

First Quarter 2024 Earnings

May 10, 2024

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This presentation also includes certain non-GAAP financial measures. These non-GAAP financial measures are in addition to, and not a substitute for or superior to, measures of financial performance prepared in accordance with GAAP. There are a number of limitations related to the use of these non-GAAP financial measures versus their nearest GAAP equivalents. For example, other companies may calculate non-GAAP financial measures differently or may use other measures to evaluate their performance, all of which could reduce the usefulness of our non-GAAP financial measures as tools for comparison. The reader is cautioned not to place undue reliance on non-GAAP financial measures and to evaluate them only in conjunction with their nearest GAAP equivalents. Please see the appendix for reconciliations of these non-GAAP financial measures to their nearest GAAP equivalents and for the calculation of certain other financial measures.

FINANCIAL PERFORMANCE SUMMARY

DELIVERED \$29.6M OF REVENUE, 37.0% GAAP GROSS MARGIN, AND 42.2% CASH GROSS MARGIN¹

1Q 2024 Summary

- Delivered \$29.6M of revenue vs. guidance of \$28M to \$29M
 - Security Solutions (“SS”) down 6% YoY (vs. guidance of down low teens to HSD %); Down 10% sequentially; Results exceeded guidance due to better than forecasted performance across all lines of business
 - Secure Networks (“SN”) down 29% YoY (vs. guidance of down low-30% to high-20%); Down 46% sequentially; Results in line with high end of guidance
- Delivered 37.0% GAAP gross margin (“GM”) vs. guidance of ~34.3%
 - Outperformance in SS primarily due to effective cost management on fixed price contracts
 - Outperformance in SN primarily due to better than forecasted utilization of direct labor
 - Revenue mix was 63% SS, slightly higher than guidance due to revenue dynamics described above
- Below the line (“BTL”) expenses, net of stock based compensation (“SBC”) approximately \$1.7M better than guidance primarily due to timing of spending in several areas and higher than forecasted capitalization of software development
- Adjusted EBITDA¹ above high end of guidance range due to better than forecasted gross profit and lower than forecasted BTL expenses

	1Q 2024 Actual	1Q 2024 Guidance
Revenue	\$29.6M	\$28M to \$29M
Revenue Growth	-16% YoY -28% Sequential	-21% to -18% YoY -32% to -29% Sequential
GAAP Gross Profit	\$11.0M 37.0% GAAP GM - 129 bps YoY 42.2% Cash GM ¹	~34.3% GAAP GM -400 bps YoY
Adjusted EBITDA ¹	(\$2.3M) -7.9% Adj. EBITDA Margin ¹	(\$5.5M) to (\$5.0M) -19.6% to -17.2% Adj. EBITDA Margin ¹
Adjusted EPS ¹	(\$0.08)	

Exceeded High End of Guidance Range on Key Financial Metrics



Notes:

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

RECENT BUSINESS HIGHLIGHTS

NEW BUSINESS DEVELOPMENT UPDATE

- Last quarter, we announced that **Telos' prime partners received awards on new programs worth up to \$525M to Telos' Security Solutions business over five years**, subject to customary protest periods and favorable resolution of protests.
- Resolution of protests expected in 2Q based on typical protest timetable.

OTHER NOTABLE EVENTS

- Since 2023, Telos has won positions on **five new federal contract vehicles**, providing market access to compete for new business opportunities that in aggregate represent a **\$12B addressable market**.
- Awarded Xacta® new orders include the **U.S. Air Force Services Center**, a major technology company, and a federal government customer as well as renewals from the **U.S. 16th Air Force**, **U.S. National Geospatial Intelligence Agency**, **U.S. Defense Intelligence Agency**, **U.S. Department of Energy**, a professional services company, and a leading cloud computing company.
- Key **cyber services** renewals include the **U.S. Department of Homeland Security**, **U.S. Office of Naval Intelligence**, and a federal executive department.
- Telos AMHS achieved a major contract renewal with a **branch of the U.S. Armed Forces**.



2024 OUTLOOK

2Q 2024

	Guidance	
	2Q 2024 Low End	2Q 2024 High End
Revenue	\$25M -24% YoY	\$28M -15% YoY
Adjusted EBITDA ¹	(\$8M)	(\$6M)

Assumptions

- SS revenue assumptions:
 - Down HSD % to up MSD % YoY (down mid teens % to LSD % sequentially)
 - Primarily driven by the sale of a non-recurring perpetual license in 2Q 2023 offset by growth in TSA PreCheck in 2024
- SN revenue assumptions:
 - Down low-40% to mid-30% YoY (down high teens % to HSD % sequentially)
 - Primarily driven by ongoing reductions in backlog
- Implied 1H revenue of \$54.6M to \$57.6M compares favorably with previously provided modelling input of ~\$55M
- GAAP gross margin down ~750 bps to ~425 bps YoY (down ~700 bps to ~375 bps sequentially); Cash gross margin¹ down ~250 bps to flat YoY:
 - SS GM down primarily due to higher amortization of software development costs and revenue mix
 - SN GM down primarily due to higher impact of fixed costs on lower revenue
 - More favorable mix between SS and SN YoY
 - SS to contribute approximately 64% (vs. 52% in 2Q 2023)
- Cash BTL expenses (i.e. adjusted for capitalized software, stock based compensation, restructuring costs, and D&A) approximately \$1.9M to \$2.1M higher YoY primarily due to investment in growth initiatives

Revenues Expected to Return to Sequential Growth in 3Q or 4Q 2024

Notes:

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

SUMMARY

Exceeded High End of Guidance Range on Key Financial Metrics in the First Quarter of 2024

Substantial Progress on New Business Capture in the First Quarter

Resolution of Protests Expected in the Second Quarter Based on Typical Protest Timetable

Revenues Expected to Return to Sequential Growth in the Third or Fourth Quarter, Subject to Favorable Resolution of Protests

Appendix

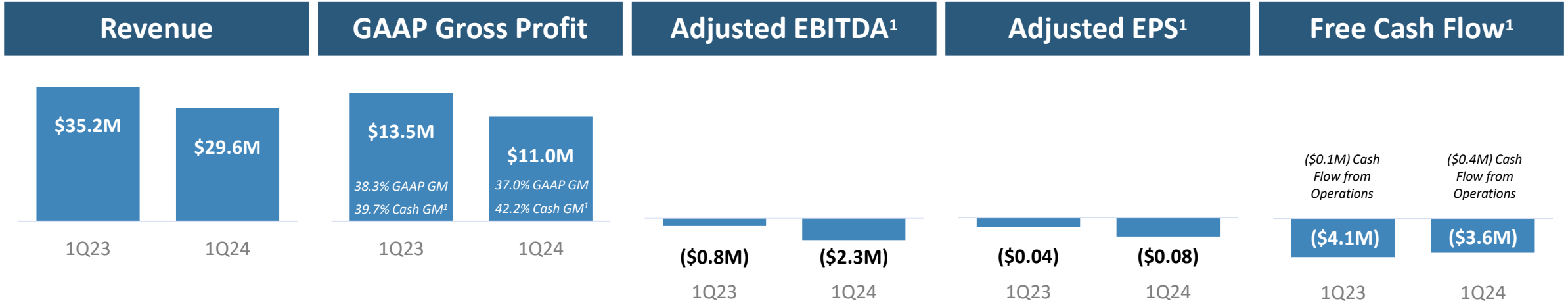
NON-GAAP FINANCIAL MEASURES

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

Telos believes that EBITDA, EBITDA Margin, Adjusted EBITDA, Adjusted EBITDA Margin, Adjusted Net(Loss)/Income and Adjusted EPS provide the Board, management and investors with a clear representation of the Company's core operating performance and trends, provide greater visibility into the long-term financial performance of the Company, and eliminate the impact of items that do not relate to the ongoing operating performance of the business. Further, Adjusted EBITDA and Adjusted EBITDA Margin are used by the Board and management to prepare and approve the Company's annual budget and to evaluate the performance of certain management personnel when determining incentive compensation. Cash Gross Profit and Cash Gross Margin provide management and investors a clear representation of the core economics of gross profit and gross margin without the impact of non-cash expenses and sunk costs expended. Telos uses Free Cash Flow to understand the cash flows that directly correspond with our operations and the investments the Company must make in those operations, using a methodology that combines operating cash flows and capital expenditures. Further, Free Cash Flow may be useful to management and investors in evaluating the Company's operating performance and liquidity. Telos believes these non-GAAP financial measures facilitate the comparison of the Company's operating performance on a consistent basis between periods by excluding certain items that may, or could, have a disproportionately positive or negative impact on the Company's results of operations in any particular period. When viewed in combination with the Company's results prepared in accordance with GAAP, these non-GAAP financial measures help provide a broader picture of factors and trends affecting the Company's results of operations.

FINANCIAL PERFORMANCE SUMMARY

1Q YEAR-OVER-YEAR COMPARISON



- Security Solutions down 6% to \$18.6M primarily due to expected timing of revenue in Telos ID, partially offset by growth in TSA PreCheck®
- Secure Networks down 29% to \$11.0M, primarily due to ongoing reductions in backlog

- GAAP gross profit down \$2.5M; GAAP gross margin down 127 bps
- Cash gross margin¹ up 249 bps
 - SS cash gross margin¹ approximately flat at 54%
 - SN cash gross margin¹ up 87 bps to 22% due to strong program management and mix
 - Favorable sales mix shift between SS and SN
- Significantly higher amortization of software development costs
- BTL expenses, net of SBC, depreciation and amortization, and restructuring flat
- Adjusted EBITDA¹ down \$1.5M to (\$2.3M) due to lower revenue partially offset by higher cash gross margin¹

- Lower gross profit and higher depreciation and amortization

- Slightly lower cash flow from operations more than offset by lower capex/capitalized R&D

Cash Gross Margins Up 249 Basis Points Year-Over-Year



Notes:

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

2024 2Q ADDITIONAL MODELING ASSUMPTIONS

	2023 Full Year	2023 2Q	2024E 2Q	2024E 2Q Commentary
GAAP Gross Margin	36.4%	37.6%	~30.0% - 33.3%	<ul style="list-style-type: none"> SS down YoY; SN down to flat YoY More favorable revenue mix between SS and SN Cash gross margin¹ down to flat YoY
Stock Based Compensation (SBC)	\$24.4M	\$7.7M	~\$6.0M - \$6.5M	<ul style="list-style-type: none"> ~\$0.2M in COS in 2Q 2024
Depreciation & Amortization	\$9.4M	\$1.7M	~\$3.0M	<ul style="list-style-type: none"> Higher amortization YoY due to development initiatives achieving key milestones ~55% is included in BTL expenses in 2Q 2024
Weighted Average Share Count	69.3M	69.4M	~72.0M	
Tax Rate	(0.1%)	(0.1%)	-	<ul style="list-style-type: none"> Not meaningful
CAPEX & Capitalized Software	\$15.5M	\$4.4M	~\$3.0M - \$3.5M	<ul style="list-style-type: none"> ~\$0.5M of CAPEX in 2Q 2024
Cash Below The Line Expenses ²	\$77.5M	\$17.5M	~\$19.4M - \$19.6M	<ul style="list-style-type: none"> YoY higher primarily due to investment in growth initiatives
Adjusted Below The Line Expenses ³	\$68.6M	\$14.3M	~\$18.6M - \$18.8M	<ul style="list-style-type: none"> YoY higher due to higher spend described above in addition to slightly higher depreciation and amortization and lower R&D capitalization

Notes:

- Cash Gross Margin is a non-GAAP financial measure. The Company has not provided a reconciliation to the most directly comparable GAAP measure to this forward-looking non-GAAP financial measure because certain items are out of the Company's control or cannot be reasonably predicted. Accordingly, reconciliation of forward-looking Cash Gross Margin is not available without unreasonable effort.
- Cash below the line expenses (adjusted for capitalized software, restructuring costs, stock based compensation and D&A).
- GAAP below the line expenses excluding stock based compensation and restructuring costs (cash below the line expenses above plus D&A, net of R&D capitalization).

FULL YEAR 2024 MODELING INPUTS

Assumptions

REVENUE

- **Preexisting programs** are expected to generate ~\$100M of revenue.
 - Assumes preexisting network of 28 TSA PreCheck enrollment centers. Any expansion of enrollment centers will provide additional revenue upside. Ultimately, full rollout of 500 enrollment centers could generate several tens of millions of dollars of additional revenue for a full calendar year. See appendix of 3Q 2023 earnings presentation for more detail.
 - ~55% of the ~\$100M of revenue is expected to be recognized in 1H.
 - Security Solutions is expected to comprise ~65% of the revenue from preexisting programs in 1H and ~80% in 2H.
- **New programs** currently under protest may generate over \$100M of revenue in some years. But for modeling purposes, we're currently assuming a more modest \$60M - \$85M of revenue contribution in a typical year. Provided the protests are resolved in our favor, we should capture a portion of that annual revenue starting sometime in the second half. All revenue from new programs under protest will be reported in Security Solutions.
- **Any additional new business wins** during the year could contribute additional upside.

GROSS MARGIN

- **Overall GAAP gross margin** ~250 bps to ~400 bps lower year-over-year, primarily due to less favorable mix within each of Security Solutions and Secure Networks and higher amortization of capitalized software development costs in Security Solutions, partially offset by more favorable mix shift between Security Solutions and Secure Networks
- **Overall cash gross margin**¹ similar to 2023

OTHER INPUTS

- Adjusted below the line expenses²: ~\$2.5M to ~\$5.0M higher due to lower capitalization
- Weighted average share count: LSD % dilution year-over-year
- Stock Based Compensation: Slightly higher year-over-year
- Depreciation and amortization: ~\$13M (~50% in below the line expenses)

Notes:

1. Cash Gross Margin is a non-GAAP financial measure. The Company has not provided a reconciliation to the most directly comparable GAAP measure to this forward-looking non-GAAP financial measure because certain items are out of the Company's control or cannot be reasonably predicted. Accordingly, reconciliation of forward-looking Cash Gross Margin is not available without unreasonable effort.
2. GAAP below the line expenses excluding stock based compensation and restructuring costs.

2024 RESULTS

GAAP AND ADJUSTED 1Q RESULTS

(Amounts in thousands, unaudited)

	2024					2023				
	Three Months Ended March 31, 2024					Three Months Ended March 31, 2023				
	GAAP	SBC	Other Inc	Restructure	Adjusted	GAAP	SBC	Other Inc	Restructure	Adjusted
Revenue										
Security Solutions	\$ 18,640	\$ -	\$ -	\$ -	\$ 18,640	\$ 19,773	\$ -	\$ -	\$ -	\$ 19,773
Secure Networks	10,979	-	-	-	10,979	15,449	-	-	-	15,449
Total	29,619	-	-	-	29,619	35,222	-	-	-	35,222
Gross Profit										
Security Solutions	8,626	176	-	-	8,802	10,274	272	-	-	10,546
Secure Networks	2,335	81	-	-	2,416	3,208	54	-	-	3,262
Total	10,961	257	-	-	11,218	13,482	326	-	-	13,808
Gross Margin										
Security Solutions	46.3%	0.9%	0.0%	0.0%	47.2%	52.0%	1.4%	0.0%	0.0%	53.3%
Secure Networks	21.3%	0.7%	0.0%	0.0%	22.0%	20.8%	0.3%	0.0%	0.0%	21.1%
Total	37.0%	0.9%	0.0%	0.0%	37.9%	38.3%	0.9%	0.0%	0.0%	39.2%
SG&A										
Research and Development	3,170	428	-	-	2,742	2,833	770	-	-	2,063
Selling, General and Administrative	16,229	2,299	-	(10)	13,940	23,619	8,403	-	1,200	14,016
Total	19,399	2,727	-	(10)	16,682	26,452	9,173	-	1,200	16,079
EBIT / Operating (Loss)/Income	(8,438)	2,984	-	(10)	(5,464)	(12,970)	9,499	-	1,200	(2,271)
Interest Expense	(175)	-	-	-	(175)	(249)	-	-	-	(249)
Other Income	1,252	-	(1,252)	-	-	2,496	-	(2,496)	-	-
Earnings Before Taxes (EBT)	(7,361)	2,984	(1,252)	(10)	(5,639)	(10,723)	9,499	(2,496)	1,200	(2,520)
Provision for Income Taxes	(17)	-	-	-	(17)	(23)	-	-	-	(23)
Net (Loss)/Income	\$ (7,378)	\$ 2,984	\$ (1,252)	\$ (10)	\$ (5,656)	\$ (10,746)	\$ 9,499	\$ (2,496)	\$ 1,200	\$ (2,543)
Share Count	70,628	70,628	70,628	70,628	70,628	68,176	68,176	68,176	68,176	68,176
EPS	\$ (0.10)	\$ 0.04	\$ (0.02)	\$ -	\$ (0.08)	\$ (0.16)	\$ 0.14	\$ (0.04)	\$ 0.02	\$ (0.04)
Net (Loss)/Income	\$ (7,378)	\$ 2,984	\$ (1,252)	\$ (10)	\$ (5,656)	\$ (10,746)	\$ 9,499	\$ (2,496)	\$ 1,200	\$ (2,543)
Other Income	(1,252)	-	1,252	-	-	(2,496)	-	2,496	-	-
Interest Expense	175	-	-	-	175	249	-	-	-	249
Provision for Income Taxes	17	-	-	-	17	23	-	-	-	23
Depreciation & Amortization	3,129	-	-	-	3,129	1,425	-	-	-	1,425
EBITDA	\$ (5,309)	\$ 2,984	\$ -	\$ (10)	\$ (2,335)	\$ (11,545)	\$ 9,499	\$ -	\$ 1,200	\$ (846)
Cash Flow from Operations	\$ (350)					\$ (100)				
Capitalized Software	(3,202)					(3,800)				
PPE	(97)					(223)				
CAPEX	(3,299)					(4,023)				
Free Cash Flow	\$ (3,649)					\$ (4,123)				

2023 RESULTS

GAAP AND ADJUSTED FULL YEAR RESULTS

(Amounts in thousands, unaudited)

	2023																									
	Three Months Ended March 31, 2023					Three Months Ended June 30, 2023					Three Months Ended September 30, 2023					Three Months Ended December 31, 2023					Twelve Months Ended December 31, 2023					
	GAAP	SBC	Other Inc	Restructure	Adjusted	GAAP	SBC	Other Inc	Restructure	Adjusted	GAAP	SBC	Other Inc	Restructure	Adjusted	GAAP	SBC	Other Inc	Restructure	Adjusted	GAAP	SBC	Other Inc	Restructure	Adjusted	
Revenue																										
Security Solutions	\$ 19,773	\$ -	\$ -	\$ -	\$ 19,773	\$ 17,196	\$ -	\$ -	\$ -	\$ 17,196	\$ 19,795	\$ -	\$ -	\$ -	\$ 19,795	\$ 20,652	\$ -	\$ -	\$ -	\$ 20,652	\$ 77,416	\$ -	\$ -	\$ -	\$ -	\$ 77,416
Secure Networks	15,449	-	-	-	15,449	15,715	-	-	-	15,715	16,391	-	-	-	16,391	20,407	-	-	-	20,407	67,962	-	-	-	-	67,962
Total	35,222	-	-	-	35,222	32,911	-	-	-	32,911	36,186	-	-	-	36,186	41,059	-	-	-	41,059	145,378	-	-	-	-	145,378
Gross Profit																										
Security Solutions	10,274	272	-	-	10,546	9,551	153	-	-	9,704	9,354	63	-	-	9,417	10,435	180	-	-	10,615	39,614	668	-	-	-	40,282
Secure Networks	3,208	54	-	-	3,262	2,808	72	-	-	2,880	3,659	10	-	-	3,669	3,653	96	-	-	3,749	13,328	232	-	-	-	13,560
Total	13,482	326	-	-	13,808	12,359	225	-	-	12,584	13,013	73	-	-	13,086	14,088	276	-	-	14,364	52,942	900	-	-	-	53,842
Gross Margin																										
Security Solutions	52.0%	1.4%	0.0%	0.0%	53.3%	55.5%	0.9%	0.0%	0.0%	56.4%	47.3%	0.3%	0.0%	0.0%	47.6%	50.5%	0.9%	0.0%	0.0%	51.4%	51.2%	0.9%	0.0%	0.0%	52.0%	
Secure Networks	20.8%	0.3%	0.0%	0.0%	21.1%	17.9%	0.5%	0.0%	0.0%	18.3%	22.3%	0.1%	0.0%	0.0%	22.4%	17.9%	0.5%	0.0%	0.0%	18.4%	19.6%	0.3%	0.0%	0.0%	20.0%	
Total	38.3%	0.9%	0.0%	0.0%	39.2%	37.6%	0.7%	0.0%	0.0%	38.2%	36.0%	0.2%	0.0%	0.0%	36.2%	34.3%	0.7%	0.0%	0.0%	35.0%	36.4%	0.6%	0.0%	0.0%	37.0%	
SG&A																										
Research and Development	2,833	770	-	-	2,063	2,646	847	-	-	1,799	3,154	328	-	-	2,826	3,614	44	-	-	3,570	12,247	1,989	-	-	-	10,258
Selling, General and Administrative	23,619	8,403	-	1,200	14,016	19,180	6,673	-	(3)	12,510	19,552	4,817	-	-	14,735	18,659	1,614	-	(65)	17,110	81,010	21,507	-	1,132	58,371	
Total	26,452	9,173	-	1,200	16,079	21,826	7,520	-	(3)	14,309	22,706	5,145	-	-	17,561	22,273	1,658	-	(65)	20,680	93,257	23,496	-	1,132	68,629	
EBIT / Operating (Loss)/Income	(12,970)	9,499	-	1,200	(2,271)	(9,467)	7,745	-	(3)	(1,725)	(9,693)	5,218	-	-	(4,475)	(8,185)	1,934	-	(65)	(6,316)	(40,315)	24,396	-	1,132	(14,787)	
Interest Expense	(249)	-	-	-	(249)	(184)	-	-	-	(184)	(178)	-	-	-	(178)	(175)	-	-	-	(175)	(786)	-	-	-	(786)	
Other Income	2,496	-	(2,496)	-	-	1,649	-	(1,649)	-	-	1,222	-	(1,222)	-	-	1,348	-	(1,348)	-	-	6,715	-	(6,715)	-	-	
Earnings Before Taxes (EBT)	(10,723)	9,499	(2,496)	1,200	(2,520)	(8,002)	7,745	(1,649)	(3)	(1,909)	(8,649)	5,218	(1,222)	-	(4,653)	(7,012)	1,934	(1,348)	(65)	(6,491)	(34,386)	24,396	(6,715)	1,132	(15,573)	
Provision for Income Taxes	(23)	-	-	-	(23)	(22)	-	-	-	(22)	(23)	-	-	-	(23)	32	-	-	-	32	(36)	-	-	-	(36)	
Net (Loss)/Income	(10,746)	9,499	(2,496)	1,200	(2,543)	(8,024)	7,745	(1,649)	(3)	(1,931)	(8,672)	5,218	(1,222)	-	(4,676)	(6,980)	1,934	(1,348)	(65)	(6,459)	(34,422)	24,396	(6,715)	1,132	(15,609)	
Share Count	68,176	68,176	68,176	68,176	68,176	69,424	69,424	69,424	69,424	69,424	69,571	69,571	69,571	69,571	69,571	69,832	69,832	69,832	69,832	69,832	69,256	69,256	69,256	69,256	69,256	
EPS	\$ (0.16)	\$ 0.14	\$ (0.04)	\$ 0.02	\$ (0.04)	\$ (0.12)	\$ 0.11	\$ (0.02)	\$ -	\$ (0.03)	\$ (0.12)	\$ 0.08	\$ (0.02)	\$ -	\$ (0.07)	\$ (0.10)	\$ 0.03	\$ (0.02)	\$ -	\$ (0.09)	\$ (0.50)	\$ 0.35	\$ (0.10)	\$ 0.02	\$ (0.23)	
Net (Loss)/Income	(10,746)	9,499	(2,496)	1,200	(2,543)	(8,024)	7,745	(1,649)	(3)	(1,931)	(8,672)	5,218	(1,222)	-	(4,676)	(6,980)	1,934	(1,348)	(65)	(6,459)	(34,422)	24,396	(6,715)	1,132	(15,609)	
Other Income	(2,496)	-	2,496	-	-	(1,649)	-	1,649	-	-	(1,222)	-	1,222	-	-	(1,348)	-	1,348	-	-	(6,715)	-	6,715	-	-	
Interest Expense	249	-	-	-	249	184	-	-	-	184	178	-	-	-	178	175	-	-	-	175	786	-	-	-	786	
Provision for Income Taxes	23	-	-	-	23	22	-	-	-	22	23	-	-	-	23	(32)	-	-	-	(32)	36	-	-	-	36	
Depreciation & Amortization	1,425	-	-	-	1,425	1,696	-	-	-	1,696	3,215	-	-	-	3,215	3,093	-	-	-	3,093	9,429	-	-	-	9,429	
EBITDA	(11,545)	9,499	-	1,200	(846)	(7,771)	7,745	-	(3)	(29)	(6,478)	5,218	-	-	(1,260)	(5,092)	1,934	-	(65)	(3,223)	(30,886)	24,396	-	1,132	(5,358)	
Cash Flow from Operations	(100)					(4,113)					846				4,954					1,587						
Capitalized Software	(3,800)					(4,398)					(3,762)				(2,592)						(14,552)					
PPE	(223)					(47)					(80)				(576)						(926)					
CAPEX	(4,023)					(4,445)					(3,842)				(3,168)					(15,478)						
Free Cash Flow	(4,123)					(8,558)					(2,996)				1,786					(13,891)						

2022 RESULTS

GAAP AND ADJUSTED FULL YEAR RESULTS

(Amounts in thousands, unaudited)

NOTE: As previously revised

	2022																					
	Three Months Ended March 31, 2022				Three Months Ended June 30, 2022				Three Months Ended September 30, 2022				Three Months Ended December 31, 2022				Twelve Months Ended December 31, 2022					
	GAAP	SBC	Other Inc	Adjusted	GAAP	SBC	Other Inc	Adjusted	GAAP	SBC	Other Inc	Adjusted	GAAP	SBC	Other Inc	Restructure	Adjusted	GAAP	SBC	Other Inc	Restructure	Adjusted
Revenue																						
Security Solutions	\$ 26,919	\$ -	\$ -	\$ 26,919	\$ 30,819	\$ -	\$ -	\$ 30,819	\$ 32,440	\$ -	\$ -	\$ 32,440	\$ 30,276	\$ -	\$ -	\$ -	\$ 30,276	\$ 120,454	\$ -	\$ -	\$ -	\$ 120,454
Secure Networks	23,241	-	-	23,241	24,972	-	-	24,972	31,153	-	-	31,153	17,067	-	-	-	17,067	96,433	-	-	-	96,433
Total	50,160	-	-	50,160	55,791	-	-	55,791	63,593	-	-	63,593	47,343	-	-	-	47,343	216,887	-	-	-	216,887
Gross Profit																						
Security Solutions	15,051	857	-	15,908	16,433	747	-	17,180	15,577	823	-	16,400	14,887	579	-	355	15,821	61,948	3,006	-	355	65,309
Secure Networks	3,820	150	-	3,970	4,496	115	-	4,611	5,368	106	-	5,474	3,411	120	-	223	3,754	17,095	491	-	223	17,809
Total	18,871	1,007	-	19,878	20,929	862	-	21,791	20,945	929	-	21,874	18,298	699	-	578	19,575	79,043	3,497	-	578	83,118
Gross Margin																						
Security Solutions	55.9%	3.2%	0.0%	59.1%	53.3%	2.4%	0.0%	55.7%	48.0%	2.5%	0.0%	50.6%	49.2%	1.9%	0.0%	1.2%	52.3%	51.4%	2.5%	0.0%	0.3%	54.2%
Secure Networks	16.4%	0.6%	0.0%	17.1%	18.0%	0.5%	0.0%	18.5%	17.2%	0.3%	0.0%	17.6%	20.0%	0.7%	0.0%	1.3%	22.0%	17.7%	0.5%	0.0%	0.2%	18.5%
Total	37.6%	2.0%	0.0%	39.6%	37.5%	1.5%	0.0%	39.1%	32.9%	1.5%	0.0%	34.4%	38.6%	1.5%	0.0%	1.2%	41.3%	36.4%	1.6%	0.0%	0.3%	38.3%
SG&A																						
Research and Development	5,430	1,295	-	4,135	4,489	692	-	3,797	3,981	897	-	3,084	3,018	922	-	221	1,875	16,918	3,806	-	221	12,891
Selling, General and Administrative	29,808	13,629	-	16,179	30,476	15,522	-	14,954	25,748	14,010	-	11,738	29,943	14,196	-	1,968	13,779	115,975	57,357	-	1,968	56,650
Total	35,238	14,924	-	20,314	34,965	16,214	-	18,751	29,729	14,907	-	14,822	32,961	15,118	-	2,189	15,654	132,893	61,163	-	2,189	69,541
EBIT / Operating (Loss)/Income	(16,367)	15,931	-	(436)	(14,036)	17,076	-	3,040	(8,784)	15,836	-	7,052	(14,663)	15,817	-	2,767	3,921	(53,850)	64,660	-	2,767	13,577
Interest Expense	(190)	-	-	(190)	(187)	-	-	(187)	(181)	-	-	(181)	(316)	-	-	-	(316)	(874)	-	-	-	(874)
Other Income	12	-	(12)	-	118	-	(118)	-	518	-	(518)	-	702	-	(702)	-	-	1,350	-	(1,350)	-	-
Earnings Before Taxes (EBT)	(16,545)	15,931	(12)	(626)	(14,105)	17,076	(118)	2,853	(8,447)	15,836	(518)	6,871	(14,277)	15,817	(702)	2,767	3,605	(53,374)	64,660	(1,350)	2,767	12,703
(Provision for)/Benefit From Income Taxes	(71)	-	-	(71)	(54)	-	-	(54)	(8)	-	-	(8)	79	-	-	-	79	(54)	-	-	-	(54)
Net (Loss)/Income	\$ (16,616)	\$ 15,931	\$ (12)	\$ (697)	\$ (14,159)	\$ 17,076	\$ (118)	\$ 2,799	\$ (8,455)	\$ 15,836	\$ (518)	\$ 6,863	\$ (14,198)	\$ 15,817	\$ (702)	\$ 2,767	\$ 3,684	\$ (53,428)	\$ 64,660	\$ (1,350)	\$ 2,767	\$ 12,649
Share Count	67,559	67,559	67,559	67,559	67,876	67,876	67,876	67,876	67,493	67,493	67,493	67,493	67,313	67,313	67,313	67,313	67,313	67,559	67,559	67,559	67,559	67,559
EPS	\$ (0.25)	\$ 0.24	\$ -	\$ (0.01)	\$ (0.21)	\$ 0.25	\$ -	\$ 0.04	\$ (0.13)	\$ 0.23	\$ (0.01)	\$ 0.10	\$ (0.21)	\$ 0.23	\$ (0.01)	\$ 0.04	\$ 0.05	\$ (0.79)	\$ 0.96	\$ (0.02)	\$ 0.04	\$ 0.19
Net (Loss)/Income	\$ (16,616)	\$ 15,931	\$ (12)	\$ (697)	\$ (14,159)	\$ 17,076	\$ (118)	\$ 2,799	\$ (8,455)	\$ 15,836	\$ (518)	\$ 6,863	\$ (14,198)	\$ 15,817	\$ (702)	\$ 2,767	\$ 3,684	\$ (53,428)	\$ 64,660	\$ (1,350)	\$ 2,767	\$ 12,649
Other Income	(12)	-	12	-	(118)	-	118	-	(518)	-	518	-	(702)	-	702	-	-	(1,350)	-	1,350	-	-
Interest Expense	190	-	-	190	187	-	-	187	181	-	-	181	316	-	-	-	316	874	-	-	-	874
Provision for/(Benefit From) Income Taxes	71	-	-	71	54	-	-	54	8	-	-	8	(79)	-	-	-	(79)	54	-	-	-	54
Depreciation & Amortization	1,405	-	-	1,405	1,505	-	-	1,505	1,517	-	-	1,517	1,463	-	-	-	1,463	5,890	-	-	-	5,890
EBITDA	\$ (14,962)	\$ 15,931	\$ -	\$ 969	\$ (12,531)	\$ 17,076	\$ -	\$ 4,545	\$ (7,267)	\$ 15,836	\$ -	\$ 8,569	\$ (13,200)	\$ 15,817	\$ -	\$ 2,767	\$ 5,384	\$ (47,960)	\$ 64,660	\$ -	\$ 2,767	\$ 19,467
Cash Flow from Operations	\$ 249				\$ 7,883				\$ 11,986				\$ (3,610)					\$ 16,508				
Capitalized Software	(2,795)				(2,339)				(3,446)				(4,128)					(12,708)				
PPE	(546)				(95)				(174)				(194)					(1,009)				
CAPEX	(3,341)				(2,434)				(3,620)				(4,322)					(13,717)				
Net cash - software resale	-				-				-				-					8,457				
Free Cash Flow	\$ (3,092)				\$ 5,449				\$ 8,366				\$ 525					\$ 11,248				

2024 RESULTS

CASH GROSS PROFIT & CASH GROSS MARGIN 1Q RESULTS

(Amounts in thousands, unaudited)

	2024		2023	
	Three Months Ended		Three Months Ended	
	March 31, 2024		March 31, 2023	
Revenue				
Security Solutions	\$	18,640	\$	19,773
Secure Networks		10,979		15,449
Total	\$	29,619	\$	35,222
GAAP Gross Profit				
Security Solutions	\$	8,626	\$	10,274
Secure Networks		2,335		3,208
Total	\$	10,961	\$	13,482
GAAP Gross Margin				
Security Solutions		46.3%		52.0%
Secure Networks		21.3%		20.8%
Total		37.0%		38.3%
Stock Based Compensation - Cost of Sales				
Security Solutions	\$	176	\$	272
Secure Networks		81		54
Total	\$	257	\$	326
Depreciation & Amortization - Cost of Sales				
Security Solutions	\$	1,275	\$	170
Secure Networks		3		6
Total	\$	1,278	\$	176
Cash Gross Profit				
Security Solutions	\$	10,077	\$	10,716
Secure Networks		2,419		3,268
Total	\$	12,496	\$	13,984
Cash Gross Margin				
Security Solutions		54.1%		54.2%
Secure Networks		22.0%		21.2%
Total		42.2%		39.7%

2023 RESULTS

CASH GROSS PROFIT & CASH GROSS MARGIN FULL YEAR RESULTS

(Amounts in thousands, unaudited)

	2023				
	Three Months Ended				Twelve Months Ended
	March 31, 2023	June 30, 2023	September 30, 2023	December 31, 2023	December 31, 2023
Revenue					
Security Solutions	\$ 19,773	\$ 17,196	\$ 19,795	\$ 20,652	\$ 77,416
Secure Networks	15,449	15,715	16,391	20,407	67,962
Total	\$ 35,222	\$ 32,911	\$ 36,186	\$ 41,059	\$ 145,378
GAAP Gross Profit					
Security Solutions	\$ 10,274	\$ 9,551	\$ 9,354	\$ 10,435	\$ 39,614
Secure Networks	3,208	2,808	3,659	3,653	13,328
Total	\$ 13,482	\$ 12,359	\$ 13,013	\$ 14,088	\$ 52,942
GAAP Gross Margin					
Security Solutions	52.0%	55.5%	47.3%	50.5%	51.2%
Secure Networks	20.8%	17.9%	22.3%	17.9%	19.6%
Total	38.3%	37.6%	36.0%	34.3%	36.4%
Stock Based Compensation - Cost of Sales					
Security Solutions	\$ 272	\$ 153	\$ 63	\$ 180	\$ 668
Secure Networks	54	72	10	96	232
Total	\$ 326	\$ 225	\$ 73	\$ 276	\$ 900
Depreciation & Amortization - Cost of Sales					
Security Solutions	\$ 170	\$ 168	\$ 1,943	\$ 1,251	\$ 3,532
Secure Networks	6	2	2	2	12
Total	\$ 176	\$ 170	\$ 1,945	\$ 1,253	\$ 3,544
Cash Gross Profit					
Security Solutions	\$ 10,716	\$ 9,872	\$ 11,360	\$ 11,866	\$ 43,814
Secure Networks	3,268	2,882	3,671	3,751	13,572
Total	\$ 13,984	\$ 12,754	\$ 15,031	\$ 15,617	\$ 57,386
Cash Gross Margin					
Security Solutions	54.2%	57.4%	57.4%	57.5%	56.6%
Secure Networks	21.2%	18.3%	22.4%	18.4%	20.0%
Total	39.7%	38.8%	41.5%	38.0%	39.5%

2022 RESULTS

CASH GROSS PROFIT & CASH GROSS MARGIN FULL YEAR RESULTS

(Amounts in thousands, unaudited)

	2022				
	Three Months Ended				Twelve Months Ended
	March 31, 2022	June 30, 2022	September 30, 2022	December 31, 2022	December 31, 2022
Revenue					
Security Solutions	\$ 26,919	\$ 30,819	\$ 32,440	\$ 30,276	\$ 120,454
Secure Networks	23,241	24,972	31,153	17,067	96,433
Total	\$ 50,160	\$ 55,791	\$ 63,593	\$ 47,343	\$ 216,887
GAAP Gross Profit					
Security Solutions	\$ 15,051	\$ 16,433	\$ 15,577	\$ 14,887	\$ 61,948
Secure Networks	3,820	4,496	5,368	3,411	17,095
Total	\$ 18,871	\$ 20,929	\$ 20,945	\$ 18,298	\$ 79,043
GAAP Gross Margin					
Security Solutions	55.9%	53.3%	48.0%	49.2%	51.4%
Secure Networks	16.4%	18.0%	17.2%	20.0%	17.7%
Total	37.6%	37.5%	32.9%	38.6%	36.4%
Stock Based Compensation - Cost of Sales					
Security Solutions	\$ 857	\$ 747	\$ 823	\$ 579	\$ 3,006
Secure Networks	150	115	106	120	491
Total	\$ 1,007	\$ 862	\$ 929	\$ 699	\$ 3,497
Restructuring Costs - Cost of Sales					
Security Solutions	\$ -	\$ -	\$ -	\$ 355	\$ 355
Secure Networks	-	-	-	223	223
Total	\$ -	\$ -	\$ -	\$ 578	\$ 578
Depreciation & Amortization - Cost of Sales					
Security Solutions	\$ 205	\$ 192	\$ 183	\$ 183	\$ 763
Secure Networks	7	7	8	8	30
Total	\$ 212	\$ 199	\$ 191	\$ 191	\$ 793
Cash Gross Profit					
Security Solutions	\$ 16,113	\$ 17,372	\$ 16,583	\$ 16,004	\$ 66,072
Secure Networks	3,977	4,618	5,482	3,762	17,839
Total	\$ 20,090	\$ 21,990	\$ 22,065	\$ 19,766	\$ 83,911
Cash Gross Margin					
Security Solutions	59.9%	56.4%	51.1%	52.9%	54.9%
Secure Networks	17.1%	18.5%	17.6%	22.0%	18.5%
Total	40.1%	39.4%	34.7%	41.8%	38.7%

RECONCILIATIONS

EBITDA, ADJUSTED EBITDA, EBITDA MARGIN, AND ADJUSTED EBITDA MARGIN

(Amounts in thousands, unaudited)

	For the Three Months Ended			
	March 31, 2024		March 31, 2023	
	Amount	Margin	Amount	Margin
	<i>(dollars in thousands)</i>			
Net loss	\$ (7,378)	(24.9) %	\$ (10,746)	(30.5) %
Other income	(1,252)	(4.2) %	(2,496)	(7.1) %
Interest expense	175	0.5 %	249	0.7 %
Provision for income taxes	17	0.1 %	23	0.1 %
Depreciation and amortization	3,129	10.6 %	1,425	4.0 %
EBITDA (Non-GAAP)	(5,309)	(17.9) %	(11,545)	(32.8) %
Stock-based compensation expense ⁽¹⁾	2,984	10.0 %	9,499	27.0 %
Restructuring (adjustments)/expenses ⁽²⁾	(10)	— %	1,200	3.4 %
Adjusted EBITDA (Non-GAAP)	\$ (2,335)	(7.9) %	\$ (846)	(2.4) %

Notes:

- (1) The stock-based compensation adjustment to EBITDA as of March 31, 2024 and 2023 is made up of \$1.6 million and \$7.9 million, respectively, of stock-based compensation expense for the awarded RSUs, PSUs, and stock options, and \$1.3 million and \$1.6 million, respectively, of other sources of stock-based compensation expense. The other sources of stock-based compensation consist of accrued compensation, which the Company intends to settle in shares of the Company's common stock. However, it is the Company's discretion whether this compensation will ultimately be paid in stock or cash. The Company has the right to dictate the form of these payments up until the date at which they are paid. Any change to the expected payment form would result in out of quarter adjustments to this add back to Adjusted EBITDA.
- (2) The restructuring expenses/(adjustments) include severance and other related benefit costs (including outplacement services and continuing health insurance coverage), external consulting and advisory fees related to implementing the restructuring plan.

RECONCILIATIONS

ADJUSTED NET LOSS AND ADJUSTED EPS

(Amounts in thousands, unaudited)

	For the Three Months Ended			
	March 31, 2024		March 31, 2023	
	Adjusted Net Loss	Adjusted Earnings Per Share	Adjusted Net Loss	Adjusted Earnings Per Share
	<i>(in thousands, except per share data)</i>			
Net loss	\$ (7,378)	\$ (0.10)	\$ (10,746)	\$ (0.16)
Adjustments:				
Other income	(1,252)	(0.02)	(2,496)	(0.04)
Stock-based compensation expense ⁽¹⁾	2,984	0.04	9,499	0.14
Restructuring (adjustments) expenses ⁽²⁾	(10)	—	1,200	0.02
Adjusted net loss (Non-GAAP measure)	\$ (5,656)	\$ (0.08)	\$ (2,543)	\$ (0.04)
Weighted-average shares of common stock outstanding, basic	70,628		68,176	

Notes:

- (1) The stock-based compensation adjustment to net loss as of March 31, 2024 and 2023 is made up of \$1.6 million and \$7.9 million, respectively, of stock-based compensation expense for the awarded RSUs, PSUs and stock options, and \$1.3 million and \$1.6 million, respectively, of other sources of stock-based compensation expense. The other sources of stock-based compensation consist of accrued compensation, which the Company intends to settle in shares of the Company's common stock. However, it is the Company's discretion whether this compensation will ultimately be paid in stock or cash. The Company has the right to dictate the form of these payments up until the date at which they are paid. Any change to the expected payment form would result in out of quarter adjustments to this add back to Adjusted Net (Loss)/Income.
- (2) The restructuring expenses/(adjustments) include severance and other related benefit costs (including outplacement services and continuing health insurance coverage), external consulting and advisory fees related to implementing the restructuring plan.

RECONCILIATIONS

CASH GROSS PROFIT AND CASH GROSS MARGIN

(Amounts in thousands, unaudited)

	For the Three Months Ended			
	March 31, 2024		March 31, 2023	
	Amount	Margin	Amount	Margin
	<i>(dollars in thousands)</i>			
Gross profit	\$ 10,961	37.0%	\$ 13,482	38.3%
Adjustments:				
Stock-based compensation expense — cost of sales	257	0.9%	326	0.9%
Depreciation and amortization — cost of sales	1,278	4.3%	176	0.5%
Cash gross profit (Non-GAAP)	\$ 12,496	42.2%	\$ 13,984	39.7%

RECONCILIATIONS FREE CASH FLOW

(Amounts in thousands, unaudited)

	For the Three Months Ended	
	March 31, 2024	March 31, 2023
	<i>(in thousands)</i>	
Net cash used in operating activities	\$ (350)	\$ (100)
Adjustments:		
Purchases of property and equipment	(97)	(223)
Capitalized software development costs	(3,202)	(3,800)
Free cash flow (Non-GAAP)	<u>\$ (3,649)</u>	<u>\$ (4,123)</u>



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