receives notice from Administrative Borrower prior to the date on which any payment is due to the Lenders that Borrowers will not make such payment in full as and when required, Agent may assume that Borrowers have made (or will make) such payment in full to Agent on such date in immediately available funds and Agent may (but shall not be so required), in reliance upon such assumption, distribute to each Lender on such due date an amount equal to the amount then due such Lender. If and to the extent Borrowers do not make such payment in full to Agent on the date when due, each Lender severally shall repay to Agent on demand such amount distributed to such Lender, together with interest thereon at the Defaulting Lender Rate for each day from the date such amount is distributed to such Lender until the date repaid.

(b) **Apportionment and Application.**

(i) Except as otherwise provided with respect to Defaulting Lenders and except as otherwise provided in the Loan Documents (including letter agreements between Agent and individual Lenders), aggregate principal and interest payments shall be apportioned ratably among the Lenders (according to the unpaid principal balance of the Obligations to which such payments relate held by each Lender) and payments of fees and expenses (other than fees or expenses that are for Agent's separate account, after giving effect to any letter agreements between Agent and individual Lenders) shall be apportioned ratably among the Lenders having a Pro Rata Share of the type of Commitment or Obligation to which a particular fee relates. All payments shall be remitted to Agent and all such payments (other than payments received while no Default or Event of Default has occurred and is continuing and which relate to the payment of principal or interest of specific Obligations or which relate to the payment of specific fees), and all proceeds of Accounts or other Collateral received by Agent, shall be applied as follows:

(A) first, to pay any Lender Group Expenses then due to Agent under the Loan Documents, until paid in full,

(B) second, to pay any Lender Group Expenses then due to the Lenders under the Loan Documents, on a ratable basis, until paid in full,

(C) third, to pay any fees then due to Agent (for its separate accounts, after giving effect to any letter agreements between Agent and the individual Lenders) under the Loan Documents until paid in full,

(D) fourth, to pay any fees then due to any or all of the Lenders (after giving effect to any letter agreements between Agent and individual Lenders) under the Loan Documents, on a ratable basis, until paid in full,

(E) fifth, to pay interest due in respect of all Agent Advances, until paid in full,

(F) sixth, ratably to pay interest due in respect of the Advances (other than Agent Advances) and the Swing Loans until paid in full,

(G) seventh, to pay the principal of all Agent Advances until paid in full,

(H) eighth, to pay the principal of all Swing Loans until paid in full,

(I) ninth, so long as no Event of Default has occurred and is continuing, and at Agent's election (which election Agent agrees will not be made if an Overadvance would be created thereby), to pay amounts then due and owing by Administrative Borrower or its Subsidiaries in respect of Bank Products, until paid in full,

(J) tenth, so long as no Event of Default has occurred and is continuing, to pay the principal of all Advances until paid in full,

(K) eleventh, if an Event of Default has occurred and is continuing, ratably (i) to pay the principal of all Advances until paid in full, and (ii) to Agent, to be held by Agent, for the benefit of Wells Fargo or its Affiliates, as applicable, as cash collateral in an amount up to the amount of the Bank Products Reserve established prior to the occurrence of, and not in contemplation of, the subject Event of Default until Administrative Borrower's and its Subsidiaries' obligations in respect of the then extant Bank Products have been paid in full or the cash collateral amount has been exhausted,

(L) twelfth, if an Event of Default has occurred and is continuing, to Agent, to be held by Agent, for the ratable benefit of Issuing Lender and those Lenders having a Revolver Commitment, as cash collateral in an amount up to 105% of the then extant Letter of Credit Usage until paid in full,

(M) thirteenth, to pay any other Obligations (including Bank Product Obligations) until paid in full, and

(N) fourteenth, to Borrowers (to be wired to the Designated Account) or such other Person entitled thereto under applicable law.

(ii) Agent promptly shall distribute to each Lender, pursuant to the applicable wire instructions received from each Lender in writing, such funds as it may be entitled to receive, subject to a Settlement delay as provided in Section 2.3(h).

(iii) In each instance, so long as no Event of Default has occurred and is continuing, Section 2.4(b) shall not be deemed to apply to any payment by Borrowers specified by Borrowers to be for the payment of specific Obligations then due and payable (or prepayable) under any provision of this Agreement.

(iv) For purposes of the foregoing, "paid in full" means payment of all amounts owing under the Loan Documents according to the terms thereof, including loan fees, service fees, professional fees, interest (and specifically including interest accrued after the commencement of any Insolvency Proceeding), default interest, interest on interest, and expense reimbursements, whether or not the same would be or is allowed or disallowed in whole or in part in any Insolvency Proceeding.

(v) In the event of a direct conflict between the priority provisions of this Section 2.4 and other provisions contained in any other Loan Document, it is the intention of the parties hereto that such priority provisions in such documents shall be read together and construed, to the fullest extent possible, to be in concert with each other. In the event of any actual, irreconcilable conflict that cannot be resolved as aforesaid, the terms and provisions of this Section 2.4 shall control and govern.

(c) **Mandatory Prepayments.**

(i) **Equity.** Within 1 Business Day of the date of the issuance by any Company or any of its Subsidiaries of any shares of its or their Stock (other than the issuance of Stock of Parent to directors, officers and employees of a Company pursuant to employee stock option plans (or other employee incentive plans or other compensation arrangements) approved by the Board of Directors), Borrowers shall prepay the outstanding principal amount of the Obligations in accordance with Section 2.4(b) in an amount equal to 100% of the Net Cash Proceeds received by such Person in connection with such issuance. The provisions of this Section 2.4(c)(i) shall not be deemed to be implied consent to any such issuance otherwise prohibited by the terms and conditions of this Agreement.

2.5. Overadvances.

If, at any time or for any reason, the amount of Obligations (other than Bank Product Obligations) owed by Borrowers to the Lender Group pursuant to Sections 2.1 and 2.12 is greater than either the Dollar or percentage limitations set forth in Sections 2.1 or 2.12, (an "Overadvance"), Borrowers immediately shall pay to Agent, in cash, the amount of such excess, which amount shall be used by Agent to reduce the Obligations in accordance with the priorities set forth in Section 2.4(b). In addition, Borrowers hereby promise to pay the Obligations (including principal, interest, fees, costs, and expenses) in Dollars in full to the Lender Group as and when due and payable under the terms of this Agreement and the other Loan Documents.

2.6. Interest Rates and Letter of Credit Fee: Rates, Payments, and Calculations.

(a) **Interest Rates.** Except as provided in clause (c) below, all Obligations (except for undrawn Letters of Credit and except for Bank Product Obligations) that have

been charged to the Loan Account pursuant to the terms hereof shall bear interest on the Daily Balance thereof as follows: (i) if the relevant Obligation is an Advance that is a LIBOR Rate Loan, at a per annum rate equal to the LIBOR Rate plus the LIBOR Rate Margin, and (ii) otherwise, at a per annum rate equal to the Base Rate plus the Base Rate Margin.

(b) **Letter of Credit Fee.** Borrowers shall pay Agent (for the ratable benefit of the Lenders with a Revolver Commitment, subject to any letter agreement between Agent and individual Lenders), a Letter of Credit fee (in addition to the charges, commissions, fees, and costs set forth in Section 2.12(e)) which shall accrue at a rate equal to 2.25% per annum times the Daily Balance of the undrawn amount of all outstanding Letters of Credit.

(c) **Default Rate.** Upon the occurrence and during the continuation of an Event of Default (and at the election of Agent or the Required Lenders),

(i) all Obligations (except for undrawn Letters of Credit and except for Bank Product Obligations) that have been charged to the Loan Account pursuant to the terms hereof shall bear interest on the Daily Balance thereof at a per annum rate equal to 4 percentage points above the per annum rate otherwise applicable hereunder, and

(ii) the Letter of Credit fee provided for above shall be increased to 4 percentage points above the per annum rate otherwise applicable hereunder.

(d) **Payment.** Interest, Letter of Credit fees, and all other fees payable hereunder shall be due and payable, in arrears, on the first day of each month at any time that Obligations or Commitments are outstanding. Borrowers hereby authorize Agent, from time to time, without prior notice to Borrowers, to charge such interest and fees, all Lender Group Expenses (as and when incurred), the charges, commissions, fees, and costs provided for in Section 2.12(e) (as and when accrued or incurred), the fees and costs provided for in Section 2.11 (as and when accrued or incurred), and all other payments as and when due and payable under any Loan Document (including any amounts due and payable to Wells Fargo or its Affiliates in respect of Bank Products up to the amount of the then extant Bank Products Reserve) to Borrowers' Loan Account, which amounts thereafter shall constitute Advances hereunder and shall accrue interest at the rate then applicable to Advances hereunder. Any interest not paid when due shall be compounded by being charged to Borrowers' Loan Account and shall thereafter constitute Advances hereunder and shall accrue interest at the rate then applicable to Advances that are Base Rate Loans hereunder.

(e) **Computation.** All interest and fees chargeable under the Loan Documents shall be computed on the basis of a 360 day year for the actual number of days elapsed. In the event the Base Rate is changed from time to time hereafter, the rates of interest hereunder based upon the Base Rate automatically and immediately shall be increased or decreased by an amount equal to such change in the Base Rate.

(f) **Intent to Limit Charges to Maximum Lawful Rate.** In no event shall the interest rate or rates payable under this Agreement, plus any other amounts paid in connection herewith, exceed the highest rate permissible under any law that a court of competent jurisdiction shall, in a final determination, deem applicable. Borrowers and the Lender Group, in executing and delivering this Agreement, intend legally to agree upon the rate or rates of interest and manner of payment stated within it; provided, however, that, anything contained herein to the contrary notwithstanding, if said rate or rates of interest or manner of payment exceeds the maximum allowable under applicable law, then, *ipso facto*, as of the date of this Agreement, Borrowers are and shall be liable only for the payment of such maximum as allowed by law, and payment received from Borrowers in excess of such legal maximum, whenever received, shall be applied to reduce the principal balance of the Obligations to the extent of such excess.

2.7. Cash Management.

(a) Companies shall (i) establish and maintain cash management services of a type and on terms satisfactory to Agent at one or more of the banks set forth on Schedule 2.7(a) (each a "Cash Management Bank"), and shall request in writing and otherwise take such reasonable steps to ensure that all of its Account Debtors forward payment of the amounts owed by them directly to such Cash Management Bank, and (ii) deposit or cause to be deposited promptly, and in any event no later than the first Business Day after the date of receipt thereof, all Collections (including those sent directly by Account Debtors to a Cash Management Bank) into a bank account in Agent's name (a "Cash Management Account") at one of the Cash Management Banks.

(b) Each Cash Management Bank shall establish and maintain Cash Management Agreements with Agent and Companies, in form and substance acceptable to Agent. Each such Cash Management Agreement shall provide, among other things, that (i) all items of payment deposited in such Cash Management Account and proceeds thereof are held by such Cash Management Bank agent or bailee-in-possession for Agent, (ii) the Cash Management Bank has no rights of setoff or recoupment or any other claim against the applicable Cash Management Account, other than for payment of its service fees and other charges directly related to the administration of such Cash Management Account and for returned checks or other items of payment, and (iii) it immediately will forward by daily sweep all amounts in the applicable Cash Management Account to the Agent's Account.

(c) So long as no Default or Event of Default has occurred and is continuing, Administrative Borrower may amend Schedule 2.7(a) or (b) to add or replace a Cash Management Account Bank or Cash Management Account; provided, however, that (i) such prospective Cash Management Bank shall be satisfactory to Agent and Agent shall have consented in writing in advance to the opening of such Cash Management Account with the prospective Cash Management Bank, and (ii) prior to the time of the opening of such Cash Management Account, Companies and such prospective Cash Management Bank shall have executed and delivered to Agent a Cash Management Agreement. Companies shall close any of their Cash Management Accounts (and establish replacement cash management accounts in accordance with the foregoing sentence) promptly and in any event within 30

days of notice from Agent that the creditworthiness of any Cash Management Bank is no longer acceptable in Agent's reasonable judgment, or as promptly as practicable and in any event within 60 days of notice from Agent that the operating performance, funds transfer, or availability procedures or performance of the Cash Management Bank with respect to Cash Management Accounts or Agent's liability under any Cash Management Agreement with such Cash Management Bank is no longer acceptable in Agent's reasonable judgment.

(d) The Cash Management Accounts shall be cash collateral accounts, with all cash, checks and similar items of payment in such accounts securing payment of the Obligations, and in which Companies are hereby deemed to have granted a Lien to Agent.

2.8. Crediting Payments; Float Charge.

The receipt of any payment item by Agent (whether from transfers to Agent by the Cash Management Banks pursuant to the Cash Management Agreements or otherwise) shall not be considered a payment on account unless such payment item is a wire transfer of immediately available federal funds made to the Agent's Account or unless and until such payment item is honored when presented for payment. Should any payment item not be honored when presented for payment, then Borrowers shall be deemed not to have made such payment and interest shall be calculated accordingly. Anything to the contrary contained herein notwithstanding, any payment item shall be deemed received by Agent only if it is received into the Agent's Account on a Business Day on or before 11:00 a.m. (California time). If any payment item is received into the Agent's Account on a non-Business Day or after 11:00 a.m. (California time) on a Business Day, it shall be deemed to have been received by Agent as of the opening of business on the immediately following Business Day. From and after the Closing Date, Agent shall be entitled to charge Borrowers for 1 Business Day of 'clearance' or 'float' at the rate applicable to Base Rate Loans under Section 2.6 on all Collections that are received by Borrowers (regardless of whether forwarded by the Cash Management Banks to Agent). This across-the-board 1 Business Day clearance or float charge on all Collections is acknowledged by the parties to constitute an integral aspect of the pricing of the financing of Borrowers and shall apply irrespective of whether or not there are any outstanding monetary Obligations; the effect of such clearance or float charge being the equivalent of charging 1 Business Day of interest on such Collections. The parties acknowledge and agree that the economic benefit of the foregoing provisions of this Section 2.8 shall be for the exclusive benefit of Agent.

2.9. Designated Account.

Agent is authorized to make the Advances, and Issuing Lender is authorized to issue the Letters of Credit, under this Agreement based upon telephonic or other instructions received from anyone purporting to be an Authorized Person, or without instructions if pursuant to Section 2.6(d). Administrative Borrower agrees to establish and maintain the Designated Account with the Designated Account Bank for the purpose of receiving the proceeds of the Advances requested by Borrowers and made by Agent or the Lenders hereunder. Unless otherwise agreed by Agent and Administrative Borrower, any Advance, Agent Advance, or Swing Loan requested by Borrowers and made by Agent or the Lenders hereunder shall be made to the Designated Account.

2.10. Maintenance of Loan Account; Statements of Obligations.

Agent shall maintain an account on its books in the name of Borrowers (the "Loan Account") on which Borrowers will be charged with all Advances (including Agent Advances and Swing Loans) made by Agent, Swing Lender, or the Lenders to Borrowers or for Borrowers' account, the Letters of Credit issued by Issuing Lender for Borrowers' account, and with all other payment Obligations hereunder or under the other Loan Documents (except for Bank Product Obligations), including, accrued interest, fees and expenses, and Lender Group Expenses. In accordance with Section 2.8, the Loan Account will be credited with all payments received by Agent from Borrowers or for Borrowers' account, including all amounts received in the Agent's Account from any Cash Management Bank. Agent shall render statements regarding the Loan Account to Administrative Borrower, including principal, interest, fees, and including an itemization of all charges and expenses constituting Lender Group Expenses owing, and such statements shall be conclusively presumed to be correct and accurate and constitute an account stated between Borrowers and the Lender Group unless, within 30 days after receipt thereof by Administrative Borrower, Administrative Borrower shall deliver to Agent written objection thereto describing the error or errors contained in any such statements.

2.11. Fees.

Borrowers shall pay to Agent the following fees and charges, which fees and charges shall be non-refundable when paid (irrespective of whether this Agreement is terminated thereafter) and shall be apportioned among the Lenders in accordance with the terms of letter agreements between Agent and individual Lenders:

(a) **Unused Line Fee.** On the first day of each month during the term of this Agreement, an unused line fee in the amount equal to 0.5% per annum times the result of (a) the Maximum Revolver Amount, less (b) the sum of (i) the average Daily Balance of Advances that were outstanding during the immediately preceding month, plus (ii) the average Daily Balance of the Letter of Credit Usage during the immediately preceding month,

(b) Amended and Restated Fee Letter Fees. As and when due and payable under the terms of the Amended and Restated Fee Letter, Borrowers shall pay to Agent the fees set forth in the Amended and Restated Fee Letter, and

(c) **Audit, Appraisal, and Valuation Charges.** For the separate account of Agent, audit, appraisal, and valuation fees and charges as follows, (i) a fee of $1,000 per day, per auditor, plus out-of-pocket expenses for each financial audit of a Borrower performed by personnel employed by Agent, (ii) if implemented, a fee of $1,000 per day, per applicable individual, plus out of pocket expenses for the establishment of electronic collateral reporting systems, and (iii) the actual charges paid or incurred by Agent for each

appraisal of the Collateral, and (iv) the actual charges paid or incurred by Agent if it elects to employ the services of one or more third Persons to perform financial audits or quality of earnings analyses of Borrowers or their Subsidiaries, to establish electronic collateral reporting systems, to appraise the Collateral, or any portion thereof, or to assess a Borrower's or its subsidiaries' business valuation.

2.12. Letters of Credit

(a) Subject to the terms and conditions of this Agreement, the Issuing Lender agrees to issue letters of credit for the account of Borrowers (each, an "L/C") or to purchase participations or execute indemnities or reimbursement obligations (each such undertaking, an "L/C Undertaking") with respect to letters of credit issued by an Underlying Issuer (as of the Closing Date, the prospective Underlying Issuer is to be Wells Fargo) for the account of Borrowers. To request the issuance of an L/C or an L/C Undertaking (or the amendment, renewal, or extension of an outstanding L/C or L/C Undertaking), Administrative Borrower shall hand deliver or telecopy (or transmit by electronic communication, if arrangements for doing so have been approved by the Issuing Lender) to the Issuing Lender and Agent (reasonably in advance of the requested date of issuance, amendment, renewal, or extension) a notice requesting the issuance of an L/C or L/C Undertaking, or identifying the L/C or L/C Undertaking to be amended, renewed, or extended, the date of issuance, amendment, renewal, or extension, the date on which such L/C or L/C Undertaking is to expire, the amount of such L/C or L/C Undertaking, the name and address of the beneficiary thereof (or of the Underlying Letter of Credit, as applicable), and such other information as shall be necessary to prepare, amend, renew, or extend such L/C or L/C Undertaking. If requested by the Issuing Lender, Borrowers also shall be an applicant under the application with respect to any Underlying Letter of Credit that is to be the subject of an L/C Undertaking. The Issuing Lender shall have no obligation to issue a Letter of Credit if any of the following would result after giving effect to the requested Letter of Credit:

(i) the Letter of Credit Usage would exceed the Borrowing Base *less* the amount of outstanding Advances, or

(ii) the Letter of Credit Usage would exceed $5,000,000, or

(iii) the Letter of Credit Usage would exceed the Maximum Revolver Amount *less* the then extant amount of outstanding Advances.

Borrowers and the Lender Group acknowledge and agree that certain Underlying Letters of Credit may be issued to support letters of credit that already are outstanding as of the Closing Date. Each Letter of Credit (and corresponding Underlying Letter of Credit) shall be in form and substance acceptable to the Issuing Lender (in the exercise of its Permitted Discretion), including the requirement that the amounts payable thereunder must be payable in Dollars. If Issuing Lender is obligated to advance funds under a Letter of Credit, Borrowers immediately shall reimburse such L/C Disbursement to Issuing Lender by paying to Agent an amount equal to such L/C Disbursement not later than 11:00

a.m., California time, on the date that such L/C Disbursement is made, if Administrative Borrower shall have received written or telephonic notice of such L/C Disbursement prior to 10:00 a.m., California time, on such date, or, if such notice has not been received by Administrative Borrower prior to such time on such date, then not later than 11:00 a.m., California time, on (i) the Business Day that Administrative Borrower receives such notice, if such notice is received prior to 10:00 a.m., California time, on the date of receipt, and, in the absence of such reimbursement, the L/C Disbursement immediately and automatically shall be deemed to be an Advance hereunder and, thereafter, shall bear interest at the rate then applicable to Advances that are Base Rate Loans under Section 2.6. To the extent an L/C Disbursement is deemed to be an Advance hereunder, Borrowers' obligation to reimburse such L/C Disbursement shall be discharged and replaced by the resulting Advance. Promptly following receipt by Agent of any payment from Borrowers pursuant to this paragraph, Agent shall distribute such payment to the Issuing Lender or, to the extent that Lenders have made payments pursuant to Section 2.12(c) to reimburse the Issuing Lender, then to such Lenders and the Issuing Lender as their interest may appear.

(b) Promptly following receipt of a notice of L/C Disbursement pursuant to Section 2.12(a), each Lender with a Revolver Commitment agrees to fund its Pro Rata Share of any Advance deemed made pursuant to the foregoing subsection on the same terms and conditions as if Borrowers had requested such Advance and Agent shall promptly pay to Issuing Lender the amounts so received by it from the Lenders. By the issuance of a Letter of Credit (or an amendment to a Letter of Credit increasing the amount thereof) and without any further action on the part of the Issuing Lender or the Lenders with Revolver Commitment, the Issuing Lender shall be deemed to have granted to each Lender with a Revolver Commitment, and each Lender with a Revolver Commitment shall be deemed to have purchased, a participation in each Letter of Credit, in an amount equal to its Pro Rata Share of the Risk Participation Liability of such Letter of Credit, and each such Lender agrees to pay to Agent, for the account of the Issuing Lender, such Lender's Pro Rata Share of any payments made by the Issuing Lender under such Letter of Credit. In consideration and in furtherance of the foregoing, each Lender with a Revolver Commitment hereby absolutely and unconditionally agrees to pay to Agent, for the account of the Issuing Lender, such Lender's Pro Rata Share of each L/C Disbursement made by the Issuing Lender and not reimbursed by Borrowers on the date due as provided in clause (a) of this Section, or of any reimbursement payment required to be refunded to Borrowers for any reason. Each Lender with a Revolver Commitment acknowledges and agrees that its obligation to deliver to Agent, for the account of the Issuing Lender, an amount equal to its respective Pro Rata Share pursuant to this Section 2.12(b) shall be absolute and unconditional and such remittance shall be made notwithstanding the occurrence or continuation of an Event of Default or Default or the failure to satisfy any condition set forth in Section 3 hereof. If any such Lender fails to make available to Agent the amount of such Lender's Pro Rata Share of any payments made by the Issuing Lender in respect of such Letter of Credit as provided in this Section, Agent (for the account of the Issuing Lender) shall be entitled to recover such amount on demand from such Lender together with interest thereon at the Defaulting Lender Rate until paid in full.

(c) Each Borrower hereby agrees to indemnify, save, defend, and hold the Lender Group harmless from any loss, cost, expense, or liability, and reasonable attorneys fees incurred by the Lender Group arising out of or in connection with any Letter of Credit; provided, however, that no Borrower shall be obligated hereunder to indemnify for any loss, cost, expense, or liability that is caused by the gross negligence or willful misconduct of the Issuing Lender or any other member of the Lender Group. Each Borrower agrees to be bound by the Underlying Issuer's regulations and interpretations of any Underlying Letter of Credit or by Issuing Lender's interpretations of any L/C issued by Issuing Lender to or for such Borrower's account, even though this interpretation may be different from such Borrower's own, and each Borrower understands and agrees that the Lender Group shall not be liable for any error, negligence, or mistake, whether of omission or commission, in following Borrowers' instructions or those contained in the Letter of Credit or any modifications, amendments, or supplements thereto, except for those errors, negligence or mistakes that constitute the gross negligence or willful misconduct of the Lender Group. Each Borrower understands that the L/C Undertakings may require Issuing Lender to indemnify the Underlying Issuer for certain costs or liabilities arising out of claims by Borrowers against such Underlying Issuer. Each Borrower hereby agrees to indemnify, save, defend, and hold the Lender Group harmless with respect to any loss, cost, expense (including reasonable attorneys fees), or liability incurred by the Lender Group under any L/C Undertaking as a result of the Lender Group's indemnification of any Underlying Issuer; provided, however, that no Borrower shall be obligated hereunder to indemnify for any loss, cost, expense, or liability that is caused by the gross negligence or willful misconduct of the Issuing Lender or any other member of the Lender Group. Nothing herein shall constitute a waiver of any claim under applicable law that Borrowers, as account parties, may have against the Issuing Lender or the Underlying Issuer in connection with an L/C or an L/C Undertaking, including without limitation a claim for wrongful payment.

(d) Each Borrower hereby authorizes and directs any Underlying Issuer to deliver to the Issuing Lender all instruments, documents, and other writings and property received by such Underlying Issuer pursuant to such Underlying Letter of Credit and to accept and rely upon the Issuing Lender's instructions with respect to all matters arising in connection with such Underlying Letter of Credit and the related application.

(e) Any and all charges, commissions, fees, and costs incurred by the Issuing Lender relating to Underlying Letters of Credit shall be Lender Group Expenses for purposes of this Agreement and immediately shall be reimbursable by Borrowers to Agent for the account of the Issuing Lender; it being acknowledged and agreed by each Borrower that, as of the Closing Date, the issuance charge imposed by the prospective Underlying Issuer is .825% per annum times the face amount of each Underlying Letter of Credit, that such issuance charge may be changed from time to time, and that the Underlying Issuer also imposes a schedule of charges for amendments, extensions, drawings, and renewals.

(f) If by reason of (i) any change in any applicable law, treaty, rule, or regulation or any change in the interpretation or application thereof by any Governmental Authority, or (ii) compliance by the Underlying Issuer or the Lender Group with any direction, request, or requirement (irrespective of whether having the force of law) of any Governmental Authority or monetary authority including, Regulation D of the Federal Reserve Board as from time to time in effect (and any successor thereto):

(i) any reserve, deposit, or similar requirement is or shall be imposed or modified in respect of any Letter of Credit issued hereunder, or

(ii) there shall be imposed on the Underlying Issuer or the Lender Group any other condition regarding any Underlying Letter of Credit or any Letter of Credit issued pursuant hereto;

and the result of the foregoing is to increase, directly or indirectly, the cost to the Lender Group of issuing, making, guaranteeing, or maintaining any Letter of Credit or to reduce the amount receivable in respect thereof by the Lender Group, then, and in any such case, Agent may, at any time within a reasonable period after the additional cost is incurred or the amount received is reduced, notify Administrative Borrower, and Borrowers shall pay on demand such amounts as Agent may specify to be necessary to compensate the Lender Group for such additional cost or reduced receipt, together with interest on such amount from the date of such demand until payment in full thereof at the rate then applicable to Base Rate Loans hereunder. The determination by Agent of any amount due pursuant to this Section, as set forth in a certificate setting forth the calculation thereof in reasonable detail, shall, in the absence of manifest or demonstrable error, be final and conclusive and binding on all of the parties hereto.

2.13. LIBOR Option.

(a) **Interest and Interest Payment Dates.** In lieu of having interest charged at the rate based upon the Base Rate, Borrowers shall have the option (the "LIBOR Option") to have interest on all or a portion of the Advances be charged at a rate of interest based upon the LIBOR Rate. Interest on LIBOR Rate Loans shall be payable on the earliest of (i) the last day of the Interest Period applicable thereto, (ii) the occurrence of an Event of Default in consequence of which the Required Lenders or Agent on behalf thereof elect to accelerate the maturity of all or any portion of the Obligations, or (iii) termination of this Agreement pursuant to the terms hereof. On the last day of each applicable Interest Period, unless Administrative Borrower properly has exercised the LIBOR Option with respect thereto, the interest rate applicable to such LIBOR Rate Loan automatically shall convert to the rate of interest then applicable to Base Rate Loans of the same type hereunder. At any time that an Event of Default has occurred and is continuing, Borrowers no longer shall have the option to request that Advances bear interest at the LIBOR Rate and Agent shall have the right to convert the interest rate on all outstanding LIBOR Rate Loans to the rate then applicable to Base Rate Loans hereunder.

(b) **LIBOR Election.**

(i) Administrative Borrower may, at any time and from time to time, so long as no Event of Default has occurred and is continuing, elect to exercise the LIBOR Option by notifying Agent prior to 11:00 a.m. (California time) at least 3

Business Days prior to the commencement of the proposed Interest Period (the "LIBOR Deadline"). Notice of Administrative Borrower's election of the LIBOR Option for a permitted portion of the Advances and an Interest Period pursuant to this Section shall be made by delivery to Agent of a LIBOR Notice received by Agent before the LIBOR Deadline, or by telephonic notice received by Agent before the LIBOR Deadline (to be confirmed by delivery to Agent of a LIBOR Notice received by Agent prior to 5:00 p.m. (California time) on the same day. Promptly upon its receipt of each such LIBOR Notice, Agent shall provide a copy thereof to each of the Lenders having a Revolver Commitment.

(ii) Each LIBOR Notice shall be irrevocable and binding on Borrowers. In connection with each LIBOR Rate Loan, each Borrower shall indemnify, defend, and hold Agent and the Lenders harmless against any loss, cost, or expense incurred by Agent or any Lender as a result of (a) the payment of any principal of any LIBOR Rate Loan other than on the last day of an Interest Period applicable thereto (including as a result of an Event of Default), (b) the conversion of any LIBOR Rate Loan other than on the last day of the Interest Period applicable thereto, or (c) the failure to borrow, convert, continue or prepay any LIBOR Rate Loan on the date specified in any LIBOR Notice delivered pursuant hereto (such losses, costs, and expenses, collectively, "Funding Losses"). Funding Losses shall, with respect to Agent or any Lender, be deemed to equal the amount determined by Agent or such Lender to be the excess, if any, of (i) the amount of interest that would have accrued on the principal amount of such LIBOR Rate Loan had such event not occurred, at the LIBOR Rate that would have been applicable thereto, for the period from the date of such event to the last day of the then current Interest Period therefor (or, in the case of a failure to borrow, convert or continue, for the period that would have been the Interest Period therefor), *minus* (ii) the amount of interest that would accrue on such principal amount for such period at the interest rate which Agent or such Lender would be offered were it to be offered, at the commencement of such period, Dollar deposits of a comparable amount and period in the London interbank market. A certificate of Agent or a Lender delivered to Administrative Borrower setting forth any amount or amounts that Agent or such Lender is entitled to receive pursuant to this Section shall be conclusive absent manifest error.

(iii) Borrowers shall have not more than 5 LIBOR Rate Loans in effect at any given time. Borrowers only may exercise the LIBOR Option for LIBOR Rate Loans of at least $1,000,000 and integral multiples of $500,000 in excess thereof.

(c) **Prepayments.** Borrowers may prepay LIBOR Rate Loans at any time; provided, however, that in the event that LIBOR Rate Loans are prepaid on any date that is not the last day of the Interest Period applicable thereto, including as a result of any automatic prepayment through the required application by Agent of proceeds of Collections in accordance with Section 2.4(b) or for any other reason, including early termination of the term of this Agreement or acceleration of all or any portion of the Obligations pursuant to the terms hereof, each Borrower shall indemnify, defend, and hold Agent and the Lenders and their Participants harmless against any and all Funding Losses in accordance with clause (b) above.

(d) **Special Provisions Applicable to LIBOR Rate.**

(i) The LIBOR Rate may be adjusted by Agent with respect to any Lender on a prospective basis to take into account any additional or increased costs to such Lender of maintaining or obtaining any eurodollar deposits or increased costs due to changes in applicable law occurring subsequent to the commencement of the then applicable Interest Period, including changes in tax laws (except changes of general applicability in corporate income tax laws) and changes in the reserve requirements imposed by the Board of Governors of the Federal Reserve System (or any successor), excluding the Reserve Percentage, which additional or increased costs would increase the cost of funding loans bearing interest at the LIBOR Rate. In any such event, the affected Lender shall give Administrative Borrower and Agent notice of such a determination and adjustment and Agent promptly shall transmit the notice to each other Lender and, upon its receipt of the notice from the affected Lender, Administrative Borrower may, by notice to such affected Lender (y) require such Lender to furnish to Administrative Borrower a statement setting forth the basis for adjusting such LIBOR Rate and the method for determining the amount of such adjustment, or (z) repay the LIBOR Rate Loans with respect to which such adjustment is made (together with any amounts due under clause (b)(ii) above).

(ii) In the event that any change in market conditions or any law, regulation, treaty, or directive, or any change therein or in the interpretation of application thereof, shall at any time after the date hereof, in the reasonable opinion of any Lender, make it unlawful or impractical for such Lender to fund or maintain LIBOR Advances or to continue such funding or maintaining, or to determine or charge interest rates at the LIBOR Rate, such Lender shall give notice of such changed circumstances to Agent and Administrative Borrower and Agent promptly shall transmit the notice to each other Lender and (y) in the case of any LIBOR Rate Loans of such Lender that are outstanding, the date specified in such Lender's notice shall be deemed to be the last day of the Interest Period of such LIBOR Rate Loans, and interest upon the LIBOR Rate Loans of such Lender thereafter shall accrue interest at the rate then applicable to Base Rate Loans, and (z) Borrowers shall not be entitled to elect the LIBOR Option until such Lender determines that it would no longer be unlawful or impractical to do so.

(e) **No Requirement of Matched Funding.** Anything to the contrary contained herein notwithstanding, neither Agent, nor any Lender, nor any of their Participants, is required actually to acquire eurodollar deposits to fund or otherwise match fund any Obligation as to which interest accrues at the LIBOR Rate. The provisions of this Section shall apply as if each Lender or its Participants had match funded any Obligation as to which interest is accruing at the LIBOR Rate by acquiring eurodollar deposits for each Interest Period in the amount of the LIBOR Rate Loans.

2.14. Capital Requirements.

If, after the date hereof, any Lender determines that (i) the adoption of or change in any law, rule, regulation or guideline regarding capital requirements for banks or bank holding companies, or any change in the interpretation or application thereof by any Governmental Authority charged with the administration thereof, or (ii) compliance by such Lender or its parent bank holding company with any guideline, request or directive of any such entity regarding capital adequacy (whether or not having the force of law), the effect of reducing the return on such Lender's or such holding company's capital as a consequence of such Lender's Commitments hereunder to a level below that which such Lender or such holding company could have achieved but for such adoption, change, or compliance (taking into consideration such Lender's or such holding company's then existing policies with respect to capital adequacy and assuming the full utilization of such entity's capital) by any amount deemed by such Lender to be material, then such Lender may notify Administrative Borrower and Agent thereof. Following receipt of such notice, Borrowers agree to pay such Lender on demand the amount of such reduction of return of capital as and when such reduction is determined, payable within 90 days after presentation by such Lender of a statement in the amount and setting forth in reasonable detail such Lender's calculation thereof and the assumptions upon which such calculation was based (which statement shall be deemed true and correct absent manifest error). In determining such amount, such Lender may use any reasonable averaging and attribution methods.

2.15. Joint and Several Liability of Borrowers.

(a) Each of Borrowers is accepting joint and several liability hereunder and under the other Loan Documents in consideration of the financial accommodations to be provided by the Agent and the Lenders under this Agreement, for the mutual benefit, directly and indirectly, of each of Borrowers and in consideration of the undertakings of the other Borrowers to accept joint and several liability for the Obligations.

(b) Each of Borrowers, jointly and severally, hereby irrevocably and unconditionally accepts, not merely as a surety but also as a co-debtor, joint and several liability with the other Borrowers, with respect to the payment and performance of all of the Obligations (including, without limitation, any Obligations arising under this Section 2.15), it being the intention of the parties hereto that all the Obligations shall be the joint and several obligations of each Person composing Borrowers without preferences or distinction among them.

(c) If and to the extent that any of Borrowers shall fail to make any payment with respect to any of the Obligations as and when due or to perform any of the Obligations in accordance with the terms thereof, then in each such event the other Persons composing Borrowers will make such payment with respect to, or perform, such Obligation.

(d) The Obligations of each Person composing Borrowers under the provisions of this Section 2.15 constitute the absolute and unconditional, full recourse Obligations of each Person composing Borrowers enforceable against each such Borrower to the full extent of its properties and assets, irrespective of the validity, regularity or enforceability of this Agreement or any other circumstances whatsoever.

(e) Except as otherwise expressly provided in this Agreement, each Person composing Borrowers hereby waives notice of acceptance of its joint and several liability, notice of any Advances or Letters of Credit issued under or pursuant to this Agreement, notice of the occurrence of any Default, Event of Default, or of any demand for any payment under this Agreement, notice of any action at any time taken or omitted by Agent or Lenders under or in respect of any of the Obligations, any requirement of diligence or to mitigate damages and, generally, to the extent permitted by applicable law, all demands, notices and other formalities of every kind in connection with this Agreement (except as otherwise provided in this Agreement). Each Person composing Borrowers hereby assents to, and waives notice of, any extension or postponement of the time for the payment of any of the Obligations, the acceptance of any payment of any of the Obligations, the acceptance of any partial payment thereon, any waiver, consent or other action or acquiescence by Agent or Lenders at any time or times in respect of any default by any Person composing Borrowers in the performance or satisfaction of any term, covenant, condition or provision of this Agreement, any and all other indulgences whatsoever by Agent or Lenders in respect of any of the Obligations, and the taking, addition, substitution or release, in whole or in part, at any time or times, of any security for any of the Obligations or the addition, substitution or release, in whole or in part, of any Person composing Borrowers. Without limiting the generality of the foregoing, each of Borrowers assents to any other action or delay in acting or failure to act on the part of any Agent or Lender with respect to the failure by any Person composing Borrowers to comply with any of its respective Obligations, including, without limitation, any failure strictly or diligently to assert any right or to pursue any remedy or to comply fully with applicable laws or regulations thereunder, which might, but for the provisions of this Section 2.15 afford grounds for terminating, discharging or relieving any Person composing Borrowers, in whole or in part, from any of its Obligations under this Section 2.15, it being the intention of each Person composing Borrowers that, so long as any of the Obligations hereunder remain unsatisfied, the Obligations of such Person composing Borrowers under this Section 2.15 shall not be discharged except by performance and then only to the extent of such performance. The Obligations of each Person composing Borrowers under this Section 2.15 shall not be diminished or rendered unenforceable by any winding up, reorganization, arrangement, liquidation, reconstruction or similar proceeding with respect to any Person composing Borrowers or any Agent or Lender. The joint and several liability of the Persons composing Borrowers hereunder shall continue in full force and effect notwithstanding any absorption, merger, amalgamation or any other change whatsoever in the name, constitution or place of formation of any of the Persons composing Borrowers or any Agent or Lender.

(f) Each Person composing Borrowers represents and warrants to Agent and Lenders that such Borrower is currently informed of the financial condition of Borrowers and of all other circumstances which a diligent inquiry would reveal and which bear upon the risk of nonpayment of the Obligations. Each Person composing Borrowers further represents and warrants to Agent and Lenders that such Borrower has read and understands the terms

and conditions of the Loan Documents. Each Person composing Borrowers hereby covenants that such Borrower will continue to keep informed of Borrowers' financial condition, the financial condition of other guarantors, if any, and of all other circumstances which bear upon the risk of nonpayment or nonperformance of the Obligations.

(g) The provisions of this Section 2.15 are made for the benefit of the Agent, the Lenders and their respective successors and assigns, and may be enforced by it or them from time to time against any or all of the Persons composing Borrowers as often as occasion therefor may arise and without requirement on the part of any such Agent, Lender, successor or assign first to marshal any of its or their claims or to exercise any of its or their rights against any of the other Persons composing Borrowers or to exhaust any remedies available to it or them against any of the other Persons composing Borrowers or to resort to any other source or means of obtaining payment of any of the Obligations hereunder or to elect any other remedy. The provisions of this Section 2.15 shall remain in effect until all of the Obligations shall have been paid in full or otherwise fully satisfied. If at any time, any payment, or any part thereof, made in respect of any of the Obligations, is rescinded or must otherwise be restored or returned by any Agent or Lender upon the insolvency, bankruptcy or reorganization of any of the Persons composing Borrowers, or otherwise, the provisions of this Section 2.15 will forthwith be reinstated in effect, as though such payment had not been made.

(h) Each of the Persons composing Borrowers hereby agrees that it will not enforce any of its rights of contribution or subrogation against the other Persons composing Borrowers with respect to any liability incurred by it hereunder or under any of the other Loan Documents, any payments made by it to the Agent or the Lenders with respect to any of the Obligations or any collateral security therefor until such time as all of the Obligations have been paid in full in cash. Any claim which any Borrower may have against any other Borrower with respect to any payments to any Agent or Lender hereunder or under any other Loan Documents are hereby expressly made subordinate and junior in right of payment, without limitation as to any increases in the Obligations arising hereunder or thereunder, to the prior payment in full in cash of the Obligations and, in the event of any insolvency, bankruptcy, receivership, liquidation, reorganization or other similar proceeding under the laws of any jurisdiction relating to any Borrower, its debts or its assets, whether voluntary or involuntary, all such Obligations shall be paid in full in cash before any payment or distribution of any character, whether in cash, securities or other property, shall be made to any other Borrower therefor.

(i) Each of the Persons composing Borrowers hereby agrees that, after the occurrence and during the continuance of any Default or Event of Default, the payment of any amounts due with respect to the indebtedness owing by any Borrower to any other Borrower is hereby subordinated to the prior payment in full in cash of the Obligations. Each Borrower hereby agrees that after the occurrence and during the continuance of any Default or Event of Default, such Borrower will not demand, sue for or otherwise attempt to collect any indebtedness of any other Borrower owing to such Borrower until the Obligations shall have been paid in full in cash. If, notwithstanding the foregoing sentence, such Borrower shall collect, enforce or receive any amounts in respect of such indebtedness, such

amounts shall be collected, enforced and received by such Borrower as trustee for the Agent, and the Agent shall deliver any such amounts to the Administrative Agent for application to the Obligations in accordance with Section 2.4(b).

(j) Each of the Credit Parties has jointly and severally guaranteed the Obligations of Borrowers pursuant to the Joint and Several Guaranty.

3. CONDITIONS; TERM OF AGREEMENT.

3.1. Conditions Precedent to the Initial Extension of Credit.

The effectiveness of this Agreement is subject to the fulfillment, to the satisfaction of Agent, of each of the conditions precedent set forth below:

(a) Agent shall have received each of the documents listed on Exhibit 3.1, each such document to be in form and substance satisfactory to Agent, duly executed, and in full force and effect;

(b) Agent shall have received a certificate from the Secretary of each Borrower attesting to the resolutions of such Borrower's Board of Directors authorizing its execution, delivery, and performance of this Agreement and the other Loan Documents to which such Borrower is a party and authorizing specific officers of such Borrower to execute the same;

(c) Agent shall have received copies of each Borrower's Governing Documents, as amended, modified, or supplemented to the Closing Date, certified by the Secretary of such Borrower;

(d) Agent shall have received a certificate of status with respect to each Borrower, dated within 20 days of the Closing Date, such certificate to be issued by the appropriate officer of the jurisdiction of organization of such Borrower, which certificate shall indicate that such Borrower is in good standing in such jurisdiction;

(e) Agent shall have received certificates of status with respect to each Borrower, each dated within 30 days of the Closing Date, such certificates to be issued by the appropriate officer of the jurisdictions (other than the jurisdiction of organization of such Borrower) in which its failure to be duly qualified or licensed would constitute a Material Adverse Change, which certificates shall indicate that such Borrower is in good standing in such jurisdictions;

(f) Agent shall have received a certificate from the Secretary of each Credit Party attesting to the resolutions of such Credit Party's Board of Directors authorizing its execution, delivery, and performance of the Loan Documents to which such Credit Party is a party and authorizing specific officers of such Credit Party to execute the same;

(g) Agent shall have received copies of each Credit Party's Governing Documents, as amended, modified, or supplemented to the Closing Date, certified by the Secretary of such Credit Party;

(h) Agent shall have received a certificate of status with respect to each Credit Party, dated within 20 days of the Closing Date, such certificate to be issued by the appropriate officer of the jurisdiction of organization of such Credit Party, which certificate shall indicate that such Credit Party is in good standing in such jurisdiction;

(i) Agent shall have received certificates of status with respect to each Credit Party, each dated within 30 days of the Closing Date, such certificates to be issued by the appropriate officer of the jurisdictions (other than the jurisdiction of organization of such Credit Party) in which its failure to be duly qualified or licensed would constitute a Material Adverse Change, which certificates shall indicate that such Credit Party is in good standing in such jurisdictions;

(j) Agent shall have received a certificate of insurance, together with the endorsements thereto, as required by Section 6.8, the form and substance of which shall be satisfactory to Agent;

(k) Agent shall have received opinions of Companies' counsel in form and substance satisfactory to Agent;

(l) Agent shall have received satisfactory evidence (including a certificate of the chief financial officer of Parent) that all tax returns required to be filed by Companies have been timely filed and all taxes upon Companies or their properties, assets, income, and franchises (including Real Property taxes and payroll taxes) have been paid prior to delinquency, except such taxes that are the subject of a Permitted Protest;

(m) Borrowers shall have the Required Availability after giving effect to the initial extensions of credit hereunder;

(n) Each Borrower shall have registered all of its copyrights that constitute a material asset, constitute copyrightable software, or are necessary to the operation of its business, including the copyrights listed on Schedule 3.1.

(o) Agent shall have completed its business, legal, and collateral due diligence, including (i) a collateral audit and review of Companies' books and records and verification of Companies' representations and warranties to the Lender Group, the results of which shall be satisfactory to Agent, and (ii) an inspection of each of the locations where Inventory is located, the results of which shall be satisfactory to Agent;

(p) Agent shall have received completed reference checks with respect to Borrowers' senior management, the results of which are satisfactory to Agent in its sole discretion;

(q) the holders of at least 70% of the Private Preferred Stock shall have agreed to extend the redemption date of such Stock from October 31, 2008 to no earlier than December 31, 2011;

(r) each creditor that holds a Series B Senior Subordinated Secured Note or a Series C Subordinated Unsecured Note shall have agreed to extend the maturity date of such bites from October 31, 2008 to no earlier than December 31, 2011.

(s) Agent shall have received Borrowers' Closing Date Business Plan;

(t) Agent shall have completed its review of Borrowers' government contracts and be satisfied with the results thereof, and Borrower shall have complied with the Assignment of Claims Act for each of their government contracts;

(u) Borrowers shall pay all Lender Group Expenses incurred in connection with the transactions evidenced by this Agreement; and

(v) all other documents and legal matters in connection with the transactions contemplated by this Agreement shall have been delivered, executed, or recorded and shall be in form and substance satisfactory to Agent.

3.2. Intentionally Omitted.

3.3. Conditions Precedent to all Extensions of Credit.

The obligation of the Lender Group (or any member thereof) to make all Advances (or to extend any other credit hereunder) shall be subject to the following conditions precedent:

(a) the representations and warranties contained in this Agreement and the other Loan Documents shall be true and correct in all material respects (except that such materiality qualifier shall not be applicable to any representations and warranties that already are qualified or modified by materiality, Material Adverse Effect or a dollar threshold in the text thereof) on and as of the date of such extension of credit, as though made on and as of such date (except to the extent that such representations and warranties relate solely to an earlier date);

(b) no Default or Event of Default shall have occurred and be continuing on the date of such extension of credit, nor shall either result from the making thereof; and

(c) no injunction, writ, restraining order, or other order of any nature prohibiting, directly or indirectly, the extending of such credit shall have been issued and remain in force by any Governmental Authority against any Company, Agent, any Lender, or any of their Affiliates.

3.4. Term.

This Agreement shall become effective upon the execution and delivery hereof by Companies, Agent, and the Lenders and shall continue in full force and effect for a term ending on September 30, 2011 (the "Maturity Date"). The foregoing notwithstanding, the Lender Group, upon the election of the Required Lenders, shall have the right to terminate its obligations under this Agreement immediately and without notice upon the occurrence and during the continuation of an Event of Default.

3.5. Effect of Termination.

On the date of termination of this Agreement, all Obligations (including contingent reimbursement obligations of Borrowers with respect to any outstanding Letters of Credit and including all Bank Products Obligations) immediately shall become due and payable without notice or demand (including (a) either (i) providing cash collateral to be held by Agent for the benefit of those Lenders with a Revolver Commitment in an amount equal to 105% of the then extant Letter of Credit Usage, or (ii) causing the original Letters of Credit to be returned to the Issuing Lender, and (b) providing cash collateral to be held by Agent for the benefit of Wells Fargo or its Affiliates with respect to the then extant Bank Products Obligations). No termination of this Agreement, however, shall relieve or discharge Borrowers of their duties, Obligations, or covenants hereunder and the Agent's Liens in the Collateral shall remain in effect until all Obligations have been fully and finally discharged and the Lender Group's obligations to provide additional credit hereunder have been terminated. When this Agreement has been terminated and all of the Obligations have been fully and finally discharged and the Lender Group's obligations to provide additional credit under the Loan Documents have been terminated irrevocably, Agent will, at Borrowers' sole expense, execute and deliver any UCC termination statements, lien releases, mortgage releases, re-assignments of trademarks, discharges of security interests, and other similar discharge or release documents (and, if applicable, in recordable form) as are reasonably necessary to release, as of record, the Agent's Liens and all notices of security interests and liens previously filed by Agent with respect to the Obligations.

3.6. Early Termination by Borrowers.

Borrowers have the option, at any time upon 90 days prior written notice by Administrative Borrower to Agent, to terminate this Agreement by paying to Agent, for the benefit of the Lender Group, in cash, the Obligations (including (a) either (i) providing cash collateral to be held by Agent for the benefit of those Lenders with a Revolver Commitment in an amount equal to 105% of the then extant Letter of Credit Usage, or (ii) causing the original Letters of Credit to be returned to the Issuing Lender, and (b) providing cash collateral to be held by Agent for the benefit of Wells Fargo or its Affiliates with respect to the then extant Bank Products Obligations), in full, together with the Applicable Prepayment Premium (to be allocated based upon letter agreements between Agent and individual Lenders). If Administrative Borrower has sent a notice of termination pursuant to the provisions of this Section, then the Commitments shall terminate and Borrowers shall be obligated to repay the Obligations (including (a) either (i) providing cash collateral to be held

by Agent for the benefit of those Lenders with a Revolver Commitment in an amount equal to 105% of the then extant Letter of Credit Usage, or (ii) causing the original Letters of Credit to be returned to the Issuing Lender, and (b) providing cash collateral to be held by Agent for the benefit of Wells Fargo or its Affiliates with respect to the then extant Bank Products Obligations), in full, together with the Applicable Prepayment Premium, on the date set forth as the date of termination of this Agreement in such notice; provided, that Borrowers shall not be obligated to pay the Applicable Prepayment Premium if the Obligations are repaid in full with proceeds of a financing provided by Wells Fargo. In the event of the termination of this Agreement and repayment of the Obligations at any time prior to the Maturity Date, for any other reason, including (a) termination upon the election of the Required Lenders to terminate after the occurrence of an Event of Default, (b) foreclosure and sale of Collateral, (c) sale of the Collateral in any Insolvency Proceeding, or (iv) restructure, reorganization or compromise of the Obligations by the confirmation of a plan of reorganization, or any other plan of compromise, restructure, or arrangement in any Insolvency Proceeding, then, in view of the impracticability and extreme difficulty of ascertaining the actual amount of damages to the Lender Group or profits lost by the Lender Group as a result of such early termination, and by mutual agreement of the parties as to a reasonable estimation and calculation of the lost profits or damages of the Lender Group, Borrowers shall pay the Applicable Prepayment Premium to Agent (to be allocated based upon letter agreements between Agent and individual Lenders), measured as of the date of such termination.

4. CREATION OF SECURITY INTEREST.

4.1. Grant of Security Interest.

Each Company hereby grants to Agent, for the benefit of the Lender Group (and hereby reaffirms its prior grant pursuant to the terms of the Original Loan and Security Agreement to Agent for the benefit of the Lender Group, of), a continuing security interest in all of its right, title, and interest in all currently existing and hereafter acquired or arising Collateral in order to secure prompt repayment of any and all of the Obligations in accordance with the terms and conditions of the Loan Documents and in order to secure prompt performance by Companies of each of their covenants and duties under the Loan Documents. The Agent's Liens in and to the Collateral shall attach to all Collateral without further act on the part of Agent or Companies. Anything contained in this Agreement or any other Loan Document to the contrary notwithstanding, except for Permitted Dispositions, Companies have no authority, express or implied, to dispose of any item or portion of the Collateral. It is the intention of the parties to this Agreement that the security interests granted hereby are a continuation and reaffirmation of the security interests granted under the Original Loan and Security Agreement.

4.2. Negotiable Collateral.

In the event that any Collateral, including proceeds, is evidenced by or consists of Negotiable Collateral, and if and to the extent that perfection or priority of Agent's security interest is dependent on or enhanced by possession, the applicable Company, immediately upon the request of Agent, shall endorse and deliver physical possession of such Negotiable Collateral to Agent.

4.3. Collection of Accounts, General Intangibles, and Negotiable Collateral.

At any time after the occurrence and during the continuation of an Event of Default, Agent or Agent's designee may (a) notify Account Debtors of Companies that the Accounts, chattel paper, or General Intangibles have been assigned to Agent or that Agent has a security interest therein, or (b) collect the Accounts, chattel paper, or General Intangibles directly and charge the collection costs and expenses to the Loan Account. Each Company agrees that it will hold in trust for the Lender Group, as the Lender Group's trustee, any Collections that it receives and immediately will deliver said Collections to Agent or a Cash Management Bank in their original form as received by the applicable Company.

4.4. Delivery of Additional Documentation Required.

At any time upon the request of Agent, Companies shall execute and deliver to Agent, any and all financing statements, original financing statements in lieu of continuation statements, fixture filings, security agreements, pledges, assignments, endorsements of certificates of title, and all other documents (the "Additional Documents") that Agent may request in its Permitted Discretion, in form and substance satisfactory to Agent, to perfect and continue perfected or better perfect the Agent's Liens in the Collateral (whether now owned or hereafter arising or acquired), to create and perfect Liens in favor of Agent in any Real Property acquired after the Closing Date, and in order to fully consummate all of the transactions contemplated hereby and under the other Loan Documents. To the maximum extent permitted by applicable law, each Company authorizes Agent to execute any such Additional Documents in the applicable Company's name and authorize Agent to file such executed Additional Documents in any appropriate filing office. In addition, on a quarterly basis (or more frequent periodic basis as Agent shall require), Companies shall (a) provide Agent with a report of all new patentable, copyrightable, or trademarkable materials acquired or generated by Companies during the prior period, (b) cause all patents, copyrights, and trademarks acquired or generated by Companies that are not already the subject of a registration with the appropriate filing office (or an application therefor diligently prosecuted) to be registered with such appropriate filing office in a manner sufficient to impart constructive notice of Companies' ownership thereof, and (c) cause to be prepared, executed, and delivered to Agent supplemental schedules to the applicable Loan Documents to identify such patents, copyrights, and trademarks as being subject to the security interests created thereunder.

4.5. Power of Attorney.

Each Company hereby irrevocably makes, constitutes, and appoints Agent (and any of Agent's officers, employees, or agents designated by Agent) as such Company's true and lawful attorney, with power to (a) if such Company refuses to, or fails timely to execute and deliver any of the documents described in Section 4.4, sign the name of such Company on any of the documents described in Section 4.4, (b) at any time that an Event of

Default has occurred and is continuing, sign such Company's name on any invoice or bill of lading relating to the Collateral, drafts against Account Debtors, or notices to Account Debtors, (c) send requests for verification of Accounts, (d) endorse such Company's name on any Collection item that may come into the Lender Group's possession, (e) at any time that an Event of Default has occurred and is continuing, make, settle, and adjust all claims under such Company's policies of insurance and make all determinations and decisions with respect to such policies of insurance, and (f) at any time that an Event of Default has occurred and is continuing, settle and adjust disputes and claims respecting the Accounts, chattel paper, or General Intangibles directly with Account Debtors, for amounts and upon terms that Agent determines to be reasonable, and Agent may cause to be executed and delivered any documents and releases that Agent determines to be necessary. The appointment of Agent as each Company's attorney, and each and every one of its rights and powers, being coupled with an interest, is irrevocable until all of the Obligations have been fully and finally repaid and performed and the Lender Group's obligations to extend credit hereunder are terminated.

4.6. Right to Inspect.

Agent and each Lender (through any of their respective officers, employees, or agents) shall have the right, from time to time hereafter to inspect the Books and to check, test, and appraise the Collateral in order to verify Companies' financial condition or the amount, quality, value, condition of, or any other matter relating to, the Collateral.

4.7. Control Agreements.

Each Company agrees that it will not transfer assets out of any Securities Accounts other than as permitted under Section 7.19 and, if to another securities intermediary, unless each of the applicable Company, Agent, and the substitute securities intermediary have entered into a Control Agreement. No arrangement contemplated hereby or by any Control Agreement in respect of any Securities Accounts or other Investment Property shall be modified by Companies without the prior written consent of Agent. Upon the occurrence and during the continuance of a Default or Event of Default, Agent may notify any securities intermediary to liquidate the applicable Securities Account or any related Investment Property maintained or held thereby and remit the proceeds thereof to the Agent's Account.

4.8. DDAs.

No Company shall establish any DDA or other deposit account after the Closing Date unless contemporaneously with the establishment of each such DDA or other deposit account, the bank at which the DDA or other deposit account is established enters into a Control Agreement with Agent.

4.9. Commercial Tort Claims.

As of the Closing Date, no Company holds any commercial tort claims, except as set forth on Schedule 4.9. Each Company agrees that it shall notify Agent if it obtains any commercial tort claim and take such actions as Agent shall request to perfect Agent's lien on such commercial tort claim.

5. REPRESENTATIONS AND WARRANTIES.

In order to induce the Lender Group to enter into this Agreement, each Company makes the following representations and warranties to the Lender Group which shall be true, correct, and complete, in all material respects, as of the date hereof, and shall be true, correct, and complete, in all material respects, as of the Closing Date, and at and as of the date of the making of each Advance (or other extension of credit) made thereafter, as though made on and as of the date of such Advance (or other extension of credit) (except to the extent that such representations and warranties relate solely to an earlier date) and such representations and warranties shall survive the execution and delivery of this Agreement:

5.1. No Encumbrances.

Each Company has good and indefeasible title to its Collateral and the Real Property, free and clear of Liens except for Permitted Liens.

5.2. Eligible Accounts.

The Eligible Accounts are bona fide existing payment obligations of Account Debtors created by the sale and delivery of Inventory or the rendition of services to such Account Debtors in the ordinary course of Borrowers' business, owed to Borrowers without defenses, disputes, offsets, counterclaims, or rights of return or cancellation. As to each Account that is identified by Administrative Borrower as an Eligible Account in a borrowing base report submitted to Agent, such Account is not excluded as ineligible by virtue of one or more of the excluding criteria set forth in the definition of Eligible Accounts. Without limiting the foregoing, any Account identified by a Borrower as an Eligible Account that is owing by the United States, or any department, agency or instrumentality of the United States (i) arises under a contract that does not prohibit the assignment thereof, (ii) arises under a contract that specifies payments totaling $1,000 or more, and (iii) has been assigned to Agent in compliance with the Assignment of Claims Act, 31 U.S.C. § 3727.

5.3. Copyrights.

Schedule 3.1 lists all copyrights of any Borrower that constitute a material asset, constitute copyrightable software or are necessary to the operation of the business of such Borrower.

5.4. Equipment.

All of the Equipment is used or held for use in Companies' business and is fit for such purposes.

5.5. Location of Inventory and Equipment.

The Inventory and Equipment are not stored with a bailee, warehouseman, or similar party and are located only at the locations identified on Schedule 5.5.

5.6. Inventory Records.

Each Company keeps correct and accurate records itemizing and describing the type, quality, and quantity of its Inventory and the book value thereof.

5.7. Location of Chief Executive Office; FEIN.

The chief executive office of each Company is located at the address indicated in Schedule 5.7 and each Company's FEIN is identified in Schedule 5.7.

5.8. Due Organization and Qualification; Subsidiaries

(a) Each Company is duly organized and existing and in good standing under the laws of the jurisdiction of its organization and qualified to do business in any state where the failure to be so qualified reasonably could be expected to have a Material Adverse Change.

(b) Set forth on Schedule 5.8(b), is a complete and accurate description of the authorized capital Stock of each Company, by class, and, as of the Closing Date, a description of the number of shares of each such class that are issued and outstanding. Other than as described on Schedule 5.8(b), there are no subscriptions, options, warrants, or calls relating to any shares of each Company's capital Stock, including any right of conversion or exchange under any outstanding security or other instrument. No Company is subject to any obligation (contingent or otherwise) to repurchase or otherwise acquire or retire any shares of its capital Stock or any security convertible into or exchangeable for any of its capital Stock.

(c) Set forth on Schedule 5.8(c), is a complete and accurate list of each Company's direct and indirect Subsidiaries, showing: (i) the jurisdiction of their organization; (ii) the number of shares of each class of common and preferred Stock authorized for each of such Subsidiaries; and (iii) the number and the percentage of the outstanding shares of each such class owned directly or indirectly by the applicable Company. All of the outstanding capital Stock of each such Subsidiary has been validly issued and is fully paid and non-assessable.

(d) Except as set forth on Schedule 5.8(c), there are no subscriptions, options, warrants, or calls relating to any shares of any Company's Subsidiaries' capital Stock, including any right of conversion or exchange under any outstanding security or other instrument. No Company or any of its respective Subsidiaries is subject to any obligation (contingent or otherwise) to repurchase or otherwise acquire or retire any shares of any Company's Subsidiaries' capital Stock or any security convertible into or exchangeable for any such capital Stock.

5.9. Due Authorization; No Conflict.

(a) As to each Company, the execution, delivery, and performance by such Company of this Agreement and the Loan Documents to which it is a party have been duly authorized by all necessary action on the part of such Company.

(b) As to each Company, the execution, delivery, and performance by such Company of this Agreement and the Loan Documents to which it is a party do not and will not (i) violate any provision of federal, state, or local law or regulation applicable to any Company, the Governing Documents of any Company, or any order, judgment, or decree of any court or other Governmental Authority binding on any Company, (ii) conflict with, result in a breach of, or constitute (with due notice or lapse of time or both) a default under any material contractual obligation of any Company, (iii) result in or require the creation or imposition of any Lien of any nature whatsoever upon any properties or assets of Company, other than Permitted Liens, or (iv) require any approval of any Company's interestholders or any approval or consent of any Person under any material contractual obligation of any Company.

(c) Other than the filing of financing statements and fixture filings, the execution, delivery, and performance by each Company of this Agreement and the Loan Documents to which such Company is a party do not and will not require any registration with, consent, or approval of, or notice to, or other action with or by, any Governmental Authority or other Person.

(d) As to each Company, this Agreement and the other Loan Documents to which such Company is a party, and all other documents contemplated hereby and thereby, when executed and delivered by such Company will be the legally valid and binding obligations of such Company, enforceable against such Company in accordance with their respective terms, except as enforcement may be limited by equitable principles or by bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or limiting creditors' rights generally.

(e) The Agent's Liens are validly created, perfected, and first priority Liens, subject only to Permitted Liens

5.10. Litigation.

Other than those matters disclosed on Schedule 5.10, there are no actions, suits, or proceedings pending or, to the best knowledge of Companies, threatened against Companies, or any of their Subsidiaries, as applicable, except for (a) matters that are fully covered by insurance (subject to customary deductibles), and (b) matters arising after the Closing Date that, if decided adversely to Companies, or any of their Subsidiaries, as applicable, reasonably could not be expected to result in a Material Adverse Change.

5.11. No Material Adverse Change.

All financial statements relating to Companies that have been delivered by Companies to the Lender Group have been prepared in accordance with GAAP (except, in the case of unaudited financial statements, for the lack of footnotes and being subject to year-end audit adjustments) and present fairly in all material respects, Companies' financial condition as of the date thereof and results of operations for the period then ended. There has not been a Material Adverse Change with respect to Companies since December 31, 2006.

5.12. Fraudulent Transfer.

(a) Each Borrower is Solvent.

(b) No transfer of property is being made by any Company and no obligation is being incurred by any Company in connection with the transactions contemplated by this Agreement or the other Loan Documents with the intent to hinder, delay, or defraud either present or future creditors of Companies.

5.13. Employee Benefits.

None of Companies, any of their Subsidiaries, or any of their ERISA Affiliates maintains or contributes to any Benefit Plan.

5.14. Environmental Condition.

Except as set forth on Schedule 5.14, (a) to Companies' knowledge, none of Companies' properties or assets has ever been used by Companies or by previous owners or operators in the disposal of, or to produce, store, handle, treat, release, or transport, any Hazardous Materials, where such production, storage, handling, treatment, release or transport was in violation, in any material respect, of applicable Environmental Law, (b) to Companies' knowledge, none of Companies' properties or assets has ever been designated or identified in any manner pursuant to any environmental protection statute as a Hazardous Materials disposal site, (c) none of Companies have received notice that a Lien arising under any Environmental Law has attached to any revenues or to any Real Property owned or operated by Companies, and (d) none of Companies have received a summons, citation, notice, or directive from the Environmental Protection Agency or any other federal or state governmental agency concerning any action or omission by any Company resulting in the releasing or disposing of Hazardous Materials into the environment.

5.15. Brokerage Fees.

Companies have not utilized the services of any broker or finder in connection with Companies' obtaining financing from the Lender Group under this Agreement and no brokerage commission or finders fee is payable by Companies in connection herewith.

5.16. Intellectual Property.

Each Company owns, or holds licenses in, all trademarks, trade names, copyrights, patents, patent rights, and licenses that are necessary to the conduct of its business as currently conducted. Attached hereto as Schedule 5.16 (as updated within 30 days of the end of each fiscal quarter of Parent) is a true, correct, and complete listing of all material patents, patent applications, trademarks, trademark applications, copyrights, and copyright registrations as to which each Company is the owner or is an exclusive licensee. Except as listed on Schedule 5.16, no Company is a party to any license of any trademark, copyright or patent.

5.17. Leases.

Companies enjoy peaceful and undisturbed possession under all leases material to the business of Companies and to which Companies are a party or under which Companies are operating. All of such leases are valid and subsisting and no material default by Companies exists under any of them.

5.18. DDAs.

Set forth on Schedule 5.18 are all of the DDAs of each Company, including, with respect to each depository (i) the name and address of that depository, and (ii) the account numbers of the accounts maintained with such depository.

5.19. Complete Disclosure.

All factual information (taken as a whole) furnished by or on behalf of Companies in writing to Agent or any Lender (including all information contained in the Schedules hereto or in the other Loan Documents) for purposes of or in connection with this Agreement, the other Loan Documents or any transaction contemplated herein or therein is, and all other such factual information (taken as a whole) hereafter furnished by or on behalf of Companies in writing to the Agent or any Lender will be, true and accurate in all material respects on the date as of which such information is dated or certified and not incomplete by omitting to state any fact necessary to make such information (taken as a whole) not misleading in any material respect at such time in light of the circumstances under which such information was provided. On the Closing Date, the Closing Date Projections represent, and as of the date on which any other Projections are delivered to Agent, such additional Projections represent Companies' good faith best estimate of its future performance for the periods covered thereby.

5.20. Indebtedness.

Set forth on Schedule 5.20 is a true and complete list of all Indebtedness of each Company outstanding immediately prior to the Closing Date that is to remain outstanding after the Closing Date and such Schedule accurately reflects the aggregate principal amount of such Indebtedness and the principal terms thereof.

5.21. Private Preferred Stock.

Each holder of the Private Preferred Stock other than North Atlantic Smaller Companies Investment Trust LLP and North Atlantic Value LLP A/C B has executed and delivered a Preferred Stockholders Standby Agreement pursuant to which such holder has agreed not to request the redemption of the Private Preferred Stock until the Obligations are repaid in full.

5.22. Patriot Act.

To the extent applicable, each Company is in compliance, in all material respects, with the (a) Trading with the Enemy Act, as amended, and each of the foreign assets control regulations of the United States Treasury Department (31 CFR, Subtitle B, Chapter V, as amended) and any other enabling legislation or executive order relating thereto, and (b) Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (USA Patriot Act of 2001) (the "Patriot Act"). No part of the proceeds of the loans made hereunder will be used, directly or indirectly, for any payments to any government official or employee, political party, official of a political party, candidate for political office, or anyone else acting in an official capacity, in order to obtain, retain or direct business or obtain any improper advantage, in violation of the United States Foreign Corrupt Practices Act of 1977, as amended.

5.23. OFAC.

No Company nor any of its Subsidiaries is in violation of any of the country or list based economic and trade sanctions administered and enforced by OFAC. No Company nor any of its Subsidiaries (a) is a Sanctioned Person or a Sanctioned Entity, (b) has more than 10% of its assets located in Sanctioned Entities, or (c) derives more than 10% of its revenues from investments in, or transactions with Sanctioned Persons or Sanctioned Entities. The proceeds of any Advance will not be used to fund any operations in, finance any investments or activities in, or make any payments to, a Sanctioned Person or a Sanctioned Entity.

5.24. Inactive Entities

Each of Telos Field Engineering, Inc., Telos International Corp., Telos International Asia, Inc., Secure Trade, Inc., Telos Filinvest, Inc. and ubIQuity Philippines, Inc. is an inactive entity that conducts no business and has no assets or liabilities.

6. AFFIRMATIVE COVENANTS.

Each Company covenants and agrees that, so long as any credit hereunder shall be available and until full and final payment of the Obligations, Companies shall and shall cause each of their respective Subsidiaries to do all of the following:

6.1. Accounting System.

Maintain a system of accounting that enables Companies to produce financial statements in accordance with GAAP and maintain records pertaining to the Collateral that contain information as from time to time reasonably may be requested by Agent. Companies also shall keep an inventory reporting system that shows all additions, sales, claims, returns, and allowances with respect to the Inventory.

6.2. Collateral Reporting.

Provide Agent (and if so requested by Agent, with copies for each Lender) with the following documents at the following times in form satisfactory to Agent:

Daily	(a)	a sales journal, collection journal, and credit register since the last such schedule and a calculation of the Borrowing Base as of such date, and
	(b)	notice of all returns, disputes, or claims;
Monthly (not later than the 5th day of each month)	(c)	a detailed calculation of the Borrowing Base (including detail regarding those Accounts that are not Eligible Accounts),
	(d)	a detailed aging, by total, of the Accounts, together with a reconciliation to the detailed calculation of the Borrowing Base previously provided to Agent, and
	(e)	a summary aging, by vendor, of Companies' accounts payable and any book overdraft.
Monthly (not later than the 15th day of each month)	(f)	a calculation of Dilution for the prior month.
Quarterly	(g)	a detailed list of each Borrower's customers, and
	(h)	a report regarding each Company's accrued, but unpaid, *ad valorem* taxes;
Upon request by Agent	(i)	copies of invoices in connection with the Accounts, credit memos, remittance advices, deposit slips, shipping and delivery documents in connection with the Accounts and, for Inventory and Equipment acquired by Companies, purchase orders and invoices, and
	(j)	such other reports as to the Collateral, or the financial condition of Companies as Agent may request in its Permitted Discretion.

In addition, each Company agrees to cooperate fully with Agent to facilitate and implement a system of electronic collateral reporting in order to provide electronic reporting of each of the items set forth above.

6.3. Financial Statements, Reports, Certificates.

Deliver to Agent, with copies to each Lender:

(a) as soon as available, but in any event within 30 days (45 days in the case of a month that is the end of one of the first 3 fiscal quarters in a fiscal year) after the end of each month during each of Parent's fiscal years,

(i) a company prepared consolidated balance sheet, income statement, and statement of cash flow covering Parent's and its Subsidiaries' operations during such period,

(ii) a certificate signed by the chief financial officer of Parent to the effect that:

(A) the financial statements delivered hereunder have been prepared in accordance with GAAP (except for the lack of footnotes and being subject to year-end audit adjustments) and fairly present in all material respects the financial condition of Parent and its Subsidiaries,

(B) the representations and warranties of Companies contained in this Agreement and the other Loan Documents are true and correct in all material respects on and as of the date of such certificate, as though made on and as of such date (except to the extent that such representations and warranties relate solely to an earlier date), and

(C) there does not exist any condition or event that constitutes a Default or Event of Default (or, to the extent of any non-compliance, describing such non-compliance as to which he or she may have knowledge and what action Companies have taken, are taking, or propose to take with respect thereto), and

(iii) for each month that is the date on which a financial covenant in Section 7.20 is to be tested, a Compliance Certificate demonstrating, in reasonable detail, compliance at the end of such period with the applicable financial covenants contained in Section 7.20, and

(b) as soon as available, but in any event within 90 days after the end of each of Parent's fiscal years (provided, that for any fiscal year of Parent for which Parent receives a 15-day extension to its deadline to file audited financial statements with the SEC, the items listed in this Section 6.3(b) shall be delivered as soon as available, but in any event within 105 days after the end of such fiscal year),

(i) financial statements of Parent and its Subsidiaries for each such fiscal year, audited by independent certified public accountants reasonably acceptable to Agent and certified, without any qualifications, by such accountants to have been prepared in accordance with GAAP (such audited financial statements to include a balance sheet, income statement, and statement of cash flow and, if prepared, such accountants' letter to management),

(ii) a certificate of such accountants addressed to Agent and the Lenders stating that such accountants do not have knowledge of the existence of any Default or Event of Default under Section 7.20,

(c) as soon as available, but in any event within 30 days prior to the start of each of Parent's fiscal years,

(i) copies of Companies' Projections, in form and substance (including as to scope and underlying assumptions) satisfactory to Agent, in its sole discretion, for the forthcoming three years, year by year, and for the forthcoming fiscal year, month by month, certified by the chief financial officer of Parent as being such officer's good faith best estimate of the financial performance of Parent and its Subsidiaries during the period covered thereby,

(d) if and when filed by any Company,

(i) 10-Q quarterly reports, Form 10-K annual reports, and Form 8-K current reports,

(ii) any other filings made by any Company with the SEC,

(iii) copies of Companies' federal income tax returns, and any amendments thereto, filed with the Internal Revenue Service, and

(iv) any other information that is provided by Parent to its shareholders generally,

(e) if and when filed by any Company and as requested by Agent, satisfactory evidence of payment of applicable excise taxes in each jurisdictions in which (i) any Company conducts business or is required to pay any such excise tax, (ii) where any Company's failure to pay any such applicable excise tax would result in a Lien on the properties or assets of any Company, or (iii) where any Company's failure to pay any such applicable excise tax reasonably could be expected to result in a Material Adverse Change,

(f) as soon as a Company has knowledge of any event or condition that constitutes a Default or an Event of Default, notice thereof and a statement of the curative action that Companies propose to take with respect thereto, and

(g) upon the request of Agent, any other report reasonably requested relating to the financial condition of Companies.

In addition to the financial statements referred to above, Companies agree to deliver financial statements prepared on both a consolidated and consolidating basis and that no Company, or any Subsidiary of a Company, will have a fiscal year different from that of

Parent. Companies agree that their independent certified public accountants are authorized to communicate with Agent and to release to Agent whatever financial information concerning Companies that Agent reasonably may request. Each Company waives the right to assert a confidential relationship, if any, it may have with any accounting firm or service bureau in connection with any information requested by Agent pursuant to or in accordance with this Agreement, and agree that Agent may contact directly any such accounting firm or service bureau in order to obtain such information.

6.4. Government Contracts.

Deliver a certificate, in form and substance satisfactory to Agent, summarizing each contract that a Borrower enters into with the United States, or any department, agency, or instrumentality of the United States. Without limitation, such certificate shall certify the names of the contracting officer, the disbursing officer and any sureties under such contract and certify that such contract does not prohibit the assignment thereof to Agent. At the request of Agent, Borrowers shall furnish Agent with a copy of each government contract.

6.5. Return.

Cause returns and allowances as between Companies and their Account Debtors, to be on the same basis and in accordance with the usual customary practices of the applicable Company, as they exist at the time of the execution and delivery of this Agreement. If, at a time when no Event of Default has occurred and is continuing, any Account Debtor returns any Inventory to any Company, the applicable Company promptly shall determine the reason for such return and, if the applicable Company accepts such return, issue a credit memorandum (with a copy to be sent to Agent) in the appropriate amount to such Account Debtor. If, at a time when an Event of Default has occurred and is continuing, any Account Debtor returns any Inventory to any Company, the applicable Company promptly shall determine the reason for such return and, if Agent consents (which consent shall not be unreasonably withheld), issue a credit memorandum (with a copy to be sent to Agent) in the appropriate amount to such Account Debtor.

6.6. Maintenance of Properties.

Maintain and preserve all of its properties which are necessary or useful in the proper conduct to its business in good working order and condition, ordinary wear and tear excepted, and comply at all times with the provisions of all leases to which it is a party as lessee, so as to prevent any loss or forfeiture thereof or thereunder.

6.7. Taxes.

Cause all assessments and taxes, whether real, personal, or otherwise, due or payable by, or imposed, levied, or assessed against Companies or any of their assets to be paid in full, before delinquency or before the expiration of any extension period, except to the extent that the validity of such assessment or tax shall be the subject of a Permitted Protest. Companies will make timely payment or deposit of all tax payments and

withholding taxes required of it by applicable laws, including those laws concerning F.I.C.A., F.U.T.A., state disability, and local, state, and federal income taxes, and will, upon request, furnish Agent with proof satisfactory to Agent indicating that the applicable Company has made such payments or deposits. Companies shall deliver satisfactory evidence of payment of applicable excise taxes in each jurisdictions in which any Company is required to pay any such excise tax.

6.8. Insurance.

(a) At Borrowers' expense, maintain insurance respecting its property and assets wherever located, covering loss or damage by fire, theft, explosion, and all other hazards and risks as ordinarily are insured against by other Persons engaged in the same or similar businesses. Companies also shall maintain business interruption, public liability, and product liability insurance, as well as insurance against larceny, embezzlement, and criminal misappropriation. All such policies of insurance shall be in such amounts and with such insurance companies as are reasonably satisfactory to Agent. Companies shall deliver copies of all such policies to Agent with a satisfactory lender's loss payable endorsement naming Agent as sole loss payee or additional insured, as appropriate. Each policy of insurance or endorsement shall contain a clause requiring the insurer to give not less than 30 days prior written notice to Agent in the event of cancellation of the policy for any reason whatsoever.

(b) Administrative Borrower shall give Agent prompt notice of any loss covered by such insurance. Agent shall have the exclusive right to adjust any losses payable under any such insurance policies in excess of $50,000, without any liability to Companies whatsoever in respect of such adjustments. Any monies received as payment for any loss under any insurance policy mentioned above (other than liability insurance policies) or as payment of any award or compensation for condemnation or taking by eminent domain, shall be paid over to Agent to be applied at the option of the Required Lenders either to the prepayment of the Obligations or shall be disbursed to Administrative Borrower under staged payment terms reasonably satisfactory to the Required Lenders for application to the cost of repairs, replacements, or restorations. Any such repairs, replacements, or restorations shall be effected with reasonable promptness and shall be of a value at least equal to the value of the items or property destroyed prior to such damage or destruction.

(c) Companies shall not take out separate insurance concurrent in form or contributing in the event of loss with that required to be maintained under this Section 6.8, unless Agent is included thereon as named insured with the loss payable to Agent under a lender's loss payable endorsement or its equivalent. Administrative Borrower immediately shall notify Agent whenever such separate insurance is taken out, specifying the insurer thereunder and full particulars as to the policies evidencing the same, and copies of such policies promptly shall be provided to Agent.

(d) At Companies' expense, maintain key man life insurance policies with respect to the following individuals and in the following amounts:

Name	Amount
John B. Wood	$5,000,000

Notwithstanding the foregoing, in the event either of the foregoing individuals are no longer employed by a Company, Companies will not be required to maintain key man life insurance policies on such individual that is no longer employed so long as no Event of Default exists and Companies' obtain a replacement key man life insurance policy (in substantially the same form as the policy being replaced) in the amount of $5,000,000 on the life of such individual's successor at Companies. Companies shall furnish Agent with an "Absolute Assignment" of each such key man life insurance policy, shall record each such "Absolute Assignment" with the issuer of the respective policy, and shall furnish proof of such issuer's acceptance of such assignment. All proceeds payable under such key man life insurance policies shall be payable to Agent to be applied on account of the Obligations in accordance with Section 2.4(b).

6.9. Location of Inventory and Equipment.

Keep the Inventory and Equipment only at the locations identified on Schedule 5.5; provided, however, that Administrative Borrower may amend Schedule 5.5 so long as such amendment occurs by written notice to Agent not less than 30 days prior to the date on which the Inventory or Equipment is moved to such new location, so long as such new location is within the continental United States, and so long as, at the time of such written notification, the applicable Company provides any financing statements or fixture filings necessary to perfect and continue perfected the Agent's Liens on such assets and also provides to Agent a Collateral Access Agreement.

6.10. Compliance with Laws.

Comply with the requirements of all applicable laws, rules, regulations, and orders of any Governmental Authority, including the Fair Labor Standards Act and the Americans With Disabilities Act, other than laws, rules, regulations, and orders the non-compliance with which, individually or in the aggregate, would not result in and reasonably could not be expected to result in a Material Adverse Change.

6.11. Leases.

Pay when due all rents and other amounts payable under any leases to which any Company is a party or by which any Company's properties and assets are bound, unless such payments are the subject of a Permitted Protest.

6.12. Brokerage Commissions.

Pay any and all brokerage commission or finders fees incurred in connection with or as a result of Companies' obtaining financing from the Lender Group under this Agreement. Companies agree and acknowledge that payment of all such brokerage

commissions or finders fees shall be the sole responsibility of Companies, and each Company agrees to indemnify, defend, and hold Agent and the Lender Group harmless from and against any claim of any broker or finder arising out of Companies' obtaining financing from the Lender Group under this Agreement.

6.13. Existence.

At all times preserve and keep in full force and effect each Company's valid existence and good standing and any rights and franchises material to Companies' businesses; provided, that any of the Credit Parties may be dissolved in accordance with applicable law or merged into another Credit Party or a Borrower.

6.14. Environmental.

(a) Keep any property either owned or operated by any Company free of any Environmental Liens or post bonds or other financial assurances sufficient to satisfy the obligations or liability evidenced by such Environmental Liens, (b) comply, in all material respects, with Environmental Laws and provide to Agent documentation of such compliance which Agent reasonably requests, (c) promptly notify Agent of any release of a Hazardous Material of any reportable quantity from or onto property owned or operated by any Company and take any Remedial Actions required to abate said release or otherwise to come into compliance with applicable Environmental Law, and (d) promptly provide Agent with written notice within 10 days of the receipt of any of the following: (i) notice that an Environmental Lien has been filed against any of the real or personal property of any Company, (ii) commencement of any Environmental Action or notice that an Environmental Action will be filed against any Company, and (iii) notice of a violation, citation, or other administrative order which reasonably could be expected to result in a Material Adverse Change.

6.15. Disclosure Updates.

Promptly and in no event later than 5 Business Days after obtaining knowledge thereof, (a) notify Agent if any written information, exhibit, or report furnished to the Lender Group contained any untrue statement of a material fact or omitted to state any material fact necessary to make the statements contained therein not misleading in light of the circumstances in which made, and (b) correct any defect or error that may be discovered therein or in any Loan Document or in the execution, acknowledgement, filing, or recordation thereof.

6.16. Intellectual Property.

(a) Upon request of Agent, in order to facilitate filings with the United States Patent and Trademark Office and the United States Copyright Office, each Company shall execute and deliver to Agent one or more Copyright Security Agreements, Trademark Security Agreements, or Patent Security Agreements to further evidence Agent's Lien on such Company's Patents, Trademarks, or Copyrights, and the General Intangibles of such Company relating thereto or represented thereby;

(b) Each Company shall have the duty, to the extent necessary or economically desirable in the operation of such Company's business, (A) to promptly sue for infringement, misappropriation, or dilution and to recover any and all damages for such infringement, misappropriation, or dilution, (B) to prosecute diligently any trademark application or service mark application that is part of the Trademarks pending as of the date hereof or hereafter until the termination of this Agreement, (C) to prosecute diligently any patent application that is part of the Patents pending as of the date hereof or hereafter until the termination of this Agreement, and (D) to take all reasonably and necessary action to preserve and maintain all of such Company's Trademarks, Patents, Copyrights, Intellectual Property Licenses, and its rights therein, including the filing of applications for renewal, affidavits of use, affidavits of noncontestability and opposition and interference and cancellation proceedings. Subject to Section 6.16(d) below, each Company shall promptly file an application with the United States Copyright Office for any Copyright that has not been registered with the United States Copyright Office if such Copyright constitutes a portion of the Required Library. Any expenses incurred in connection with the foregoing shall be borne by the appropriate Company. Each Company further agrees not to abandon any Trademark, Patent, Copyright, or Intellectual Property License that is necessary or economically desirable in the operation of such Company's business;

(c) Companies acknowledge and agree that the Lender Group shall have no duties with respect to the Trademarks, Patents, Copyrights, or Intellectual Property Licenses. Without limiting the generality of this Section 6.16(c), Companies acknowledge and agree that no member of the Lender Group shall be under any obligation to take any steps necessary to preserve rights in the Trademarks, Patents, Copyrights, or Intellectual Property Licenses against any other Person, but any member of the Lender group may do so at its option from and after the occurrence and during the continuation of an Event of Default, and all expenses incurred in connection therewith (including reasonable fees and expenses of attorneys and other professionals) shall be for the sole account of Borrowers and shall be chargeable to the Loan Account;

(d) In no event shall any Company, either itself or through any agent, employee, licensee, or designee, (i) file an application for the registration of any Copyright with the United States Copyright Office without giving Agent prior written notice thereof, without filing such application via expedited service, and without filing a Copyright Security Agreement contemporaneously with such Copyright, or (ii) file an application for the registration of any Patent or Trademark with the United States Patent and Trademark Office without giving Agent written notice thereof promptly thereafter. Promptly upon any such filing of a Patent or Trademark, each Company shall comply with Section 6.16(a) hereof;

(e) As of May 5, 2008, Copyrights constituting the Required Library shall have been registered with the United States Copyright Office.

6.17. Inactive Entities

At all times each of Telos Field Engineering, Inc., Telos International Corp., Telos International Asia, Inc., Secure Trade, Inc., Telos Filinvest, Inc. and ubIQuity Philippines, Inc. shall be an inactive entity that conducts no business and has no assets or liabilities.

7. NEGATIVE COVENANTS.

Each Company covenants and agrees that, so long as any credit hereunder shall be available and until full and final payment of the Obligations, Companies will not and will not permit any of their respective Subsidiaries to do any of the following:

7.1. Indebtedness.

Create, incur, assume, permit, guarantee, or otherwise become or remain, directly or indirectly, liable with respect to any Indebtedness, except:

(a) Indebtedness evidenced by this Agreement and the other Loan Documents, together with Indebtedness owed to Underlying Issuers with respect to Underlying Letters of Credit;

(b) Indebtedness set forth on Schedule 5.20;

(c) Permitted Purchase Money Indebtedness;

(d) refinancings, renewals, or extensions of Indebtedness permitted under clauses (b) and (c) of this Section 7.1 (and continuance or renewal of any Permitted Liens associated therewith) so long as: (i) the terms and conditions of such refinancings, renewals, or extensions do not, in Agent's judgment, materially impair the prospects of repayment of the Obligations by Borrowers or materially impair Borrowers' creditworthiness, (ii) such refinancings, renewals, or extensions do not result in an increase in the principal amount of, or interest rate with respect to, the Indebtedness so refinanced, renewed, or extended, (iii) such refinancings, renewals, or extensions do not result in a shortening of the average weighted maturity of the Indebtedness so refinanced, renewed, or extended, nor are they on terms or conditions, that, taken as a whole, are materially more burdensome or restrictive to the applicable Borrower, and (iv) if the Indebtedness that is refinanced, renewed, or extended was subordinated in right of payment to the Obligations, then the terms and conditions of the refinancing, renewal, or extension Indebtedness must include subordination terms and conditions that are at least as favorable to the Lender Group as those that were applicable to the refinanced, renewed, or extended Indebtedness; and

(e) Indebtedness composing Permitted Indebtedness.

7.2. Liens.

Create, incur, assume, or permit to exist, directly or indirectly, any Lien on or with respect to any of its assets, of any kind, whether now owned or hereafter acquired, or any income or profits therefrom, except for Permitted Liens (including Liens that are replacements of Permitted Liens to the extent that the original Indebtedness is refinanced, renewed, or extended under Section 7.1(d) and so long as the replacement Liens only encumber those assets that secured the refinanced, renewed, or extended Indebtedness).

7.3. Restrictions on Fundamental Changes.

(a) Enter into any merger, consolidation, reorganization, or recapitalization, or reclassify its Stock; provided, that any of the Credit Parties may merge into another Credit Party or a Borrower.

(b) Liquidate, wind up, or dissolve itself (or suffer any liquidation or dissolution); provided, however, that any of the Credit Parties may be dissolved in accordance with applicable law.

(c) Convey, sell, lease, license, assign, transfer, or otherwise dispose of, in one transaction or a series of transactions, all or any substantial part of its assets.

(d) Create, establish or acquire any Subsidiary after the Closing Date.

7.4. Disposal of Assets.

Other than Permitted Dispositions, convey, sell, lease, license, assign, transfer, or otherwise dispose of any of the assets of any Company.

7.5. Change Name.

Change any Company's name, state of incorporation, FEIN, corporate structure or identity, or add any new fictitious name; provided, however, that a Company may change its name upon at least 30 days prior written notice by Administrative Borrower to Agent of such change and so long as, at the time of such written notification, such Company provides any financing statements or fixture filings necessary to perfect and continue perfected Agent's Liens.

7.6. Guarantee.

Guarantee or otherwise become in any way liable with respect to the obligations of any third Person except by endorsement of instruments or items of payment for deposit to the account of Companies or which are transmitted or turned over to Agent.

7.7. Nature of Business.

Make any change in the principal nature of Companies' business.

7.8. Prepayments and Amendments.

(a) Except in connection with a refinancing permitted by Section 7.1(d), prepay, redeem, defease, purchase, or otherwise acquire any Indebtedness of any Company, other than the Obligations in accordance with this Agreement, and

(b) Except in connection with a refinancing permitted by Section 7.1(d), directly or indirectly, amend, modify, alter, increase, or change any of the terms or conditions of any agreement, instrument, document, indenture, or other writing evidencing or concerning Indebtedness permitted under Sections 7.1(b) or (c).

(c) Amend, modify, alter, increase, or change any of the terms or conditions of the Permitted Indebtedness or Private Preferred Stock; or prepay, redeem, defease, purchase, exchange or otherwise acquire any of the Permitted Indebtedness.

7.9. Change of Control.

Cause, permit, or suffer, directly or indirectly, any Change of Control.

7.10. Consignments.

Consign any Inventory or sell any Inventory on bill and hold (unless such Inventory is purchased by the United States or any department, agency or instrumentality of the United States, such Inventory is segregated from Borrower's other goods and within 14 days of the date such Inventory is segregated, such Account Debtor shall have executed a DD250 document accepting such goods that are held by a Borrower), sale or return, sale on approval, or other conditional terms of sale.

7.11. Distributions.

Other than distributions or declaration and payment of dividends by a Company to a Borrower, make any distribution or declare or pay any dividends (in cash or other property, other than common Stock) on, or purchase, acquire, redeem, exchange for Indebtedness, or retire any of any Company's Stock, of any class, whether now or hereafter outstanding (provided that the Private Preferred Stock may be redeemed so long as the Obligations are contemporaneously repaid in full in accordance with Section 3.6.).

7.12. Accounting Methods.

Modify or change its method of accounting (other than as may be required to conform to GAAP) or enter into, modify, or terminate any agreement currently existing, or at any time hereafter entered into with any third party accounting firm or service bureau for the preparation or storage of Companies' accounting records without said accounting firm or service bureau agreeing to provide Agent information regarding the Collateral or Companies' financial condition.

7.13. Investments.

Except for Permitted Investments, directly or indirectly, make or acquire any Investment, or incur any liabilities (including contingent obligations) for or in connection with any Investment; provided, however, that Administrative Borrower and its Subsidiaries shall not have Permitted Investments (other than in the Cash Management Accounts or in the Foreign Transfer Account) in deposit accounts or Securities Accounts in excess of $25,000 outstanding at any one time unless the Administrative Borrower or any of its Subsidiaries, as applicable, and the applicable securities intermediary or bank have entered into Control Agreements or similar arrangements governing such Permitted Investments, as Agent shall determine in its Permitted Discretion, to perfect (and further establish) the Agent's Liens in such Permitted Investments.

7.14. Transactions with Affiliates.

Directly or indirectly enter into or permit to exist any transaction with any Affiliate of any Company except for transactions that are in the ordinary course of Companies' business, upon fair and reasonable terms, that are fully disclosed to Agent, and that are no less favorable to Companies than would be obtained in an arm's length transaction with a non-Affiliate. Except for Permitted Investments under clauses (d) and (e) of the definition thereof and as described on Schedule 7.14, without limiting the foregoing, no Borrower shall make any Investments, distributions, transfers or payments to any Credit Party, TIMS LLC, or Enterworks, Inc. Parent shall not exercise its option to purchase additional shares of Enterworks, Inc. under the Warrant To Purchase Shares of Common Stock of Enterworks, Inc. dated December 31, 2007 issued by Enterworks, Inc. to Parent if the consideration to be paid in connection with such exercise would exceed $25,000.

7.15. Suspension.

Suspend or go out of a substantial portion of its business.

7.16. Compensation.

Increase the annual fee or per-meeting fees paid to the members of its Board of Directors during any year by more than 15% over the prior year; pay or accrue total cash compensation (other than bonuses based on the successful performance of Borrowers, consistent with past practices of Borrowers and reflected in the Projections), during any year, to its officers and senior management employees in an aggregate amount in excess of 115% of such cash compensation paid or accrued in the prior year.

7.17. Use of Proceeds.

Use the proceeds of the Advances for any purpose other than (a) on or about the Closing Date, to pay transactional fees, costs, and expenses incurred in connection with this Agreement, the other Loan Documents, and the transactions contemplated hereby and thereby, and (b) thereafter, consistent with the terms and conditions hereof, for its lawful and permitted purposes.

7.18. Change in Location of Chief Executive Office; Inventory and Equipment with Bailees.

Relocate its chief executive office to a new location without Administrative Borrower providing 30 days prior written notification thereof to Agent and so long as, at the time of such written notification, the applicable Company provides any financing statements or fixture filings necessary to perfect and continue perfected the Agent's Liens and also provides to Agent a Collateral Access Agreement with respect to such new location. The Inventory and Equipment shall not at any time now or hereafter be stored with a bailee, warehouseman, or similar party without Agent's prior written consent.

7.19. Securities Accounts.

Establish or maintain any Securities Account unless Agent shall have received a Control Agreement in respect of such Securities Account. Companies agree to not transfer assets out of any Securities Account; provided, however, that, so long as no Event of Default has occurred and is continuing or would result therefrom, Companies may use such assets (and the proceeds thereof) to the extent not prohibited by this Agreement.

7.20. Financial Covenants.

(a) Fail to maintain:

(i) **Minimum EBITDA.** EBITDA, measured on a fiscal month-end basis, for each period set forth below, of at least the required amount set forth in the following table for the applicable period set forth opposite thereto;

Applicable Amount	Applicable Period
$ (2,831,000)	For the 1 month period ending January 31, 2008
$ (3,738,000)	For the 2 month period ending February 29, 2008
$ (3,505,000)	For the 3 month period ending March 31, 2008
$ (4,043,000)	For the 4 month period ending April 30, 2008
$ (3,126,000)	For the 5 month period ending May 31, 2008
$ (2,442,000)	For the 6 month period ending June 30, 2008

Applicable Amount	Applicable Period
$ (1,846,000)	For the 7 month period ending July 31, 2008)
$ (445,000)	For the 8 month period ending August 31, 2008
$ 1,186,000	For the 9 month period ending September 30, 2008
$ 1,049,000	For the 10 month period ending October 31, 2008
$ 2,570,000	For the 11 month period ending November 30, 2008
$ 2,570,000	For the 12 month period ending December 31, 2008
80% of EBITDA for such period as reflected in the most recent Projections delivered to Agent pursuant to Section 6.3(c) and approved by Required Lenders	For the 12 month period ending January 31, 2009 and the 12 month period ending on the last day of each fiscal month thereafter

(ii) **Reserved.**

(b) Make:

(i) **Capital Expenditures.** Capital expenditures in any fiscal year of Parent in excess of $2,000,000.

7.21. Foreign Transfer Account.

Maintain more than $1,000 at any time in the Foreign Transfer Account; provided that Teloworks, Inc. may maintain amounts in excess of $1,000 in the Foreign Transfer Account for a period not to exceed 2 Business Days so long as all such amounts are transferred to Teloworks Philippines, Inc. during such 2 Business Day period.

8. EVENTS OF DEFAULT.

Any one or more of the following events shall constitute an event of default (each, an "Event of Default") under this Agreement:

8.1 If Companies fail to pay when due and payable or when declared due and payable, all or any portion of the Obligations (whether of principal, interest (including

any interest which, but for the provisions of the Bankruptcy Code, would have accrued on such amounts), fees and charges due the Lender Group, reimbursement of Lender Group Expenses, or other amounts constituting Obligations);

8.2 (a) If any Company fails to perform, keep, or observe any term, provision, condition, covenant, or agreement contained in Section 6.2 or 6.3 hereof and such failure or neglect continues for a period of 5 days after the date on which such failure or neglect first occurs, (b) if any Company fails to perform, keep, or observe any term, provision, condition, covenant, or agreement contained in Section 6.1, 6.5, 6.6, 6.7, 6.10, 6.11, 6.12, 6.14 or 6.15 hereof and such failure or neglect continues for a period of 15 days after the date on which such failure or neglect first occurs, or (c) if any Company fails to perform, keep, or observe any other term, provision, condition, covenant, or agreement contained in this Agreement (other than any such term, provision, condition, covenant, or agreement that is expressly dealt with elsewhere in this Section 8) or in any of the other Loan Documents;

8.3 If any material portion of any Company's or any of its Subsidiaries' assets is attached, seized, subjected to a writ or distress warrant, levied upon, or comes into the possession of any third Person;

8.4 If an Insolvency Proceeding is commenced by any Company or any of its Subsidiaries;

8.5 If an Insolvency Proceeding is commenced against any Company, or any of its Subsidiaries, and any of the following events occur: (a) the applicable Company or the Subsidiary consents to the institution of the Insolvency Proceeding against it, (b) the petition commencing the Insolvency Proceeding is not timely controverted, (c) the petition commencing the Insolvency Proceeding is not dismissed within 45 calendar days of the date of the filing thereof; provided, however, that, during the pendency of such period, Agent (including any successor agent) and each other member of the Lender Group shall be relieved of their obligation to extend credit hereunder, (d) an interim trustee is appointed to take possession of all or any substantial portion of the properties or assets of, or to operate all or any substantial portion of the business of, any Company or any of its Subsidiaries, or (e) an order for relief shall have been entered therein;

8.6 If any Company or any of its Subsidiaries is enjoined, restrained, or in any way prevented by court order from continuing to conduct all or any material part of its business affairs;

8.7 If a notice of Lien, levy, or assessment is filed of record with respect to any Company's or any of its Subsidiaries' assets by the United States, or any department, agency, or instrumentality thereof, or by any state, county, municipal, or governmental agency, or if any taxes or debts owing at any time hereafter to any one or more of such entities becomes a Lien, whether choate or otherwise, upon any Company's or any of its Subsidiaries' assets and the same is not paid on the payment date thereof;

8.8 If a judgment or other claim becomes a Lien or encumbrance upon any material portion of any Company's or any of its Subsidiaries' properties or assets;

8.9 If there is a default in any material agreement to which any Company or any of its Subsidiaries is a party and such default (a) occurs at the final maturity of the obligations thereunder, or (b) results in a right by the other party thereto, irrespective of whether exercised, to accelerate the maturity of the applicable Company's or its Subsidiaries' obligations thereunder, to terminate such agreement, or to refuse to renew such agreement pursuant to an automatic renewal right therein;

8.10 If any Company or any of its Subsidiaries makes any payment on account of Indebtedness that has been contractually subordinated in right of payment to the payment of the Obligations, except to the extent such payment is permitted by the terms of the subordination provisions applicable to such Indebtedness;

8.11 If any misstatement or misrepresentation exists now or hereafter in any warranty, representation, statement, or Record made to the Lender Group by any Company, its Subsidiaries, or any officer, employee, agent, or director of any Company or any of its Subsidiaries;

8.12 If the obligation of any Credit Party under the Joint and Several Guaranty is limited or terminated by operation of law or by such Credit Party thereunder;

8.13 If this Agreement or any other Loan Document that purports to create a Lien, shall, for any reason, fail or cease to create a valid and perfected and, except to the extent permitted by the terms hereof or thereof, first priority Lien on or security interest in the Collateral covered hereby or thereby;

8.14 Any provision of any Loan Document shall at any time for any reason be declared to be null and void, or the validity or enforceability thereof shall be contested by any Company, or a proceeding shall be commenced by any Company, or by any Governmental Authority having jurisdiction over any Company, seeking to establish the invalidity or unenforceability thereof, or any Company shall deny that any Company has any liability or obligation purported to be created under any Loan Document;

8.15 Any Credit Party engages in any type of business activity other than the ownership of the equity interests in a Company and performance of its obligations under the Loan Documents to which it is a party.

9. THE LENDER GROUP'S RIGHTS AND REMEDIES.

9.1. Rights and Remedies.

Upon the occurrence, and during the continuation, of an Event of Default, the Required Lenders (at their election but without notice of their election and without demand) may authorize and instruct Agent to do any one or more of the following on behalf of the Lender Group (and Agent, acting upon the instructions of the Required Lenders, shall do the same on behalf of the Lender Group), all of which are authorized by Companies:

(a) Declare all Obligations, whether evidenced by this Agreement, by any of the other Loan Documents, or otherwise, immediately due and payable;

(b) Cease advancing money or extending credit to or for the benefit of Borrowers under this Agreement, under any of the Loan Documents, or under any other agreement between Borrowers and the Lender Group;

(c) Terminate this Agreement and any of the other Loan Documents as to any future liability or obligation of the Lender Group, but without affecting any of the Agent's Liens in the Collateral and without affecting the Obligations;

(d) Settle or adjust disputes and claims directly with Account Debtors for amounts and upon terms which Agent considers advisable, and in such cases, Agent will credit the Loan Account with only the net amounts received by Agent in payment of such disputed Accounts after deducting all Lender Group Expenses incurred or expended in connection therewith;

(e) Cause Companies to hold all returned Inventory in trust for the Lender Group, segregate all returned Inventory from all other assets of Companies or in Companies' possession and conspicuously label said returned Inventory as the property of the Lender Group;

(f) Without notice to or demand upon any Company, make such payments and do such acts as Agent considers necessary or reasonable to protect its security interests in the Collateral. Each Company agrees to assemble the Collateral if Agent so requires, and to make the Collateral available to Agent at a place that Agent may designate which is reasonably convenient to both parties. Each Company authorizes Agent to enter the premises where the Collateral is located, to take and maintain possession of the Collateral, or any part of it, and to pay, purchase, contest, or compromise any Lien that in Agent's determination appears to conflict with the Agent's Liens and to pay all expenses incurred in connection therewith and to charge Borrowers' Loan Account therefor. With respect to any of Companies' owned or leased premises, each Company hereby grants Agent a license to enter into possession of such premises and to occupy the same, without charge, in order to exercise any of the Lender Group's rights or remedies provided herein, at law, in equity, or otherwise;

(g) Without notice to any Company (such notice being expressly waived), and without constituting a retention of any collateral in satisfaction of an obligation (within the meaning of the Code), set off and apply to the Obligations any and all (i) balances and deposits of any Company held by the Lender Group (including any amounts received in the Cash Management Accounts), or (ii) Indebtedness at any time owing to or for the credit or the account of any Company held by the Lender Group;

(h) Hold, as cash collateral, any and all balances and deposits of any Company held by the Lender Group, and any amounts received in the Cash Management Accounts, to secure the full and final repayment of all of the Obligations;

(i) Ship, reclaim, recover, store, finish, maintain, repair, prepare for sale, advertise for sale, and sell (in the manner provided for herein) the Collateral. Each Company hereby grants to Agent a license or other right to use, without charge, such Company's labels, patents, copyrights, trade secrets, trade names, trademarks, service marks, and advertising matter, or any property of a similar nature, as it pertains to the Collateral, in completing production of, advertising for sale, and selling any Collateral and such Company's rights under all licenses and all franchise agreements shall inure to the Lender Group's benefit;

(j) Sell the Collateral at either a public or private sale, or both, by way of one or more contracts or transactions, for cash or on terms, in such manner and at such places (including Companies' premises) as Agent determines is commercially reasonable. It is not necessary that the Collateral be present at any such sale;

(k) Agent shall give notice of the disposition of the Collateral as follows:

(i) Agent shall give Administrative Borrower (for the benefit of the applicable Company) a notice in writing of the time and place of public sale, or, if the sale is a private sale or some other disposition other than a public sale is to be made of the Collateral, the time on or after which the private sale or other disposition is to be made; and

(ii) The notice shall be personally delivered or mailed, postage prepaid, to Administrative Borrower as provided in Section 12, at least 10 days before the earliest time of disposition set forth in the notice; no notice needs to be given prior to the disposition of any portion of the Collateral that is perishable or threatens to decline speedily in value or that is of a type customarily sold on a recognized market;

(l) Agent, on behalf of the Lender Group may credit bid and purchase at any public sale;

(m) Agent may seek the appointment of a receiver or keeper to take possession of all or any portion of the Collateral or to operate same and, to the maximum extent permitted by law, may seek the appointment of such a receiver without the requirement of prior notice or a hearing;

(n) The Lender Group shall have all other rights and remedies available to it at law or in equity pursuant to any other Loan Documents; and

(o) Any deficiency that exists after disposition of the Collateral as provided above will be paid immediately by Companies. Any excess will be returned, without interest and subject to the rights of third Persons, by Agent to Administrative Borrower (for the benefit of the applicable Company).

9.2. Remedies Cumulative.

The rights and remedies of the Lender Group under this Agreement, the other Loan Documents, and all other agreements shall be cumulative. The Lender Group shall have all other rights and remedies not inconsistent herewith as provided under the Code, by law, or in equity. No exercise by the Lender Group of one right or remedy shall be deemed an election, and no waiver by the Lender Group of any Event of Default shall be deemed a continuing waiver. No delay by the Lender Group shall constitute a waiver, election, or acquiescence by it.

10. TAXES AND EXPENSES.

If any Company fails to pay any monies (whether taxes, assessments, insurance premiums, or, in the case of leased properties or assets, rents or other amounts payable under such leases) due to third Persons, or fails to make any deposits or furnish any required proof of payment or deposit, all as required under the terms of this Agreement, then, Agent, in its sole discretion and without prior notice to any Company, may do any or all of the following: (a) make payment of the same or any part thereof, (b) set up such reserves in Borrowers' Loan Account as Agent deems necessary to protect the Lender Group from the exposure created by such failure, or (c) in the case of the failure to comply with Section 6.8 hereof, obtain and maintain insurance policies of the type described in Section 6.8 and take any action with respect to such policies as Agent deems prudent. Any such amounts paid by Agent shall constitute Lender Group Expenses and any such payments shall not constitute an agreement by the Lender Group to make similar payments in the future or a waiver by the Lender Group of any Event of Default under this Agreement. Agent need not inquire as to, or contest the validity of, any such expense, tax, or Lien and the receipt of the usual official notice for the payment thereof shall be conclusive evidence that the same was validly due and owing.

11. WAIVERS; INDEMNIFICATION.

11.1. Demand; Protest; etc.

Each Company waives demand, protest, notice of protest, notice of default or dishonor, notice of payment and nonpayment, nonpayment at maturity, release, compromise, settlement, extension, or renewal of documents, instruments, chattel paper, and guarantees at any time held by the Lender Group on which any such Company may in any way be liable.

11.2. The Lender Group's Liability for Collateral.

Each Company hereby agrees that: (a) so long as the Lender Group complies with its obligations, if any, under the Code, Agent shall not in any way or manner be liable or responsible for: (i) the safekeeping of the Collateral, (ii) any loss or damage thereto occurring or arising in any manner or fashion from any cause, (iii) any diminution in the value thereof, or (iv) any act or default of any carrier, warehouseman, bailee, forwarding agency, or other Person, and (b) all risk of loss, damage, or destruction of the Collateral shall be borne by Companies.

11.3. Indemnification.

Each Company shall pay, indemnify, defend, and hold the Agent-Related Persons, the Lender-Related Persons with respect to each Lender, each Participant, and each of their respective officers, directors, employees, agents, and attorneys-in-fact (each, an "Indemnified Person") harmless (to the fullest extent permitted by law) from and against any and all claims, demands, suits, actions, investigations, proceedings, and damages, and all reasonable attorneys fees and disbursements and other costs and expenses actually incurred in connection therewith (as and when they are incurred and irrespective of whether suit is brought), at any time asserted against, imposed upon, or incurred by any of them (a) in connection with or as a result of or related to the execution, delivery, enforcement, performance, or administration of this Agreement, any of the other Loan Documents, or the transactions contemplated hereby or thereby, and (b) with respect to any investigation, litigation, or proceeding related to this Agreement, any other Loan Document, or the use of the proceeds of the credit provided hereunder (irrespective of whether any Indemnified Person is a party thereto), or any act, omission, event, or circumstance in any manner related thereto (all the foregoing, collectively, the "Indemnified Liabilities"). The foregoing to the contrary notwithstanding, Companies shall have no obligation to any Indemnified Person under this Section 11.3 with respect to any Indemnified Liability that a court of competent jurisdiction finally determines to have resulted from the gross negligence or willful misconduct of such Indemnified Person. This provision shall survive the termination of this Agreement and the repayment of the Obligations. If any Indemnified Person makes any payment to any other Indemnified Person with respect to an Indemnified Liability as to which Companies were required to indemnify the Indemnified Person receiving such payment, the Indemnified Person making such payment is entitled to be indemnified and reimbursed by Companies with respect thereto. WITHOUT LIMITATION, THE FOREGOING INDEMNITY SHALL APPLY TO EACH INDEMNIFIED PERSON WITH RESPECT TO INDEMNIFIED LIABILITIES WHICH IN WHOLE OR IN PART CAUSED BY OR ARISE OUT OF ANY NEGLIGENT ACT OR OMISSION OF SUCH INDEMNIFIED PERSON OR OF ANY OTHER PERSON.

12. NOTICES.

Unless otherwise provided in this Agreement, all notices or demands by Companies or Agent to the other relating to this Agreement or any other Loan Document shall be in writing and (except for financial statements and other informational documents which may be sent by first-class mail, postage prepaid) shall be personally delivered or sent by registered or certified mail (postage prepaid, return receipt requested), overnight courier, electronic mail (at such email addresses as Administrative Borrower or Agent, as applicable, may designate to each other in accordance herewith), or telefacsimile to Companies in care of Administrative Borrower or to Agent, as the case may be, at its address set forth below:

If to Administrative Borrower:	**TELOS CORPORATION** 19886 Ashburn Road Ashburn, Virginia 20147 Attn: Michele Nakazawa Fax No. (703) 724-1468
with copies to:	**TELOS CORPORATION** 19886 Ashburn Road Ashburn, Virginia 20147 Attn: Michael P. Flaherty, General Counsel Fax No. (703) 723-1468
If to Lender:	**WELLS FARGO FOOTHILL, INC.** One Boston Place, 18th Floor Boston, Massachusetts 02108 Attn: Technology Finance Division Manager Fax No. (617) 523-1697
with copies to:	**GOLDBERG, KOHN, BELL, BLACK, ROSENBLOOM & MORITZ, LTD.** 55 East Monroe Street Suite 3300 Chicago, Illinois 60603 Attn: Gary Zussman, Esq. Fax No. (312) 863-7440

Agent and Companies may change the address at which they are to receive notices hereunder, by notice in writing in the foregoing manner given to the other party. All notices or demands sent in accordance with this Section 12, other than notices by Agent in connection with enforcement rights against the Collateral under the provisions of the Code, shall be deemed received on the earlier of the date of actual receipt or 3 Business Days after the deposit thereof in the mail. Each Company acknowledges and agrees that notices sent by the Lender Group in connection with the exercise of enforcement rights against Collateral under the provisions of the Code shall be deemed sent when deposited in the mail or personally delivered, or, where permitted by law, transmitted by telefacsimile or any other method set forth above.

13. CHOICE OF LAW AND VENUE; JURY TRIAL WAIVER.

(a) **THE VALIDITY OF THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS (UNLESS EXPRESSLY PROVIDED TO THE CONTRARY IN ANOTHER LOAN DOCUMENT IN RESPECT OF SUCH OTHER LOAN DOCUMENT), THE CONSTRUCTION, INTERPRETATION, AND ENFORCEMENT HEREOF AND THEREOF, AND THE RIGHTS OF THE PARTIES HERETO AND THERETO WITH RESPECT TO ALL MATTERS ARISING HEREUNDER OR THEREUNDER OR RELATED HERETO OR**

THERETO SHALL BE DETERMINED UNDER, GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF ILLINOIS.

(b) **THE PARTIES AGREE THAT ALL ACTIONS OR PROCEEDINGS ARISING IN CONNECTION WITH THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS SHALL BE TRIED AND LITIGATED ONLY IN THE STATE AND FEDERAL COURTS LOCATED IN THE COUNTY OF COOK, STATE OF ILLINOIS, PROVIDED, HOWEVER, THAT ANY SUIT SEEKING ENFORCEMENT AGAINST ANY COLLATERAL OR OTHER PROPERTY MAY BE BROUGHT, AT AGENT'S OPTION, IN THE COURTS OF ANY JURISDICTION WHERE AGENT ELECTS TO BRING SUCH ACTION OR WHERE SUCH COLLATERAL OR OTHER PROPERTY MAY BE FOUND. BORROWERS AND THE LENDER GROUP WAIVE, TO THE EXTENT PERMITTED UNDER APPLICABLE LAW, ANY RIGHT EACH MAY HAVE TO ASSERT THE DOCTRINE OF FORUM NON CONVENIENS OR TO OBJECT TO VENUE TO THE EXTENT ANY PROCEEDING IS BROUGHT IN ACCORDANCE WITH THIS SECTION 13(b).**

COMPANIES AND THE LENDER GROUP HEREBY WAIVE THEIR RESPECTIVE RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF ANY OF THE LOAN DOCUMENTS OR ANY OF THE TRANSACTIONS CONTEMPLATED THEREIN, INCLUDING CONTRACT CLAIMS, TORT CLAIMS, BREACH OF DUTY CLAIMS, AND ALL OTHER COMMON LAW OR STATUTORY CLAIMS. COMPANIES AND THE LENDER GROUP REPRESENT THAT EACH HAS REVIEWED THIS WAIVER AND EACH KNOWINGLY AND VOLUNTARILY WAIVES ITS JURY TRIAL RIGHTS FOLLOWING CONSULTATION WITH LEGAL COUNSEL. IN THE EVENT OF LITIGATION, A COPY OF THIS AGREEMENT MAY BE FILED AS A WRITTEN CONSENT TO A TRIAL BY THE COURT.

14. ASSIGNMENTS AND PARTICIPATIONS; SUCCESSORS.

14.1. Assignments and Participations.

(a) Any Lender may, with the written consent of Agent (provided that no written consent of Agent shall be required in connection with any assignment and delegation by a Lender to an Eligible Transferee), assign and delegate to one or more assignees (each an "Assignee") all, or any ratable part of all, of the Obligations, the Commitments and the other rights and obligations of such Lender hereunder and under the other Loan Documents, in a minimum amount of $5,000,000 (provided, that so long as no Event of Default exists and the Maximum Revolving Amount does not exceed $25,000,000, there shall be no more than four Lenders holding commitments at any time); provided, however, that Companies and Agent may continue to deal solely and directly with such Lender in connection with the interest so assigned to an Assignee until (i) written notice of such assignment, together with payment instructions, addresses, and related information with respect to the Assignee, have been given

to Administrative Borrower and Agent by such Lender and the Assignee, (ii) such Lender and its Assignee have delivered to Administrative Borrower and Agent an Assignment and Acceptance in form and substance satisfactory to Agent, and (iii) the assignor Lender or Assignee has paid to Agent for Agent's separate account a processing fee in the amount of $5,000. Anything contained herein to the contrary notwithstanding, the consent of Agent shall not be required (and payment of any fees shall not be required) if such assignment is in connection with any merger, consolidation, sale, transfer, or other disposition of all or any substantial portion of the business or loan portfolio of such Lender.

(b) From and after the date that Agent notifies the assignor Lender (with a copy to Administrative Borrower) that it has received an executed Assignment and Acceptance and payment of the above-referenced processing fee, (i) the Assignee thereunder shall be a party hereto and, to the extent that rights and obligations hereunder have been assigned to it pursuant to such Assignment and Acceptance, shall have the rights and obligations of a Lender under the Loan Documents, and (ii) the assignor Lender shall, to the extent that rights and obligations hereunder and under the other Loan Documents have been assigned by it pursuant to such Assignment and Acceptance, relinquish its rights (except with respect to Section 11.3 hereof) and be released from its obligations under this Agreement (and in the case of an Assignment and Acceptance covering all or the remaining portion of an assigning Lender's rights and obligations under this Agreement and the other Loan Documents, such Lender shall cease to be a party hereto and thereto), and such assignment shall affect a novation between Borrowers and the Assignee.

(c) By executing and delivering an Assignment and Acceptance, the assigning Lender thereunder and the Assignee thereunder confirm to and agree with each other and the other parties hereto as follows: (1) other than as provided in such Assignment and Acceptance, such assigning Lender makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with this Agreement or the execution, legality, validity, enforceability, genuineness, sufficiency or value of this Agreement or any other Loan Document furnished pursuant hereto, (2) such assigning Lender makes no representation or warranty and assumes no responsibility with respect to the financial condition of Companies or the performance or observance by Companies of any of their obligations under this Agreement or any other Loan Document furnished pursuant hereto, (3) such Assignee confirms that it has received a copy of this Agreement, together with such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into such Assignment and Acceptance, (4) such Assignee will, independently and without reliance upon Agent, such assigning Lender or any other Lender, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement, (5) such Assignee appoints and authorizes Agent to take such actions and to exercise such powers under this Agreement as are delegated to Agent, by the terms hereof, together with such powers as are reasonably incidental thereto, and (6) such Assignee agrees that it will perform all of the obligations which by the terms of this Agreement are required to be performed by it as a Lender.

(d) Immediately upon each Assignee's making its processing fee payment under the Assignment and Acceptance and receipt and acknowledgment by Agent of such fully executed Assignment and Acceptance, this Agreement shall be deemed to be amended to the extent, but only to the extent, necessary to reflect the addition of the Assignee and the resulting adjustment of the Commitments arising therefrom. The Commitment allocated to each Assignee shall reduce such Commitments of the assigning Lender *pro tanto*.

(e) Any Lender may at any time, with the written consent of Agent, sell to one or more commercial banks, financial institutions, or other Persons not Affiliates of such Lender (a "Participant") participating interests in its Obligations, the Commitment, and the other rights and interests of that Lender (the "Originating Lender") hereunder and under the other Loan Documents (provided that no written consent of Agent shall be required in connection with any sale of any such participating interests by a Lender to an Eligible Transferee); provided, however, that (i) the Originating Lender shall remain a "Lender" for all purposes of this Agreement and the other Loan Documents and the Participant receiving the participating interest in the Obligations, the Commitments, and the other rights and interests of the Originating Lender hereunder shall not constitute a "Lender" hereunder or under the other Loan Documents and the Originating Lender's obligations under this Agreement shall remain unchanged, (ii) the Originating Lender shall remain solely responsible for the performance of such obligations, (iii) Companies, Agent, and the Lenders shall continue to deal solely and directly with the Originating Lender in connection with the Originating Lender's rights and obligations under this Agreement and the other Loan Documents, (iv) no Lender shall transfer or grant any participating interest under which the Participant has the right to approve any amendment to, or any consent or waiver with respect to, this Agreement or any other Loan Document, except to the extent such amendment to, or consent or waiver with respect to this Agreement or of any other Loan Document would (A) extend the final maturity date of the Obligations hereunder in which such Participant is participating, (B) reduce the interest rate applicable to the Obligations hereunder in which such Participant is participating, (C) release all or a material portion of the Collateral or guaranties (except to the extent expressly provided herein or in any of the Loan Documents) supporting the Obligations hereunder in which such Participant is participating, (D) postpone the payment of, or reduce the amount of, the interest or fees payable to such Participant through such Lender, or (E) change the amount or due dates of scheduled principal repayments or prepayments or premiums; and (v) all amounts payable by Companies hereunder shall be determined as if such Lender had not sold such participation; except that, if amounts outstanding under this Agreement are due and unpaid, or shall have been declared or shall have become due and payable upon the occurrence of an Event of Default, each Participant shall be deemed to have the right of set-off in respect of its participating interest in amounts owing under this Agreement to the same extent as if the amount of its participating interest were owing directly to it as a Lender under this Agreement. The rights of any Participant only shall be derivative through the Originating Lender with whom such Participant participates and no Participant shall have any rights under this Agreement or the other Loan Documents or any direct rights as to the other Lenders, Agent, Companies, the Collections, the Collateral, or otherwise in respect of the Obligations. No Participant shall have the right to participate directly in the making of decisions by the Lenders among themselves.

(f) In connection with any such assignment or participation or proposed assignment or participation, a Lender may disclose all documents and information which it now or hereafter may have relating to Companies or Companies' business.

(g) Any other provision in this Agreement notwithstanding, any Lender may at any time create a security interest in, or pledge, all or any portion of its rights under and interest in this Agreement in favor of any Federal Reserve Bank in accordance with Regulation A of the Federal Reserve Bank or U.S. Treasury Regulation 31 CFR § 203.14, and such Federal Reserve Bank may enforce such pledge or security interest in any manner permitted under applicable law.

14.2. Successors.

This Agreement shall bind and inure to the benefit of the respective successors and assigns of each of the parties; provided, however, that Companies may not assign this Agreement or any rights or duties hereunder without the Lenders' prior written consent and any prohibited assignment shall be absolutely void *ab initio*. No consent to assignment by the Lenders shall release any Company from its Obligations. A Lender may assign this Agreement and the other Loan Documents and its rights and duties hereunder and thereunder pursuant to Section 14.1 hereof and, except as expressly required pursuant to Section 14.1 hereof, no consent or approval by any Company is required in connection with any such assignment.

15. AMENDMENTS; WAIVERS.

15.1. Amendments and Waivers.

No amendment or waiver of any provision of this Agreement or any other Loan Document, and no consent with respect to any departure by Companies therefrom, shall be effective unless the same shall be in writing and signed by the Required Lenders (or by Agent at the written request of the Required Lenders) and Administrative Borrower (on behalf of all Companies) and then any such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given; provided, however, that no such waiver, amendment, or consent shall, unless in writing and signed by all of the Lenders affected thereby and Administrative Borrower (on behalf of all Companies) and acknowledged by Agent, do any of the following:

(a) increase or extend any Commitment of any Lender,

(b) postpone or delay any date fixed by this Agreement or any other Loan Document for any payment of principal, interest, fees, or other amounts due hereunder or under any other Loan Document,

(c) reduce the principal of, or the rate of interest on, any loan or other extension of credit hereunder, or reduce any fees or other amounts payable hereunder or under any other Loan Document,

(d) change the percentage of the Commitments that is required to take any action hereunder,

(e) amend this Section or any provision of the Agreement providing for consent or other action by all Lenders,

(f) release Collateral other than as permitted by Section 16.12,

(g) change the definition of "Required Lenders",

(h) contractually subordinate any of the Agent's Liens,

(i) release any Company from any obligation for the payment of money, or

(j) change the definition of Borrowing Base or the definitions of Eligible Accounts, Maximum Revolver Amount, or change Section 2.1(b); or

(k) amend any of the provisions of Section 16.

and, provided further, however, that no amendment, waiver or consent shall, unless in writing and signed by Agent, Issuing Lender, or Swing Lender, affect the rights or duties of Agent, Issuing Lender, or Swing Lender, as applicable, under this Agreement or any other Loan Document. The foregoing notwithstanding, any amendment, modification, waiver, consent, termination, or release of, or with respect to, any provision of this Agreement or any other Loan Document that relates only to the relationship of the Lender Group among themselves, and that does not affect the rights or obligations of Companies, shall not require consent by or the agreement of Companies.

15.2. Replacement of Holdout Lender.

If any action to be taken by the Lender Group or Agent hereunder requires the unanimous consent, authorization, or agreement of all Lenders, and a Lender ("Holdout Lender") fails to give its consent, authorization, or agreement, then Agent, upon at least 5 Business Days prior irrevocable notice to the Holdout Lender, may permanently replace the Holdout Lender with one or more substitute Lenders (each, a "Replacement Lender"), and the Holdout Lender shall have not right to refuse to be replaced hereunder. Such notice to replace the Holdout Lender shall specify an effective date for such replacement, which date shall not be later than 15 Business Days after the date such notice is given.

Prior to the effective date of such replacement, the Holdout Lender and each Replacement Lender shall execute and deliver an Assignment and Acceptance Agreement, subject only to the Holdout Lender being repaid its share of the outstanding Obligations (including an assumption of its Pro Rata Share of the Risk Participation Liability) without

any premium or penalty of any kind whatsoever. If the Holdout Lender shall refuse or fail to execute and deliver any such Assignment and Acceptance Agreement prior to the effective date of such replacement, the Holdout Lender shall be deemed to have executed and delivered such Assignment and Acceptance Agreement. The replacement of any Holdout Lender shall be made in accordance with the terms of Section 14.1. Until such time as the Replacement Lenders shall have acquired all of the Obligations, the Commitments, and the other rights and obligations of the Holdout Lender hereunder and under the other Loan Documents, the Holdout Lender shall remain obligated to make the Holdout Lender's Pro Rata Share of Advances and to purchase a participation in each Letter of Credit, in an amount equal to its Pro Rata Share of the Risk Participation Liability of such Letter of Credit.

15.3. No Waivers; Cumulative Remedies.

No failure by Agent or any Lender to exercise any right, remedy, or option under this Agreement or, any other Loan Document, or delay by Agent or any Lender in exercising the same, will operate as a waiver thereof. No waiver by Agent or any Lender will be effective unless it is in writing, and then only to the extent specifically stated. No waiver by Agent or any Lender on any occasion shall affect or diminish Agent's and each Lender's rights thereafter to require strict performance by Companies of any provision of this Agreement. Agent's and each Lender's rights under this Agreement and the other Loan Documents will be cumulative and not exclusive of any other right or remedy that Agent or any Lender may have.

16. AGENT; THE LENDER GROUP.

16.1. Appointment and Authorization of Agent.

Each Lender hereby designates and appoints Foothill as its representative under this Agreement and the other Loan Documents and each Lender hereby irrevocably authorizes Agent to take such action on its behalf under the provisions of this Agreement and each other Loan Document and to exercise such powers and perform such duties as are expressly delegated to Agent by the terms of this Agreement or any other Loan Document, together with such powers as are reasonably incidental thereto. Agent agrees to act as such on the express conditions contained in this Section 16. The provisions of this Section 16 are solely for the benefit of Agent, and the Lenders, and Companies shall have no rights as a third party beneficiary of any of the provisions contained herein. Any provision to the contrary contained elsewhere in this Agreement or in any other Loan Document notwithstanding, Agent shall not have any duties or responsibilities, except those expressly set forth herein, nor shall Agent have or be deemed to have any fiduciary relationship with any Lender, and no implied covenants, functions, responsibilities, duties, obligations or liabilities shall be read into this Agreement or any other Loan Document or otherwise exist against Agent; it being expressly understood and agreed that the use of the word "Agent" is for convenience only, that Foothill is merely the representative of the Lenders, and only has the contractual duties set forth herein. Except as expressly otherwise provided in this Agreement, Agent shall have and may use its sole discretion with respect to exercising or

refraining from exercising any discretionary rights or taking or refraining from taking any actions that Agent expressly is entitled to take or assert under or pursuant to this Agreement and the other Loan Documents. Without limiting the generality of the foregoing, or of any other provision of the Loan Documents that provides rights or powers to Agent, Lenders agree that Agent shall have the right to exercise the following powers as long as this Agreement remains in effect: (a) maintain, in accordance with its customary business practices, ledgers and records reflecting the status of the Obligations, the Collateral, the Collections, and related matters, (b) execute or file any and all financing or similar statements or notices, amendments, renewals, supplements, documents, instruments, proofs of claim, notices and other written agreements with respect to the Loan Documents, (c) make Advances, for itself or on behalf of Lenders as provided in the Loan Documents, (d) exclusively receive, apply, and distribute the Collections as provided in the Loan Documents, (e) open and maintain such bank accounts and cash management accounts as Agent deems necessary and appropriate in accordance with the Loan Documents for the foregoing purposes with respect to the Collateral and the Collections, (f) perform, exercise, and enforce any and all other rights and remedies of the Lender Group with respect to Companies, the Obligations, the Collateral, the Collections, or otherwise related to any of same as provided in the Loan Documents, and (g) incur and pay such Lender Group Expenses as Agent may deem necessary or appropriate for the performance and fulfillment of its functions and powers pursuant to the Loan Documents.

16.2. Delegation of Duties.

Agent may execute any of its duties under this Agreement or any other Loan Document by or through agents, employees or attorneys-in-fact and shall be entitled to advice of counsel concerning all matters pertaining to such duties. Agent shall not be responsible for the negligence or misconduct of any agent or attorney-in-fact that it selects as long as such selection was made without gross negligence or willful misconduct.

16.3. Liability of Agent.

None of the Agent-Related Persons shall (i) be liable for any action taken or omitted to be taken by any of them under or in connection with this Agreement or any other Loan Document or the transactions contemplated hereby (except for its own gross negligence or willful misconduct), or (ii) be responsible in any manner to any of the Lenders for any recital, statement, representation or warranty made by any Company or any Subsidiary or Affiliate of any Company, or any officer or director thereof, contained in this Agreement or in any other Loan Document, or in any certificate, report, statement or other document referred to or provided for in, or received by Agent under or in connection with, this Agreement or any other Loan Document, or the validity, effectiveness, genuineness, enforceability or sufficiency of this Agreement or any other Loan Document, or for any failure of any Company or any other party to any Loan Document to perform its obligations hereunder or thereunder. No Agent-Related Person shall be under any obligation to any Lender to ascertain or to inquire as to the observance or performance of any of the agreements contained in, or conditions of, this Agreement or any other Loan Document, or to inspect the Books or properties of Companies or the books or records or properties of any of Companies' Subsidiaries or Affiliates.

16.4. Reliance by Agent.

Agent shall be entitled to rely, and shall be fully protected in relying, upon any writing, resolution, notice, consent, certificate, affidavit, letter, telegram, facsimile, telex or telephone message, statement or other document or conversation believed by it to be genuine and correct and to have been signed, sent, or made by the proper Person or Persons, and upon advice and statements of legal counsel (including counsel to Companies or counsel to any Lender), independent accountants and other experts selected by Agent. Agent shall be fully justified in failing or refusing to take any action under this Agreement or any other Loan Document unless Agent shall first receive such advice or concurrence of the Lenders as it deems appropriate and until such instructions are received, Agent shall act, or refrain from acting, as it deems advisable. If Agent so requests, it shall first be indemnified to its reasonable satisfaction by Lenders against any and all liability and expense that may be incurred by it by reason of taking or continuing to take any such action. Agent shall in all cases be fully protected in acting, or in refraining from acting, under this Agreement or any other Loan Document in accordance with a request or consent of the Lenders and such request and any action taken or failure to act pursuant thereto shall be binding upon all of the Lenders.

16.5. Notice of Default or Event of Default.

Agent shall not be deemed to have knowledge or notice of the occurrence of any Default or Event of Default, except with respect to defaults in the payment of principal, interest, fees, and expenses required to be paid to Agent for the account of the Lenders, except with respect to Events of Default of which Agent has actual knowledge, unless Agent shall have received written notice from a Lender or Administrative Borrower referring to this Agreement, describing such Default or Event of Default, and stating that such notice is a "notice of default." Agent promptly will notify the Lenders of its receipt of any such notice or of any Event of Default of which Agent has actual knowledge. If any Lender obtains actual knowledge of any Event of Default, such Lender promptly shall notify the other Lenders and Agent of such Event of Default. Each Lender shall be solely responsible for giving any notices to its Participants, if any. Subject to Section 16.4, Agent shall take such action with respect to such Default or Event of Default as may be requested by the Required Lenders in accordance with Section 9; provided, however, that unless and until Agent has received any such request, Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Default or Event of Default as it shall deem advisable.

16.6. Credit Decision.

Each Lender acknowledges that none of the Agent-Related Persons has made any representation or warranty to it, and that no act by Agent hereinafter taken, including any review of the affairs of Companies and their Subsidiaries or Affiliates, shall be deemed to

constitute any representation or warranty by any Agent-Related Person to any Lender. Each Lender represents to Agent that it has, independently and without reliance upon any Agent-Related Person and based on such documents and information as it has deemed appropriate, made its own appraisal of and investigation into the business, prospects, operations, property, financial and other condition and creditworthiness of Companies and any other Person (other than the Lender Group) party to a Loan Document, and all applicable bank regulatory laws relating to the transactions contemplated hereby, and made its own decision to enter into this Agreement and to extend credit to Borrowers. Each Lender also represents that it will, independently and without reliance upon any Agent-Related Person and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit analysis, appraisals and decisions in taking or not taking action under this Agreement and the other Loan Documents, and to make such investigations as it deems necessary to inform itself as to the business, prospects, operations, property, financial and other condition and creditworthiness of Companies and any other Person (other than the Lender Group) party to a Loan Document. Except for notices, reports, and other documents expressly herein required to be furnished to the Lenders by Agent, Agent shall not have any duty or responsibility to provide any Lender with any credit or other information concerning the business, prospects, operations, property, financial and other condition or creditworthiness of Borrowers and any other Person party to a Loan Document that may come into the possession of any of the Agent-Related Persons.

16.7. Costs and Expenses; Indemnification.

Agent may incur and pay Lender Group Expenses to the extent Agent reasonably deems necessary or appropriate for the performance and fulfillment of its functions, powers, and obligations pursuant to the Loan Documents, including court costs, reasonable attorneys fees and expenses, costs of collection by outside collection agencies and auctioneer fees and costs of security guards or insurance premiums paid to maintain the Collateral, whether or not Companies are obligated to reimburse Agent or Lenders for such expenses pursuant to the Loan Agreement or otherwise. Agent is authorized and directed to deduct and retain sufficient amounts from Collections received by Agent to reimburse Agent for such out-of-pocket costs and expenses prior to the distribution of any amounts to Lenders. In the event Agent is not reimbursed for such costs and expenses from Collections received by Agent, each Lender hereby agrees that it is and shall be obligated to pay to or reimburse Agent for the amount of such Lender's Pro Rata Share thereof. Whether or not the transactions contemplated hereby are consummated, the Lenders shall indemnify upon demand the Agent-Related Persons (to the extent not reimbursed by or on behalf of Companies and without limiting the obligation of Companies to do so), according to their Pro Rata Shares, from and against any and all Indemnified Liabilities; provided, however, that no Lender shall be liable for the payment to any Agent-Related Person of any portion of such Indemnified Liabilities resulting solely from such Person's gross negligence or willful misconduct nor shall any Lender be liable for the obligations of any Defaulting Lender in failing to make an Advance or other extension of credit hereunder. Without limitation of the foregoing, each Lender shall reimburse Agent upon demand for such Lender's ratable share of any costs or out-of-pocket expenses (including attorneys fees and expenses) incurred by

Agent in connection with the preparation, execution, delivery, administration, modification, amendment, or enforcement (whether through negotiations, legal proceedings or otherwise) of, or legal advice in respect of rights or responsibilities under, this Agreement, any other Loan Document, or any document contemplated by or referred to herein, to the extent that Agent is not reimbursed for such expenses by or on behalf of Companies. The undertaking in this Section shall survive the payment of all Obligations hereunder and the resignation or replacement of Agent.

16.8. Agent in Individual Capacity.

Foothill and its Affiliates may make loans to, issue letters of credit for the account of, accept deposits from, acquire equity interests in, and generally engage in any kind of banking, trust, financial advisory, underwriting, or other business with Companies and their Subsidiaries and Affiliates and any other Person (other than the Lender Group) party to any Loan Documents as though Foothill were not Agent hereunder, and, in each case, without notice to or consent of the other members of the Lender Group. The other members of the Lender Group acknowledge that, pursuant to such activities, Foothill or its Affiliates may receive information regarding Companies or their Affiliates and any other Person (other than the Lender Group) party to any Loan Documents that is subject to confidentiality obligations in favor of Companies or such other Person and that prohibit the disclosure of such information to the Lenders, and the Lenders acknowledge that, in such circumstances (and in the absence of a waiver of such confidentiality obligations, which waiver Agent will use its reasonable best efforts to obtain), Agent shall not be under any obligation to provide such information to them. The terms "Lender" and "Lenders" include Foothill in its individual capacity.

16.9. Successor Agent.

Agent may resign as Agent upon 45 days notice to the Lenders. If Agent resigns under this Agreement, the Required Lenders shall appoint a successor Agent for the Lenders. If no successor Agent is appointed prior to the effective date of the resignation of Agent, Agent may appoint, after consulting with the Lenders, a successor Agent. If Agent has materially breached or failed to perform any material provision of this Agreement or of applicable law, the Required Lenders may agree in writing to remove and replace Agent with a successor Agent from among the Lenders. In any such event, upon the acceptance of its appointment as successor Agent hereunder, such successor Agent shall succeed to all the rights, powers, and duties of the retiring Agent and the term "Agent" shall mean such successor Agent and the retiring Agent's appointment, powers, and duties as Agent shall be terminated. After any retiring Agent's resignation hereunder as Agent, the provisions of this Section 16 shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Agent under this Agreement. If no successor Agent has accepted appointment as Agent by the date which is 45 days following a retiring Agent's notice of resignation, the retiring Agent's resignation shall nevertheless thereupon become effective and the Lenders shall perform all of the duties of Agent hereunder until such time, if any, as the Lenders appoint a successor Agent as provided for above.

16.10. Lender in Individual Capacity.

Any Lender and its respective Affiliates may make loans to, issue letters of credit for the account of, accept deposits from, acquire equity interests in and generally engage in any kind of banking, trust, financial advisory, underwriting or other business with Companies and their Subsidiaries and Affiliates and any other Person (other than the Lender Group) party to any Loan Documents as though such Lender were not a Lender hereunder without notice to or consent of the other members of the Lender Group. The other members of the Lender Group acknowledge that, pursuant to such activities, such Lender and its respective Affiliates may receive information regarding Companies or their Affiliates and any other Person (other than the Lender Group) party to any Loan Documents that is subject to confidentiality obligations in favor of Companies or such other Person and that prohibit the disclosure of such information to the Lenders, and the Lenders acknowledge that, in such circumstances (and in the absence of a waiver of such confidentiality obligations, which waiver such Lender will use its reasonable best efforts to obtain), such Lender not shall be under any obligation to provide such information to them. With respect to the Swing Loans and Agent Advances, Swing Lender shall have the same rights and powers under this Agreement as any other Lender and may exercise the same as though it were not the sub-agent of the Agent.

16.11. Withholding Taxes.

(a) If any Lender is a "foreign corporation, partnership or trust" within the meaning of the IRC and such Lender claims exemption from, or a reduction of, U.S. withholding tax under Sections 1441 or 1442 of the IRC, such Lender agrees with and in favor of Agent and Companies, to deliver to Agent and Administrative Borrower:

(i) if such Lender claims an exemption from withholding tax pursuant to its portfolio interest exception, (a) a statement of the Lender, signed under penalty of perjury, that it is not a (i) a "bank" as described in Section 881(c)(3)(A) of the IRC, (ii) a 10% shareholder (within the meaning of Section 881(c)(3)(B) of the IRC), or (iii) a controlled foreign corporation described in Section 881(c)(3)(C) of the IRC, and (B) a properly completed IRS Form W-8BEN, before the first payment of any interest under this Agreement and at any other time reasonably requested by Agent or Administrative Borrower;

(ii) if such Lender claims an exemption from, or a reduction of, withholding tax under a United States tax treaty, properly completed IRS Form W-8BEN before the first payment of any interest under this Agreement and at any other time reasonably requested by Agent or Administrative Borrower;

(iii) if such Lender claims that interest paid under this Agreement is exempt from United States withholding tax because it is effectively connected with a United States trade or business of such Lender, two properly completed and executed copies of IRS Form W-8ECI before the first payment of any interest is due under this Agreement and at any other time reasonably requested by Agent or Administrative Borrower;

(iv) such other form or forms as may be required under the IRC or other laws of the United States as a condition to exemption from, or reduction of, United States withholding tax.

Such Lender agrees promptly to notify Agent and Administrative Borrower of any change in circumstances which would modify or render invalid any claimed exemption or reduction.

(b) If any Lender claims exemption from, or reduction of, withholding tax under a United States tax treaty by providing IRS Form W-8BEN and such Lender sells, assigns, grants a participation in, or otherwise transfers all or part of the Obligations of Companies to such Lender, such Lender agrees to notify Agent of the percentage amount in which it is no longer the beneficial owner of Obligations of Companies to such Lender. To the extent of such percentage amount, Agent will treat such Lender's IRS Form W-8BEN as no longer valid.

(c) If any Lender is entitled to a reduction in the applicable withholding tax, Agent may withhold from any interest payment to such Lender an amount equivalent to the applicable withholding tax after taking into account such reduction. If the forms or other documentation required by subsection (a) of this Section are not delivered to Agent, then Agent may withhold from any interest payment to such Lender not providing such forms or other documentation an amount equivalent to the applicable withholding tax.

(d) If the IRS or any other Governmental Authority of the United States or other jurisdiction asserts a claim that Agent did not properly withhold tax from amounts paid to or for the account of any Lender (because the appropriate form was not delivered, was not properly executed, or because such Lender failed to notify Agent of a change in circumstances which rendered the exemption from, or reduction of, withholding tax ineffective, or for any other reason) such Lender shall indemnify and hold Agent harmless for all amounts paid, directly or indirectly, by Agent as tax or otherwise, including penalties and interest, and including any taxes imposed by any jurisdiction on the amounts payable to Agent under this Section, together with all costs and expenses (including attorneys fees and expenses). The obligation of the Lenders under this subsection shall survive the payment of all Obligations and the resignation or replacement of Agent.

(e) All payments made by Companies hereunder or under any note or other Loan Document will be made without setoff, counterclaim, or other defense, except as required by applicable law other than for Taxes (as defined below). All such payments will be made free and clear of, and without deduction or withholding for, any present or future taxes, levies, imposts, duties, fees, assessments or other charges of whatever nature now or hereafter imposed by any jurisdiction (other than the United States) or by any political subdivision or taxing authority thereof or therein (other than of the United States) with respect to such payments (but excluding, any tax imposed by any jurisdiction or by any political subdivision or taxing authority thereof or therein (i) measured by or based on the net

income or net profits of a Lender, or (ii) to the extent that such tax results from a change in the circumstances of the Lender, including a change in the residence, place of organization, or principal place of business of the Lender, or a change in the branch or lending office of the Lender participating in the transactions set forth herein) and all interest, penalties or similar liabilities with respect thereto (all such non-excluded taxes, levies, imposts, duties, fees, assessments or other charges being referred to collectively as "Taxes"). If any Taxes are so levied or imposed, each Company agrees to pay the full amount of such Taxes, and such additional amounts as may be necessary so that every payment of all amounts due under this Agreement or under any note, including any amount paid pursuant to this Section 16.11(e) after withholding or deduction for or on account of any Taxes, will not be less than the amount provided for herein; provided, however, that Companies shall not be required to increase any such amounts payable to Agent or any Lender (i) that is not organized under the laws of the United States, if such Person fails to comply with the other requirements of this Section 16.11, or (ii) if the increase in such amount payable results from Agent's or such Lender's own willful misconduct or gross negligence. Companies will furnish to Agent as promptly as possible after the date the payment of any Taxes is due pursuant to applicable law certified copies of tax receipts evidencing such payment by Companies.

16.12. Collateral Matters.

(a) The Lenders hereby irrevocably authorize Agent, at its option and in its sole discretion, to release any Lien on any Collateral (i) upon the termination of the Commitments and payment and satisfaction in full by Companies of all Obligations, (ii) constituting property being sold or disposed of if a release is required or desirable in connection therewith and if Administrative Borrower certifies to Agent that the sale or disposition is permitted under Section 7.4 of this Agreement or the other Loan Documents (and Agent may rely conclusively on any such certificate, without further inquiry), (iii) constituting property in which no Company owned any interest at the time the security interest was granted or at any time thereafter, or (iv) constituting property leased to a Company under a lease that has expired or is terminated in a transaction permitted under this Agreement. Except as provided above, Agent will not execute and deliver a release of any Lien on any Collateral without the prior written authorization of (y) if the release is of all or substantially all of the Collateral, all of the Lenders, or (z) otherwise, the Required Lenders. Upon request by Agent or Administrative Borrower at any time, the Lenders will confirm in writing Agent's authority to release any such Liens on particular types or items of Collateral pursuant to this Section 16.12; provided, however, that (1) Agent shall not be required to execute any document necessary to evidence such release on terms that, in Agent's opinion, would expose Agent to liability or create any obligation or entail any consequence other than the release of such Lien without recourse, representation, or warranty, and (2) such release shall not in any manner discharge, affect, or impair the Obligations or any Liens (other than those expressly being released) upon (or obligations of Companies in respect of) all interests retained by Companies, including, the proceeds of any sale, all of which shall continue to constitute part of the Collateral.

(b) Agent shall have no obligation whatsoever to any of the Lenders to assure that the Collateral exists or is owned by Companies or is cared for, protected, or

insured or has been encumbered, or that the Agent's Liens have been properly or sufficiently or lawfully created, perfected, protected, or enforced or are entitled to any particular priority, or to exercise at all or in any particular manner or under any duty of care, disclosure or fidelity, or to continue exercising, any of the rights, authorities and powers granted or available to Agent pursuant to any of the Loan Documents, it being understood and agreed that in respect of the Collateral, or any act, omission, or event related thereto, subject to the terms and conditions contained herein, Agent may act in any manner it may deem appropriate, in its sole discretion given Agent's own interest in the Collateral in its capacity as one of the Lenders and that Agent shall have no other duty or liability whatsoever to any Lender as to any of the foregoing, except as otherwise provided herein.

16.13. Restrictions on Actions by Lenders; Sharing of Payments.

(a) Each of the Lenders agrees that it shall not, without the express consent of Agent, and that it shall, to the extent it is lawfully entitled to do so, upon the request of Agent, set off against the Obligations, any amounts owing by such Lender to Companies or any deposit accounts of Companies now or hereafter maintained with such Lender. Each of the Lenders further agrees that it shall not, unless specifically requested to do so by Agent, take or cause to be taken any action, including, the commencement of any legal or equitable proceedings, to foreclose any Lien on, or otherwise enforce any security interest in, any of the Collateral the purpose of which is, or could be, to give such Lender any preference or priority against the other Lenders with respect to the Collateral.

(b) If, at any time or times any Lender shall receive (i) by payment, foreclosure, setoff, or otherwise, any proceeds of Collateral or any payments with respect to the Obligations arising under, or relating to, this Agreement or the other Loan Documents, except for any such proceeds or payments received by such Lender from Agent pursuant to the terms of this Agreement, or (ii) payments from Agent in excess of such Lender's ratable portion of all such distributions by Agent, such Lender promptly shall (1) turn the same over to Agent, in kind, and with such endorsements as may be required to negotiate the same to Agent, or in immediately available funds, as applicable, for the account of all of the Lenders and for application to the Obligations in accordance with the applicable provisions of this Agreement, or (2) purchase, without recourse or warranty, an undivided interest and participation in the Obligations owed to the other Lenders so that such excess payment received shall be applied ratably as among the Lenders in accordance with their Pro Rata Shares; provided, however, that if all or part of such excess payment received by the purchasing party is thereafter recovered from it, those purchases of participations shall be rescinded in whole or in part, as applicable, and the applicable portion of the purchase price paid therefor shall be returned to such purchasing party, but without interest except to the extent that such purchasing party is required to pay interest in connection with the recovery of the excess payment.

16.14. Agency for Perfection.

Agent hereby appoints each other Lender as its agent (and each Lender hereby accepts such appointment) for the purpose of perfecting the Agent's Liens in assets which, in

accordance with Article 9 of the UCC can be perfected only by possession. Should any Lender obtain possession of any such Collateral, such Lender shall notify Agent thereof, and, promptly upon Agent's request therefor shall deliver such Collateral to Agent or in accordance with Agent's instructions.

16.15. Payments by Agent to the Lenders.

All payments to be made by Agent to the Lenders shall be made by bank wire transfer or internal transfer of immediately available funds pursuant to such wire transfer instructions as each party may designate for itself by written notice to Agent. Concurrently with each such payment, Agent shall identify whether such payment (or any portion thereof) represents principal, premium, or interest of the Obligations.

16.16. Concerning the Collateral and Related Loan Documents.

Each member of the Lender Group authorizes and directs Agent to enter into this Agreement and the other Loan Documents relating to the Collateral, for the benefit of the Lender Group. Each member of the Lender Group agrees that any action taken by Agent in accordance with the terms of this Agreement or the other Loan Documents relating to the Collateral and the exercise by Agent of its powers set forth therein or herein, together with such other powers that are reasonably incidental thereto, shall be binding upon all of the Lenders.

16.17. Field Audits and Examination Reports; Confidentiality; Disclaimers by Lenders; Other Reports and Information.

By becoming a party to this Agreement, each Lender:

(a) is deemed to have requested that Agent furnish such Lender, promptly after it becomes available, a copy of each field audit or examination report (each a "Report" and collectively, "Reports") prepared by Agent, and Agent shall so furnish each Lender with such Reports,

(b) expressly agrees and acknowledges that Agent does not (i) make any representation or warranty as to the accuracy of any Report, and (ii) shall not be liable for any information contained in any Report,

(c) expressly agrees and acknowledges that the Reports are not comprehensive audits or examinations, that Agent or other party performing any audit or examination will inspect only specific information regarding Companies and will rely significantly upon the Books, as well as on representations of Companies' personnel,

(d) agrees to keep all Reports and other material, non-public information regarding Companies and their Subsidiaries and their operations, assets, and existing and contemplated business plans in a confidential manner; it being understood and agreed by Companies that in any event such Lender may make disclosures (a) to counsel for and other advisors, accountants, and auditors to such Lender, (b) reasonably required by any *bona fide*

potential or actual Assignee or Participant in connection with any contemplated or actual assignment or transfer by such Lender of an interest herein or any participation interest in such Lender's rights hereunder, (c) of information that has become public by disclosures made by Persons other than such Lender, its Affiliates, assignees, transferees, or Participants, or (d) as required or requested by any court, governmental or administrative agency, pursuant to any subpoena or other legal process, or by any law, statute, regulation, or court order; provided, however, that, unless prohibited by applicable law, statute, regulation, or court order, such Lender shall notify Administrative Borrower of any request by any court, governmental or administrative agency, or pursuant to any subpoena or other legal process for disclosure of any such non-public material information concurrent with, or where practicable, prior to the disclosure thereof, and

(e) without limiting the generality of any other indemnification provision contained in this Agreement, agrees: (i) to hold Agent and any such other Lender preparing a Report harmless from any action the indemnifying Lender may take or conclusion the indemnifying Lender may reach or draw from any Report in connection with any loans or other credit accommodations that the indemnifying Lender has made or may make to Companies, or the indemnifying Lender's participation in, or the indemnifying Lender's purchase of, a loan or loans of Companies; and (ii) to pay and protect, and indemnify, defend and hold Agent, and any such other Lender preparing a Report harmless from and against, the claims, actions, proceedings, damages, costs, expenses, and other amounts (including, attorneys fees and costs) incurred by Agent and any such other Lender preparing a Report as the direct or indirect result of any third parties who might obtain all or part of any Report through the indemnifying Lender.

In addition to the foregoing: (x) any Lender may from time to time request of Agent in writing that Agent provide to such Lender a copy of any report or document provided by Companies to Agent that has not been contemporaneously provided by Companies to such Lender, and, upon receipt of such request, Agent shall provide a copy of same to such Lender, (y) to the extent that Agent is entitled, under any provision of the Loan Documents, to request additional reports or information from Companies, any Lender may, from time to time, reasonably request Agent to exercise such right as specified in such Lender's notice to Agent, whereupon Agent promptly shall request of Administrative Borrower the additional reports or information reasonably specified by such Lender, and, upon receipt thereof from Administrative Borrower, Agent promptly shall provide a copy of same to such Lender, and (z) any time that Agent renders to Administrative Borrower a statement regarding the Loan Account, Agent shall send a copy of such statement to each Lender.

16.18. Several Obligations; No Liability.

Notwithstanding that certain of the Loan Documents now or hereafter may have been or will be executed only by or in favor of Agent in its capacity as such, and not by or in favor of the Lenders, any and all obligations on the part of Agent (if any) to make any credit available hereunder shall constitute the several (and not joint) obligations of the respective Lenders on a ratable basis, according to their respective Commitments, to make an amount of such credit not to exceed, in principal amount, at any one time outstanding, the

amount of their respective Commitments. Nothing contained herein shall confer upon any Lender any interest in, or subject any Lender to any liability for, or in respect of, the business, assets, profits, losses, or liabilities of any other Lender. Each Lender shall be solely responsible for notifying its Participants of any matters relating to the Loan Documents to the extent any such notice may be required, and no Lender shall have any obligation, duty, or liability to any Participant of any other Lender. Except as provided in Section 16.7, no member of the Lender Group shall have any liability for the acts or any other member of the Lender Group. No Lender shall be responsible to any Company or any other Person for any failure by any other Lender to fulfill its obligations to make credit available hereunder, nor to advance for it or on its behalf in connection with its Commitment, nor to take any other action on its behalf hereunder or in connection with the financing contemplated herein.

16.19. Legal Representation of Agent.

In connection with the negotiation, drafting, and execution of this Agreement and the other Loan Documents, or in connection with future legal representation relating to loan administration, amendments, modifications, waivers, or enforcement of remedies, Goldberg, Kohn, Bell, Black, Rosenbloom & Moritz, Ltd. ("GK") only has represented and only shall represent Foothill in its capacity as Agent and as a Lender. Each other Lender hereby acknowledges that GK does not represent it in connection with any such matters.

17. GENERAL PROVISIONS.

17.1. Effectiveness.

This Agreement shall be binding and deemed effective when executed by Companies, Agent, and each Lender whose signature is provided for on the signature pages hereof.

17.2. Section Headings.

Headings and numbers have been set forth herein for convenience only. Unless the contrary is compelled by the context, everything contained in each Section applies equally to this entire Agreement.

17.3. Interpretation.

Neither this Agreement nor any uncertainty or ambiguity herein shall be construed or resolved against the Lender Group or Companies, whether under any rule of construction or otherwise. On the contrary, this Agreement has been reviewed by all parties and shall be construed and interpreted according to the ordinary meaning of the words used so as to accomplish fairly the purposes and intentions of all parties hereto.

17.4. Severability of Provisions.

Each provision of this Agreement shall be severable from every other provision of this Agreement for the purpose of determining the legal enforceability of any specific provision.

17.5. Amendments in Writing.

This Agreement only can be amended by a writing in accordance with Section 15.1.

17.6. Counterparts; Telefacsimile Execution.

This Agreement may be executed in any number of counterparts and by different parties on separate counterparts, each of which, when executed and delivered, shall be deemed to be an original, and all of which, when taken together, shall constitute but one and the same Agreement. Delivery of an executed counterpart of this Agreement by telefacsimile shall be equally as effective as delivery of an original executed counterpart of this Agreement. Any party delivering an executed counterpart of this Agreement by telefacsimile also shall deliver an original executed counterpart of this Agreement but the failure to deliver an original executed counterpart shall not affect the validity, enforceability, and binding effect of this Agreement. The foregoing shall apply to each other Loan Document *mutatis mutandis*.

17.7. Revival and Reinstatement of Obligations.

If the incurrence or payment of the Obligations by any Company or the transfer to the Lender Group of any property should for any reason subsequently be declared to be void or voidable under any state or federal law relating to creditors' rights, including provisions of the Bankruptcy Code relating to fraudulent conveyances, preferences, or other voidable or recoverable payments of money or transfers of property (collectively, a "Voidable Transfer"), and if the Lender Group is required to repay or restore, in whole or in part, any such Voidable Transfer, or elects to do so upon the reasonable advice of its counsel, then, as to any such Voidable Transfer, or the amount thereof that the Lender Group is required or elects to repay or restore, and as to all reasonable costs, expenses, and attorneys fees of the Lender Group related thereto, the liability of Companies automatically shall be revived, reinstated, and restored and shall exist as though such Voidable Transfer had never been made.

17.8. Integration.

This Agreement, together with the other Loan Documents, reflects the entire understanding of the parties with respect to the transactions contemplated hereby and shall not be contradicted or qualified by any other agreement, oral or written, before the date hereof.

17.9. Parent as Agent for Companies.

Each Company hereby irrevocably appoints Parent as the borrowing agent and attorney-in-fact for all Companies (the "Administrative Borrower") which appointment shall remain in full force and effect unless and until Agent shall have received prior written notice signed by each Company that such appointment has been revoked and that another Company has been appointed Administrative Borrower. Each Company hereby irrevocably appoints and authorizes the Administrative Borrower (i) to provide Agent with all notices with respect to Advances and Letters of Credit obtained for the benefit of any Borrower and all other notices and instructions under this Agreement and (ii) to take such action as the Administrative Borrower deems appropriate on its behalf to obtain Advances and Letters of Credit and to exercise such other powers as are reasonably incidental thereto to carry out the purposes of this Agreement. It is understood that the handling of the Loan Account and Collateral of Companies in a combined fashion, as more fully set forth herein, is done solely as an accommodation to Companies in order to utilize the collective borrowing powers of Companies in the most efficient and economical manner and at their request, and that Lender Group shall not incur liability to any Company as a result hereof. Each Company expects to derive benefit, directly or indirectly, from the handling of the Loan Account and the Collateral in a combined fashion since the successful operation of each Company is dependent on the continued successful performance of the integrated group. To induce the Lender Group to do so, and in consideration thereof, each Company hereby jointly and severally agrees to indemnify each member of the Lender Group and hold each member of the Lender Group harmless against any and all liability, expense, loss or claim of damage or injury, made against the Lender Group by any Company or by any third party whosoever, arising from or incurred by reason of (a) the handling of the Loan Account and Collateral of Companies as herein provided, (b) the Lender Group's relying on any instructions of the Administrative Borrower, or (c) any other action taken by the Lender Group hereunder or under the other Loan Documents, except that Companies will have no liability to the relevant Agent-Related Person or Lender-Related Person under this Section 17.9 with respect to any liability that has been finally determined by a court of competent jurisdiction to have resulted solely from the gross negligence or willful misconduct of such Agent-Related Person or Lender-Related Person, as the case may be.

17.10. USA PATRIOT Act.

Each Lender that is subject to the requirements of the Patriot Act hereby notifies the Borrowers that pursuant to the requirements of the Act, it is required to obtain, verify and record information that identifies the Borrowers, which information includes the name and address of the Borrowers and other information that will allow such Lender to identify the Borrowers in accordance with the Patriot Act.

[Signature page to follow.]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed and delivered as of the date first above written.

BORROWERS:

TELOS CORPORATION,
a Maryland corporation

/s/ Michael P. Flaherty
Michael P. Flaherty
EVP, General Counsel, Chief Administrative Officer

XACTA CORPORATION,
a Delaware corporation

/s/ Michael P. Flaherty
Michael P. Flaherty
Executive Vice President

CREDIT PARTIES:

TELOS DELAWARE, INC.,
a Delaware corporation

/s/ Michael P. Flaherty
Michael P. Flaherty
Executive Vice President

UBIQUITY.COM, INC.,
a Delaware corporation

/s/ Michael P. Flaherty
Michael P. Flaherty
Executive Vice President

TELOS INTERNATIONAL CORP.,
a Delaware corporation

/s/ Michael P. Flaherty
Michael P. Flaherty
Executive Vice President

TELOS INTERNATIONAL ASIA, INC.,
a Delaware corporation

/s/ Michael P. Flaherty
Michael P. Flaherty
Executive Vice President

SECURE TRADE, INC.,
a Delaware corporation

/s/ Michael P. Flaherty
Michael P. Flaherty
Executive Vice President

TELOS FIELD ENGINEERING, INC.,
a Delaware corporation

/s/ Michael P. Flaherty
Michael P. Flaherty
Executive Vice President

TELOWORKS, INC.,
a Delaware corporation

/s/ Richard P. Tracy
Richard P. Tracy
President

AGENT:

WELLS FARGO FOOTHILL, INC. (formerly known as Foothill Capital Corporation), a California corporation

By /s/ David Sanchez

Title V.P.

EXHIBIT A-1

FORM OF ASSIGNMENT AND ACCEPTANCE AGREEMENT

This **ASSIGNMENT AND ACCEPTANCE AGREEMENT** ("Assignment Agreement") is entered into as of _____ between _____ ("Assignor") and _____ ("Assignee"). Reference is made to the Agreement described in Item 2 of Annex I annexed hereto (the "Loan Agreement"). Capitalized terms used herein and not otherwise defined shall have the meanings ascribed to them in the Loan Agreement.

1. In accordance with the terms and conditions of Section 14 of the Loan Agreement, the Assignor hereby sells and assigns to the Assignee, and the Assignee hereby purchases and assumes from the Assignor, that interest in and to the Assignor's rights and obligations under the Loan Documents as of the date hereof with respect to the Obligations owing to the Assignor, and Assignor's portion of the Total Commitments and the Revolver Commitments all as specified in Item 4.b and Item 4.c of Annex I. After giving effect to such sale and assignments, the Assignee's portion of the Total Commitments and the Revolver Commitments will be as set forth in Item 4.b of Annex I. After giving effect to such sale and assignment the Assignor's amount and portion of the Total Commitments and the Revolver Commitments will be as set forth in Item 4.d and Item 4.e of Annex I.

2. The Assignor (a) represents and warrants that it is the legal and beneficial owner of the interest being assigned by it hereunder and that such interest is free and clear of any adverse claim; (b) makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with the Loan Documents or the execution, legality, validity, enforceability, genuineness, sufficiency or value of the Loan Documents or any other instrument or document furnished pursuant thereto; and (c) makes no representation or warranty and assumes no responsibility with respect to the financial condition of Borrowers or the performance or observance by Borrowers of any of their obligations under the Loan Documents or any other instrument or document furnished pursuant thereto.

3. The Assignee (a) confirms that it has received copies of the Loan Agreement and the other Loan Documents, together with copies of the financial statements referred to therein and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into this Assignment Agreement; (b) agrees that it will, independently and without reliance, as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Loan Documents; (c) confirms that it is eligible as an assignee under the terms of the Loan Agreement; (d) appoints and authorizes the Agent to take such action as agent on its behalf and to exercise such powers under the Loan Documents as are delegated to Agent by the terms thereof, together with such powers as are reasonably incidental thereto; (e) agrees that it will perform in accordance with their terms all of the obligations which by the terms of the Loan Documents are required to be performed by it as a Lender **[and (f) attaches the forms**

prescribed by the Internal Revenue Service of the United States certifying as to the Assignee's status for purposes of determining exemption from United States withholding taxes with respect to all payments to be made to the Assignee under the Loan Agreement or such other documents as are necessary to indicate that all such payments are subject to such rates at a rate reduced by an applicable tax treaty.]

4. Following the execution of this Assignment Agreement by the Assignor and Assignee, it will be delivered by the Assignor to the Agent for recording by the Agent. The effective date of this Assignment (the "Settlement Date") shall be the later of (a) the date of the execution hereof by the Assignor and the Assignee, the payment by Assignor or Assignee to Agent for Agent's sole and separate account a processing fee in the amount of $5,000, and the receipt of any required consent of the Agent, and (b) the date specified in item 5 of Annex I.

5. Upon recording by the Agent, as of the Settlement Date (a) the Assignee shall be a party to the Loan Agreement and, to the extent of the interest assigned pursuant to this Assignment Agreement, have the rights and obligations of a Lender thereunder and under the other Loan Documents, and (b) the Assignor shall, to the extent of the interest assigned pursuant to this Assignment Agreement, relinquish its rights and be released from its obligations under the Loan Agreement and the other Loan Documents.

6. Upon recording by the Agent, from and after the Settlement Date, the Agent shall make all payments under the Loan Agreement and the other Loan Documents in respect of the interest assigned hereby (including, without limitation, all payments or principal, interest and commitment fees (if applicable) with respect thereto) to the Assignee. Upon the Settlement Date, the Assignee shall pay to the Assignor the Assigned Share (as set forth in Item 4.b of Annex I) of the principal amount of any outstanding loans under the Loan Agreement and the other Loan Documents. The Assignor and Assignee shall make all appropriate adjustments in payments under the Loan Agreement and the other Loan Documents for periods prior to the Settlement Date directly between themselves on the Settlement Date.

7. THIS ASSIGNMENT AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF ILLINOIS.

[**Remainder of page left intentionally blank.**]

IN WITNESS WHEREOF, the parties hereto have caused this Assignment Agreement and Annex I hereto to be executed by their respective officers thereunto duly authorized, as of the first date above written.

[NAME OF ASSIGNOR], as Assignor

By _____
Title _____

[**NAME OF ASSIGNEE**], as Assignee

By _____
Title _____

ACCEPTED this ____ day of _____

WELLS FARGO FOOTHILL, INC.,
as Agent

By _____
Title _____

ANNEX FOR ASSIGNMENT AND ACCEPTANCE

ANNEX I

1. Borrowers:

2. Name and Date of Loan Agreement:

   Amended and Restated Loan and Security Agreement, dated as of April 3, 2008 but effective as of March 31, 2008, among Borrowers, certain Credit Parties from time to time a party thereto, the lenders signatory thereto as the Lenders, and Wells Fargo Foothill, Inc. (formerly Foothill Capital Corporation), a California corporation, as the arranger and administrative agent for the Lenders.

3. Date of Assignment Agreement:

4. Amounts:

   a. Assignor's Total Commitment $_____

      i. Assignor's Revolver Commitment $_____

   b. Assigned Share of Total Commitment _____%

      i. Assigned Share of Revolver Commitment _____%

   c. Assigned Amount of Total Commitment $_____

      i. Assigned Amount of Revolver Credit Commitment to make $_____

   d. Resulting Amount of Assignor's Total Commitment after giving effect to the sale and Assignment to Assignee $_____

      i. Resulting Amount of Assignor's Revolver Commitment $_____

   e. Assignor's Resulting Share of Total Commitment after giving effect to the Assignment to Assignee _____%

      i. Assignor's Resulting Share of Revolving Credit Commitment _____%

5. Settlement Date: _____

6. Notice and Payment Instructions, etc.

Assignee:	Assignor:
_____	_____
_____	_____
_____	_____
_____	_____

7. Agreed and Accepted:

[**ASSIGNOR**]	[**ASSIGNEE**]
By _____	By _____
Title _____	Title _____

Accepted:

WELLS FARGO FOOTHILL, INC., as Agent

By _____
Title _____

EXHIBIT C-1
(Form of Compliance Certificate)

[on Borrowers' letterhead]

To: Wells Fargo Foothill, Inc., as Agent
under the below-referenced Loan Agreement
One Boston Place, 18th Floor
Boston, Massachusetts 02108
Attn: Business Finance Division Manager

Re: Compliance Certificate dated _____

Ladies and Gentlemen:

Reference is made to that certain Amended and Restated Loan and Security Agreement, dated as of April 3, 2008, but effective as of March 31, 2008 (the "Loan Agreement"), among Telos Corporation, a Maryland corporation ("Telos"), Xacta Corporation, a Delaware corporation ("Xacta"; Telos and Xacta are each referred to hereinafter individually as a "Borrower" and collectively as "Borrowers"), certain Credit Parties from time to time party thereto, the lenders signatory thereto (the "Lenders"), and Wells Fargo Foothill, Inc. (formerly known as Foothill Capital Corporation), a California corporation, as the arranger and administrative agent for the Lenders ("Agent"). Capitalized terms used in this Compliance Certificate have the meanings set forth in the Loan Agreement unless specifically defined herein.

Pursuant to Section 6.3 of the Loan Agreement, the undersigned officer of Borrower hereby certifies that:

1. The financial information of Parent and its Subsidiaries furnished in Schedule 1 attached hereto, has been prepared in accordance with GAAP (except for year-end adjustments and the lack of footnotes, in the case of financial statements delivered under Section 6.3(a) of the Loan Agreement) and fairly presents the financial condition of Parent and its Subsidiaries.

2. Such officer has reviewed the terms of the Loan Agreement and has made, or caused to be made under his/her supervision, a review in reasonable detail of the transactions and condition of Parent and its Subsidiaries during the accounting period covered by the financial statements delivered pursuant to Section 6.3 of the Loan Agreement.

3. Such review has not disclosed the existence on and as of the date hereof, and the undersigned does not have knowledge of the existence as of the date hereof, of any event or condition that constitutes a Default or Event of Default, except for such conditions or events listed on Schedule 2 attached hereto, specifying the nature and period of existence thereof and what action Borrowers have taken, are taking or propose to take with respect thereto.

4. Borrowers are in timely compliance with all representations, warranties, and covenants set forth in the Loan Agreement and the other Loan Documents, except as set forth on Schedule 2 attached hereto. Without limiting the generality of the foregoing, Borrowers are in compliance with the covenants contained in Section 7.20 of the Loan Agreement as demonstrated on Schedule 3 hereof.

IN WITNESS WHEREOF, this Compliance Certificate is executed by the undersigned this ____ day of _____, 200__.

TELOS CORPORATION, a Maryland corporation, as a Borrower

By _____
Name _____
Title _____

XACTA CORPORATION, a Delaware corporation, as a Borrower

By _____
Name _____
Title _____

SCHEDULE 1

SCHEDULE 2

SCHEDULE 3

1. **Minimum EBITDA.**

(a) EBITDA for the _____ ending _____, _____ is $_____, which amount [**is/is not**] greater than or equal to the amount set forth in Section 7.20(a)(i) of the Loan Agreement for the corresponding period.

2. **Maximum Capital Expenditures.**

(a) The aggregate amount of capital expenditures made or committed to be made to date in the current fiscal year is $_____.

(b) The aggregate amount set forth above [**is/is not**] less than or equal to the amount set forth in Section 7.20(b)(i) of the Loan Agreement for the corresponding period.

EXHIBIT L-1

FORM OF LIBOR NOTICE

Wells Fargo Foothill, Inc.,
as Agent under the below referenced Loan Agreement
One Boston Place, 18th Floor
Boston, Massachusetts 02108
Attention: _____

Ladies and Gentlemen:

Reference hereby is made to that certain Amended and Restated Loan and Security Agreement, dated as of April 3, 2008, but effective as of March 31, 2008 (the "Loan Agreement"), among Telos Corporation, a Maryland corporation ("Telos"), Xacta Corporation, a Delaware corporation ("Xacta"; Telos and Xacta are each referred to hereinafter individually as a "Borrower" and collectively as "Borrowers"), certain Credit Parties from time to time party thereto, the lenders signatory thereto (the "Lenders"), and Wells Fargo Foothill, Inc. (formerly known as Foothill Capital Corporation), a California corporation, as the arranger and administrative agent for the Lenders ("Agent"). Capitalized terms used herein and not otherwise defined herein shall have the meanings ascribed to them in the Loan Agreement.

This LIBOR Notice represents Borrowers' request to elect the LIBOR Option with respect to outstanding Advances in the amount of $_____ (the "LIBOR Rate Advance")[**, and is a written confirmation of the telephonic notice of such election given to Agent**].

Such LIBOR Rate Advance will have an Interest Period of [**1, 2, or 3**] month(s) commencing on _____.

This LIBOR Notice further confirms Borrowers' acceptance, for purposes of determining the rate of interest based on the LIBOR Rate under the Loan Agreement, of the LIBOR Rate as determined pursuant to the Loan Agreement.

Borrowers represent and warrant that (i) as of the date hereof, each representation or warranty contained in or pursuant to any Loan Document, any agreement, instrument, certificate, document or other writing furnished at any time under or in connection with any Loan Document, and as of the effective date of any advance, continuation or conversion requested above is true and correct in all material respects (except to the extent any representation or warranty expressly related to an earlier date), (ii) each of the covenants and agreements contained in any Loan Document have been performed (to the extent required to be performed on or before the date hereof or each such effective date), and (iii) no Default or Event of Default has occurred and is continuing on the date hereof, nor will any thereof occur after giving effect to the request above.

Dated: _____

TELOS CORPORATION, a Maryland corporation, as a Borrower

By _____
Name _____
Title _____

Dated: _____

XACTA CORPORATION, a Delaware corporation, as a Borrower

By _____
Name _____
Title _____

Acknowledged by:

WELLS FARGO FOOTHILL, Inc.,
as Agent

By _____
Name _____
Title _____

EXHIBIT 3.1

CLOSING CHECKLIST

See Attached

CLOSING CHECKLIST

Amendment and Restatement of Loans by
Wells Fargo Foothill, Inc.
to
Telos Corporation and Xacta Corporation

I. Parties:

A. Wells Fargo Foothill, Inc. ("Foothill"), individually and as Agent ("Agent")
One Boston Place, 18th Floor
Boston, Massachusetts 02108
Telephone: (617) 624-4438
Facsimile: (617) 523-1697

B. Telos Corporation ("Telos")
Xacta Corporation ("Xacta"; together with Telos, "Borrowers")
19886 Ashburn Road
Ashburn, Virginia 20147

C. Telos Delaware, Inc. ("Telos-Delaware")
Ubiquity.com, Inc. ("Ubiquity")
Telos International Corp. ("TIC")
Telos International Asia, Inc. ("TIA")
Secure Trade, Inc. ("STI")
Telos Field Engineering, Inc. ("TFE")
Teloworks, Inc. ("Teloworks"; together with Telos-Delaware, Ubiquity, TIC, TIA, STI and Teloworks , "Credit Parties") 19886 Ashburn Road
Ashburn, Virginia 20147

II. Counsel to Parties:

A. Foothill:

Goldberg, Kohn, Bell, Black, Rosenbloom & Moritz, Ltd.
55 East Monroe Street
Suite 3300
Chicago, Illinois 60603
Telephone: (312) 201-4000
Facsimile: (312) 332-2196

B. Borrowers and Credit Parties:

Michael P. Flaherty
General Counsel
Telos Corporation
19886 Ashburn Road
Ashburn, Virginia 20147
Telephone: (703) 726-2270
Facsimile: (703) 724-1468

III. Closing documents:

A. Items pertaining to Borrowers and Credit Parties:

1. Amended and Restated Loan and Security Agreement, together with Schedules and Exhibits
2. Amended and Restated Continuing Guaranty
3. Amended and Restated Fee Letter
4. Amended and Restated Subordination Agreement, together with Exhibits
5. Representations and Warranties of Officers (for Borrowers, Credit Parties, and Telos Identity Management Solutions, LLC)
6. Items to be delivered with respect to each Borrower's and each Credit Party's insurance:
    a) Certificates of insurance with respect to (i) property and boiler and machinery and business interruption policies, showing Agent as certificate holder and loss payee, with lender's loss payable clause in favor of Agent; (ii) liability and other third party policies, showing Agent as certificate holder and additional insured party
7. Cash Management Agreements
8. Closing Certificate
9. Reaffirmation of Loan Documents
    a) Collateral Assignment of Business Interruption Insurance
    b) Collateral Assignment of Key Man Life Insurance Policies

c) Accountant's Letter

d) Cash Management Agreements

e) Intercompany Subordination Agreement

f) Telos Trademark Mortgage

g) Telos Copyright Mortgage

h) Telos Patent Mortgage

i) Telos Stock Pledge Agreement

j) Xacta Trademark Mortgage

k) Ubiquity Stock Pledge Agreement

l) TIC Stock Pledge Agreement

m) TIA Stock Pledge Agreement

B. Items Pertaining to Telos:

10. Second Amendment to Stock Pledge Agreement

a) Teloworks original stock certificate and stock power

b) Enterworks, Inc. original stock certificates and stock powers

11. Second Amendment to Copyright Mortgage

12. Original promissory note with allonge thereto and original warrant re Enterworks, Inc. shares

13. Secretary's Certificate with respect to resolutions of directors, incumbency of officer, bylaws and Articles of Incorporation

14. Certified copy of Articles of Incorporation

15. Certificates of good standing in each state in which it is qualified to do business

C. Items Pertaining to Xacta:

16. Secretary's Certificate with respect to resolutions of directors, incumbency of officers, bylaws and Certificate of Incorporation

17. Certified copy of Certificate of Incorporation

18. Certificates of good standing in each state in which it is qualified to do business

D. Items Pertaining to Telos-Delaware:

19. Secretary's Certificate with respect to resolutions of directors, incumbency of officers, bylaws and Certificate of Incorporation

20. Certified copy of Certificate of Incorporation

21. Certificates of good standing in each state in which it is qualified to do business

E. Items Pertaining to Ubiquity:

22. Secretary's Certificate with respect to resolutions of directors, incumbency of officers, bylaws and Certificate of Incorporation

23. Certified copy of Certificate of Incorporation

24. Certificates of good standing in each state in which it is qualified to do business

F. Items Pertaining to TIC:

25. Secretary's Certificate with respect to resolutions of directors, incumbency of officers, bylaws and Certificate of Incorporation

26. Certified copy of Certificate of Incorporation

27. Certificates of good standing in each state in which it is qualified to do business

G. Items Pertaining to TIA:

28. Secretary's Certificate with respect to resolutions of directors, incumbency of officers, bylaws and Certificate of Incorporation

29. Certified copy of Certificate of Incorporation

30. Certificates of good standing in each state in which it is qualified to do business

H. Items Pertaining to STI:

31. Secretary's Certificate with respect to resolutions of directors, incumbency of officers, bylaws and Certificate of Incorporation

32. Certified copy of Certificate of Incorporation

33. Certificates of good standing in each state in which it is qualified to do business

I. Items Pertaining to TFE:

34. Secretary's Certificate with respect to resolutions of directors, incumbency of officers, bylaws and Certificate of Incorporation

35. Certified copy of Certificate of Incorporation

36. Certificates of good standing in each state in which it is qualified to do business

J. Items Pertaining to Teloworks

37. Uniform Commercial Code ("UCC") Financing Statement re Teloworks

38. Joinder to Intercompany Subordination Agreement

39. Secretary's Certificate with respect to resolutions of directors, incumbency of officers, bylaws and Certificate of Incorporation

40. Certified copy of Certificate of Incorporation

41. Certificates of good standing in each state in which it is qualified to do business

K. Other Items:

42. Summary of pre-closing searches

43. Copies of UCC Financing Statements listed on Exhibit A

44. Opinion of counsel to Borrowers and Credit Parties

45. Certified copy of Series B Notes and the Series C Notes and Subordination Agreement executed by each holder of the Series B Notes and the Series C Notes and State Street Bank and Trust Company

46. Extensions by each holder of the Series B and Series C Notes to December 31, 2011

47. Certified Copy of Preferred Stockholder Standby Agreement executed by each holder of the Private Preferred Stock

48. Extensions by holders of the Private Preferred Stock

49. Preferred Stockholder Standby Agreements

    a) North Atlantic Smaller Companies Investment Trust LLP

    b) North Atlantic Value LLP A/C B

L. Post-Closing Items

50. Post-Closing Searches (Teloworks)

51. Post-Closing Letter

52. Stock Pledge Agreement by Teloworks re stock of Teloworks Philippines, Inc.

53. Third Amendment to Copyright Mortgage

54. Assignment of Claims Act Filings

EXHIBIT A

UCC FINANCING STATEMENTS

Location of Filing State/County	UCC File Number	Date Filed
Maryland (Telos)	0000000181130692	9/17/02
Loudoun County, VA (Telos) (fixture)	020000717	9/30/02
Delaware (Xacta)	22331175	9/16/02
Loudoun County, VA (Xacta) (fixture)	020000718	9/30/02
Delaware (Telos-Delaware)	22331100	9/16/02
Delaware (Ubiquity)	22331167	9/16/02
Delaware (TIC)	22331159	9/16/02
Delaware (TIA)	22331142	9/16/02
Delaware (STI)	22331084	9/16/02
Delaware (TFE)	22331126	9/16/02

Schedule A-1

Agent's Accounts

An account at a bank designated by Agent from time to time as the account into which Borrowers shall make all payments to Agent for the benefit of the Lender Group and into which the Lender Group shall make all payments to Agent under this Agreement and the other Loan Documents; unless and until Agent notifies Administrative Borrower and the Lender Group to the contrary, Agent's Account shall be that certain deposit account bearing account number 323-266193 and maintained by Agent with JPMorgan Chase Bank, 4 New York Plaza, 15th Floor, New York, New York 10004, ABA #021000021.

Schedule C-1

Commitments

Lender	Revolver Commitment	Total Commitment
Wells Fargo Foothill, Inc.	$ 25,000,000	$ 25,000,000
All Lenders	$ 25,000,000	$ 25,000,000

Schedule D-1

Designated Account

Account number 4945018786 of Administrative Borrower maintained with Administrative Borrower's Designated Account Bank, or such other deposit account of Administrative Borrower (located within the United States) that has been designed as such, in writing, by Administrative Borrower to Agent.

"Designated Account Bank" means Wells Fargo, whose office is located at 201 Third Street, 11th Floor, San Francisco, CA 94103, and whose ABA number is 121000248.

Schedule P-1

Permitted Liens
Telos Corporation

Maryland, State Department of Assessments and Taxation

Date	File Number	Secured Party/Lien Activity	Collateral
8/19/02	181128488	State Street Bank and Trust Company, as Trustee	All real or personal property now or hereafter owned, leased or operated by debtor; all of debtor's equipment and fixtures, incl. furniture, machinery, vehicles and trade fixtures; all products or proceeds of such property; but excluding Accounts, Chattel Paper, Instruments (except as proceeds to the collateral) and Inventory.
6/30/03	181158562	Hitachi Credit America Corp. ePlus Government, Inc.	Prime Contract Delivery Order and Equipment pursuant to Order No. T0603BN1367
10/2/03	181167085	Hewlett-Packard Financial Services Company	Payments due under Delivery Order No. T04030DE1143 issued under GSA Schedule Contract No. GS-35F-4315D, as amended
1/13/04	181177048	Hewlett-Packard Financial Services Company	All payments due under Contract No. DAAB15-99-D-0001, DO No. YK49
3/24/04	181184880	Hewlett-Packard Financial Services Company	All payments due under Contract No. DAAB15-99-D-0001, DO No. YK49
12/16/05	181252785	U.S. Bank National Association Previously: State Street Bank and Trust Company	All real or personal property now or hereafter owned, leased or operated by debtor; all of debtor's equipment and fixtures, incl. furniture, machinery, vehicles and trade fixtures; all products or proceeds of such property; but excluding Accounts, Chattel Paper, Instruments (except as proceeds to the collateral) and Inventory.
12/16/05	181252786	U.S. Bank National Association Previously: State Street Bank and Trust Company	All real or personal property now or hereafter owned, leased or operated by debtor; all of debtor's equipment and fixtures, incl. furniture, machinery, vehicles and trade fixtures; all products or proceeds of such property; all products or proceeds of such property; but excluding Accounts, Chattel Paper, Instruments (except as proceeds to the collateral) and Inventory.
12/16/05	181252787	U.S. Bank National Association Previously: State Street Bank and Trust Company	All real or personal property now or hereafter owned, leased or operated by debtor; all of debtor's equipment and fixtures, incl. furniture, machinery, vehicles and trade fixtures; all products or proceeds of such property; all products or proceeds of such property; but excluding Accounts, Chattel Paper, Instruments (except as proceeds to the collateral) and Inventory.

Date	File Number	Secured Party/Lien Activity	Collateral
4/20/07	181303794	Dell Marketing, LP	Depository account No. 001038377 with Wells Fargo Bank, National Association, and all instruments, documents and other writings evidencing the account.
10/11/07	181322209	Ikon Financial Services	Specific leased equipment

Virginia, Secretary of State

Date	File Number	Secured Party/Lien Activity	Collateral
11/2/05	0511027009-2	CMS Communications, Inc.	Specific equipment provided by CMS Communications, Inc.
11/2/05	0511027010-5	CMS Communications	Specific equipment provided by CMS Communications
11/2/05	0511027011-7	CMS Communications	Specific equipment provided by CMS Communications
11/2/05	0511027012-9	CMS Communications	Specific equipment provided by CMS Communications
11/2/05	0511027013-1	CMS Communications	Specific equipment provided by CMS Communications
11/2/05	0511027014-3	CMS Communications	Specific equipment provided by CMS Communications
3/3/06	0603037176-2	IOS Capital	Specific leased equipment
4/12/07	0704127128-4	Simplex Financial Service	Specific leased equipment

Schedule 2.7(a)

Cash Management Banks

Wells Fargo Bank

Schedule 3.1

Copyrights

(see attached)

Telos Corporation
(a Maryland Corporation)
Copyright Status Chart as of March 20, 2008

TITLE	REGISTRATION NO.	NATURE OF WORK	BACKGROUND AND CURRENT STATUS	NEXT ACTION DUE
		UNITED STATES		
WEB C&A v2.00	Registration No. TXu 1-001-763	Entire computer program and text of user's manual	Registered 8/22/02	Renewal due 8/22/2097
Xacta Detect v2.0	Registration No. TXu 1-001-764	Entire computer program and text of user's manual	Registered 8/22/02	Renewal due 8/22/2097
Xacta Detect v2.1.1	Registration No. TXu 1-001-765	Entire computer program and text of user's manual	Registered 8/22/02	Renewal due 8/22/2097
Xacta Web C&A 2001 v.3.00	Registration No. TXu 1-001-766	Entire computer program and text of user's manual	Registered 8/22/02	Renewal due 8/22/2097
Xacta Web C&A 2001 v3.01	Registration No. TXu 1-001-767	Entire computer program and text of user's manual	Registered 8/22/02	Renewal due 8/22/2097
Xacta Web C&A 2001/Xacta Commerce Trust 2001 v3.21	Registration No. TXu 1-001-768	Entire computer program and text of user's manual	Registered 8/22/02	Renewal due 8/22/2097
WEB C&A v2.21	Registration No. TXu 1-001-769	Entire computer program and text of user's manual	Registered 8/22/02	Renewal due 8/22/2097
Xacta Web C&A 2001/Xacta Commerce Trust 2001 v3.22	Registration No. TXu 1-001-770	Entire computer program and text of user's manual	Registered 8/22/02	Renewal due 8/22/2097
Xacta Web C&A 2001/Xacta Commerce Trust 2001 v3.20	Registration No. TXu 1-001-771	Entire computer program and text of user's manual	Registered 8/22/02	Renewal due 8/22/2097
Xacta Web C&A 2001 v.3.10	TXu-1-001-772	Entire computer program and text of user's manual	Registered 8/22/02	Renewal due 8/22/2097

Telos Corporation
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Copyright Status Chart as of March 20, 2008

TITLE	REGISTRATION NO.	NATURE OF WORK	BACKGROUND AND CURRENT STATUS	NEXT ACTION DUE
WEB C&A v2.10	Registration No. TXu 1-001-773	Entire computer program and text of user's manual	Registered 8/22/02	Renewal due 8/22/2097
WEB C&A v2.20	Registration No. TXu 1-001-774	Entire computer program and text of user's manual	Registered 8/22/02	Renewal due 8/22/2097
Xacta Web C&A/Xacta Commerce Trust v3.30	Registration No. TXu 1-001-775	Entire computer program and text of user's manual	Registered 8/22/02	Renewal due 8/22/2097
Xacta Commerce Trust reference manual: v.4.0	Registration No. TX-6-092-272	User's manual	Registered 1/13/05	Renewal due 1/13/2100
Xacta Web C&A Trust reference manual	Registration No. TX-6-092-273	Computer program and text	Registered 1/13/05	Renewal due 1/13/2100
Xacta Web C&A v.4.0 (SP1)	Registration No. TX-6-092-274	Computer program and text	Registered 1/13/05	Renewal due 1/13/2100
Xacta Web C&A v.4.0 (SP2)	Registration No. TX-6-092-275	CD-ROM and text	Registered 1/13/05	Renewal due 1/13/2100
Xacta Commerce Trust reference manual v.4.0 (SP1)	TX-6-092-276	Text	Registered 1/13/05	Renewal due 1/13/2100
Xacta Commerce Trust reference manual v.4.0 (SP2)	TX-6-092-277	Text	Registered 1/13/05	Renewal due 1/13/2100
Telos Site Survey Automation Tool	Registration No. TXu1-302-904	Computer program	Registered 4/4/06	Renewal due 4/4/2101
Telos ARISS Administration	Registration No. Pending	Computer program	Registered 4/21/06	Renewal due 4/21/2101
Telos Service Management (TSM)	Registration No. TXu1-294-185	Computer program	Registered 4/21/06	Renewal due 4/21/2101

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TITLE	REGISTRATION NO.	NATURE OF WORK	BACKGROUND AND CURRENT STATUS	NEXT ACTION DUE
Content Management Tool (CMT)	Registration No. TXu1-299-084	Computer program	Registered 4/21/06	Renewal due 4/21/2101
Telos Store	Registration No. TXu1-296-787	Computer program	Registered 4/21/06	Renewal due 4/21/2101
Telos AMHS 2001sp2	Registration No. TX 6-501-275	Computer program	Registered 1/24/07	Renewal due 1/24/2102
Telos AMHS 2003	Registration No. TX 6-500-647	Computer program	Registered 1/24/07	Renewal due 1/24/2102
Telos AMHS 2005	Registration No. TX 6-500-644	Computer program	Registered 1/24/07	Renewal due 1/24/2102
Telos AMHS 5.0.2	Registration No. TX 6-500-643	Computer program	Registered 1/24/07	Renewal due 1/24/2102
Telos AMHS 5.1-2P	Registration No. TX 6-500-645	Computer program	Registered 1/24/07	Renewal due 1/24/2102
Telos AMHS 6.0	Registration No. TX 6-500-646	Computer program	Registered 1/24/07	Renewal due 1/24/2102
Telos AMHS USMTF Editor	Registration No. TX 6-501-274	Computer program	Registered 1/24/07	Renewal due 1/24/2102
PENDING REGISTRATION APPLICATIONS:	Telos Reference			
Telos CAISI Bridge Module (CBM) Step-by-Step Instruction Guide	None	Manual		
Xacta Customer Service Center v.2.0 Build 60 (SP4)	1-4	Computer program		
Xacta Certificate Management Utility (SP4)	3-4	Computer program		
Xacta Distribution Manager (SP4)	5-4	Computer program		

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TITLE	REGISTRATION NO.	NATURE OF WORK	BACKGROUND AND CURRENT STATUS	NEXT ACTION DUE
Xacta Detect Client v.4.1 Build 211 (SP4)	6-4	Computer program		
Xacta Detect Server v.4.1. Build 254 (SP4)	7-4	Computer program		
Xacta Host Info for Unix v.1.1.6 (SP4)	9-4	Computer program		
Xacta Host Info Agent for Windows v.1.00.02 (SP4)	10-4	Computer program		
Xacta IA Manager – Assessment Engine (SP4)	11-4	Computer program		
Xacta Customer Service Center Reference Manual for Customers (SP4)	14-4	Manual		
Xacta Customer Service Center Reference Manual for Administrator (SP4)	15-4	Manual		
Xacta IA Manager Distribution Manager Reference Manual (SP4)	16-4	Manual		
Xacta FISMA Accelerator Reference Manual (SP4)	17-4	Manual		
Xacta IA Manager Assessment Engine Getting Started Guide (SP4)	18-4	Manual		
Xacta IA Manager Assessment Engine Reference Manual (SP4)	19-4	Manual		

Telos Corporation
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TITLE	REGISTRATION NO.	NATURE OF WORK	BACKGROUND AND CURRENT STATUS	NEXT ACTION DUE
Xacta IA Manager Assistant Manual (SP4)	20-4	Manual		
Xacta Detect Client v.4.4 Build 253 (SP5)	1-5	Computer program		
Xacta Customer Service Center (CSC) v.2.0 Build 108 (SP5)	2-5	Computer program		
Xacta Certificate Management Utility (SP5)	3-5	Computer program		
Xacta Database Management Utility (SP5)	4-5	Computer program		
Xacta Detect Server v.4.4 Build 280 (SP5)	5-5	Computer program		
Xacta Distribution Manager (SP5)	6-5	Computer program		
Xacta File Digest Checker Utility (SP5)	7-5	Computer program		
Xacta Host Info Agent for Windows v.1.00.04 (SP5)	8-5	Computer program		
Xacta Host Info Agent for Unix v.1.1.6 (SP5)	9-5	Computer program		
Xacta IA Manager Assistant (SP5)	10-5	Computer program		

Telos Corporation
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TITLE	REGISTRATION NO.	NATURE OF WORK	BACKGROUND AND CURRENT STATUS	NEXT ACTION DUE
Xacta IA Manager Assessment Engine (SP5)	11-5	Computer program		
Xacta Automated Script Language Manual (SP5)	13-5	Manual		
Xacta Customer Service Center Reference Manual – for Administrator (SP5)	14-5	Manual		
Xacta Customer Service Center Reference Manual – for Customers (SP5)	15-5	Manual		
Xacta IA Manager Distribution Manager Reference Manual (SP5)	16-5	Manual		
Xacta Secure Enterprise Process Handler Flow (SP5)	17-5	Manual		

Schedule 4.9

Commercial Tort Claims

None

Schedule 5.5

Location of Inventory and Equipment

Location Address	Description
19886 Ashburn Road Ashburn, VA 20147	Inventory and Equipment
1300 Connecticut Ave NW #300 Washington, D.C.	Equipment only
3655 Alamo Street Suites # 300,301&303 Simi Valley, CA	Equipment only
81 Hartwell Avenue Lexington, MA	Equipment only
656 Shrewsbury Avenue 1st, 2nd Floors, Basement Shrewsbury, NJ	Equipment only
6 Friendrichstasse Schwetzingen Germany	Equipment only

Schedule 5.7

Location of Chief Executive Office

Company	Chief Executive Location	FEIN
Telos Corporation	19886 Ashburn Road Ashburn, VA 20147	52-0880974
Xacta Corporation	19886 Ashburn Road Ashburn, VA 20147	54-1983375
ubIQuity.com, Inc.	19886 Ashburn Road Ashburn, VA 20147	54-1983379
Telos Delaware, Inc.	19886 Ashburn Road Ashburn, VA 20147	54-1982362
Teloworks, Inc.	19886 Ashburn Road Ashburn, VA 20147	54-2057777
Telos Field Engineering, Inc.	19886 Ashburn Road Ashburn, VA 20147	54-1750791
Telos International Corp.	19886 Ashburn Road Ashburn, VA 20147	54-1786007
Telos International Asia	19886 Ashburn Road Ashburn, VA 20147	54-2041625
Secure Trade, Inc.	19886 Ashburn Road Ashburn, VA 20147	54-2041623
Telos Identity Management Solutions, LLC	19886 Ashburn Road Ashburn, VA 20147	20-8829067

Schedule 5.8(b)

Capitalization of Telos Corporation

Class of Shares	Authorized Shares	Outstanding shares	Subscriptions	Options	Warrants	Calls	Obligation to repurchase/ retire/ Exchange shares
Class A Common	50,000,000	21,171,202	0	3,839,249	0	0	No
Class B Common	5,000,000	4,037,628	0	0	0	0	No
12% Cumulative Exchangeable Redeemable Preferred	6,000,000	3,185,586	0	0	0	0	Conditional
Senior Exchangeable Preferred	3,000	0	0	0	0	0	N/A
Series A-1 Redeemable Preferred	1,250	1,250	0	0	0	0	Y
Series A-2 Redeemable Preferred	1,750	1,750	0	0	0	0	Y

Schedule 5.8(c)

Capitalization of Subsidiaries and Affiliates

Company	Class of Shares	Authorized Shares	Outstanding Shares	Options
Xacta Corporation	Common	10,000,000	6,500,000	2,568,010
Telos Delaware	Common	10,000,000	6,500,000	1,097,699
Ubiquity.com, Inc.	Common	10,000,000	6,500,100	0
Teloworks	Common	100	100	0
Telos Field Engineering, Inc.	Common	3,000	3,000	0
Telos International Corp.	Common	3,000	1,000	0
Telos International Asia, Inc.	Common	3,000	100	0
Secure Trade, Inc.	Common	5,000,000	100	0

Telos Identity Management Solutions, LLC d/b/a Xacta Identity Management Solutions: a limited liability company, membership interest held by Telos Corporation (60%) and Hoya ID Fund A, LLC (40%)

Schedule 5.10

Description of litigation

Costa Brava Partnership III, L.P. et al. v. Telos Corporation, et al., In the Circuit Court for Baltimore City, Case No. 24-C-05-009296

Costa Brava Partnership III, L.P. ("Costa Brava"), a holder of the Telos Corporation's ("Telos") 12% Cumulative Exchangeable Redeemable Preferred Stock ("Public Preferred Stock"), filed a lawsuit (hereinafter the 'Complaint") on October 17, 2005 in the Circuit Court of Baltimore City in the State of Maryland ("Complaint") against Telos, its directors, and certain of its officers.

The Complaint alleges that Telos and its officers and directors have engaged in tactics to avoid paying mandatory dividends on the Public Preferred Stock, and asserts that the Public Preferred Stock has characteristics of debt instruments even though issued by Telos in the form of stock. Costa Brava alleges, among other things, that Telos and an independent committee of the Board of Directors have done nothing to improve what they claim to be Telos' insolvency, or its ability to redeem the Public Preferred Stock and pay accrued dividends. They also challenge the bonus payments to Telos' officers and directors, and consulting fees paid to the holder of a majority of Telos' common stock.

On December 22, 2005, Telos' Board of Directors established a special litigation committee ("Special Litigation Committee") comprised of independent directors to review and evaluate the matters raised in the derivative suit filed against Telos by Costa Brava relating to Telos' Public Preferred Stock.

On January 9, 2006, Telos filed a motion to dismiss the Complaint or, in the alternative, to stay the action until the Special Litigation Committee had sufficient time to properly investigate and respond to Costa Brava's demands. On March 30, 2006, Judge Albert J. Matricciani granted the motions in part and denied them in part, but also denied the alternative request for a stay.

On May 31, 2006, an Amended Complaint was filed in which Wynnefield joined as a Plaintiff.

On May 26, 2006, Plaintiffs filed a motion for a preliminary injunction to prevent the sale or disposal of Xacta Corporation or any of its assets until the lawsuit is resolved on the merits. The motion was denied without prejudice

On August 30, 2006, Plaintiffs filed a motion for receivership following the resignations of six of the nine members of the Board of Directors on August 16, 2006. However, three new independent board members were added within a week and two additional independent board members joined on October 31, 2006, bringing the total board membership to eight. Thus, the board and all board committees, including the Special Litigation Committee, were fully reconstituted. The Plaintiffs' motion for receivership was denied on November 29, 2006.

On February 15, 2007, the Plaintiffs filed their second motion for preliminary injunction to prevent the sale or disposal of any corporate assets outside the ordinary course until such time

that two new Class D directors have been elected. This followed the Plaintiff's February 7, 2007 letter to the corporate secretary requesting a special meeting to elect new Class D directors to replace the two board seats left vacant by the resignations in August 2006. At the special meeting, two Class D directors were elected by the holders of Public Preferred Stock. After a hearing, Judge Matricciani denied the Plaintiffs' motion.

On February 27, 2007, the Plaintiffs filed a Second Amended Complaint and added Mr. John R. C. Porter, Telos' majority shareholder, as a defendant. The Court denied Telos' motion to strike the second amended complaint and the motion for partial summary judgment, but it granted the motion to dismiss in part and denied it in part. The following counts were dismissed: Count I alleging fraudulent conveyance; Count II requesting a permanent and preliminary injunction related to the fraudulent conveyance allegations; and Count V allegation against Mr. John Porter for shareholder oppression. The following counts were not dismissed: Count III requesting appointment of a receiver; Count IV requesting to dissolve the corporation; Count VI regarding the fiduciary duty of the directors; and Count VII regarding the fiduciary duty of the officers.

On May 29, 2007, Telos filed a counterclaim against the Plaintiffs alleging interference with its relationship with Wells Fargo Foothill, and a related motion for a preliminary injunction. On June 4, 2007, the Court entered a consent order in which the Plaintiffs agreed to cease and desist communications with Wells Fargo Foothill regarding a proceeding in England that settled over three years ago. The Court granted Telos' motion.

On July 20, 2007, counsel for the Special Litigation Committee issued its final report and found that there was no evidence to support the derivative claims, and no instance of bad faith, breach of duty or self-interested action or inaction. Further, Special Litigation Committee counsel recommended that Telos take all action necessary and appropriate that is consistent with these findings.

Telos filed a motion to dismiss the derivative claims as recommended by the Special Litigation Committee and its report. On January 7, 2008, the Court granted Telos' motion to dismiss, Counts VI and VII of the Second Amended Complaint, the derivative claims, with only Counts III and IV remaining. Accordingly, all counts against the individual defendants were dismissed.

On September 14, 2007 Plaintiffs filed a motion to challenge Telos' designation of certain highly confidential materials. Telos filed its opposition to Plaintiffs' motion on September 24, 2007 and Plaintiffs filed their reply on October 2, 2007. On November 6, 2007, following a hearing on November 5, 2007, the Court issued a discovery order denying Plaintiffs' request to reclassify the challenged documents as "confidential." Such Court order also applies to any and all documents produced to Plaintiffs in the *Hamot et al. v. Telos Corporation* litigation as well as to documents provided to Messrs. Hamot and Siegel in their capacity as Class D directors of Telos.

On February 12, 2008, the Plaintiff's filed a Third Amended Complaint which included all the previous counts from the original Complaint and the Second Amended Complaint as well as additional counts. The additional counts are as follows: Count VIII (breach of contract against Telos); Count IX (preliminary and permanent injunction) to prevent Telos from entering into a transaction to dispose of assets that would unjustly enrich the officers and directors); and Count

X (accounting) alleging that Telos failed to prepare financial statements as required under Maryland law. Telos filed a Motion to Dismiss or to Strike the Third Amended Complaint or to Dismiss or for Summary Judgment.

On March 3, 2008, the Plaintiffs and all the Defendants to the litigation entered into a Stipulation regarding the Third Amended Complaint. All parties stipulated that the Third Amended Complaint alleges cause of action against Telos only (Counts III, IV, VIII, IX and X) and not the individual defendants (Counts 1, II, V, VI, and VII). Plaintiffs asserted that the previous dismissed counts were included in the Third Amended Complaint by the Plaintiffs only for the purposes of appellate preservation. The Plaintiffs stipulated that they are not seeking reconsideration of the previously dismissed counts. On March 7, 2008, Judge Matricciani entered an Order dismissing the counts per Stipulation.

The hearing on Telos' Motion to Strike or Dismiss or Motion for Summary Judgment was held on March 11, 2008 before Judge Matricciani.

At this stage of the litigation, it is impossible to reasonably determine the degree of probability related to Plaintiffs' success in any of their assertions. Although there can be no assurance as to the ultimate outcome of this litigation, Telos and its officers and directors strenuously deny Plaintiffs' claims, will continue to vigorously defend the matter and oppose the relief sought.

Seth Hamot and Andre R. Siegel v. Telos Corporation, In the Circuit Court for Baltimore City, Case No. 24-C-07-005603

On August 2, 2007, Mr. Seth W. Hamot and Mr. Andrew R. Siegel, principals of Costa Brava Partnership III L.P. and recently elected to the Board as Class D Directors, filed a complaint against Telos and a motion for a temporary restraining order with the Maryland Circuit Court for the City of Baltimore. The complaint alleged that certain company documents and records had not been promptly provided to them as requested, and that these documents are necessary to fulfill their fiduciary duty as directors. On the same day, this matter was assigned to Judge Matricciani. The Court issued an order stating that the Plaintiffs should sign a temporary confidentiality order that would allow them to receive the documents requested. The Court further stated that Telos may redact any such documents provided to Plaintiffs for privilege regarding matters related to the Costa Brava litigation, and temporarily for highly confidential information. The Court reserved on the final determination of the issue of highly confidential information and also on the option for a temporary restraining order until the hearing scheduled for August 27, 2007.

Plaintiffs failed to sign the temporary confidentiality order and as a result were not provided with any documentation for a Board meeting held on August 9, 2007. On August 22, 2007 Plaintiffs filed an amended complaint which alleged that Telos was denying them the ability to effectively review, examine, consider and question future regulatory filings and all other important actions and undertakings of Telos.

On August 28, 2007, the Court converted Plaintiffs' motion for temporary restraining order into a preliminary injunction and stated that Plaintiffs were entitled to documents in response to reasonable requests for information pertinent and necessary to perform their duties as members

of the Board. In addition, the Court noted that during the pendency of the shareholder litigation, it was not inclined to permit Messrs. Hamot and Siegel, through the guise of their newly acquired director status, to avoid their currently binding commitments under the stipulation and protective order entered on July 7, 2006. Pursuant to the terms of such order Telos is entitled to designate documents produced in discovery or submitted to the Court as "confidential" or "highly confidential" and to withhold from Plaintiffs information protected by the work product doctrine or attorney-client privilege.

On September 24, 2007, Plaintiffs filed a new motion for temporary restraining order as well as a second amended verified complaint with the Circuit Court for Baltimore City in which they requested that the Court "compel Telos to adhere to the Telos Amended and Restated Bylaws" and alleged that provisions concerning the noticing of Board committee meetings and the recording of Board meeting minutes had been violated and that in addition, Mr. Wood's service as both CEO and Chairman of the Board was improper and impermissible under Telos' Bylaws. The Court denied the Plaintiffs' motion on October 12, 2007. On the same day, the Court issued an amended preliminary injunction order stating that Plaintiffs are entitled to receive written responses to requests for board of directors or board committee minutes within 7 days of any such requests and copies of such minutes within 15 days of any such requests, as well as written responses to all other requests for information and/or documents related to Plaintiffs' duties as directors within 7 days of such requests and all board of directors appropriate information and/or documents within 30 days of any such requests. The Court further stated that in all other respects, the preliminary injunction order of August 28, 2007 shall remain in full force and effect.

As noted above under Costa Brava Partnership III, L.P., the Court issued a discovery order denying Plaintiffs' request to reclassify the challenged documents as "confidential." Such Court order also applies to any and all documents produced in the Hamot et al. v Telos Corporation litigation as well as documents provided to Messrs. Hamot and Siegel in their capacity as Class D directors of Telos.

At this stage of the litigation, it is impossible to reasonably determine the degree of probability related to Plaintiffs' success in any of their assertions. Although there can be no assurance as to the ultimate outcome of this litigation, Telos and its officers and directors strenuously deny Plaintiffs' claims, will vigorously defend the matter, and continue to oppose the relief sought.

January 14, 2008 Letter from Dr. Eric Lepler

Telos received a letter from Dr. Eric Lepler, dated January 14, 2008. He alleged that a press release of January 7, 2008 by Telos as it related to the Costa Brava litigation was misleading. Dr. Lepler alleges that he suffered a loss of $28,520 that was directly related to the press release,. Telos responded on February 4, 2008, disagreeing with his interpretation of the press release. Dr. Lepler responded by letter on February 15, 2008, stating that he will be filing a complaint with the U.S. Securities & Exchange Commission ("SEC"), writing a letter to the Telos Board of Directors on or after March 15, 2008, and intends to file suit in Santa Clara County in San Jose, California to recover his losses and punitive damages. On April 3, 2008, John Wood, CEO of Telos Corporation, received a letter from Dr. Lepler dated March 31, 2008. The letter states that he intends to file a suit against Telos seeking damages in the amount of $5,028,520 plus costs, and that he intends to file a formal complaint with the SEC. Telos has not received any notice of a similar claim from any other shareholder.

Schedule 5.14

Environmental Matters

None

Schedule 5.16

Intellectual Property

See attached charts:

- Telos Patent Portfolio (one TIMS entry)
- Telos and Xacta Copyright Status Chart
- Telos Trademark Status chart
- Xacta Trademark Status chart

Licenses: In the regular course of business, Telos Corporation for its AMHS business and Xacta Corporation enter into software license agreement with their customers. For the purpose of office operations, Telos Corporation and Xacta Corporation hold numerous licenses with software and other providers, including Microsoft Corporation.

Telos Patent Portfolio

Sonnenschein Ref (Cooley Ref)	Application S/N Filing Date	Patent / Pub No. Issue / Pub Date	Named Inventor(s)	Title	Comments/*Status*
TELO-001 Family					
30000156-0011 (TELO-001/00US)	60/223,982 August 9, 2000		Wilson, Catlin, Smith, Berman	Web Certification and Accreditation System, Method and Medium	Two-page abstract. *Expired* (12-month pendency over)
30000156-0012 (TELO-001/01US)	09/794,386 February 28, 2001	6,901,346 May 31, 2005	Tracy, Smith, Berman, Catlin, Wilson, Barrett, Hall	System, Method, and Medium for Certifying and Accrediting Requirements Compliance	**Maintenance fee due November 30, 2008.** U.S. Patent Number 6,901,346 issued May 31, 2005
30000156-0010 (TELO-001/02US)	09/822,868 April 2, 2001	6,993,448 January 31, 2006	Tracy, Barrett, Berman, Catlin	System, Method, and Medium for Certifying and Accrediting Requirements Compliance	**Maintenance fee due July 31, 2009.** U.S. Patent Number 6,993,448 issued January 31, 2006.
30000156-0015 (TELO-001/02WO)	PCT/US00/09842 Int'l filing date: April 1, 2002 Priority date: April 2, 2001	WO 02/079944 A3	Tracy, Barrett, Berman, Catlin	System, Method, and Medium for Certifying and Accrediting Requirements Compliance	Entered European phase on October 2, 2003 (see 30000156-0007).

Sonnenschein Ref (Cooley Ref)	Application S/N Filing Date	Patent / Pub No. Issue / Pub Date	Named Inventor(s)	Title	Comments/*Status*
30000156-0007 (TELO-001/02EP)	EP 02721628.2 Int'l filing date: April 1, 2002 Priority date: April 2, 2001		Tracy, Barrett, Berman, Catlin	System, Method, and Medium for Certifying and Accrediting Requirements Compliance	**Annuity due April 1, 2008 (with a grace period until the end of the month of April).** European phase of 30000156-0015. Entered European phase on October 2, 2003.
30000156-0003 (TELO-001/03US)	US 09/946,164 September 5, 2001	US-2003-0050718-A1 March 13, 2003	Tracy, Barrett, Berman, Catlin, Dimtsios	Enhanced System, Method, and Medium for Certifying and Accrediting Requirements Compliance	**Notice of Allowance received. Payment of issue fee due April 25, 2008.** CIP of 30000156-0012.
30000156-0017 (TELO-001/03WO)	PCT/US02/28179 Int'l filing date: September 5, 2002 Priority date: September 5, 2001	WO 03/021398A3 March 13, 2003	Tracy, Barrett, Berman, Catlin, Dimtsios	Enhanced System, Method, and Medium for Certifying and Accrediting Requirements Compliance	Entered European phase on March 31, 2004.
30000156-0020 (TELO-001/03EP)	EP 02775750.9 Int'l filing date: September 5, 2002 Priority date: September 5, 2001		Tracy, Barrett, Berman, Catlin, Dimtsios	Enhanced System, Method, and Medium for Certifying and Accrediting Requirements Compliance	**Annuity due September 5, 2008.** European phase of 30000156-0017.
30000156-0004 (TELO-001/04US)	US 11/341,502 January 30, 2006		Tracy, Barrett, Berman, Catlin	System, Method, and Medium for Certifying and Accrediting Requirements Compliance	Office Action issued August 23, 2007 based on New Art. Abandonment instructions received on February 23, 2008 and confirmed via email on February 26, 2008. Continuation of 30000156-0003.

Sonnenschein Ref (Cooley Ref)	Application S/N Filing Date	Patent / Pub No. Issue / Pub Date	Named Inventor(s)	Title	Comments/*Status*
TELO-002 Family					
30000156-0009 (TELO-002/00US)	US 10/304,825 November 27, 2002	6,983,221 January 3, 2006	Tracy, Barrett, Catlin	Enhanced System, Method, and Medium for Certifying and Accrediting Requirements Compliance Utilizing Robust Risk Assessment Model	**Maintenance fee due July 3, 2009.** U.S. Patent Number 6,983,221 issued January 3, 2006.
30000156-0014 (TELO-002/00WO)	PCT/US03/37603 Int'l filing date: November 26, 2003 Priority date: November 27, 2002	WO 2004/051406 A2 June 17, 2004	Tracy, Barrett, Catlin	Enhanced System, Method, and Medium for Certifying and Accrediting Requirements Compliance Utilizing Robust Risk Assessment Model	Entered European Phase.
30000156-0019 (TELO-002/00EP)	EP 03787115.9 Int'l filing date: November 26, 2003 Priority date: November 27, 2002		Tracy, Barrett, Catlin	Enhanced System, Method, and Medium for Certifying and Accrediting Requirements Compliance Utilizing Robust Risk Assessment Model	**Annuity due November 26, 2008** European Phase initiated June 24, 2005 following claims being rewritten to avoid excess claim fees.

Sonnenschein Ref (Cooley Ref)	Application S/N Filing Date	Patent / Pub No. Issue / Pub Date	Named Inventor(s)	Title	Comments/*Status*
TELO-003 Family					
30000156-0006 (TELO-003/00US)	US 10/304,826 November 27, 2002	6,980,927 December 27, 2005	Tracy, Barrett, Catlin	Enhanced System, Method, and Medium for Certifying and Accrediting Requirements Compliance Utilizing Continuous Risk Assessment	**Maintenance fee due June 27, 2009.** U.S. Patent Number 6,980,927 issued December 27, 2005.
30000156-0013 (TELO-003/00WO)	PCT/US03/37605 Int'l filing date: November 26, 2003 Priority date: November 27, 2002	WO 2004/051407 A2 June 17, 2004	Tracy, Barrett, Catlin	Enhanced System, Method, and Medium for Certifying and Accrediting Requirements Compliance Utilizing Continuous Risk Assessment	Entered European Phase
30000156-0005 (TELO-003/00EP)	EP 03790011.5 Int'l filing date: November 26, 2003 Priority date: November 27, 2002		Tracy, Barrett, Catlin	Enhanced System, Method, and Medium for Certifying and Accrediting Requirements Compliance Utilizing Continuous Risk Assessment	**Annuity due November 26, 2008** European Phase initiated June 24, 2005 following claims being rewritten to avoid excess claim fees.

Sonnenschein Ref (Cooley Ref)	Application S/N Filing Date	Patent / Pub No. Issue / Pub Date	Named Inventor(s)	Title	Comments/*Status*
TELO-004 Family					
30000156-0002 (TELO-004/00US)	10/304,824 November 27, 2002	US-2004-0103309-A1 May 27, 2004	Tracy, Barrett, Catlin	Enhanced System, Method, and Medium for Certifying and Accrediting Requirements Compliance Utilizing Threat Vulnerability Feed	Allowed to Expire as of 1/29/07
30000156-0016 (TELO-004/00WO)	PCT/US03/37608 Int'l filing date: November 26, 2003 Priority date: November 27, 2002	WO 2004/051408 A2 June 17, 2004	Tracy, Barrett, Catlin	Enhanced System, Method, and Medium for Certifying and Accrediting Requirements Compliance Utilizing Threat Vulnerability Feed	Entered European Phase
30000156-0018 (TELO-004/00EP)	EP 03790014.9 Int'l filing date: November 26, 2003 Priority date: November 27, 2002		Tracy, Barrett, Catlin	Enhanced System, Method, and Medium for Certifying and Accrediting Requirements Compliance Utilizing Threat Vulnerability Feed	**Annuity due November 26, 2008** European Phase initiated June 24, 2005 following claims being rewritten to avoid excess claim fees.

Sonnenschein Ref (Cooley Ref) ((H&D Ref))	Application S/N Filing Date	Patent / Pub No. Issue / Pub Date	Named Inventor(s)	Title	Comments/*Status*
TELO-005 Family					
30000156-0008 (TELO-005/00US)	60/866,619 November 21, 2006			Method and System for Identification Token Extension	Provisional patent application filed November 21, 2006. Converted to utility application on November 20, 2007.
30000156-0022	11/943,318 November 20, 2007 Filed by TIMS		Ayers	Method and System for Remote Security Token Extension	Utility patent application filed November 20, 2007 Awaiting first Office Action

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TITLE	REGISTRATION NO.	NATURE OF WORK	BACKGROUND AND CURRENT STATUS	NEXT ACTION DUE
		UNITED STATES		
WEB C&A v2.00	Registration No. TXu 1-001-763	Entire computer program and text of user's manual	Registered 8/22/02	Renewal due 8/22/2097
Xacta Detect v2.0	Registration No. TXu 1-001-764	Entire computer program and text of user's manual	Registered 8/22/02	Renewal due 8/22/2097
Xacta Detect v2.1.1	Registration No. TXu 1-001-765	Entire computer program and text of user's manual	Registered 8/22/02	Renewal due 8/22/2097
Xacta Web C&A 2001 v.3.00	Registration No. TXu 1-001-766	Entire computer program and text of user's manual	Registered 8/22/02	Renewal due 8/22/2097
Xacta Web C&A 2001 v3.01	Registration No. TXu 1-001-767	Entire computer program and text of user's manual	Registered 8/22/02	Renewal due 8/22/2097
Xacta Web C&A 2001/Xacta Commerce Trust 2001 v3.21	Registration No. TXu 1-001-768	Entire computer program and text of user's manual	Registered 8/22/02	Renewal due 8/22/2097
WEB C&A v2.21	Registration No. TXu 1-001-769	Entire computer program and text of user's manual	Registered 8/22/02	Renewal due 8/22/2097
Xacta Web C&A 2001/Xacta Commerce Trust 2001 v3.22	Registration No. TXu 1-001-770	Entire computer program and text of user's manual	Registered 8/22/02	Renewal due 8/22/2097
Xacta Web C&A 2001/Xacta Commerce Trust 2001 v3.20	Registration No. TXu 1-001-771	Entire computer program and text of user's manual	Registered 8/22/02	Renewal due 8/22/2097
Xacta Web C&A 2001 v.3.10	TXu-1-001-772	Entire computer program and text of user's manual	Registered 8/22/02	Renewal due 8/22/2097

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TITLE	REGISTRATION NO.	NATURE OF WORK	BACKGROUND AND CURRENT STATUS	NEXT ACTION DUE
WEB C&A v2.10	Registration No. TXu 1-001-773	Entire computer program and text of user's manual	Registered 8/22/02	Renewal due 8/22/2097
WEB C&A v2.20	Registration No. TXu 1-001-774	Entire computer program and text of user's manual	Registered 8/22/02	Renewal due 8/22/2097
Xacta Web C&A/Xacta Commerce Trust v3.30	Registration No. TXu 1-001-775	Entire computer program and text of user's manual	Registered 8/22/02	Renewal due 8/22/2097
Xacta Commerce Trust reference manual: v.4.0	Registration No. TX-6-092-272	User's manual	Registered 1/13/05	Renewal due 1/13/2100
Xacta Web C&A Trust reference manual	Registration No. TX-6-092-273	Computer program and text	Registered 1/13/05	Renewal due 1/13/2100
Xacta Web C&A v.4.0 (SP1)	Registration No. TX-6-092-274	Computer program and text	Registered 1/13/05	Renewal due 1/13/2100
Xacta Web C&A v.4.0 (SP2)	Registration No. TX-6-092-275	CD-ROM and text	Registered 1/13/05	Renewal due 1/13/2100
Xacta Commerce Trust reference manual v.4.0 (SP1)	TX-6-092-276	Text	Registered 1/13/05	Renewal due 1/13/2100
Xacta Commerce Trust reference manual v.4.0 (SP2)	TX-6-092-277	Text	Registered 1/13/05	Renewal due 1/13/2100
Telos Site Survey Automation Tool	Registration No. TXu1-302-904	Computer program	Registered 4/4/06	Renewal due 4/4/2101
Telos ARISS Administration	Registration No. Pending	Computer program	Registered 4/21/06	Renewal due 4/21/2101
Telos Service Management (TSM)	Registration No. TXu1-294-185	Computer program	Registered 4/21/06	Renewal due 4/21/2101

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TITLE	REGISTRATION NO.	NATURE OF WORK	BACKGROUND AND CURRENT STATUS	NEXT ACTION DUE
Content Management Tool (CMT)	Registration No. TXu1-299-084	Computer program	Registered 4/21/06	Renewal due 4/21/2101
Telos Store	Registration No. TXu1-296-787	Computer program	Registered 4/21/06	Renewal due 4/21/2101
Telos AMHS 2001sp2	Registration No. TX 6-501-275	Computer program	Registered 1/24/07	Renewal due 1/24/2102
Telos AMHS 2003	Registration No. TX 6-500-647	Computer program	Registered 1/24/07	Renewal due 1/24/2102
Telos AMHS 2005	Registration No. TX 6-500-644	Computer program	Registered 1/24/07	Renewal due 1/24/2102
Telos AMHS 5.0.2	Registration No. TX 6-500-643	Computer program	Registered 1/24/07	Renewal due 1/24/2102
Telos AMHS 5.1-2P	Registration No. TX 6-500-645	Computer program	Registered 1/24/07	Renewal due 1/24/2102
Telos AMHS 6.0	Registration No. TX 6-500-646	Computer program	Registered 1/24/07	Renewal due 1/24/2102
Telos AMHS USMTF Editor	Registration No. TX 6-501-274	Computer program	Registered 1/24/07	Renewal due 1/24/2102
PENDING REGISTRATION APPLICATIONS:	Telos Reference			
Telos CAISI Bridge Module (CBM) Step-by-Step Instruction Guide	None	Manual		
Xacta Customer Service Center v.2.0 Build 60 (SP4)	1-4	Computer program		
Xacta Certificate Management Utility (SP4)	3-4	Computer program		
Xacta Distribution Manager (SP4)	5-4	Computer program		

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TITLE	REGISTRATION NO.	NATURE OF WORK	BACKGROUND AND CURRENT STATUS	NEXT ACTION DUE
Xacta Detect Client v.4.1 Build 211 (SP4)	6-4	Computer program		
Xacta Detect Server v.4.1. Build 254 (SP4)	7-4	Computer program		
Xacta Host Info for Unix v.1.1.6 (SP4)	9-4	Computer program		
Xacta Host Info Agent for Windows v.1.00.02 (SP4)	10-4	Computer program		
Xacta IA Manager – Assessment Engine (SP4)	11-4	Computer program		
Xacta Customer Service Center Reference Manual for Customers (SP4)	14-4	Manual		
Xacta Customer Service Center Reference Manual for Administrator (SP4)	15-4	Manual		
Xacta IA Manager Distribution Manager Reference Manual (SP4)	16-4	Manual		
Xacta FISMA Accelerator Reference Manual (SP4)	17-4	Manual		
Xacta IA Manager Assessment Engine Getting Started Guide (SP4)	18-4	Manual		
Xacta IA Manager Assessment Engine Reference Manual (SP4)	19-4	Manual		

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TITLE	REGISTRATION NO.	NATURE OF WORK	BACKGROUND AND CURRENT STATUS	NEXT ACTION DUE
Xacta IA Manager Assistant Manual (SP4)	20-4	Manual		
Xacta Detect Client v.4.4 Build 253 (SP5)	1-5	Computer program		
Xacta Customer Service Center (CSC) v.2.0 Build 108 (SP5)	2-5	Computer program		
Xacta Certificate Management Utility (SP5)	3-5	Computer program		
Xacta Database Management Utility (SP5)	4-5	Computer program		
Xacta Detect Server v.4.4 Build 280 (SP5)	5-5	Computer program		
Xacta Distribution Manager (SP5)	6-5	Computer program		
Xacta File Digest Checker Utility (SP5)	7-5	Computer program		
Xacta Host Info Agent for Windows v.1.00.04 (SP5)	8-5	Computer program		
Xacta Host Info Agent for Unix v.1.1.6 (SP5)	9-5	Computer program		
Xacta IA Manager Assistant (SP5)	10-5	Computer program		

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TITLE	REGISTRATION NO.	NATURE OF WORK	BACKGROUND AND CURRENT STATUS	NEXT ACTION DUE
Xacta IA Manager Assessment Engine (SP5)	11-5	Computer program		
Xacta Automated Script Language Manual (SP5)	13-5	Manual		
Xacta Customer Service Center Reference Manual – for Administrator (SP5)	14-5	Manual		
Xacta Customer Service Center Reference Manual – for Customers (SP5)	15-5	Manual		
Xacta IA Manager Distribution Manager Reference Manual (SP5)	16-5	Manual		
Xacta Secure Enterprise Process Handler Flow (SP5)	17-5	Manual		

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MARK COUNTRY OWNER	APPLICATION/ REGISTRATION NO.	CLASS/GOODS/SERVICES	BACKGROUND AND CURRENT STATUS	NEXT ACTION DUE
		UNITED STATES		
NETFLOW United States Telos Corporation	Application No. 75/058,754	Class 9: Computer software for work flow management on a global computer network	Filed 1/30/96 (on the basis of intended use); Abandoned 7/22/98	None – Abandoned
TELOS United States Telos Corporation	Registration No. 2,828,747	Class 38: Telecommunications services, the providing of connections to existing information technology utilizing wired and wireless technology, namely, the electronic transmission of voice, video, data, facsimile, electronic messages, mail and live video conversations, conferencing and communications and information through personal computers, the global computer network, telephones and television sets interfacing with local and wide area networks TELOS means GOAL in Greek.	Filed 12/1/98 (claiming a first use date of 6/97); Registered 4/6/04	Declaration of Use due 4/6/10; Renewal due 4/6/14
TELOS (Stylized)  United States Telos Corporation	Registration No. 2,327,739	Class 9: Computer hardware and peripherals; portable computers; computer hardware integration equipment; computer ruggedization equipment; computer workstations; and computer networking products, namely computer servers, workstations, peripherals and software suites for use in communications, data management and data integration	Filed 1/26/98 (claiming a first use date of 4/95); Registered 3/14/00	Declaration of Use due 9/14/06 (end of grace period); Renewal due 3/14/10

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MARK COUNTRY OWNER	APPLICATION/ REGISTRATION NO.	CLASS/GOODS/SERVICES	BACKGROUND AND CURRENT STATUS	NEXT ACTION DUE
TELOS United States Telos Corporation	Registration No. 1,395,174	Class 37: Computer hardware maintenance services for others Class 42: Design of computer software for others	Filed 4/26/82 (claiming a first use date of 2/16/76 for Class 37 and a first use date of 4/11/69 and first use in commerce on 6/5/72 for Class 42); Registered 5/27/86; Declaration of Use accepted 8/5/92	Renewal due 5/27/06 (grace period deadline 11/27/06)
UBIQUITY United States ubIQuity.com, Inc.	Application No. 76/068,227	Class 36: Investment and business development services to others in the field of e-commerce	Filed 6/12/00 (on the basis of intended use); Abandoned 9/10/01	None – Abandoned
		AUSTRALIA		
TELOS Australia Telos Corporation	Application No. 795858	Class 38: Telecommunications services, namely, the providing of connections to existing information technology utilizing wired and wireless technology, namely, the electronic transmission of voice, video, data, facsimile, electronic messages, mail and live video conversations, conferencing and communications and information through personal computers, the global computer networks, telephones and television sets interfacing with local and wide area networks	Filed 5/31/99; Abandoned 9/25/00	None – Abandoned

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MARK COUNTRY OWNER	APPLICATION/ REGISTRATION NO.	CLASS/GOODS/SERVICES	BACKGROUND AND CURRENT STATUS	NEXT ACTION DUE
		CANADA		
TELOS Canada Telos Corporation	Application No. 1017423	Services: Telecommunications services, namely, providing technology, management and support services to improve the security of wired and wireless technology, namely, the electronic transmission of voice, video, data, facsimile, electronic messages, mail and live video conversations, conferencing and communications and information through personal computers, the global computer networks, telephones and television sets interfacing with local and wide area networks; excluding local and long distance telephone services, paging services, leasing of telecommunications equipment and systems	Filed 6/2/99; Published 7/7/04; Opposition filed 8/5/04 by Telus Corporation Application abandoned	None
		CHINA		
TELOS China Telos Corporation	Registration No. 1445885	Class 38: Message sending, electronic mail, cellular telephone communications, communications by computer terminals, communications by telegrams, communications by telephone, communications by wire services, communications by fiber optics, the electronic transmission of voice, video, data, facsimile, electronic messages, mail and live video conversations, conferencing and communications and information through personal computers, the global computer network, telephones and television sets interfacing with local and wider area networks	Filed 6/1/99; Registered 9/14/00	Renewal due 9/13/10

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MARK COUNTRY OWNER	APPLICATION/ REGISTRATION NO.	CLASS/GOODS/SERVICES	BACKGROUND AND CURRENT STATUS	NEXT ACTION DUE
		EUROPEAN COMMUNITY		
TELOS European Community Telos Corporation	Application no. 1196161	Class 38: Telecommunications services; the providing of connections to existing information technology utilizing wired and wireless technology; the electronic transmission of voice, video, data, facsimile, messages, mail and live video conversations through personal computers, computer networks, the global computer network, telephones and television sets interfacing with local and wide area networks	Filed 6/4/99; Opposition filed 7/25/00 by Teles AG (TELES, CTM App. No. 275933 and German Reg. No. 1124760) and assigned Opposition No. B289480; Opposition filed 9/4/00 by TLS Corporation (TELOS, CTM Reg. No. 441360) and assigned Opposition No. B302481; Opposition No. B289480 has been closed in Teles AG's favor	None – Abandoned

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MARK COUNTRY OWNER	APPLICATION/ REGISTRATION NO.	CLASS/GOODS/SERVICES	BACKGROUND AND CURRENT STATUS	NEXT ACTION DUE
		INDIA		
TELOS India Telos Corporation	Application No. 858645	Class 16: Printed matter, including brochures, pamphlets, manuals, operating instructions, user guides, catalogues, newsletters, instructional and teaching materials for use in connection with telecommunications services, namely the providing of connections to exiting information technology utilizing wired and wireless technology, namely, the electronic transmission of voice, video, data, facsimile, electronic messages, mail and live video conversations, conferencing and communications and information through personal computers, the global computer network, telephones and television sets interfacing with local and wide area networks; all being goods included in Class 16	Filed 5/31/99; Published 2/8/06 for 90 days (until 5/8/06)	Check status of application 9/1/06
		JAPAN		
TELOS Japan Telos Corporation	Application No. 11-48340	Class 38: Communications via movable phones; communications via telex; communications via computer terminals; communications via telegraphs; communications via telephones; communications via facsimile; paging by radios; providing conferences, calls and communications via television systems; sending sounds, images, messages and data via communication networks; communications via email; television broadcasting; cable television broadcasting; radio broadcasting; leasing of telephones, facsimiles an other communications equipment; providing news to broadcasters	Filed 5/31/99; Abandoned 1/4/01	None – Abandoned

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MARK COUNTRY OWNER	APPLICATION/ REGISTRATION NO.	CLASS/GOODS/SERVICES	BACKGROUND AND CURRENT STATUS	NEXT ACTION DUE
		MALAYSIA		
TELOS Malaysia Telos Corporation	Registration No. 99004686	Class 38: Telecommunications services, the providing of connections to existing information technology utilizing wired and wireless technology, the electronic transmission of voice, video, data, facsimile, electronic messages, mail and live video conversations, conferencing and communications and information through personal computer, the global computer networks, telephones and television sets interfacing with local and wide area networks; all included in Class 38	Registered 5/31/99 (claiming 12/1/98 priority date) Grant date: 2/14/05	Use in Malaysia by 2/14/08; Renew registration by 12/1/08
		MEXICO		
TELOS Mexico Telos Corporation	Registration No. 377438	Class 38: Telecommunications services, the providing of connections to existing information technology utilizing wired and wireless technology, namely, the electronic transmission of voice, video, data, facsimile, electronic messages, mail and live video conversations, conferencing and communications and information through personal computers, the global computer network, telephones and television sets interfacing with local and wide area networks	Registered 6/1/99 Grant date: 3/22/05	Use in Mexico by 3/22/08; Renew registration by 6/1/09

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MARK COUNTRY OWNER	APPLICATION/ REGISTRATION NO.	CLASS/GOODS/SERVICES	BACKGROUND AND CURRENT STATUS	NEXT ACTION DUE
		NEW ZEALAND		
TELOS New Zealand Telos Corporation	Registration No. 310401	Class 38: Telecommunications services, the providing of connections to existing information technology utilizing wired and wireless technology, namely, the electronic transmission of voice, video, data, facsimile, electronic messages, mail and live video conversations, conferencing and communications and information through personal computers, the global computer network, telephones and television sets interfacing with local and wide area networks	Filed 5/31/99; Registered 12/20/99 Not renewed as of 12/1/05	None – Abandoned
		PHILIPPINES		
TELOS Philippines Telos Corporation	Application No. 4-1999-03810	Class 38: Telecommunications services, the providing of connections to existing information technology utilizing wired and wireless technology, namely, the electronic transmission of voice, video, data, facsimile, electronic messages, mail and live video conversations, conferencing and communications and information through personal computers, the global computer network, telephones and television sets interfacing with local and wide area networks	Filed 6/2/99; Abandoned 5/24/02	None – Abandoned

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MARK COUNTRY OWNER	APPLICATION/ REGISTRATION NO.	CLASS/GOODS/SERVICES	BACKGROUND AND CURRENT STATUS	NEXT ACTION DUE
		SINGAPORE		
TELOS Singapore Telos Corporation	Registration No. T99/05520F	Class 38: Telecommunications services, namely the electronic transmission of voices, video, data, images and messages by means of facsimile, telephone, television, computers, electronic network communications and electronic mail; providing telecommunication connections to the internet and communications by computer terminals; all included in Class 38	Filed 5/31/99; Registered 12/1/98	Renewal due 12/1/08
		SOUTH KOREA		
TELOS South Korea Telos Corporation	Registration No. 62149	Class 38: Telecommunications services, the providing of connections to existing information technology utilizing wired and wireless technology, namely, the electronic transmission of voice, video, data, facsimile, electronic messages, mail and live video conversations, conferencing and communications and information through personal computers, the global computer network, telephones and television sets interfacing with local and wide area networks	Filed 5/31/99; Registered 6/23/00	Renewal due 6/23/10

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TITLE	REGISTRATION NO.	NATURE OF WORK	BACKGROUND AND CURRENT STATUS	NEXT ACTION DUE
		UNITED STATES		
Xacta Web C&A 2001/Xacta Commerce Trust 2001 v3.20	Registration No. TXu 1-001-771	Entire computer program and text of user's manual	Registered 8/22/02	Renewal due 8/22/2097
Xacta Web C&A 2001/Xacta Commerce Trust 2001 v3.21	Registration No. TXu 1-001-768	Entire computer program and text of user's manual	Registered 8/22/02	Renewal due 8/22/2097
Xacta Web C&A 2001/Xacta Commerce Trust 2001 v3.22	Registration No. TXu 1-001-770	Entire computer program and text of user's manual	Registered 8/22/02	Renewal due 8/22/2097
Xacta Web C&A/Xacta Commerce Trust v3.30	Registration No. TXu 1-001-775	Entire computer program and text of user's manual	Registered 8/22/02	Renewal due 8/22/2097
Xacta Commerce Trust v.4.0	TX-6-092-272	Text of user's manual	Registered 1/13/05	
Xacta Commerce Trust, v.4.0 (SP1)	TX-6-092-276	Text of user's manual	Registered 1/13/05	
Xacta Commerce Trust, v.4.0 (SP2)	TX-6-092-277	Text of user's manual	Registered 1/13/05	
Xacta Web C&A	TX-6-092-273	Text of user's manual	Registered 1/13/05	
Xacta Web C&A 2001 v.3.00	Registration No. TXu 1-001-766	Entire computer program and text of user's manual	Registered 8/22/02	Renewal due 8/22/2097
Xacta Web C&A 2001 v3.01	Registration No. TXu 1-001-767	Entire computer program and text of user's manual	Registered 8/22/02	Renewal due 8/22/2097
Xacta Web C&A 2001 v.3.10	TXu-1-001-772	Entire computer program and text of user's manual	Registered 8/22/02	Renewal due 8/22/2097

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TITLE	REGISTRATION NO.	NATURE OF WORK	BACKGROUND AND CURRENT STATUS	NEXT ACTION DUE
Xacta Web C&A v.4.0 (SP1)	TX-6-092-274	Text of user's manual	Registered 1/13/05	
Xacta Web C&A v.4.0 (SP2)	TX-6-092-275	Entire computer program	Registered 1/13/05	
Xacta Detect v2.0	Registration No. TXu 1-001-764	Entire computer program and text of user's manual	Registered 8/22/02	Renewal due 8/22/2097
Xacta Detect v2.1.1	Registration No. TXu 1-001-765	Entire computer program and text of user's manual	Registered 8/22/02	Renewal due 8/22/2097
WEB C&A v2.00	Registration No. TXu 1-001-763	Entire computer program and text of user's manual	Registered 8/22/02	Renewal due 8/22/2097
WEB C&A v2.01	Registration No. TXu 1-001-769	Entire computer program and text of user's manual	Registered 8/22/02	Renewal due 8/22/2097
WEB C&A v2.10	Registration No. TXu 1-001-773	Entire computer program and text of user's manual	Registered 8/22/02	Renewal due 8/22/2097
WEB C&A v2.20	Registration No. TXu 1-001-774	Entire computer program and text of user's manual	Registered 8/22/02	Renewal due 8/22/2097
TELOS SERVICE MANAGEMENT (TSM)	Registration No. Pending	Computer program	Filed 4/20/06	
TELOS SITE SERVICE AUTOMATION TOOL	Registration No. Pending	Computer program	Filed 4/20/06	
TELOS ARISS ADMINISTRATION	Registration No. Pending	Computer program	Filed 4/20/06	
CONTENT MANAGEMENT TOOL (CTM)	Registration No. Pending	Computer program	Filed 4/20/06	

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TITLE	REGISTRATION NO.	NATURE OF WORK	BACKGROUND AND CURRENT STATUS	NEXT ACTION DUE
TELOS STORE	Registration No. Pending	Computer program	Filed 4/20/06	

Xacta Corporation
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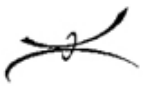
MARK COUNTRY	APPLICATION/ REGISTRATION NO.	CLASS/GOODS/SERVICES	BACKGROUND AND CURRENT STATUS	NEXT ACTION DUE
		UNITED STATES		
Design Only  United States	Registration No. 2,759,323	Class 9: E-commerce software to allow users to perform business transactions via a global computer network; computer software for others engaged in e-commerce, namely, process automation and service management, system and network health monitoring, automated job scheduling and notification, remote monitoring of systems and workstations, automated delivery of software, automated hardware and software inventory, automated cross platform data backup and recovery, cross-platform user administration from a single console, integrated call management to address change/problem management and service level agreements, integrated management of help desk and physical hardware and network assets; computer software to allow users to engage in e-commerce, namely, security certification and accreditation support, security policy and operational procedure development, security architecture design and implementation, network security testing and evaluation, vulnerability analysis and rectification, malicious code analysis, security risk assessment	Filed 4/6/00 (claiming a first use date of 8/15/00); Registered 9/2/03	Declaration of Use due 9/2/09; Renewal due 9/2/13
Design Only  United States	Registration No. 2,737,331	Class 42: Computer software design for others, namely, computer system and network security services for others engaged in e-commerce, namely, security certification and accreditation support, security policy and operational procedure development, security architecture design and implementation, network security testing and evaluation, vulnerability analysis and rectification, malicious code analysis, and security risk assessment	Filed 4/6/00 (claiming a first use date of 2/00); Registered 7/15/03	Declaration of Use due 7/15/09; Renewal due 7/15/13

Xacta Corporation
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MARK COUNTRY	APPLICATION/ REGISTRATION NO.	CLASS/GOODS/SERVICES	BACKGROUND AND CURRENT STATUS	NEXT ACTION DUE
XACTA United States	Registration No. 2,737,276	Class 42: Computer software design for others, namely, computer system and network security services for others engaged in e-commerce, namely, security certification and accreditation support, security policy and operational procedure development, security architecture design and implementation, network security testing and evaluation, vulnerability analysis and rectification, malicious code analysis, and security risk assessment	Filed 2/25/00 (claiming a first use date of 2/00); Registered 7/15/03	Declaration of Use due 7/15/09; Renewal due 7/15/13
XACTA United States	Registration No. 2,640,307	Class 9: Computer software to allow users to perform e-commerce	Filed 2/25/00 (claiming a first use date of 2/00); Registered 10/22/02	Declaration of Use due 10/22/08; Renewal due 10/22/12
XACTA & Design  United States	Registration No. 2,845,219	Class 9: E-commerce software to allow users to perform business transactions via a global computer network; computer software for others engaged in e-commerce, namely, process automation and service management, system and network health monitoring, automated job scheduling and notification, remote monitoring of systems and workstations, automated delivery of software, automated hardware and software inventory, automated cross platform data backup and recovery, cross-platform user administration from a single console, integrated call management to address change/problem management and service level agreements, integrated management of help desk and physical hardware and network assets; computer software to allow users to engage in e-commerce, namely, security certification and accreditation support, security policy and operational procedure development, security architecture design and implementation, network security testing and evaluation, vulnerability analysis and rectification, malicious code analysis, security risk assessment	Filed 4/6/00 (claiming first use date of 8/15/00); Registered 5/25/04	Declaration of Use due 5/25/10; Renewal due 5/25/14

Xacta Corporation
(a Delware Corporation)
Trademark Status Chart

MARK COUNTRY	APPLICATION/ REGISTRATION NO.	CLASS/GOODS/SERVICES	BACKGROUND AND CURRENT STATUS	NEXT ACTION DUE
XACTA & Design  United States	Registration No. 2,790,067	Class 42: Computer software design for others, namely, computer system and network security services for others engaged in e-commerce, namely, security certification and accreditation support, security policy and operational procedure development, security architecture design and implementation, network security testing and evaluation, vulnerability analysis and rectification, malicious code analysis, security risk assessment	Filed 4/6/00 (claiming a first use date of 2/00); Registered 12/9/03	Declaration of Use due 12/9/09; Renewal due 12/9/13
XACTA COMMERCE TRUST United States	Registration No. 2,741,810	Class 9: Computer software to automate and manage compliance assessment, in accordance with security standards, regulations, policies and practices	Filed 1/28/02 (claiming a first use date of 5/01 and first use in commerce in 11/01); Registered 7/29/03	Declaration of Use due 7/29/09; Renewal due 7/29/13
XACTA WEB C&A United States	Registration No. 2,824,917	Class 9: Computer software to automate and manage compliance assessment, in accordance with security standards, regulations, policies and practices Disclaims: WEB	Filed 1/28/02 (claiming a first use date of 3/00 and first use in commerce on 8/15/00); Registered 3/23/04	Declaration of Use due 3/23/10; Renewal due 3/23/14
		CZECH REPUBLIC		
XACTA COMMERCE TRUST Czech Republic	Registration No. 254596	Class 9: Software to automate and manage compliance assessment in accordance with security standards, regulations, policies and practices	Filed 9/18/02; Registered 5/26/03	Use after registration by 9/18/07; Renewal due 9/18/12
XACTA WEB C&A Czech Republic	Registration No. 258821	Class 9: Software to automate and manage compliance assessment in accordance with security standards, regulations, polices and practices	Filed 9/18/03; Registration issued 11/27/03	Must use in the Czech Republic by 9/18/08; Renewal due 9/18/12

Xacta Corporation
(a Delware Corporation)
Trademark Status Chart

MARK COUNTRY	APPLICATION/ REGISTRATION NO.	CLASS/GOODS/SERVICES	BACKGROUND AND CURRENT STATUS	NEXT ACTION DUE
		EUROPEAN COMMUNITY		
XACTA COMMERCE TRUST European Community	Registration No. 2857951	Class 9: Software to automate and manage compliance assessment in accordance with security standards, regulations, polices and practices	Filed 9/17/02; Registration issued 1/19/04	Must use in the European Community by 1/19/09; Renewal due 9/17/12
XACTA WEB C&A European Community	Registration No. 2857944	Class 9: Software to automate and manage compliance assessment in accordance with security standards, regulations, polices and practices	Filed 9/17/02; Registration issued 2/8/05	Must use in the European Community by 2/8/10; Renewal due 9/17/12

Schedule 5.18

Demand Deposit Accounts

TELOS CORPORATION

DEMAND DEPOSIT ACCOUNTS

G/L Account	G/L Account Name	Bank Account No.	Bank Account Name
10-100-040	Cash - WF Operating	4945018786	(1) Telos Corporation, 19886 Ashburn Road, Ashburn, VA 20147
10-100-050	Cash - WF Payroll	4945018794	(1) Telos Corporation, 19886 Ashburn Road, Ashburn, VA 20147
10-100-070	Cash - WF A/P	9600035593	(1) Telos Corporation, 19886 Ashburn Road, Ashburn, VA 20147
10-100-100	Cash - Germany PR Tax	1004089981	(2) Telos
10-100-030	Cash - Germany Checking USD	72621395	(3) Telos Europe
10-100-030	Cash - Germany Checking EURO	25014502	(3) Telos Europe
10-100-300	Cash-WF-TIMS-A/P	9600094966	(1) Telos Identity Management Solutions LLC
10-100-310	Cash-WF-TIMS-OPER/PR	412-1569602	(1) Telos Identity Management Solutions LLC
	Cash - Payroll & Operating Expenses	2000024576136	(5) Teloworks, Inc
	Cash - Payroll & Operating Expenses	01-103-301070-0	(6) Teloworks Philippines, Inc.
	Cash - Payroll & Operating Expenses	103-148327-8	(6) Teloworks BPO Solutions Philippines, Inc.

Financial Institution's Name and Address:

(1) Wells Fargo Bank
Wholesale Services Group
201 Third Street
11th Floor
San Francisco CA 94103
MAC-AO187-216

Fax #415-979-0662

(2) Stadtsparkasse Düsseldorf
Postfach 10 10 30
40001 Düsseldorf
Germany

(3) Sparkasse Heidelberg
Postfach 10 14 60
Kurfurstenanlage 10-12
D-69004 Heidelberg
Germany

(4) Wells Fargo Bank, N.A.
Corporate and Municipal Markets Group
One Ward Parkway
MAC N2744-030
Kansas City, MO 64112
Attn: Carole Mosher

(5) Wachovia Bank, N.A.
1753 Pinnacle Drive, 3rd Floor
McLean, VA 22102
Note: Account used to transfer funds to Philippine bank account to pay for operating expenses.

(6) United Coconut Planters Bank (Philippines)
Note: This is a local account used to pay operating expenses at our Philippine entities.

Schedule 5.20

Permitted indebtedness

See attached list of leases

Subordinated Debt Notes

Type	Noteholder	Interest	Maturity Date	Amount
Series B	Zollikon Investments SA	16.97%	12/31/2011	$ 209,497.49
Series B	John Porter	14.00%	10/31/2008	$ 861,745.92
Series B	Toxford	14.00%	12/31/2011	$1,466,626.53
Series C	Zollikon Investments SA	16.97%	12/31/2011	$ 860,961.42
Series C	Toxford	14.00%	12/31/2011	$1,744,722.79
Total Subordinated Debt Notes				$5,143,554.15

TELOS CORPORATION

OFFICE LESSOR/SUBLESSOR	DESCRIPTION	CITY	STATE	START DATE
I.A.M NATIONAL PENSION FUND	1300 CONN AVE NW #300	WASHINGTON	DC	10/01/03
JACK AND DORA GLASER FAMILY TRUST, dba J.D REALTY	3655 ALAMO STREET, SUITES # 300,301&303	SIMI VALLEY	CA	03/01/06
KILN BROOK REALTY/(FARLEY WHITE 2006)	81 HARTWELL AVENUE	LEXINGTON	MA	02/15/05
STAVOLA LEASING COMPANY	656 SHREWSBURY AVENUE, 1ST, 2ND FLRS, BASEMNT	SHREWSBURY	NJ	04/01/90
EQUITY RESIDENTIAL /SADDLE RIDGE APARTMENTS	20070 COLTSRIDGE TER	ASHBURN	VA	03/09/07
JOACHIM DONATH -OFFICE & KARL KLINGER -CAR PARKING	6 FRIENDRICHSTASSE, SCHWETZINGEN	GERMANY		12/01/98
OPERATING LEASES				
CAPITAL LEASES				
TEL (VA) QRS 12-15, INC. (subject to CPI percentage increase every 3 years)	19886 ASHBURN ROAD	ASHBURN	VA	03/11/96
EQUIPMENT/VEHICLE LESSOR				
CAPITAL LEASES:				
IKON Lease Ashburn Color Copier - Capital Lease	Mailroom #CPP500	ASHBURN	VA	01/01/06
IKON Lease Ashburn IR3570	IR3570 John Frawley	ASHBURN	VA	02/01/07
National Leasing and Financial	Hasler Digital Mailing Machine	ASHBURN	VA	04/01/07
SUBTOTAL - CAPITAL				
OPERATING LEASES:				
GE Capitol/Office Solutions Copier Connecticut Ave	Rob Wilson/Connecticut Avenue 4/9/07	WASHINGTON	DC	06/07/07
GE Capitol/Office Solutions Copier Ashburn/Xacta	XACTA-Angela Robinson 4/1/07	ASHBURN	VA	06/07/07
IKON Ashburn B&W Copiers	Ikon IKOFIN	ASHBURN	VA	09/28/07
SUBTOTAL - OPERATING				
SUBTOTAL - EQUIPMENT LEASES				
TOTAL CAPITAL LEASES				

TELOS CORPORATION

OFFICE LESSOR/SUBLESSOR	END DATE	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
I.A.M NATIONAL PENSION FUND	09/30/08	80,862.57					
JACK AND DORA GLASER FAMILY TRUST, dba J.D REALTY	10/30/09	75,678.00	64,640.00				
KILN BROOK REALTY/(FARLEY WHITE 2006)	02/28/08	5,900.00					
STAVOLA LEASING COMPANY	03/31/11	325,225.26	332,036.22	338,847.27	85,137.51		
EQUITY RESIDENTIAL /SADDLE RIDGE APARTMENTS	03/08/08	3,454.84					
JOACHIM DONATH -OFFICE & KARL KLINGER -CAR PARKING	3 mo vacate notice	13,273.20					
OPERATING LEASES		**$ 504,394**	**$ 396,676**	**$ 338,847**	**$ 85,138**	**$ 0**	
CAPITAL LEASES							
TEL (VA) QRS 12-15, INC. (subject to CPI percentage increase every 3 years)	03/10/16	$ 1,793,465	$ 1,793,465	$ 1,793,465	$ 1,793,465	$ 1,793,465	$ 1,793,465
EQUIPMENT/VEHICLE LESSOR							
CAPITAL LEASES:							
IKON Lease Ashburn Color Copier - Capital Lease	12/31/10	28,512.00	28,512.00	28,512.00			
IKON Lease Ashburn IR3570	01/31/11	3,456.00	3,456.00	3,456.00	288.00		
National Leasing and Financial	03/31/12	6,192.00	6,192.00	6,192.00	6,192.00	1,548.00	
		38,160.00	38,160.00	38,160.00	6,480.00	1,548.00	
OPERATING LEASES:							
GE Capitol/Office Solutions Copier Connecticut Ave	05/27/10	4,572.00	4,572.00	1,905.00			
GE Capitol/Office Solutions Copier Ashburn/Xacta	05/27/10	4,908.00	4,908.00	2,045.00			
IKON Ashburn B&W Copiers	09/27/12	25,608.00	25,608.00	25,608.00	25,608.00	19,206.00	
		35,088.00	35,088.00	29,558.00	25,608.00	19,206.00	
SUBTOTAL - EQUIPMENT LEASES		73,248.00	73,248.00	67,718.00	32,088.00	20,754.00	
TOTAL CAPITAL LEASES		**1,831,624.80**	**1,831,624.80**	**1,831,624.80**	**1,799,944.80**	**1,795,012.80**	**1,793,464.80**

TELOS CORPORATION

OFFICE LESSOR/SUBLESSOR	FY 2014	FY 2015	FY 2016	LEASE FILE #	SQUARE FEET
I.A.M NATIONAL PENSION FUND					3,178
JACK AND DORA GLASER FAMILY TRUST, dba J.D REALTY					3,093
KILN BROOK REALTY/(FARLEY WHITE 2006)					
STAVOLA LEASING COMPANY				0-140	13,622
EQUITY RESIDENTIAL /SADDLE RIDGE APARTMENTS					
JOACHIM DONATH -OFFICE & KARL KLINGER -CAR PARKING				0-298	
OPERATING LEASES					**19,893**
CAPITAL LEASES					
TEL (VA) QRS 12-15, INC. (subject to CPI percentage increase every 3 years)	$ 1,793,465	$ 1,793,465	$ 448,366		191,700
EQUIPMENT/VEHICLE LESSOR					
CAPITAL LEASES:					
IKON Lease Ashburn Color Copier - Capital Lease					
IKON Lease Ashburn IR3570					
National Leasing and Financial					
OPERATING LEASES:					
GE Capitol/Office Solutions Copier Connecticut Ave					
GE Capitol/Office Solutions Copier Ashburn/Xacta					
IKON Ashburn B&W Copiers					
SUBTOTAL - EQUIPMENT LEASES					
TOTAL CAPITAL LEASES	**1,793,464.80**	**1,793,464.80**	**448,366.20**		

Schedule 7.14

Affiliated Transactions

Enterworks

Parent has a continuing obligation to sublease office space in its Ashburn facility and provide general, administrative and support services to Enterworks, Inc. ("Enterworks"). Such services include security and facilities related matters and professional services. Over the past several years, payment by Enterworks to Parent has taken many forms, which include cash and various forms of notes, as have been set forth in detail in the relevant public disclosures on EDGAR including SEC Form 10-Ks and 10-Qs which have been presented to Agent. The annual amount of such services is $180,000. Accordingly, such services and related payment methods are thereby specifically acknowledged by Agent as excluded from any such prohibition per Section 7.14.

Teloworks

In December 2003, Parent entered into a Stock Purchase Agreement and the Stockholder Agreement ("Teloworks Agreements"), whereby Parent purchased a 50% interest in Teloworks, which at the time of the transaction was a wholly owned subsidiary of Enterworks for $500,000. The investment was founded upon anticipated future cost savings on projected labor costs. In accordance with the terms of the Teloworks Agreements, Parent and Enterworks, as partners subject to the Teloworks Agreements, fund the operations of Teloworks according to each partner's direct usage of Teloworks services and split the funding of general and administrative expenses.

In 2005 and 2006, Enterworks was unable to fund its proportionate share of the scheduled funding. Consistent with subsection 3.4(d) of the Teloworks Agreements, the non-defaulting party (Parent) has the right to transfer ownership (pursuant to a Penalty Ownership calculation) of the defaulting party's interest in Teloworks. Accordingly, Parent exercised its right under the Agreements and transferred ownership in Teloworks. As of December 31, 2006 Parent owned 80% of Teloworks.

In conjunction with the March 16, 2007 private financing, the ownership of Teloworks was adjusted to 60% Parent and 40% Enterworks.

In 2007, Enterworks was unable to fund its entire share of the scheduled funding. Parent funded $250,000 on Enterworks behalf for which it received a note from Enterworks. Accordingly, effective January 1, 2008 Parent owns 100% of Teloworks.

Teloworks currently owns 99.99% of Teloworks Philippines, Inc. ("Teloworks Philippines"), a service outsourcing facility with approximately 70 employees, located in the Philippines. Teloworks Philippines provides professional services to Parent and its customers, and Parent

provides the necessary operating funds. The annual amount of funding per year is approximately $1.1 million. Accordingly, operational funding of Teloworks Philippines is thereby specifically acknowledged by Agent as excluded from any such prohibition per Section 7.14.

Telos Identity Management Solutions, LLC

Parent holds 60% of Telos Identity Management Solutions, LLC ("TIMS LLC") while Hoya ID Fund A, LLC ("Hoya") holds the other 40%, which they purchased for $6 million in cash consideration.

Parent has entered into a corporate services agreement with TIMS LLC whereby Parent provides certain administrative support services to TIMS LLC, including but not limited to finance, accounting and human resources services, for a fee of $50,000 per month. In addition, Parent and TIMS LLC entered a one-year sublease agreement for office space in the amount of $17,515 per month, or $210,180.00 per year. The renewal of the sublease, beginning on April 20, 2008, shall be for additional office space, increasing the monthly rent to $38,360, or $460,320 per year.

As of March 2008, quarterly cash distributions in the amount of $1.35 million were made to Hoya. For the remainder of 2008, the anticipated distributions to Hoya are $1.4 million.

Accordingly, the provision of services and sublease to TIMS LLC, as well as the cash distributions to the members is thereby specifically acknowledged by Agent as excluded from any such prohibition per Section 7.14.

Exhibit 10.23

WAIVER AND FIRST AMENDMENT TO
AMENDED AND RESTATED LOAN AND SECURITY AGREEMENT

THIS WAIVER AND FIRST AMENDMENT TO AMENDED AND RESTATED LOAN AND SECURITY AGREEMENT (this "Amendment") is entered into as of August 26, 2008, by and among **TELOS CORPORATION**, a Maryland corporation ("Parent"), **XACTA CORPORATION**, a Delaware corporation ("Xacta"; Parent and Xacta are referred to hereinafter each individually as a "Borrower", and individually and collectively, jointly and severally, as the "Borrowers"), **TELOS DELAWARE, INC.**, a Delaware corporation ("Telos-Delaware"), **UBIQUITY.COM, INC.**, a Delaware corporation ("Ubiquity"), **TELOS INTERNATIONAL CORP.**, a Delaware corporation ("TIC"), **TELOS INTERNATIONAL ASIA, INC.**, a Delaware corporation ("TIA"), **SECURE TRADE, INC.**, a Delaware corporation ("STI") and **TELOWORKS, INC.**, a Delaware corporation ("Teloworks"; Telos-Delaware, Ubiquity, TIC, TIA, STI and Teloworks are referred to hereinafter each individually as a "Credit Party" and collectively, jointly and severally, as the "Credit Parties"), and **WELLS FARGO FOOTHILL, INC.** (formerly known as Foothill Capital Corporation), as agent ("Agent") for the Lenders (defined below) and as a Lender.

WHEREAS, Borrowers, Credit Parties, Agent and certain other financial institutions from time to time party thereto (the "Lenders") are parties to that certain Amended and Restated Loan and Security Agreement dated as of April 3, 2008, but effective as of March 31, 2008 (as amended from time to time, the "Loan Agreement");

WHEREAS, Borrowers and Credit Parties have notified Agent that certain Events of Default exist under Section 8.2 of the Loan Agreement due to (a) the formation of Teloworks BPO Solutions Philippines, Inc., a corporation formed under the laws of the Philippines ("Teloworks BPO Philippines") as a Subsidiary of Teloworks after the Closing Date in violation of Section 7.3(d) of the Loan Agreement, and (b) Investments made by the Companies of up to $75,000 as of the date hereof in Teloworks BPO Philippines made in violation of Section 7.13 and 7.14 of the Loan Agreement (the "Existing Defaults");

WHEREAS, Borrowers and Credit Parties have requested that Agent and Required Lenders waive the Existing Defaults;

WHEREAS, Agent and Required Lenders are willing to waive the Existing Default on and subject to the terms and conditions set forth herein; and

WHEREAS, subject to the terms and conditions contained herein, Borrowers, Credit Parties, Agent and Lenders have agreed to amend the Loan Agreement in certain respects;

NOW THEREFORE, in consideration of the premises and mutual agreements herein contained, the parties hereto agree as follows:

1. Defined Terms. Unless otherwise defined herein, capitalized terms used herein shall have the meanings ascribed to such terms in the Loan Agreement.

2. Waiver. Subject to the satisfaction of the conditions set forth in Section 5 hereof, and in reliance upon the representations and warranties contained herein, Agent and Required Lenders hereby waive the Existing Defaults. This is a limited waiver and shall not be deemed to constitute a waiver of, or consent to, any other existing or future breach of the Loan Agreement or any other Loan Document, including, without limitation, the failure of the Companies to deliver to Agent the 2007 Audit and a certificate of accountants related thereto on or prior to October 31, 2008.

3. Amendments to Loan Agreement. Subject to the satisfaction of the conditions set forth in Section 5 hereof, the Loan Agreement is amended in the following respects:

(a) The definition of "Eligible Accounts" as set forth in Section 1.1 of the Loan Agreement is hereby amended by (i) deleting the word "or" at the end of clause (o) thereof, (ii) deleting the period at the end of clause (p) thereof, (iii) inserting, "or" at the end of clause (p) thereof, and (iv) adding a new clause (q) at the end thereof, as follows:

(q) Accounts with respect to which payments are subject to an escrow agreement other than Accounts not to exceed $12,500,000 in the aggregate under contract number FA8771-04-D009 dated as of September 10, 2004 between Parent and the Department of the Air Force.

(b) The definition of "Permitted Investments" as set forth in Section 1.1 of the Loan Agreement is hereby amended and restated in its entirety as follows:

"Permitted Investments" means (a) investments in Cash Equivalents, (b) investments in negotiable instruments for collection, (c) advances made in connection with purchases of goods or services in the ordinary course of business, (d) investments by any Borrower in any other Borrower or any Credit Party provided that if any such investment is in the form of Indebtedness, such Indebtedness investment shall be subject to the terms and conditions of the Intercompany Subordination Agreement and provided, further, that Borrowers may not invest more than $50,000 in the aggregate in the Credit Parties and then only so long as the proceeds of such investments are used to facilitate the dissolution of such Credit Parties, (e) investments by Parent of up to $1,000,000 in the aggregate in TIMS LLC made on or prior to October 20, 2007, and (f) investments of up to $600,000 in the aggregate in Teloworks BPO Philippines, Inc., a corporation formed under the laws of the Philippines.

(c) The following Section 6.18 is added to the Loan Agreement:

6.18. Escrow Agreement Weekly Invoice Reports.

Each Weekly Invoice Report delivered pursuant to (a) that certain Escrow Agreement dated as of August 26, 2008 by and among Parent, Agent, and Wells Fargo Bank, National Association, as escrow agent (the "WFF Air Force Escrow Agreement"), and (b) that certain Escrow Agreement dated as of August 26, 2008 by and among Parent, Dell Federal Systems GP, L.L.C., and Wells Fargo Bank, National Association, as escrow agent (the "Dell Air Force Escrow Agreement") shall match all applicable Borrowing Base calculations provided to Agent pursuant to Section 6.2 in all respects and each such Weekly Invoice Report shall direct that any applicable invoices under the Contract (as defined in the WFF Air Force Escrow Agreement and the Dell Air Force Escrow Agreement) that were included in the calculation of the Borrowing Base under this Agreement shall be paid into the WFF Escrow Account (as defined in the WFF Air Force Escrow Agreement).

4. Ratification. This Amendment, subject to satisfaction of the conditions provided below, shall constitute an amendment to the Loan Agreement and all of the Loan Documents as appropriate to express the agreements contained herein. Except as specifically set forth herein, the Loan Agreement and the Loan Documents shall remain unchanged and in full force and effect in accordance with their original terms.

5. Conditions to Effectiveness. This Amendment shall become effective upon the satisfaction of the following conditions precedent:

(a) Each party hereto shall have executed and delivered this Amendment to Agent;

(b) Agent shall have received the fee described in Section 6 hereof;

(c) Borrowers shall have delivered to Agent such documents, agreements and instruments as may be requested or required by Agent in connection with this Amendment, each in form and content acceptable to Agent;

(d) No Default or Event of Default shall have occurred and be continuing on the date hereof or as of the date of the effectiveness of this Amendment; and

(e) All proceedings taken in connection with the transactions contemplated by this Amendment and all documents, instruments and other legal matters incident thereto shall be satisfactory to Agent and its legal counsel.

6. Amendment Fee. To induce Agent and Lenders to enter into this Amendment, Borrowers shall pay to Agent, for the benefit of Lenders, a non-refundable fee equal to $30,000, which shall be due and payable on the date hereof.

7. Assignment of Claims. Agent hereby acknowledges and agrees that paragraph 10 of Exhibit A to that certain letter agreement dated as of April 3, 2008 among

Agent and Borrowers (the "Post-Closing Letter") regarding certain of its contracts with the United States government and compliance with the Federal Assignment of Claims Act has been completed to Agent's satisfaction and shall be of no further force and effect.

8. Philippines Stock Pledge. Agent and Borrowers hereby agree that the required date to deliver the Deed of Pledge in favor of Agent regarding 99.99% of the stock of Teloworks Philippines, Inc. as required by paragraph 1 of Exhibit A to the Post-Closing Letter is extended to September 17, 2008.

9. Miscellaneous.

(a) Warranties and Absence of Defaults. To induce Agent and Lenders to enter into this Amendment, each Company hereby represents and warrants to Agent and Lenders that:

(i) The execution, delivery and performance by it of this Amendment and each of the other agreements, instruments and documents contemplated hereby are within its corporate power, have been duly authorized by all necessary corporate action, have received all necessary governmental approval (if any shall be required), and do not and will not contravene or conflict with any provision of law applicable to it, its articles of incorporation and by-laws, any order, judgment or decree of any court or governmental agency, or any agreement, instrument or document binding upon it or any of its property;

(ii) Each of the Loan Agreement and the other Loan Documents, as amended by this Amendment, are the legal, valid and binding obligation of it enforceable against it in accordance with its terms, except as the enforcement thereof may be subject to (A) the effect of any applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditor's rights generally, and (B) general principles of equity;

(iii) The representations and warranties contained in the Loan Agreement and the other Loan Documents are true and accurate as of the date hereof with the same force and effect as if such had been made on and as of the date hereof; and

(iv) It has performed all of its obligations under the Loan Agreement and the Loan Documents to be performed by it on or before the date hereof and as of the date hereof, it is in compliance with all applicable terms and provisions of the Loan Agreement and each of the Loan Documents to be observed and performed by it and no event of default or other event which upon notice or lapse of time or both would constitute an event of default has occurred.

(b) Expenses. Companies, jointly and severally, agree to pay on demand all costs and expenses of Agent (including the reasonable fees and expenses of outside counsel for Agent) in connection with the preparation, negotiation, execution, delivery and administration of this Amendment and all other instruments or documents provided for herein or delivered or

to be delivered hereunder or in connection herewith. In addition, Companies agree, jointly and severally, to pay, and save Agent harmless from all liability for, any stamp or other taxes which may be payable in connection with the execution or delivery of this Amendment or the Loan Agreement, as amended hereby, and the execution and delivery of any instruments or documents provided for herein or delivered or to be delivered hereunder or in connection herewith. All obligations provided herein shall survive any termination of the Loan Agreement as amended hereby.

(c) Governing Law. This Amendment shall be a contract made under and governed by the internal laws of the State of Illinois.

(d) Counterparts. This Amendment may be executed in any number of counterparts, and by the parties hereto on the same or separate counterparts, and each such counterpart, when executed and delivered, shall be deemed to be an original, but all such counterparts shall together constitute but one and the same Amendment.

10. Release.

(a) In consideration of the agreements of Agent and Lenders contained herein and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, each Company, on behalf of itself and its successors, assigns, and other legal representatives, hereby absolutely, unconditionally and irrevocably releases, remises and forever discharges Agent and Lenders, and their successors and assigns, and their present and former shareholders, affiliates, subsidiaries, divisions, predecessors, directors, officers, attorneys, employees, agents and other representatives (Agent, each Lender and all such other Persons being hereinafter referred to collectively as the "Releasees" and individually as a "Releasee"), of and from all demands, actions, causes of action, suits, covenants, contracts, controversies, agreements, promises, sums of money, accounts, bills, reckonings, damages and any and all other claims, counterclaims, defenses, rights of set-off, demands and liabilities whatsoever (individually, a "Claim" and collectively, "Claims") of every name and nature, known or unknown, suspected or unsuspected, both at law and in equity, which such Company or any of its successors, assigns, or other legal representatives may now or hereafter own, hold, have or claim to have against the Releasees or any of them for, upon, or by reason of any circumstance, action, cause or thing whatsoever which arises at any time on or prior to the day and date of this Amendment, including, without limitation, for or on account of, or in relation to, or in any way in connection with any of the Loan Agreement, or any of the other Loan Documents or transactions thereunder or related thereto.

(b) Each Company understands, acknowledges and agrees that the release set forth above may be pleaded as a full and complete defense and may be used as a basis for an injunction against any action, suit or other proceeding which may be instituted, prosecuted or attempted in breach of the provisions of such release.

(c) Each Company agrees that no fact, event, circumstance, evidence or transaction which could now be asserted or which may hereafter be discovered shall affect in any manner the final, absolute and unconditional nature of the release set forth above.

[signature pages follow]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed by their respective officers thereunto duly authorized and delivered as of the date first above written.

BORROWERS:

TELOS CORPORATION,
a Maryland corporation

By /s/ Michael P. Flaherty
Name Michael P. Flaherty
Title EVP, General Counsel, Chief Administrative Officer

XACTA CORPORATION,
a Delaware corporation

By /s/ Michael P. Flaherty
Name Michael P. Flaherty
Title Executive Vice President

CREDIT PARTIES:

TELOS DELAWARE, INC.,
a Delaware corporation

By /s/ Michael P. Flaherty
Name Michael P. Flaherty
Title Executive Vice President

UBIQUITY.COM, INC.,
a Delaware corporation

By /s/ Michael P. Flaherty
Name Michael P. Flaherty
Title Executive Vice President

TELOS INTERNATIONAL CORP.,
a Delaware corporation

By /s/ Michael P. Flaherty
Name Michael P. Flaherty
Title Executive Vice President

TELOS INTERNATIONAL ASIA, INC.,
a Delaware corporation

By /s/ Michael P. Flaherty
Name Michael P. Flaherty
Title Executive Vice President

SECURE TRADE, INC.,
a Delaware corporation

By /s/ Michael P. Flaherty
Name Michael P. Flaherty
Title Executive Vice President

TELOWORKS, INC.,
a Delaware corporation

By /s/ Richard Tracy
Name Richard Tracy
Title President

AGENT AND SOLE EXISTING LENDER:

WELLS FARGO FOOTHILL, INC. (formerly known as Foothill Capital Corporation)

By /s/ David Sanchez
Name David Sanchez
Title V.P.

Exhibit 10.24

AMENDMENT TO EMPLOYMENT AGREEMENT

THIS AMENDMENT TO EMPLOYMENT AGREEMENT ("AMENDMENT") is made and entered into as of the 11th day of December, 2008, by and between **Telos Corporation**, a Maryland corporation, for itself and its subsidiary companies, divisions, affiliates and operating entities (the "Company") and **John B. Wood** (the "Executive").

WITNESSETH THAT:

WHEREAS, the Company and the Executive entered into an Employment Agreement as of January 1, 2005 (the "Agreement");

WHEREAS, the Company and the Executive desire to make certain modifications to the Agreement to, inter alia, ensure compliance with the requirements of Section 409A of the Internal Revenue Code of 1986, as amended (the "Code");

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 to the following modifications to the Agreement:

1. Paragraph (c) of Section 2 is amended to read as follows:

(c) Stock Options and Restricted Stock Grants. The Executive shall be eligible for additional stock options and restricted stock grants under any of the Company's stock option and restricted stock plans in an amount determined by the Management Development and Compensation Committee, subject to approval by the Board of Directors, and which is commensurate with the level of option awards and stock grants made to other senior Executives of the Company. Such options and/or grants shall be subject to the terms and conditions of the applicable standard stock option and restricted stock plans and agreements adopted by the Company.

2. Paragraph (e) of Section 3 is amended to read as follows:

(e) Termination of Executive. The Executive may terminate his employment hereunder at any time for any reason by giving the Company prior written notice not less than 30 days prior to such termination.

3. A new Paragraph (h) is added to Section 3 to read as follows:

(h) Change in Control means an occasion upon which (i) any "person" (as such term is used in Section 13(d) and 14(d) of the Securities Exchange Act) other than a Director or other 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 (not including any period prior to the adoption of this Agreement), individuals who at the beginning of such period constitute the Board and any new Director (other than a Director designated by a person who has entered into an agreement with the Company to effect a transaction described in clauses (i) or (iii) of this Paragraph) whose election by the Board or nomination for election by the Company's shareholders was approved by a vote of at least a majority of the Directors then still in office who either were Directors at the beginning of the period or whose election or nomination for election was previously so approved, cease for any reason to constitute a majority thereof; or (iii) any of (a) the Company consummates a merger, consolidation, reorganization, recapitalization or statutory share exchange (a "Business Combination"), other than a Business Combination which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least 50% of the combined voting power and at least 50% of the combined total fair market value of the securities of the Company or such surviving entity outstanding immediately after such Business Combination, (b) the Company's shareholders approve a plan of complete liquidation of the Company, or (c) the Company completes the sale or other disposition of all or substantially all of its assets in one or a series of transactions.

4. Paragraph (a)(iii) of Section 4 is hereby amended by the addition thereto of the following new sentence:

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 of employment, shall be paid to Executive at such time and in such manner as if Executive had continued to be employed by the Company.

5. Paragraph (b) of Section 4 is hereby amended and restated in its entirety to read as follows:

(b) If the Company terminates the Executive without Cause, or due to Disability, or due to death, or after a Change in Control the Executive incurs a termination of employment, voluntary or involuntary, for any reason, then in addition to the amounts payable under the preceding paragraphs, the Executive shall be entitled to:

(i) Payments over a 24-month period of an amount equal to the amount of monthly salary which the Executive was being paid as of the date of the Executive's termination of employment. 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. Such payments will continue over

the 24-month period in accordance with the Company's normal payroll cycle. In the event that the Executive dies prior to the completion of the 24-month payment cycle, any amounts remaining unpaid as of the date of Executive's death will be paid to Executive's estate until the completion of the 24-month payment cycle. In the event that Executive's employment with the Company is terminated due to Executive's death, all payments to be made in connection with the 24-month payment cycle will be paid to Executive's estate.

(ii) Immediate vesting of the unvested portion of any outstanding stock option and any outstanding share of restricted stock, notwithstanding any contrary terms in any restricted stock agreement applicable to Executive.

(iii) Continued coverage under the medical, dental, short and long-term disability, life, and other similar non-retirement benefit programs for the 18-month period listed above, as if Executive was still employed by the Company. If pursuant to the terms and conditions of such benefit programs, such continued coverage cannot be provided, Executive shall be entitled to payment of the cash equivalent of such benefits as if the Executive was still a plan participant. Notwithstanding the above, during the above-referenced 18-month period, the Company will also pay to Executive (or to Executive's estate, as the case may be), a periodic amount representing the cash equivalent of 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 IRC Section 401(k) program maintained by the Company with respect to such 18-month period under the following assumptions:

(a) Executive would have made a voluntary salary reduction contribution to the IRC Section 401(k) program with respect to the 24-month payments based upon the salary reduction election in effect on behalf of the Executive as of the date of Executive's termination of employment.

(b) No additional "constructive matching" payments will be made under this provision in respect of a calendar year once the combination of the actual matching contributions made on behalf of Executive to the IRC 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 allocated to Executive's account under the terms of the IRC Section 401(k) program with respect to such calendar year.

(c) The "constructive matching" payments will be made at such times as the Company remits the actual matching contributions to the IRC Section 401(k) program.

6. A new Paragraph (c) is added to Section 4 to read as follows:

(c) 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 Sections 5, 6 and 7. Should the Company determine that the Executive has committed an infraction of any component of Section 5, Section 6, or Section 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.

7. A new Paragraph (d) is added to Section 4 to read as follows:

(d) 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 Section b(i) and payment of any cash amounts pursuant to Section 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 24-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).

8. Except to the extent otherwise specifically amended above, the terms and conditions of the Agreement remain in full force and effect.

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

/s/ John B. Wood
John B. Wood
Chief Executive Officer

TELOS CORPORATION, a Maryland Corporation

By: /s/ William M. Dvoranchik
Name: William M. Dvoranchik

Exhibit 10.25

AMENDMENT TO EMPLOYMENT AGREEMENT

THIS AMENDMENT TO EMPLOYMENT AGREEMENT ("AMENDMENT") is made and entered into as of the 11th day of December, 2008, by and between **Telos Corporation**, a Maryland corporation, for itself and its subsidiary companies, divisions, affiliates and operating entities (the "Company") and **Michele Nakazawa** (the "Executive").

WITNESSETH THAT:

WHEREAS, the Company and the Executive entered into an Employment Agreement as of October 15, 2005 (the "Agreement");

WHEREAS, the Company and the Executive desire to make certain modifications to the Agreement to, inter alia, ensure compliance with the requirements of Section 409A of the Internal Revenue Code of 1986, as amended (the "Code");

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 to the following modifications to the Agreement:

1. Paragraph (c) of Section 2 is amended to read as follows:

(c) Stock Options and Restricted Stock Grants. The Executive shall be eligible for additional stock options and restricted stock grants under any of the Company's stock option and restricted stock plans in an amount determined by the Management Development and Compensation Committee, subject to approval by the Board of Directors, and which is commensurate with the level of option awards and stock grants made to other senior Executives of the Company. Such options and/or grants shall be subject to the terms and conditions of the applicable standard stock option and restricted stock plans and agreements adopted by the Company

2. Paragraph (e) of Section 3 is amended to read as follows:

(e) Termination of Executive. The Executive may terminate his employment hereunder at any time for any reason by giving the Company prior written notice not less than 30 days prior to such termination.

3. A new Paragraph (h) is added to Section 3 to read as follows:

(h) Change in Control means an occasion upon which (i) any "person" (as such term is used in Section 13(d) and 14(d) of the Securities Exchange Act) other than a Director or other 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 (not including any period prior to the adoption of this Agreement), individuals who at the beginning of such period constitute the Board and any new Director (other than a Director designated by a person who has entered into an agreement with the Company to effect a transaction described in clauses (i) or (iii) of this Paragraph) whose election by the Board or nomination for election by the Company's shareholders was approved by a vote of at least a majority of the Directors then still in office who either were Directors at the beginning of the period or whose election or nomination for election was previously so approved, cease for any reason to constitute a majority thereof; or (iii) any of (a) the Company consummates a merger, consolidation, reorganization, recapitalization or statutory share exchange (a "Business Combination"), other than a Business Combination which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least 50% of the combined voting power and at least 50% of the combined total fair market value of the securities of the Company or such surviving entity outstanding immediately after such Business Combination, (b) the Company's shareholders approve a plan of complete liquidation of the Company, or (c) the Company completes the sale or other disposition of all or substantially all of its assets in one or a series of transactions.

4. Paragraph (a)(iii) of Section 4 is hereby amended by the addition thereto of the following new sentence:

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 of employment, shall be paid to Executive at such time and in such manner as if Executive had continued to be employed by the Company.

5. Paragraph (b) of Section 4 is hereby amended and restated in its entirety to read as follows:

(b) If the Company terminates the Executive without Cause, or due to Disability, or due to death or after a Change in Control the Executive incurs a termination of employment, voluntary or involuntary, for any reason, then in addition to the amounts payable under the preceding paragraphs, the Executive shall be entitled to:

(i) Payments over an 18-month period of an amount equal to the amount of monthly salary which the Executive was being paid as of the date of the Executive's termination of employment. 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. Such payments will continue over

the 18-month period in accordance with the Company's normal payroll cycle. In the event that the Executive dies prior to the completion of the 18-month payment cycle, any amounts remaining unpaid as of the date of Executive's death will be paid to Executive's estate until the completion of the 18-month payment cycle. In the event that Executive's employment with the Company is terminated due to Executive's death, all payments to be made in connection with the 18-month payment cycle will be paid to Executive's estate.

(ii) Immediate vesting of the unvested portion of any outstanding stock option and any outstanding share of restricted stock, notwithstanding any contrary terms in any restricted stock agreement applicable to Executive.

(iii) Continued coverage under the medical, dental, short and long-term disability, life, and other similar non-retirement benefit programs for the 18-month period listed above, as if Executive was still employed by the Company. If pursuant to the terms and conditions of such benefit programs, such continued coverage cannot be provided, Executive shall be entitled to payment of the cash equivalent of such benefits as if the Executive was still a plan participant. Notwithstanding the above, during the above-referenced 18-month period, the Company will also pay to Executive (or to Executive's estate, as the case may be), a periodic amount representing the cash equivalent of 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 IRC Section 401(k) program maintained by the Company with respect to such 18-month period under the following assumptions:

(a) Executive would have made a voluntary salary reduction contribution to the IRC Section 401(k) program with respect to the 18-month payments based upon the salary reduction election in effect on behalf of the Executive as of the date of Executive's termination of employment.

(b) No additional "constructive matching" payments will be made under this provision in respect of a calendar year once the combination of the actual matching contributions made on behalf of Executive to the IRC 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 allocated to Executive's account under the terms of the IRC Section 401(k) program with respect to such calendar year.

(c) The "constructive matching" payments will be made at such times as the Company remits the actual matching contributions to the IRC Section 401(k) program.

6. A new Paragraph (c) is added to Section 4 to read as follows:

(c) 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 Sections 5, 6 and 7. Should the Company determine that the Executive has committed an infraction of any component of Section 5, Section 6 or Section 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.

7. A new Paragraph (d) is added to Section 4 to read as follows:

(d) 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 Section b(i) and payment of any cash amounts pursuant to Section 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 18-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).

8. Except to the extent otherwise specifically amended above, the terms and conditions of the Agreement remain in full force and effect.

IN WITNESS WHEREOF, the Executive has hereunto set her 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

/s/ Michele Nakazawa
Michele Nakazawa
Chief Financial Officer

TELOS CORPORATION, a Maryland Corporation

By: /s/ John B. Wood
John B. Wood
Chief Executive Officer

Exhibit 10.26

AMENDMENT TO EMPLOYMENT AGREEMENT

THIS AMENDMENT TO EMPLOYMENT AGREEMENT ("AMENDMENT") is made and entered into as of the 11th day of December, 2008, by and between **Telos Corporation**, a Maryland corporation, for itself and its subsidiary companies, divisions, affiliates and operating entities (the "Company") and **Michael P. Flaherty** (the "Executive").

WITNESSETH THAT:

WHEREAS, the Company and the Executive entered into an Employment Agreement as of January 1, 2004 (the "Agreement");

WHEREAS, the Company and the Executive desire to make certain modifications to the Agreement to, inter alia, ensure compliance with the requirements of Section 409A of the Internal Revenue Code of 1986, as amended (the "Code");

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 to the following modifications to the Agreement:

1. Paragraph (c) of Section 2 is amended to read as follows:

(c) Stock Options and Restricted Stock Grants. The Executive shall be eligible for additional stock options and restricted stock grants under any of the Company's stock option and restricted stock plans in an amount determined by the Management Development and Compensation Committee, subject to approval by the Board of Directors, and which is commensurate with the level of option awards and stock grants made to other senior Executives of the Company. Such options and/or grants shall be subject to the terms and conditions of the applicable standard stock option and restricted stock plans and agreements adopted by the Company.

2. Paragraph (e) of Section 3 is amended to read as follows:

(e) Termination of Executive. The Executive may terminate his employment hereunder at any time for any reason by giving the Company prior written notice not less than 30 days prior to such termination.

3. A new Paragraph (h) is added to Section 3 to read as follows:

(h) Change in Control means an occasion upon which (i) any "person" (as such term is used in Section 13(d) and 14(d) of the Securities Exchange Act) other than a Director or other 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 (not including any period prior to the adoption of this Agreement), individuals who at the beginning of such period constitute the Board and any new Director (other than a Director designated by a person who has entered into an agreement with the Company to effect a transaction described in clauses (i) or (iii) of this Paragraph) whose election by the Board or nomination for election by the Company's shareholders was approved by a vote of at least a majority of the Directors then still in office who either were Directors at the beginning of the period or whose election or nomination for election was previously so approved, cease for any reason to constitute a majority thereof; or (iii) any of (a) the Company consummates a merger, consolidation, reorganization, recapitalization or statutory share exchange (a "Business Combination"), other than a Business Combination which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least 50% of the combined voting power and at least 50% of the combined total fair market value of the securities of the Company or such surviving entity outstanding immediately after such Business Combination, (b) the Company's shareholders approve a plan of complete liquidation of the Company, or (c) the Company completes the sale or other disposition of all or substantially all of its assets in one or a series of transactions.

4. Paragraph (a)(iii) of Section 4 is hereby amended by the addition thereto of the following new sentence:

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 of employment, shall be paid to Executive at such time and in such manner as if Executive had continued to be employed by the Company.

5. Paragraph (b) of Section 4 is hereby amended and restated in its entirety to read as follows:

(b) If the Company terminates the Executive without Cause, or due to Disability, or due to death or after a Change in Control the Executive incurs a termination of employment, voluntary or involuntary, for any reason, then in addition to the amounts payable under the preceding paragraphs, the Executive shall be entitled to:

(i) Payments over an 18-month period of an amount equal to the amount of monthly salary which the Executive was being paid as of the date of the Executive's termination of employment. 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. Such payments will continue over

the 18-month period in accordance with the Company's normal payroll cycle. In the event that the Executive dies prior to the completion of the 18-month payment cycle, any amounts remaining unpaid as of the date of Executive's death will be paid to Executive's estate until the completion of the 18-month payment cycle. In the event that Executive's employment with the Company is terminated due to Executive's death, all payments to be made in connection with the 18-month payment cycle will be paid to Executive's estate.

(ii) Immediate vesting of the unvested portion of any outstanding stock option and any outstanding share of restricted stock, notwithstanding any contrary terms in any restricted stock agreement applicable to Executive.

(iii) Continued coverage under the medical, dental, short and long-term disability, life, and other similar non-retirement benefit programs for the 18-month period listed above, as if Executive was still employed by the Company. If pursuant to the terms and conditions of such benefit programs, such continued coverage cannot be provided, Executive shall be entitled to payment of the cash equivalent of such benefits as if the Executive was still a plan participant. Notwithstanding the above, during the above-referenced 18-month period, the Company will also pay to Executive (or to Executive's estate, as the case may be), a periodic amount representing the cash equivalent of 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 IRC Section 401(k) program maintained by the Company with respect to such 18-month period under the following assumptions:

(a) Executive would have made a voluntary salary reduction contribution to the IRC Section 401(k) program with respect to the 18-month payments based upon the salary reduction election in effect on behalf of the Executive as of the date of Executive's termination of employment.

(b) No additional "constructive matching" payments will be made under this provision in respect of a calendar year once the combination of the actual matching contributions made on behalf of Executive to the IRC 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 allocated to Executive's account under the terms of the IRC Section 401(k) program with respect to such calendar year.

(c) The "constructive matching" payments will be made at such times as the Company remits the actual matching contributions to the IRC Section 401(k) program.

6. A new Paragraph (c) is added to Section 4 to read as follows:

(c) 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 Sections 5, 6 and 7. Should the Company determine that the Executive has committed an infraction of any component of Section 5, Section 6 or Section 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.

7. A new Paragraph (d) is added to Section 4 to read as follows:

(d) 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 Section b(i) and payment of any cash amounts pursuant to Section 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 18-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).

8. Except to the extent otherwise specifically amended above, the terms and conditions of the Agreement remain in full force and effect.

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

/s/ Michael P. Flaherty
Michael P. Flaherty
Executive VP, General Counsel, Chief Administrative Officer

TELOS CORPORATION, a Maryland Corporation

By: /s/ John B. Wood
John B. Wood
Chief Executive Officer

Exhibit 10.27

AMENDMENT TO EMPLOYMENT AGREEMENT

THIS AMENDMENT TO EMPLOYMENT AGREEMENT ("AMENDMENT") is made and entered into as of the 11th day of December, 2008, by and between **Telos Corporation**, a Maryland corporation, for itself and its subsidiary companies, divisions, affiliates and operating entities (the "Company") and **Edward L. Williams** (the "Executive").

WITNESSETH THAT:

WHEREAS, the Company and the Executive entered into an Employment Agreement as of January 1, 2004 (the "Agreement");

WHEREAS, the Company and the Executive desire to make certain modifications to the Agreement to, inter alia, ensure compliance with the requirements of Section 409A of the Internal Revenue Code of 1986, as amended (the "Code");

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 to the following modifications to the Agreement:

1. Paragraph (c) of Section 2 is amended to read as follows:

(c) Stock Options and Restricted Stock Grants. The Executive shall be eligible for additional stock options and restricted stock grants under any of the Company's stock option and restricted stock plans in an amount determined by the Management Development and Compensation Committee, subject to approval by the Board of Directors, and which is commensurate with the level of option awards and stock grants made to other senior Executives of the Company. Such options and/or grants shall be subject to the terms and conditions of the applicable standard stock option and restricted stock plans and agreements adopted by the Company.

2. Paragraph (e) of Section 3 is amended to read as follows:

(e) Termination of Executive. The Executive may terminate his employment hereunder at any time for any reason by giving the Company prior written notice not less than 30 days prior to such termination.

3. A new Paragraph (h) is added to Section 3 to read as follows:

(h) Change in Control means an occasion upon which (i) any "person" (as such term is used in Section 13(d) and 14(d) of the Securities Exchange Act) other than a Director or other 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 (not including any period prior to the adoption of this Agreement), individuals who at the beginning of such period constitute the Board and any new Director (other than a Director designated by a person who has entered into an agreement with the Company to effect a transaction described in clauses (i) or (iii) of this Paragraph) whose election by the Board or nomination for election by the Company's shareholders was approved by a vote of at least a majority of the Directors then still in office who either were Directors at the beginning of the period or whose election or nomination for election was previously so approved, cease for any reason to constitute a majority thereof; or (iii) any of (a) the Company consummates a merger, consolidation, reorganization, recapitalization or statutory share exchange (a "Business Combination"), other than a Business Combination which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least 50% of the combined voting power and at least 50% of the combined total fair market value of the securities of the Company or such surviving entity outstanding immediately after such Business Combination, (b) the Company's shareholders approve a plan of complete liquidation of the Company, or (c) the Company completes the sale or other disposition of all or substantially all of its assets in one or a series of transactions.

4. Paragraph (a)(iii) of Section 4 is hereby amended by the addition thereto of the following new sentence:

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 of employment, shall be paid to Executive at such time and in such manner as if Executive had continued to be employed by the Company.

5. Paragraph (b) of Section 4 is hereby amended and restated in its entirety to read as follows:

(b) If the Company terminates the Executive without Cause, or due to Disability, or due to death or after a Change in Control the Executive incurs a termination of employment, voluntary or involuntary, for any reason, then in addition to the amounts payable under the preceding paragraphs, the Executive shall be entitled to:

(i) Payments over an 18-month period of an amount equal to the amount of monthly salary which the Executive was being paid as of the date of the Executive's termination of employment. 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. Such payments will continue over

the 18-month period in accordance with the Company's normal payroll cycle. In the event that the Executive dies prior to the completion of the 18-month payment cycle, any amounts remaining unpaid as of the date of Executive's death will be paid to Executive's estate until the completion of the 18-month payment cycle. In the event that Executive's employment with the Company is terminated due to Executive's death, all payments to be made in connection with the 18-month payment cycle will be paid to Executive's estate.

(ii) Immediate vesting of the unvested portion of any outstanding stock option and any outstanding share of restricted stock, notwithstanding any contrary terms in any restricted stock agreement applicable to Executive.

(iii) Continued coverage under the medical, dental, short and long-term disability, life and other similar non-retirement benefit programs for the 18 month period listed above, as if Executive was still employed by the Company. If pursuant to the terms and conditions of such benefit programs, such continued coverage cannot be provided, Executive shall be entitled to payment of the cash equivalent of such benefits. Notwithstanding the above, during the above-referenced 18-month period, the Company will also pay to Executive (or to Executive's estate, as the case may be), a periodic amount representing the amount of the employer matching contribution that would otherwise have been contributed on Executive's behalf to the IRC Section 401(k) program maintained by the Company with respect to such 18-month period under the following assumptions:

(a) Executive would have made a voluntary salary reduction contribution to the IRC Section 401(k) program with respect to the 18-month payments based upon the salary reduction election in effect on behalf of the Executive as of the date of Executive's termination of employment.

(b) No additional "constructive matching" payments will be made under this provision in respect of a calendar year once the combination of the actual matching contributions made on behalf of Executive to the IRC 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 allocated to Executive's account under the terms of the IRC Section 401(k) program with respect to such calendar year.

(c) The "constructive matching" payments will be made at such times as the Company remits the actual matching contributions to the IRC Section 401(k) program.

6. A new Paragraph (c) is added to Section 4 to read as follows:

(c) 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 Sections 5, 6 and 7. Should the

Company determine that the Executive has committed an infraction of any component of Section 5, Section 6 or Section 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.

7. A new Paragraph (d) is added to Section 4 to read as follows:

(d) 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 Section b(i) and payment of any cash amounts pursuant to Section 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 18-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).

8. Except to the extent otherwise specifically amended above, the terms and conditions of the Agreement remain in full force and effect.

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

/s/ Edward L. Williams
Edward L. Williams
Chief Operating Officer

TELOS CORPORATION, a Maryland Corporation

By: /s/ John B. Wood
John B. Wood
Chief Executive Officer

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT ("Agreement") is made and entered into as of this 11th day of December, 2008 by and between **Telos Corporation**, a Maryland corporation, for itself and its subsidiary companies, divisions, affiliates and operating entities (the "Company") and **Robert J. Marino** (the "Executive").

WITNESSETH THAT:

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 Executive Vice President, Special Projects during the Agreement Term (as defined below).

(b) During the Agreement Term, the Executive shall devote full time (reasonable sick leave and vacations excepted) and best efforts, energies and talents to serving the Company.

(c) The Executive agrees to perform his duties faithfully and efficiently 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.

(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 determined as Disabled (as defined below).

(f) The "Agreement Term" shall be the period beginning on December 11, 2008, 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. During the Agreement Term the Executive shall receive an annual base salary of no less than $236,178 (the "Salary"), payable in accordance with the Company's payroll cycle.

(b) Annual Bonus. The Company shall provide to the Executive an annual bonus opportunity, based upon the Company's annual bonus plan, and performance achievements of the Company and of the Executive. Any annual bonus for the Executive in each fiscal year shall be determined by the Management Development and Compensation Committee, subject to approval by the Board of Directors, and shall be based upon the annual bonus plan actual performance achieved by the Company and by the Executive in such fiscal year as compared with the planned/expected performance of the Company and the Executive for such fiscal year. Any such annual bonus shall be paid to the Executive as soon as practicable following its approval.

(c) Stock Options and Restricted Stock Grants. The Executive shall be eligible for additional stock options and restricted stock grants under any of the Company's stock option and restricted stock plans in an amount determined by the Management Development and Compensation Committee, subject to approval by the Board of Directors, and which is commensurate with the level of option awards and stock grants made to other senior Executives of the Company. Such options and/or grants shall be subject to the terms and conditions of the applicable standard stock option and restricted stock plans and agreements adopted by the Company.

(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) Vacation. While the Agreement is in effect, in each fiscal year of the Company, the Executive shall be entitled to 6 weeks paid vacation time, which vacation shall be cumulative from year to year until corporate maximum occurs.

(f) 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 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.

3. Termination. The Executive's employment with the Company pursuant to this Agreement may terminate under the following circumstances.

(a) Death. The Executive's employment hereunder shall terminate upon his 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 Executive 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 Corporation; 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 by written notice to the Executive.

(e) Termination of Executive. The Executive may terminate his employment hereunder at any time for any reason by giving the Company prior written notice not less than 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) 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.

(h) Change in Control means an occasion upon which (i) any "person" (as such term is used in Section 13(d) and 14(d) of the Securities Exchange Act) other than a Director or other 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 (not including any period prior to the adoption of this Agreement), individuals who at the beginning of such period constitute the Board and any new Director (other than a Director designated by a person who has entered into

an agreement with the Company to effect a transaction described in clauses (i) or (iii) of this Paragraph) whose election by the Board or nomination for election by the Company's shareholders was approved by a vote of at least a majority of the Directors then still in office who either were Directors at the beginning of the period or whose election or nomination for election was previously so approved, cease for any reason to constitute a majority thereof; or (iii) any of (a) the Company consummates a merger, consolidation, reorganization, recapitalization or statutory share exchange (a "Business Combination"), other than a Business Combination which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least 50% of the combined voting power and at least 50% of the combined total fair market value of the securities of the Company or such surviving entity outstanding immediately after such Business Combination, (b) the Company's shareholders approve a plan of complete liquidation of the Company, or (c) the Company completes the sale or other disposition of all or substantially all of its assets in one or a series of transactions.

4. Rights Upon Termination. The Executive's right to payments and benefits under this Agreement for periods after his Date of Termination shall be determined in accordance with the following:

(a) If the Executive's Date of Termination occurs for Cause, or if the Executive terminates the Agreement in accordance with paragraph 3(e) above, 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 Executive 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 of employment, 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 without Cause, or due to Disability, or due to death, or after a Change in Control the Executive incurs a termination of employment, voluntary or involuntary, for any reason, then in addition to the amounts payable under the preceding paragraphs, the Executive shall be entitled to:

(i) Payments over a 3-month period of an amount equal to the amount of monthly salary which the Executive was being paid as of the date of the Executive's

termination of employment. 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. Such payments will continue over the 3-month period in accordance with the Company's normal payroll cycle. In the event that the Executive dies prior to the completion of the 3-month payment cycle, any amounts remaining unpaid as of the date of Executive's death will be paid to Executive's estate until the completion of the 3-month payment cycle. In the event that Executive's employment with the Company is terminated due to Executive's death, all payments to be made in connection with the 3-month payment cycle will be paid to Executive's estate.

(ii) Immediate vesting of the unvested portion of any outstanding stock option and any outstanding share of restricted stock, notwithstanding any contrary terms in any restricted stock agreement applicable to Executive.

(iii) Continued coverage under the medical, dental, short and long-term disability, life, and other similar non-retirement benefit programs for the 18-month period listed above, as if Executive was still employed by the Company. If pursuant to the terms and conditions of such benefit programs, such continued coverage cannot be provided, Executive shall be entitled to payment of the cash equivalent of such benefits as if the Executive was still a plan participant. Notwithstanding the above, during the above-referenced 18-month period, the Company will also pay to Executive (or to Executive's estate, as the case may be), a periodic amount representing the cash equivalent of 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 IRC Section 401(k) program maintained by the Company with respect to such 18-month period under the following assumptions:

(a) Executive would have made a voluntary salary reduction contribution to the IRC Section 401(k) program with respect to the 3-month payments based upon the salary reduction election in effect on behalf of the Executive as of the date of Executive's termination of employment.

(b) No additional "constructive matching" payments will be made under this provision in respect of a calendar year once the combination of the actual matching contributions made on behalf of Executive to the IRC 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 allocated to Executive's account under the terms of the IRC Section 401(k) program with respect to such calendar year.

(c) The "constructive matching" payments will be made at such times as the Company remits the actual matching contributions to the IRC Section 401(k) program.

(c) 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 Sections 5, 6 and 7. Should the Company determine that the Executive has committed an infraction of any component of Section 5, Section 6 or Section 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.

(d) 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 Section b(i) and payment of any cash amounts pursuant to Section 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 3-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).

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 and integration solutions and services to customers in the United States government and industry (the "Business"), (ii) be employed by, or serve as an Executive, 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, Executive, 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 Company 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 Executives to provide services in accordance with the Company’s Business and that the Company will disclose Confidential Information to each such Executive. 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 Executive 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 12 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 sections 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 asses the monetary damages occurred by Executive's violation of sections 6, 7 or 8 of this Agreement, that violations of those sections 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 in joining 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 section 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. 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, Executive lists, telephone and/or address books, Rolodex or equivalent cards, memoranda, appointment books, calendars, Executive 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.

10. 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.

11. 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.

12. 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: Robert J. Marino
5910 SE Oakmont Place
Stuart, FL 34997-8636

13. 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).

14. 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.

15. 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.

16. 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.

17. 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.

18. 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.

19. 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.

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

/s/ Robert J. Marino
Robert J. Marino
Executive

TELOS CORPORATION,
a Maryland corporation

By: /s/ John B. Wood
John B. Wood
Chief Executive Officer

Exhibit 10.29

WAIVER UNDER AMENDED AND RESTATED LOAN AND SECURITY AGREEMENT

THIS WAIVER UNDER AMENDED AND RESTATED LOAN AND SECURITY AGREEMENT (this "Waiver") is entered into as of August 25, 2008, by and among **TELOS CORPORATION**, a Maryland corporation ("Parent"), **XACTA CORPORATION**, a Delaware corporation ("Xacta"; Parent and Xacta are referred to hereinafter each individually as a "Borrower", and individually and collectively, jointly and severally, as the "Borrowers"), **TELOS DELAWARE, INC.**, a Delaware corporation ("Telos-Delaware"), **UBIQUITY.COM, INC.**, a Delaware corporation ("Ubiquity"), **TELOS INTERNATIONAL CORP.**, a Delaware corporation ("TIC"), **TELOS INTERNATIONAL ASIA, INC.**, a Delaware corporation ("TIA"), **SECURE TRADE, INC.**, a Delaware corporation ("STI") and **TELOWORKS, INC.**, a Delaware corporation ("Teloworks"; Telos-Delaware, Ubiquity, TIC, TIA, STI and Teloworks are referred to hereinafter each individually as a "Credit Party" and collectively, jointly and severally, as the "Credit Parties"), and **WELLS FARGO FOOTHILL, INC.** (formerly known as Foothill Capital Corporation), as agent ("Agent") for the Lenders (defined below) and as a Lender.

WHEREAS, Borrowers, Credit Parties, Agent and certain other financial institutions from time to time party thereto (the "Lenders") are parties to that certain Amended and Restated Loan and Security Agreement dated as of April 3, 2008, but effective as of March 31, 2008 (as amended from time to time, the "Loan Agreement");

WHEREAS, Borrowers and Credit Parties have notified Agent that an Event of Default exists under Section 8.2 of the Loan Agreement due to the failure of the Companies to deliver audited financial statements and a certificate of accountants related thereto for the fiscal year of Parent ending December 31, 2007 (the "2007 Audit") as required by Section 6.3(b) of the Loan Agreement within 105 days after the end of such fiscal year (the "Audit Default");

WHEREAS, Borrowers and Credit Parties have requested that Agent and Required Lenders waive the Audit Default; and

WHEREAS, Agent and Required Lenders are willing to waive the Audit Default on and subject to the terms and conditions set forth herein; and

NOW THEREFORE, in consideration of the premises and mutual agreements herein contained, the parties hereto agree as follows:

1. Defined Terms. Unless otherwise defined herein, capitalized terms used herein shall have the meanings ascribed to such terms in the Loan Agreement.

2. Waiver. Subject to the satisfaction of the conditions set forth in Section 4 hereof, and in reliance upon the representations and warranties contained herein, Agent and Required Lenders hereby waive the Audit Default, provided that the waiver of the Audit Default is conditioned upon the delivery of the 2007 Audit and a certificate of accountants related thereto to Agent on or before October 31, 2008. This is a limited waiver and shall not

be deemed to constitute a waiver of, or consent to, any other existing or future breach of the Loan Agreement or any other Loan Document, including, without limitation, the failure of the Companies to deliver to Agent the 2007 Audit and a certificate of accountants related thereto on or prior to October 31, 2008, the formation of Teloworks BPO Solutions Philippines Inc. as a Subsidiary of Teloworks after the Closing Date in violation of Section 7.3(d) of the Loan Agreement (the "Subsidiary Default"), and Investments made by the Companies in Teloworks BPO Solutions Philippines Inc in violation of Sections 7.13 and 7.14 of the Loan Agreement (the "Philippines Investment Default").

3. Ratification. This Waiver, subject to satisfaction of the conditions provided below, shall constitute an amendment to the Loan Agreement and all of the Loan Documents as appropriate to express the agreements contained herein. Except as specifically set forth herein, the Loan Agreement and the Loan Documents shall remain unchanged and in full force and effect in accordance with their original terms.

4. Conditions to Effectiveness. This Waiver shall become effective upon the satisfaction of the following conditions precedent:

(a) Each party hereto shall have executed and delivered this Waiver to Agent;

(b) Agent shall have received the fee described in Section 5 hereof;

(c) Borrowers shall have delivered to Agent such documents, agreements and instruments as may be requested or required by Agent in connection with this Waiver, each in form and content acceptable to Agent;

(d) No Default or Event of Default other than the Subsidiary Default and the Investment Default shall have occurred and be continuing on the date hereof or as of the date of the effectiveness of this Waiver; and

(e) All proceedings taken in connection with the transactions contemplated by this Waiver and all documents, instruments and other legal matters incident thereto shall be satisfactory to Agent and its legal counsel.

5. Waiver Fee. To induce Agent and Lenders to enter into this Waiver, Borrowers shall pay to Agent, for the benefit of Lenders, a non-refundable fee equal to $30,000, which shall be due and payable on the date hereof.

6. Miscellaneous.

(a) Warranties and Absence of Defaults. To induce Agent and Lenders to enter into this Waiver, each Company hereby represents and warrants to Agent and Lenders that:

(i) The execution, delivery and performance by it of this Waiver and each of the other agreements, instruments and documents contemplated hereby are within

its corporate power, have been duly authorized by all necessary corporate action, have received all necessary governmental approval (if any shall be required), and do not and will not contravene or conflict with any provision of law applicable to it, its articles of incorporation and by-laws, any order, judgment or decree of any court or governmental agency, or any agreement, instrument or document binding upon it or any of its property;

(ii) Each of the Loan Agreement and the other Loan Documents, as amended by this Waiver, are the legal, valid and binding obligation of it enforceable against it in accordance with its terms, except as the enforcement thereof may be subject to (A) the effect of any applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditor's rights generally, and (B) general principles of equity;

(iii) The representations and warranties contained in the Loan Agreement and the other Loan Documents are true and accurate as of the date hereof with the same force and effect as if such had been made on and as of the date hereof; and

(iv) It has performed all of its obligations under the Loan Agreement and the Loan Documents to be performed by it on or before the date hereof and as of the date hereof, it is in compliance with all applicable terms and provisions of the Loan Agreement and each of the Loan Documents to be observed and performed by it and no Event of Default or other event which upon notice or lapse of time or both would constitute an Event of Default has occurred other than the Subsidiary Default and the Investment Default.

(b) Expenses. Companies, jointly and severally, agree to pay on demand all costs and expenses of Agent (including the reasonable fees and expenses of outside counsel for Agent) in connection with the preparation, negotiation, execution, delivery and administration of this Waiver and all other instruments or documents provided for herein or delivered or to be delivered hereunder or in connection herewith. In addition, Companies agree, jointly and severally, to pay, and save Agent harmless from all liability for, any stamp or other taxes which may be payable in connection with the execution or delivery of this Waiver or the Loan Agreement, as amended hereby, and the execution and delivery of any instruments or documents provided for herein or delivered or to be delivered hereunder or in connection herewith. All obligations provided herein shall survive any termination of the Loan Agreement as amended hereby.

(c) Governing Law. This Waiver shall be a contract made under and governed by the internal laws of the State of Illinois.

(d) Counterparts. This Waiver may be executed in any number of counterparts, and by the parties hereto on the same or separate counterparts, and each such counterpart, when executed and delivered, shall be deemed to be an original, but all such counterparts shall together constitute but one and the same Waiver.

7. Release.

(a) In consideration of the agreements of Agent and Lenders contained herein and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, each Company, on behalf of itself and its successors, assigns, and other legal representatives, hereby absolutely, unconditionally and irrevocably releases, remises and forever discharges Agent and Lenders, and their successors and assigns, and their present and former shareholders, affiliates, subsidiaries, divisions, predecessors, directors, officers, attorneys, employees, agents and other representatives (Agent, each Lender and all such other Persons being hereinafter referred to collectively as the "Releasees" and individually as a "Releasee"), of and from all demands, actions, causes of action, suits, covenants, contracts, controversies, agreements, promises, sums of money, accounts, bills, reckonings, damages and any and all other claims, counterclaims, defenses, rights of set-off, demands and liabilities whatsoever (individually, a "Claim" and collectively, "Claims") of every name and nature, known or unknown, suspected or unsuspected, both at law and in equity, which such Company or any of its successors, assigns, or other legal representatives may now or hereafter own, hold, have or claim to have against the Releasees or any of them for, upon, or by reason of any circumstance, action, cause or thing whatsoever which arises at any time on or prior to the day and date of this Waiver, including, without limitation, for or on account of, or in relation to, or in any way in connection with any of the Loan Agreement, or any of the other Loan Documents or transactions thereunder or related thereto.

(b) Each Company understands, acknowledges and agrees that the release set forth above may be pleaded as a full and complete defense and may be used as a basis for an injunction against any action, suit or other proceeding which may be instituted, prosecuted or attempted in breach of the provisions of such release.

(c) Each Company agrees that no fact, event, circumstance, evidence or transaction which could now be asserted or which may hereafter be discovered shall affect in any manner the final, absolute and unconditional nature of the release set forth above.

[signature pages follow]

IN WITNESS WHEREOF, the parties hereto have caused this Waiver to be executed by their respective officers thereunto duly authorized and delivered as of the date first above written.

BORROWERS:

TELOS CORPORATION,
a Maryland corporation

By /s/ Michael P. Flaherty
Michael P. Flaherty
EVP, General Counsel, Chief Administrative Officer

XACTA CORPORATION,
a Delaware corporation

By /s/ Michael P. Flaherty
Michael P. Flaherty
Executive Vice President

CREDIT PARTIES:

TELOS DELAWARE, INC.,
a Delaware corporation

By /s/ Michael P. Flaherty
Michael P. Flaherty
Executive Vice President

UBIQUITY.COM, INC.,
a Delaware corporation

By /s/ Michael P. Flaherty
Michael P. Flaherty
Executive Vice President

TELOS INTERNATIONAL CORP.,
a Delaware corporation

By /s/ Michael P. Flaherty
Michael P. Flaherty
Executive Vice President

TELOS INTERNATIONAL ASIA, INC.,
a Delaware corporation

By /s/ Michael P. Flaherty
Michael P. Flaherty
Executive Vice President

SECURE TRADE, INC.,
a Delaware corporation

By /s/ Michael P. Flaherty
Michael P. Flaherty
Executive Vice President

TELOWORKS, INC.,
a Delaware corporation

By /s/ Michael P. Flaherty
Michael P. Flaherty
President

AGENT AND SOLE EXISTING LENDER:

WELLS FARGO FOOTHILL, INC. (formerly known as Foothill Capital Corporation)

By /s/ David Sanchez
Name David Sanchez
Title Vice President

Exhibit 10.30

WAIVER UNDER AMENDED AND RESTATED LOAN AND SECURITY AGREEMENT

THIS WAIVER UNDER AMENDED AND RESTATED LOAN AND SECURITY AGREEMENT (this "Waiver") is entered into as of December 12, 2008, by and among **TELOS CORPORATION**, a Maryland corporation ("Parent"), **XACTA CORPORATION**, a Delaware corporation ("Xacta"; Parent and Xacta are referred to hereinafter each individually as a "Borrower", and individually and collectively, jointly and severally, as the "Borrowers"), **TELOS DELAWARE, INC.**, a Delaware corporation ("Telos-Delaware"), **UBIQUITY.COM, INC.**, a Delaware corporation ("Ubiquity"), **TELOS INTERNATIONAL CORP.**, a Delaware corporation ("TIC"), **TELOS INTERNATIONAL ASIA, INC.**, a Delaware corporation ("TIA"), **SECURE TRADE, INC.**, a Delaware corporation ("STI") and **TELOWORKS, INC.**, a Delaware corporation ("Teloworks"; Telos-Delaware, Ubiquity, TIC, TIA, STI and Teloworks are referred to hereinafter each individually as a "Credit Party" and collectively, jointly and severally, as the "Credit Parties"), and **WELLS FARGO FOOTHILL, INC.** (formerly known as Foothill Capital Corporation), as agent ("Agent") for the Lenders (defined below) and as a Lender.

WHEREAS, Borrowers, Credit Parties, Agent and certain other financial institutions from time to time party thereto (the "Lenders") are parties to that certain Amended and Restated Loan and Security Agreement dated as of April 3, 2008, but effective as of March 31, 2008 (as amended from time to time, the "Loan Agreement");

WHEREAS, Borrowers, Credit Parties, Agent and Lenders are parties to that certain Waiver to Amended and Restated Loan and Security Agreement dated as of August 25, 2008 (the "August Waiver");

WHEREAS, Borrowers, Credit Parties, Agent and Lenders are parties to that certain Waiver and First Amendment to Amended and Restated Loan and Security Agreement dated as of August 26, 2008 (the "First Amendment");

WHEREAS, Borrowers and Credit Parties have notified Agent that Events of Default exist under (a) Section 8.2 of the Loan Agreement due to (i) the failure of the Companies to deliver a Deed of Pledge in favor of Agent regarding the stock of Teloworks Philippines Inc. (the "Philippines Pledge") by September 17, 2008 as required by Section 8 of the Waiver and First Amendment to Amended and Restated Loan and Security Agreement dated as of August 26, 2008 (the "Pledge Default"), (ii) the failure of the Companies to deliver the 2007 Audit (as defined in the August Waiver) and a certificate of accountants related thereto on or before October 31, 2008 as required by the August Waiver (the "Audit Default"), (iii) the failure of Parent to timely file with the SEC a Form 12b-25, Notification of Late Filing with respect to its Form 10-Q for the period ended March 31, 2008 (the "SEC Filing Default") and with respect to its Form 10-Q for the period ended September 30, 2008 in violation of Section 6.10 of the Loan Agreement, and (iv) the execution by Parent of the Subordination Agreement dated as of May 31, 2008 between Parent and Silicon Valley Bank with respect to Parent's right to payments under that certain Demand Promissory Note dated December 31, 2007 issued by

Enterworks, Inc. in favor of Parent in the face principal amount of $250,000 in violation of Section 7.4 of the Loan Agreement (the "Enterworks Note Default") (b) Section 8.10 of the Loan Agreement due to the following payments by Telos an account of Indebtedness that has been contractually subordinated in right of payment to the payment of the Obligations: (i) the payment of $500,000 on June 2, 2008 to John C. Porter ("Porter") to pay down the balance due on the Series B Secured Subordinated Note dated August 15, 2001 between Telos and Porter (the "Porter Note"), (ii) the payment of $367,745.92 on July 30, 2008 to Porter to pay off the outstanding balance due on the Porter Note, and (iii) the payment of $138,254.08 to Toxford Corporation ("Toxford") to pay down the balance due on the Series B Secured Subordinated Note dated October 13, 1995 (the "Toxford Note") between Telos and Toxford (the Events of Default listed in part (b), collectively, the "Subordinated Note Payment Defaults"), and (c) Section 8.11 of the Loan Agreement due to (i) the breach of Section 6(a) of the August Waiver due to the existence of the SEC Filing Default, the Enterworks Note Default and the Subordinated Note Payment Defaults as of the date thereof (the "August Waiver Default"), and (ii) the breach of Section 9(a) of the First Amendment due to the existence of the SEC Filing Default, the Enterworks Note Default, the Subordinated Note Payment Defaults and the August Waiver Default as of the date thereof (the Events of Defaults listed in parts (a), (b) and (c) collectively, the "Existing Defaults");

WHEREAS, Borrowers and Credit Parties have requested that Agent and Required Lenders waive the Existing Defaults; and

WHEREAS, Agent and Required Lenders are willing to waive the Existing Defaults on and subject to the terms and conditions set forth herein; and

NOW THEREFORE, in consideration of the premises and mutual agreements herein contained, the parties hereto agree as follows:

1. Defined Terms. Unless otherwise defined herein, capitalized terms used herein shall have the meanings ascribed to such terms in the Loan Agreement.

2. Waiver. Subject to the satisfaction of the conditions set forth in Section 4 hereof, and in reliance upon the representations and warranties contained herein, Agent and Required Lenders hereby waive the Existing Defaults, provided that the waiver of the Pledge Default is conditioned upon the delivery of a Notice of Borrowing and Letter of Direction executed by Parent requesting a Borrowing in the aggregate principal amount of $10,200 in connection with the payment of all taxes owed in the Philippines and other filing costs associated with the Philippines Pledge no later than December 2, 2008, and provided that the waiver of the Audit Default is conditioned upon the delivery of the 2007 Audit and a certificate of accountants related thereto on or before December 31, 2008. This is a limited waiver and shall not be deemed to constitute a waiver of, or consent to, any other existing or future breach of the Loan Agreement or any other Loan Document.

3. Ratification. This Waiver, subject to satisfaction of the conditions provided below, shall constitute an amendment to the Loan Agreement and all of the Loan Documents as appropriate to express the agreements contained herein. Except as specifically

set forth herein, the Loan Agreement and the Loan Documents shall remain unchanged and in full force and effect in accordance with their original terms.

4. Conditions to Effectiveness. This Waiver shall become effective upon the satisfaction of the following conditions precedent:

(a) Each party hereto shall have executed and delivered this Waiver to Agent;

(b) Borrowers shall have delivered to Agent such documents, agreements and instruments as may be requested or required by Agent in connection with this Waiver, each in form and content acceptable to Agent;

(c) No Default or Event of Default other than the Existing Defaults shall have occurred and be continuing on the date hereof or as of the date of the effectiveness of this Waiver; and

(d) All proceedings taken in connection with the transactions contemplated by this Waiver and all documents, instruments and other legal matters incident thereto shall be satisfactory to Agent and its legal counsel.

5. Waiver Fee. To induce Agent and Lenders to enter into this Waiver, Borrowers shall pay to Agent, for the benefit of Lenders, a non-refundable fee equal to $150,000, which shall be due and payable on the date hereof.

6. Miscellaneous.

(a) Warranties and Absence of Defaults. To induce Agent and Lenders to enter into this Waiver, each Company hereby represents and warrants to Agent and Lenders that:

(i) The execution, delivery and performance by it of this Waiver and each of the other agreements, instruments and documents contemplated hereby are within its corporate power, have been duly authorized by all necessary corporate action, have received all necessary governmental approval (if any shall be required), and do not and will not contravene or conflict with any provision of law applicable to it, its articles of incorporation and by-laws, any order, judgment or decree of any court or governmental agency, or any agreement, instrument or document binding upon it or any of its property;

(ii) Each of the Loan Agreement and the other Loan Documents, as amended by this Waiver, are the legal, valid and binding obligation of it enforceable against it in accordance with its terms, except as the enforcement thereof may be subject to (A) the effect of any applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditor’s rights generally, and (B) general principles of equity;

(iii) The representations and warranties contained in the Loan Agreement and the other Loan Documents are true and accurate as of the date hereof with the same force and effect as if such had been made on and as of the date hereof;

(iv) It has performed all of its obligations under the Loan Agreement and the Loan Documents to be performed by it on or before the date hereof and as of the date hereof, it is in compliance with all applicable terms and provisions of the Loan Agreement and each of the Loan Documents to be observed and performed by it and no Event of Default or other event which upon notice or lapse of time or both would constitute an Event of Default has occurred other than the Existing Defaults; and

(v) The outstanding balance due on the Porter Note is $0, and the outstanding balance due on the Toxford Note is $1,328,372.45.

(b) Expenses. Companies, jointly and severally, agree to pay on demand all costs and expenses of Agent (including the reasonable fees and expenses of outside counsel for Agent) in connection with the preparation, negotiation, execution, delivery and administration of this Waiver and all other instruments or documents provided for herein or delivered or to be delivered hereunder or in connection herewith. In addition, Companies agree, jointly and severally, to pay, and save Agent harmless from all liability for, any stamp or other taxes which may be payable in connection with the execution or delivery of this Waiver or the Loan Agreement, as amended hereby, and the execution and delivery of any instruments or documents provided for herein or delivered or to be delivered hereunder or in connection herewith. All obligations provided herein shall survive any termination of the Loan Agreement as amended hereby.

(c) Governing Law. This Waiver shall be a contract made under and governed by the internal laws of the State of Illinois.

(d) Counterparts. This Waiver may be executed in any number of counterparts, and by the parties hereto on the same or separate counterparts, and each such counterpart, when executed and delivered, shall be deemed to be an original, but all such counterparts shall together constitute but one and the same Waiver.

(e) Effectiveness of August Waiver and First Amendment. The August Waiver is deemed to be effective notwithstanding the existence of the SEC Filing Default, Enterworks Note Default and Subordinated Note Payment Defaults on the date thereof, and the First Amendment is deemed to be effective notwithstanding the existence of the SEC Filing Default, Enterworks Note Default, Subordinated Note Payment Defaults and August Waiver Default on the date thereof.

7. Release.

(a) In consideration of the agreements of Agent and Lenders contained herein and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, each Company, on behalf of itself and its successors, assigns, and

other legal representatives, hereby absolutely, unconditionally and irrevocably releases, remises and forever discharges Agent and Lenders, and their successors and assigns, and their present and former shareholders, affiliates, subsidiaries, divisions, predecessors, directors, officers, attorneys, employees, agents and other representatives (Agent, each Lender and all such other Persons being hereinafter referred to collectively as the "Releasees" and individually as a "Releasee"), of and from all demands, actions, causes of action, suits, covenants, contracts, controversies, agreements, promises, sums of money, accounts, bills, reckonings, damages and any and all other claims, counterclaims, defenses, rights of set-off, demands and liabilities whatsoever (individually, a "Claim" and collectively, "Claims") of every name and nature, known or unknown, suspected or unsuspected, both at law and in equity, which such Company or any of its successors, assigns, or other legal representatives may now or hereafter own, hold, have or claim to have against the Releasees or any of them for, upon, or by reason of any circumstance, action, cause or thing whatsoever which arises at any time on or prior to the day and date of this Waiver, including, without limitation, for or on account of, or in relation to, or in any way in connection with any of the Loan Agreement, or any of the other Loan Documents or transactions thereunder or related thereto.

(b) Each Company understands, acknowledges and agrees that the release set forth above may be pleaded as a full and complete defense and may be used as a basis for an injunction against any action, suit or other proceeding which may be instituted, prosecuted or attempted in breach of the provisions of such release.

(c) Each Company agrees that no fact, event, circumstance, evidence or transaction which could now be asserted or which may hereafter be discovered shall affect in any manner the final, absolute and unconditional nature of the release set forth above.

[signature pages follow]

IN WITNESS WHEREOF, the parties hereto have caused this Waiver to be executed by their respective officers thereunto duly authorized and delivered as of the date first above written.

BORROWERS:

TELOS CORPORATION,
a Maryland corporation

By /s/ Michael P. Flaherty

Name Michael P. Flaherty

Title EVP. General Counsel, Chief Administrative Officer

XACTA CORPORATION,
a Delaware corporation

By /s/ Michael P. Flaherty

Name Michael P. Flaherty

Title Executive Vice President

CREDIT PARTIES:

TELOS DELAWARE, INC.,
a Delaware corporation

By /s/ Michael P. Flaherty

Name Michael P. Flaherty

Title Executive Vice President

UBIQUITY.COM, INC.,
a Delaware corporation

By /s/ Michael P. Flaherty

Name Michael P. Flaherty

Title Executive Vice President

TELOS INTERNATIONAL CORP.,
a Delaware corporation

By /s/ Michael P. Flaherty

Name Michael P. Flaherty

Title Executive Vice President

TELOS INTERNATIONAL ASIA, INC.,
a Delaware corporation

By /s/ Michael P. Flaherty

Name Michael P. Flaherty

Title Executive Vice President

SECURE TRADE, INC.,
a Delaware corporation

By /s/ Michael P. Flaherty

Name Michael P. Flaherty

Title Executive Vice President

TELOWORKS, INC.,
a Delaware corporation

By /s/ Richard P. Tracy

Name Richard P. Tracy

Title President

AGENT AND SOLE EXISTING LENDER:

WELLS FARGO FOOTHILL, INC. (formerly known as Foothill Capital Corporation)

By /s/ David Sanchez

Name David Sanchez

Title Vice President

Exhibit 21

Subsidiary List

Active subsidiaries of the Company as of December 31, 2007:

Company Name	State of Incorporation
Ubiquity.com, Inc.	Delaware
Xacta Corporation	Delaware
Telos Delaware, Inc.	Delaware
Teloworks, Inc.	Delaware
Telos Identity Management Solutions, LLC	Delaware

Exhibit 31.1

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 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: December 16, 2008

/s/ John B. Wood

John B. Wood
Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Michele Nakazawa, 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 annual 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 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: December 16, 2008

/s/ Michele Nakazawa

Michele Nakazawa
Chief Financial Officer

Exhibit 32

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

In connection with the Annual Report of Telos Corporation (the "Company") on Form 10-K for the year ending December 31, 2007 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John B. Wood, Chief Executive Officer of the Company and I, Michele Nakazawa, Chief Financial Officer of the Company, each certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to our knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; 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: December 16, 2008

/s/ John B. Wood
John B. Wood
Chief Executive Officer

Date: December 16, 2008

/s/ Michele Nakazawa
Michele Nakazawa
Chief Financial Officer