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

FORM 10-Q

[X] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended: June 30, 1998

[ ] Transition Report Pursuant to Section 13 or 15(d) of 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 of Incorporation)	(I.R.S. Employer Identification No.)

19886 Ashburn Road, Ashburn, Virginia	20147-2358
(Address of principal executive offices)	(Zip Code)

Registrant's Telephone Number, including area code: (703) 724-3800

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 X NO

As of August 1, 1998, the registrant had 21,238,980 shares of Class A Common Stock, no par value, and 4,037,628 shares of Class B Common Stock, no par value; and 3,595,586 shares of 12% Cumulative Exchangeable Redeemable Preferred Stock par value $.01 per share, outstanding.

No public market exists for the registrant's Common Stock.

Number of pages in this report (excluding exhibits): 17

TELOS CORPORATION AND SUBSIDIARIES

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PART I - FINANCIAL INFORMATION

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	1998	1997	1998	1997
Sales				
Systems and Support Services	$27,024	$32,189	$53,324	$58,025
Systems Integration	18,153	24,907	34,346	53,134
Enterworks	1,532	993	2,833	1,275
	46,709	58,089	90,503	112,434
Costs and expenses				
Cost of sales	39,634	48,511	80,115	95,159
Selling, general and administrative expenses	6,431	6,869	12,673	13,394
Goodwill amortization	132	209	325	434
Operating income (loss)	512	2,500	(2,610)	3,447
Other income (expenses)				
Gain on sale of assets	--	--	5,683	--
Other income (expenses)	6	11	26	23
Interest expense	(1,537)	(1,883)	(3,316)	(3,643)
(Loss) income before taxes	(1,019)	628	(217)	(173)
Income tax provision	(686)	--	(811)	--
Net (loss) income	$(1,705)	$ 628	$(1,028)	$ (173)

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

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

ASSETS

	June 30, 1998	December 31, 1997
Current assets		
Cash and cash equivalents	$ 141	$ 587
Accounts receivable, net	41,670	57,972
Inventories, net	10,024	12,390
Deferred income taxes	2,204	4,632
Other current assets	634	676
Total current assets	54,673	76,257
Property and equipment, net of accumulated depreciation of $23,592 and $22,609, respectively	15,146	15,730
Goodwill, net	7,183	12,466
Other assets	7,546	5,265
	$84,548	$109,718

LIABILITIES AND STOCKHOLDERS' INVESTMENT

	June 30, 1998	December 31, 1997
Current liabilities		
Accounts payable	$17,841	$16,912
Other current liabilities	7,296	6,835
Accrued compensation and benefits	6,007	8,684
Total current liabilities	31,144	32,431
Senior credit facility	23,750	39,945
Senior subordinated notes	17,011	16,930
Capital lease obligations	11,856	12,085
Total liabilities	83,761	101,391
Redeemable preferred stock		
Senior redeemable preferred stock	5,417	5,207
Class B redeemable preferred stock	--	12,035
Redeemable preferred stock	32,880	29,951
Total preferred stock	38,297	47,193
Stockholders' investment		
Common stock	79	78
Capital in excess of par	2,397	--
Retained earnings (deficit)	(39,986)	(38,944)
Total stockholders' investment (deficit)	(37,510)	(38,866)
	$84,548	$109,718

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

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

	Six Months Ended June 30, 1998	Six Months Ended June 30, 1997
Operating activities:		
Net loss	$(1,028)	$ (173)
Adjustments to reconcile net loss to cash (used in) provided by operating activities:		
Gain on sale of assets	(5,683)	--
Depreciation and amortization	1,668	1,919
Goodwill amortization	325	434
Other noncash items	381	39
Changes in assets and liabilities	12,541	(19,128)
Cash provided by (used in) operating activities	8,204	(16,909)
Investing activities:		
Proceeds from sale of assets	14,675	--
Investment in products	(1,111)	(1,154)
Purchase of property and equipment	(790)	(1,106)
Cash provided by (used in) investing activities	12,774	(2,260)
Financing activities:		
(Repayment of) proceeds from borrowings under senior credit facility	(16,195)	18,003
Payments under capital leases	(229)	(183)
Retirement of Class B redeemable preferred stock	(5,000)	--
Repayment of senior subordinated notes	--	(675)
Cash (used in) provided by financing activities	(21,424)	17,145
Decrease in cash and cash equivalents	(446)	(2,024)
Cash and cash equivalents at beginning of period	587	2,781
Cash and cash equivalents at end of period	$ 141	$ 757

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

TELOS CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1. General

The accompanying condensed consolidated financial statements of Telos Corporation ("Telos") and its wholly-owned subsidiaries, Telos Corporation (California), Telos Field Engineering, Inc., Telos International Corporation, and its majority-owned subsidiary, Enterworks, Inc. (collectively, the "Company") have been prepared without audit. Certain information and note disclosures normally included in the financial statements presented in accordance with generally accepted accounting principles have been condensed or omitted. In the opinion of the Company, the accompanying condensed consolidated financial statements reflect all adjustments and reclassifications (which include only normal recurring adjustments) necessary to present fairly the financial position of the Company as of June 30, 1998 and December 31, 1997, and the results of its operations and its cash flows for the three and six month periods ended June 30, 1998 and 1997. Interim results are not necessarily indicative of fiscal year performance because of the impact of seasonal and short-term variations. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's annual report on Form 10-K for the fiscal year ended December 31, 1997.

Certain reclassifications have been made to the prior year's financial statements to conform to the classifications used in the current period.

Note 2. Sale of Assets

On February 28, 1998, Telos sold substantially all of the net assets of one of its support services divisions, Telos Information Systems ("TIS"), to NYMA, Inc., a subsidiary of Federal Data Corporation of Bethesda, Maryland for approximately $14.7 million in cash. The Company has recorded a gain of $5.7 million in its condensed consolidated statement of operations for the six months ended June 30, 1998.

Note 3. Debt Obligations

The Company has a $45 million Senior Credit Facility ("Facility") with a bank which matures on July 1, 2000. Borrowings under the Facility are collateralized by certain assets of the Company (primarily accounts receivable and inventory), and the amount of available borrowings fluctuates based on the underlying asset borrowing base and the Company's working capital requirements. At June 30, 1998, the Company was not in compliance with certain financial covenants contained within the Facility. The bank has waived this noncompliance.

Note 4. Preferred Stock

Senior Redeemable Preferred Stock
- --------------------------------

The components of the senior redeemable preferred stock are Series A-1 and Series A-2 redeemable preferred stock each with $.01 par value and 1,250 and 1,750 shares authorized, issued and outstanding, respectively. The Series A-1 and Series A-2 each carry a cumulative per annum dividend rate of 14.125% of their liquidation value of $1,000 per share. The dividends are payable semi-annually on June 30 and December 31 of each year. The liquidation preference of the 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 Series A-1 and A-2 Preferred Stock is senior to all other present and future equity of the Company. The Company is required to redeem all of the outstanding shares of the Series A-1 and A-2 on December 31, 2001, subject to the legal availability of funds. At June 30, 1998 and December 31, 1997 cumulative undeclared, unpaid dividends relating to Series A-1 and A-2 Preferred Stock were accrued for financial reporting purposes in the amount of $2,417,000 and $2,207,000 respectively.

Class B Redeemable Preferred Stock

On May 8, 1998 the Company entered into an agreement with one of its shareholders, Union de Banques Suisses (Luxembourg) S.A. ("UBS"), to retire all of UBS's equity holdings in the Company. These equity holdings included all of the 7,500 shares of the Company's Class B Preferred Stock with a liquidation preference of $1,000 per share, and the cumulative unpaid dividends of approximately $4.8 million, 1,837,773 shares of the Company's Class A Common Stock, and 1,312,695 of the Company's Class A Common Stock warrants. The purchase price to retire these interests was $6.5 million, of which $5 million was paid in cash, and the remaining $1.5 million was funded by two separate letters of credit secured by the Company's lender. These will mature in 120 and 180 days from the date of the transaction.

The $5.9 million excess of the carrying amount of the Class B Redeemable Preferred Stock over the redemption price was recorded as an increase in capital in excess of par; there was no impact on income from this transaction.

12% Cumulative Exchangeable Redeemable Preferred Stock

A maximum of 6,000,000 shares of 12% Cumulative Exchangeable Redeemable Preferred Stock (the "Public Preferred Stock"), par value $.01 per share, have been authorized for issuance. The Company has issued 3,595,586 shares of the Public Preferred Stock. 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.

The Public Preferred Stock has a 20 year maturity, however, the Company must redeem, out of funds legally available, 20% of the Public Preferred Stock on the 16th 17th, 18th and 19th anniversaries of November 12, 1989, leaving 20% to be redeemed at maturity. 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.

Through November 21, 1995, the Company had the option to pay dividends in additional shares of Preferred Stock in lieu of cash. Dividends are payable by the Company, provided the Company has legally available funds under Maryland law and is able to pay dividends under its charter and other corporate documents, when and if declared by the Board of Directors, commencing June 1, 1990, and on each six month anniversary thereof. Dividends in additional shares of the Preferred Stock were paid at the rate of 6% of a share for each $.60 of such dividends not paid in cash. No dividends have been declared or paid during fiscal years 1992 through 1997. Cumulative undeclared dividends as of June 30, 1998 accrued for financial reporting purposes totaled $16,892,000. Dividends for the years 1992 through 1994 and for the dividend payable June 1, 1995 were accrued under the assumption that the dividend will be paid in additional shares of preferred stock and are valued at $3,950,000. Had the Company accrued these dividends on a cash basis, the total amount accrued would have been $15,101,000.

The Company has not declared or paid dividends since 1991, due to restrictions and ambiguities relating to the payment of dividends contained within its charter, its working capital facility agreement, and under Maryland law.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

General

In the first six months of 1998, the Company experienced a decrease in revenue of $21.9 million as compared to the same period in 1997. This decrease was largely attributable to a decrease of $18.8 million of revenue from the Company's Systems Integration Group. The Systems Integration Group was impacted by the expiration of the Immigration and Naturalization Services Contract in September 1997 and a lack of follow-up work from certain large contracts which were in place in 1997. In addition, Systems and Support Services revenues for the first six months of 1998 were $4.7 million less than the same 1997 period principally due to the sale of TIS in February 1998.

Operating profitability decreased during the first six months of 1998 as compared to the same 1997 period, principally due to the effect of the revenue decreases summarized above, a less profitable product mix in 1998 on certain System Integration Group contracts, and under absorption of infrastructure and the fixed nature of facility costs.

Total backlog from existing contracts was approximately $1.01 billion and $1.07 billion as of June 30, 1998 and December 31, 1997, respectively. Of the $1.01 billion in total backlog, $818.7 million is backlog under the Company's SMC-II contract. The SMC-II contract expires on September 30, 1998. As of June 30, 1998, the funded backlog of the Company totaled $61.7 million, a decrease from $104.3 million from December 31, 1997. This decrease is primarily due to the sale of TIS which decreased funded backlog by $24.9 million in the first quarter of 1998. Funded backlog represents aggregate contract revenues remaining to be earned by the Company at a given time, but only to the extent, in the case of government contracts, funded by a procuring government agency and allotted to the contracts.

Results of Operations

The condensed consolidated statements of operations include the results of operations of Telos Corporation and its wholly owned subsidiaries Telos Corporation (California), Telos Field Engineering Inc. ("TFE"), Telos International Corporation ("TIC"), and it majority owned subsidiary Enterworks, Inc. ("Enterworks") ("the Company"). The major elements of the Company's operating expenses as a percentage of sales for the three and six month periods ended June 30, 1998 and 1997 are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	1998	1997	1998	1997
Sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	84.8	83.5	88.5	84.6
SG&A expenses	13.8	11.8	14.1	11.9
Goodwill amortization	0.3	0.4	0.3	0.4
Operating income (loss)	1.1	4.3	(2.9)	3.1
Other income (expense)	--	--	--	--
Gain on sale of assets	--	--	6.3	--
Interest expense	(3.3)	(3.2)	(3.6)	(3.2)
Income tax provision	(1.5)	--	(0.9)	--
Net (loss) income	(3.7)%	1.1%	(1.1)%	(0.1)%

Financial Data by Market Segment

Sales, gross profit, and gross margin by market segment for the periods designated below are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	1998	1997	1998	1997
	(amounts in thousands)			
Revenues:				
Systems and Support Services	$27,024	$32,189	$53,324	$ 58,025
Systems Integration	18,153	24,907	34,346	53,134
Enterworks	1,532	993	2,833	1,275
Total	$46,709	$58,089	$90,503	$112,434
Gross Profit:				
Systems and Support Services	$4,228	$6,126	$8,412	$10,045
Systems Integration	1,947	3,692	2,111	7,622
Enterworks	900	(240)	(135)	(392)
Total	$7,075	$9,578	$10,388	$17,275
Gross Margin:				
Systems and Support Services	15.6%	19.0%	15.8%	17.3%
Systems Integration	10.7%	14.8%	6.1%	14.3%
Enterworks	58.7%	(24.2)%	(4.8)%	(30.7)%
Total	15.1%	16.5%	11.5%	15.4%

For the three month period ended June 30, 1998, revenue decreased by $11.4 million, or 19.6% to $46.7 million from $58.1 million for the comparable 1997 period. Of the $11.4 million decrease, $6.7 million was attributable to the Systems Integration Group, which experienced this loss of revenue primarily because of the expiration of its Immigration and Naturalization Services contract ("INS contract") in September 1997. The INS contract contributed revenues of $7.6 million in the second quarter of 1997. The Systems and Support Services Group also experienced a $5.2 million decrease in revenue from second quarter 1998 compared to second quarter 1997. This decrease is primarily due to a $6.3 million decrease in revenue resulting from the sale of the TIS division in February 1998. This loss of revenue was partially offset by an increase in software solutions sales related to an order under the Artillery Training Simulation Devices product line. The declines in System Integration and Systems and Support Services revenue were also partially offset by an increase of $539,000 in Enterworks revenue for the second quarter of 1998 compared to the second quarter of 1997. The increase is primarily due to Enterworks sales to the Army Logistics market segment.

Revenue decreased $21.9 million or 19.5% to $90.5 million for the six months ended June 30, 1998, from $112.4 million for the comparable 1997 period. The decrease for the six month period includes an $18.8 million decrease in Systems Integration revenue and a $4.7 million decrease in Systems and Support Services revenue, partially offset by an increase of $1.6 million in Enterworks revenue. This decrease in the six month revenue is primarily due to the lack of revenue from the INS contract, which expired in September 1997 and had revenue of $17.3 million in the first six months of 1997, the sale of TIS in February 1998, and the lack of follow-up work from large contracts which were in place in 1997. These decreases were slightly offset by sales under the Artillery Training Simulation Devices product line of $3.0 million, and Enterworks sales to the Army Logistics and health care market segments.

Cost of sales decreased by $8.9 million or 18.3%, to $39.6 million in the three month period ended June 30, 1998, from $48.5 million in the comparable 1997 period. The decrease in cost of sales for the three month period includes a $5.0 million decrease in systems integration cost of sales, a $3.3 million decrease in systems and support services cost of sales, and a $600,000 decrease in Enterworks cost of sales. Except for Enterworks, the decrease in cost of sales resulted from the decreases in sales for the period. Additionally, cost of sales increased due to unfavorable changes in product mix and by an under absorption of infrastructure and the fixed nature of facilities costs.

For the six months ended June 30, 1998, cost of sales decreased $15.0 million, or 15.8%, to $80.1 million from $95.1 million for the same period in 1997. The change in cost of sales includes a $13.3 million decrease in systems integration cost of sales and a $3.0 million decrease in systems and support services cost of sales, and a $1.3 million increase in Enterworks cost of sales. The reasons for these cost of sales decreases are consistent with those summarized in the preceding paragraph.

Gross profit decreased $2.5 million in the three month period to $7.1 million in 1998, from $9.6 million in the comparable 1997 period. The decrease in gross profit includes a $1.7 million decrease in systems integration gross profit, and a $1.9 million decrease in systems and support services gross profit, partially offset by an increase in Enterworks gross profit of $1.1 million. For the six month period, gross profit decreased by $6.9 million to $10.4 million from $17.3 million. This decrease includes a $5.5 million decrease in systems integration gross profit and a $1.6 million decrease in systems and support services gross profit, offset by a $257,000 decline in Enterworks gross loss. The reasons for the gross profit decrease for the periods ended June 30, 1998 compared to June 30, 1997 related to the reduced revenue base in both the Systems Integration and Systems and Support Services Groups. In addition, the Systems Integration Group experienced shifts in product mix which significantly impacted gross margin.

Gross margins were 15.1% and 11.5%, respectively, for the three and six month periods of 1998 as compared to 16.5% and 15.4%, respectively, for the comparable periods of 1997.

Selling, general, and administrative expense ("SG&A") decreased by approximately $438,000 or 6.4%, to $6.4 million in the second quarter of 1998 from $6.9 million in the comparable period of 1997. For the six month period of 1998, SG&A decreased $721,000 to $12.7 million from $13.4 million in 1997. These decreases are due primarily to the Company's consolidation of its administrative support functions and were partially offset by an increased investment in research and development and sales and marketing for Enterworks. Excluding the additional expense incurred for Enterworks research and development of $545,000 and Enterworks sales and marketing costs of $824,000, selling general and administrative expense decreased $2.1 million for the six months ended June 30, 1998 compared to the same period in 1997.

SG&A as a percentage of revenues increased to 13.8% for the second quarter of 1998 from 11.8% in the comparable 1997 period. SG&A as a percentage of revenues for the six month period ended June 30, 1998 increased to 14.1% from 11.9% compared to the same period in 1997.

Goodwill amortization expense decreased $77,000 to $132,000 for the three months and decreased by $109,000 to $325,000 for the six months ended June 30, 1998. These reductions are due to a decrease in the goodwill balance associated with the sale of TIS in early 1998.

Operating income decreased by $2.0 million to $512,000 in the three month period ended June 30, 1998 from $2.5 million of operating profit in the comparable 1997 period. Operating income decreased $6.1 million to a $2.6 million operating loss for the six months ended June 30, 1998 from a $3.4 million operating profit for the six month period ended June 30, 1997. These decreases resulted from the aforementioned decreases in gross profit.

Telos sold substantially all of the net assets of one of its divisions, TIS, in the first quarter of 1998. The transaction generated approximately $14.7 million in cash proceeds and a gain of $5.7 million. The Company expects that future 1998 quarterly revenues and operating profits will decrease, when compared to 1997, as a result of the TIS sale. Although the Company expects to offset effects of the TIS sale by expanding its business base, there is no assurance that such expansion will occur.

Interest expense decreased approximately $346,000 to $1.5 million in the second quarter of 1998 from $1.9 million in the comparable 1997 period, and decreased approximately $327,000 to $3.3 million for the six months ended June 30, 1998 from $3.6 million for the comparable 1997 period. These decreases are due to decreased debt levels in 1998.

The income tax provision was $686,000 and $811,000 for the three and six months ended June 30, 1998, respectively. The tax provisions were primarily attributable to provisions for state income taxes and increases and allowances relating to the recoverability of deferred tax assets. An income tax provision was not recorded for the three or six month periods ended June 30, 1997, principally because federal and state net operating loss carryforwards were sufficient to offset taxes due for those periods.

Liquidity and Capital Resources

For the six months ended June 30, 1998, the Company generated $8.2 million of cash from its operating activities. This cash was provided by reductions of accounts receivable of $16.3 million, offset by increased losses incurred in operations. Cash provided by investing activities was $12.8 million, which is primarily attributable to the proceeds from the sale of TIS of $14.7 million. Cash used by financing activities during the first half of the year was principally due to $16.2 million of net repayment of debt and $5.0 million relating to the retirement of preferred stock.

At June 30, 1998, the Company had outstanding debt and long term obligations of $52.6 million, consisting of $23.7 million under the secured senior credit facility, $17.0 million in subordinated debt, and $11.9 million in capital lease obligations.

The Company regularly evaluates its financing requirements to support its business base. Company revenues are seasonal and are significantly influenced by the federal government's fiscal year end, which is September 30. The Company anticipates that its projected cash flows from operations together with amounts available under its senior credit facility will be adequate to fund operations at least through 1998. In addition, the Company has and continues, from time to time, to evaluate various financing options for additional capital infusion and long-term growth.

In May 1998, the Company retired all of the equity holdings of Union de Banques Suisses (Luxembourg) S.A. for $6.5 million, of which $5 million was paid in cash in May 1998, and the remaining $1.5 million was funded by two separate letters of credit secured by the Company's lender. These will mature in 120 and 180 days from the date of transaction.

At June 30, 1998, the Company was noncompliant with certain financial covenants contained in its senior credit facility. The Company's bank has waived this noncompliance.

Year 2000

The Company, like most owners of computer software, will be required to modify significant portions of its software so that it will function properly in the year 2000. Systems that do not properly recognize date-sensitive information could generate erroneous data or cause a system to fail. The Company expects to incur internal staff costs as well as consulting and other expenses related to software and infrastructure enhancements necessary to prepare the systems for the year 2000. Maintenance, modification costs and software purchased with the express purpose of fixing the year 2000 problem will be expensed as incurred. Management believes that on the basis of its review of its own computer based systems, the Company is or will be year 2000 compliant without incurring additional material costs. All software created and sold by the Company is believed to be compliant or will be compliant by the year 2000. The Company has been informed by its suppliers that all software licensed to the Company for resale will be compliant by the year 2000. Agencies of the United States Government are principal customers of the Company. If such agencies experience significant year 2000 system failures, under terms of typical government contracts, the Company's performance could be delayed or contracts could be terminated for convenience. If similar failures are experienced by customers or potential customers of the Company, this would also have an impact on the Company's financial performance.

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements. For this purpose, any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the foregoing, the words "believes," "anticipates," "plans," "expects" and similar expressions are intended to identify forward-looking statements. There are a number of important factors that could cause the Company's actual results to differ materially from those indicated by such forward-looking statements. These factors include, without limitation, those set forth below under the caption "Certain Factors That May Affect Future Results."

Certain Factors That May Affect Future Results

The following important factors, among others, could cause actual results to differ materially from those indicated by forward-looking statements made in this Quarterly Report on Form 10-Q and presented elsewhere by management from time to time.

A number of uncertainties exist that could affect the Company's future operating results, including, without limitation, general economic conditions, the timing and approval of the federal government's fiscal year budget, business growth through obtaining new business and, once obtained, the Company's ability to perform successfully at a profit, the Company's ability to convert contract backlog to revenue, the Company's ability to secure adequate capital and financing to support continued business growth, and the risk of the federal government terminating contracts with the Company. While the Company has not experienced significant contract terminations with the federal government, the federal government can terminate at its convenience. Should this occur, the Company's operating results could be adversely impacted.

As a high percentage of the Company's revenue is derived from business with the federal government, the Company's operating results could be adversely impacted should the federal government not approve and implement its annual budget in a timely fashion.

While the Company believes it has adequate financing to support its revenue base anticipated for 1998, the Company's growth depends upon its ability to obtain additional capital and financing sources. The Company regularly reviews the requirements for additional financing. However, no assurance can be made on whether such financing, if necessary, can be obtained on acceptable terms.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

On May 1, 1998, the U.S. District Court for the Eastern District of Virginia entered its final order in Telos Corporation v. Cede & Co., Case No. 1:97CVO439. In its final order, the court held that dividends payable on Telos' 12% Cumulative Exchangeable Redeemable Preferred Stock (the "Preferred Stock") had been in arrears and unpaid for more than three consecutive full semi-annual periods and that the holders of the Preferred Stock were entitled to elect two Class D directors on or before July 31, 1998. Said election was held on July 31, 1998, and the Preferred Stock shareholders elected two Class D directors.

Item 2. Changes in Securities and Use of Proceeds

On May 8, 1998 the Company entered into an agreement with one of its shareholders, Union de Banques Suisses (Luxembourg) S.A. ("UBS"), to retire all of UBS's equity holdings in the Company. These equity holdings included all of the 7,500 shares of the Company's Class B Preferred Stock with a liquidation preference of $1,000 per share, and the cumulative unpaid dividends of approximately $4.8 million, 1,837,773 shares of the Company's Class A Common Stock, and 1,312,695 of the Company's Class A Common Stock warrants. The purchase price to retire these interests was $6.5 million, of which $5 million was paid in cash, and the remaining $1.5 million was funded by two separate letters of credit secured by the Company's lender. These will mature in 120 and 180 days from the date of the transaction.

Item 3. Defaults Upon Senior Securities

Senior Redeemable Preferred Stocks

The Company has not declared dividends on its Senior Redeemable Preferred Stock, Series A-1 and A-2, since their issuance. Total undeclared unpaid dividends accrued for financial reporting purposes are $2,417,000 for the Series A-1 and A-2 Preferred Stock at June 30, 1998.

12% Cumulative Exchangeable Redeemable Preferred Stock

Through November 21, 1995, the Company had the option to pay dividends in additional shares of Preferred Stock in lieu of cash (provided there were no blocks on payment as further discussed below). Dividends are payable by the Company, provided the Company has legally available funds under Maryland law and is able to pay dividends under its charter and other corporate documents, when and if declared by the Board of Directors, commencing June 1, 1990, and on each six month anniversary thereof. Dividends in additional shares of the Preferred Stock were paid at the rate of 0.06 of a share for each $.60 of such dividends not paid in cash. No dividends have been declared or paid during fiscal years 1992 through 1997. Cumulative undeclared dividends as of June 30, 1998 accrued for financial reporting purposes totaled $16,892,000. Dividends for the years 1992 through 1994 and for the dividend payable June 1, 1995 were accrued under the assumption that the dividend will be paid in additional shares of preferred stock and are valued at $3,950,000. Had the Company accrued these dividends on a cash basis, the total amount accrued would have been $15,101,000. For the cash dividends payable since December 1, 1995 the Company has accrued $12,942,000.

The Company has not declared or paid dividends since 1991, due to restrictions and ambiguities relating to the payment of dividends contained within its charter, its working capital facility agreement, and under Maryland law.

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

On May 11, 1998 at the annual meeting of common shareholders a vote was taken to elect the following directors: Dr. Fred Charles Ikle, John B. Wood, Norman P. Byers and Dr. Stephen Bryen. The persons nominated were approved to be directors of the Corporation by unanimous vote of all shareholders present at the meeting which represented a majority of the Company's common shares outstanding.

On July 31, 1998, at a special meeting of the holders of the 12% Cumulative Exchangeable Redeemable Preferred Stock ("12% Preferred Stock"), a vote was taken to elect two new Class D directors. Mr. Julio E. Heurtematte, Jr. and Malcolm M.B. Sterrett were elected by plurality vote of all shareholders present at the meeting, in person or by proxy, which represented a majority of the Company's 12% Preferred Stock outstanding.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

10.85 Share Purchase Agreement between Telos Corporation, a Maryland Corporation, formerly named and known as C3, Inc. and Union Bank of Switzerland dated May 7, 1998.

27 Financial Data Schedule

(b) Reports on Form 8-K:

None.

SIGNATURES

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

DATE:	Telos Corporation
August 14, 1998	/s/ Lorenzo Tellez -------------------------------- Lorenzo Tellez (Principal Financial Officer & Principal Accounting Officer)

Telos Corporation
Exhibit Index

SHARE PURCHASE AGREEMENT

THIS SHARE PURCHASE AGREEMENT ("Agreement") is made this 7th day of May, 1998, between Telos Corporation, a Maryland corporation, formerly named and known as C3, Inc. ("Telos"), and Union Bank of Switzerland ("UBS"), and consented and agreed to by Union de Banques Suisses (Luxembourg) S.A.

R E C I T A L S

1. UBS is the owner and holder of all of the authorized, issued and outstanding Class B Redeemable Preferred Stock of Telos, with a face value of seven million, five hundred thousand dollars and 00/100 ($7,500,000.00), which stock from July 1, 1995 through June 30, 1997 had a cumulative dividend rate per annum equal to 11.125% which increased to 14.125% per annum thereafter, and which stock as of the date hereof has undeclared and unpaid dividends relating to the Class B Redeemable Preferred Stock totaling approximately four million, nine hundred thousand dollars ($4,900,000.00) (the "Preferred Shares").

2. UBS is also the owner and holder of one million, eight hundred thirty-seven thousand, seven hundred and seventy-three(1,837,773) shares of Telos' Class A Common Stock, no par value, and has the ability to purchase an additional one million, three hundred twelve thousand, six hundred and ninety-five (1,312,695) shares of Class A Common Stock purchasable upon exercise of a Warrant pursuant to the terms of a certain Warrant Agreement between Telos and UBS dated January 14, 1992 (the "Common/Warrant Stock").

3. The Preferred Stock and the Common/Warrant Stock are sometimes collectively referred to herein as the "Shares".

4. Telos and UBS have agreed that Telos will purchase the Shares from UBS as provided in this Agreement.

NOW, THEREFORE, in consideration of the premises and the mutual covenants contained herein, the parties hereby agree as follows:

ARTICLE I

RECITALS

SECTION 1.1 The foregoing Recitals are hereby made a part of this Agreement.

ARTICLE II

ACQUISITION OF THE SHARES

The sale by UBS and the purchase by Telos of the Shares shall be consummated as set forth in this Article II.

SECTION 2.1 PURCHASE OF THE SHARES

2.1.1 Purchase of the Shares by Telos. Subject to the terms and conditions herein, UBS agrees to sell to Telos and Telos agrees to purchase from UBS, the Shares, which are all the equity interests UBS has in Telos for a purchase price of five million, five hundred thousand dollars and 00/100 ($5,500,000.00) payable as follows:

(a) The sum of five million dollars ($5,000,000.00) by federal wired funds at the Closing, and

(b) The sum of five hundred thousand dollars ($500,000.00), without interest, on or before November 7, 1998, secured by a Letter of Credit from Nations Bank, N.A., in the form of the Letter of Credit attached hereto as Exhibit A.

SECTION 2.2 CLOSING

2.2.1 Closing Date. The closing of the sale and purchase of the Shares shall take place at the offices of Union Bank of Switzerland, New York Branch, 299 Park Avenue, New York, N.Y. 10171 on May 7, 1998 at 2:30 P.M., unless the parties hereto otherwise mutually shall agree. The time and date on which the closing hereunder occurs is herein called the "Closing."

2.2.2 Deliveries by UBS. At Closing, UBS will deliver the following to Telos:

Stock certificates representing the Shares accompanied by stock powers duly executed in blank or duly executed instruments of transfer, and any other documents that are necessary to transfer to Telos good title to such Shares.

2.2.3 Deliveries by Telos. At Closing, Telos will deliver to UBS the following:

(a) By same day funds to a bank account designated in advance by UBS, an amount equal to Five Million Dollars and 00/100 ($5,000,000.00).

(b) The Letter of Credit for five hundred thousand dollars and 00/100 ($500,000.00) attached hereto as Exhibit A.

(c) The opinion of counsel referred to in Section 2.6.2(d) hereof.

SECTION 2.3 REPRESENTATIONS AND WARRANTIES OF UBS

UBS hereby represents and warrants to Telos the following:

2.3.1 No Encumbrance. UBS has good title to and has not sold, transferred or otherwise encumbered any of the Shares. The Shares represent all equity interests acquired by UBS in Telos, pursuant to or in connection with any of the following agreements, including any amendments, modifications, supplements or restructuring of any of such agreements or any debt or equity issued pursuant to such agreements: (i) $20,000,000 principal amount of Senior Exchange Notes due 1994 issued by C3, Inc. under an indenture dated as of November 21, 1989 between C3, Inc. and The Connecticut National Bank, as trustee (the "Trustee") and (ii) $45,747,000 principal amount of Senior Subordinated Exchange Notes due 1999 issued by C3, Inc. under an indenture dated as of November 21, 1989 between C3, Inc. and the Trustee.

2.3.2 Corporate Powers' Non-Contravention of Laws. UBS has the corporate power and authority to execute, deliver and carry out the terms and provisions of this Agreement. UBS has taken all necessary corporate action to authorize the execution, delivery and performance of this Agreement. This Agreement has been duly executed and delivered by UBS and constitutes the legal, valid and binding obligation of UBS enforceable in accordance with its terms, subject, as to enforcement, to bankruptcy, insolvency, reorganization, and other laws of general applicability relating to or affecting creditors' rights and to general equitable principles. Neither the execution, delivery or performance by UBS of this Agreement nor compliance with any of the terms and provisions hereof, nor the consummation of any of the transactions contemplated hereby will contravene any law, statute, rule or regulation of the United States, New York or Luxembourg or any existing order, writ, injunction or decree of any governmental authority.

2.3.3 Brokers. UBS has not incurred any liability, contingent or otherwise, for any brokerage fee, commission or financial advisory fee in connection with the transactions contemplated by this Agreement.

2.3.4 Offering of the Shares. Neither UBS or any person authorized or employed by UBS as agent, broker, dealer or otherwise has offered the Shares for sale to, or solicited any offers to buy the Shares of UBS from, or otherwise approached or negotiated with respect thereto with, any person or persons other than Telos, and neither UBS nor any person acting on its behalf has taken any action (including without limitation any offer, issuance or sale of the Shares) which might subject the offering, issuance or sale of the Shares to the registration provisions of the Securities Act.

SECTION 2.4 REPRESENTATIONS AND WARRANTIES OF TELOS

Telos hereby represents and warrants to UBS the following:

2.4.1 Organization and Good Standing; Business. Telos (i) is a corporation, duly organized and existing in good standing under the laws of Maryland with all requisite corporate power and authority to own its properties and conduct its business as now being conducted, (ii) is duly qualified to do business as a foreign corporation in good standing in each jurisdiction where it conducts its business or owns or leases property.

2.4.2 Authority. Telos has full power and authority to enter into and perform this Agreement in accordance with its terms and has duly authorized, executed and delivered this Agreement, except to the extent as may be limited by bankruptcy, insolvency or similar laws and the exercise of judicial discretion in applying general principles of equity.

2.4.3 No Violation. The execution, delivery and performance of this Agreement by Telos does not and will not (i) conflict with any provision of the Certificate of Incorporation or By-Laws of Telos or any law, regulation, order or similar governmental act applicable to Telos, (ii) conflict with, or result in the creation of any encumbrance, security interest, equity or right of others upon any of the properties or assets of Telos under any of the terms, conditions or provisions of any agreement, instrument or obligation to which Telos may be bound or affected or (iii) violate any order, writ, injunction, decree, statute, rule or regulation applicable to Telos and its assets.

2.4.4 Consents. No consent, approval, permit or license from or filing with any governmental or regulatory authority or other person is required to be obtained or made by Telos in connection with the execution, delivery and performance by Telos of this Agreement.

2.4.5 No Defaults. Telos is (i) not in violation of any provision of its Certificate of Incorporation or By-Laws (or other analogous organizational documents) or in default under or in violation of any agreement, instrument or obligation to which it is a party or by which it is bound or to which any of its properties are subject and (ii) in compliance with all laws, regulations, governmental orders and other governmental action applicable to it or its business.

2.4.6 Brokers. Telos has not incurred any liability, contingent or otherwise, for any brokerage fee, commission or financial advisory fee (other than in favor of UBS or an affiliate of UBS) in connection with the transactions contemplated by this Agreement.

SECTION 2.5 CONDITIONS TO CLOSING OF SHARE ACQUISITION

2.5.1 Conditions to Obligations of Telos. The obligations of Telos under Article II of this Agreement are subject to satisfaction or to waiver by Telos, on or prior to Closing, of each of the following conditions precedent:

(a) Representations and Warranties; Performance; Certificate. The representations and warranties of UBS contained in Article II of this Agreement or in any instrument, list, certificate or writing delivered to Telos pursuant to Article II of this Agreement shall be correct in all material respects on and as of Closing with the same effect as though made on and as of such date by reference to the facts and circumstances then existing; UBS shall have performed in all material respects each of their obligations and agreements hereunder to be performed by it pursuant to this Article II at or prior to Closing.

(b) Absence of Orders. No order shall have been issued by any court or other governmental body and not have expired or been lifted or dissolved, and no statute, rule or regulation shall be enacted or issued, that would have as an effect to restrain or prohibit consummation of the transactions contemplated by this Agreement.

(c) Approvals. UBS shall have obtained all required consents and approvals to the consummation of the transaction contemplated by this Agreement. UBS does not require the consent or approval of any third party in order to enter into and perform this Agreement.

2.6.2 Conditions to Obligations of UBS. The obligations of UBS under Article II of this Agreement are subject to satisfaction or to waiver by UBS, on or prior to Closing, of each of the following conditions precedent:

(a) Representations and Warranties; Performance; Certificate. The representations and warranties of Telos contained in Article II of this Agreement or in any instrument, list, certificate or writing delivered to UBS pursuant to Article II of this Agreement shall be correct in all material respects on and as of Closing with the same effect as though made on and as of such date by reference to the facts and circumstances then existing; Telos shall have performed in all material respects each of its obligations and agreements hereunder to be performed by it pursuant to this Article II at or prior to Closing.

(b) Absence of Orders. No order shall have been issued by any court or other governmental body and not have expired or been lifted or dissolved, and no statute, rule or regulation shall be enacted or issued, that would have as an effect to restrain or prohibit consummation of the transactions contemplated by this Agreement.

(c) Approvals. Telos shall have obtained all required consents and approvals to the consummation of the transaction contemplated by this Agreement. Executed counterpart copies of all consents referred to in the preceding sentence will be delivered to UBS at Closing.

(d) Opinion of Counsel for Telos. UBS shall have received an opinion of Telos' counsel, dated the date of the Closing, in form and substance satisfactory to UBS' counsel, to the effect that:

(i) Telos is a corporation duly organized, validly existing and in good standing under the laws of Maryland with the corporate power and authority to carry on its business;

(ii) all corporate and other proceedings required by law, by the Certificate of Incorporation or By-Laws (or other analogous organizational documents) of Telos, or by the provisions of this Agreement to be taken by Telos in connection with the execution and delivery of this Agreement and/or the due consummation of the transactions contemplated by Article II hereby have been duly and validly taken;

(iii) neither the execution or delivery of this Agreement by UBS nor the consummation of the transactions contemplated by Article II hereby (A) violates any statute or law or any rule, regulation, order, judgment or decree of any court or governmental authority normally applicable to transactions of the type contemplated by this Agreement based on such counsel's experience, (B) violates or conflicts with or constitutes a default under the Certificate of Incorporation or By-Laws (or other analogous organizational documents) of Telos, or any contract, commitment, agreement, understanding, arrangement or restriction of any kind to which Telos is a party, or (C) will cause, or give any person valid grounds to cause, the maturity of any liability or obligation of UBS to be accelerated or will increase any such liability or obligation; and

(iv) this Agreement has been duly executed and delivered by, and is a valid and binding obligation of Telos, enforceable against Telos in accordance with its respective terms, except that (a) such enforcement may be subject to applicable bankruptcy, reorganization, insolvency or other laws, now or hereafter in effect, affecting creditors' rights generally, and (b) the remedy of specific performance and injunctive and other forms of equitable relief may be subject to equitable defenses and to the discretion of the court before which any proceeding therefor may be brought.

(v) the repurchase by Telos of the Shares is lawful under applicable Maryland law.

ARTICLE III
MISCELLANEOUS

SECTION 3.1 NOTICES

Any notice, request, instruction or other document to be given under this Agreement after the date hereof by any party hereto to any other party shall be in writing and shall be delivered personally or sent by registered or certified mail, postage prepaid, to the following persons and addresses, or to such other addresses or persons as any party may designate by written notice to the other parties:

(a) UBS:
Union Bank of Switzerland
c/o Union Bank Switzerland
New York Branch
299 Park Avenue
New York, New York 10171
Attn: L. Thomas Sperry
Phone: (212) 821-3308
Facsimile: (212) 821-3008

(b) Union de Banques Suisses (Luxembourg) S.A.
c/o Union Bank Switzerland
299 Park Avenue
New York, New York 10171
Attn: L. Thomas Sperry
Phone: (212) 821-3308
Facsimile: (212) 821-3008

(b) TELOS:
William L.P. Brownley, V.P. and
General Counsel
Telos Corporation
19886 Ashburn Road
Ashburn, Virginia 20147
Phone: (703) 724-3645
Facsimile: (703) 724-3855

SECTION 3.2 SURVIVAL OF RIGHTS

Except as herein otherwise provided to the contrary, this Agreement shall be binding upon and inure to the benefit of the parties hereto, their successors and assigns. Notwithstanding any other provision of this Agreement, the parties hereto acknowledge that (i) the rights and obligations of UBS hereunder are those of UBS and its legal successors, and accordingly that this Agreement will survive the merger of UBS and Swiss Bank Corporation ("SBC") and (ii) UBS and its affiliates may provide to SBC and its affiliates information related to the transactions contemplated hereby or other parties to said transactions for reasons related to such merger.

SECTION 3.3 INTERPRETATION AND GOVERNING LAW

When the context in which words are used in this Agreement indicates that such is the intent, words in the singular number shall include the plural and vice versa. The Article headings or titles and the tables of contents shall not define, limit, extend or interpret the scope of this Agreement or any particular Article. This Agreement shall be governed and construed in accordance with the laws of the State of Maryland without giving effect to the conflicts of law provisions thereof.

SECTION 3.4 SEVERABILITY

If any provision, sentence, phrase or word of this Agreement or the application thereof to any person or circumstances shall be held invalid, the remainder of this Agreement, or the application of such provision, sentence, phrase, or word to persons or circumstances, other than those as to which it is held invalid, shall not be affected thereby.

SECTION 3.5 AGREEMENT IN COUNTERPARTS

This Agreement may be executed in several counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same instrument. In addition, this Agreement may contain more than one counterpart of the signature page and this Agreement may be executed by the affixing of the signatures of each of the parties to one of such counterpart signature pages; all of such signature pages shall be read as though one, and they shall have the same force and effect as though all of the signers had signed a single signature page.

SECTION 3.6 THIRD PARTIES

The agreements, covenants and representations contained herein are for the benefit of the parties hereto inter se and are not for the benefit of any third parties.

SECTION 3.7 ENTIRE AGREEMENT

This Agreement and the documents referred to herein set forth all the covenants, promises, agreements, conditions and understandings among the parties herein, and there are no other covenants, promises, agreements, conditions or understandings, whether oral or written, among the parties hereto.

SECTION 3.8 ATTORNEYS' FEES

In the event attorneys' fees or other costs are incurred to secure performance of any of the obligations herein provided for, or to establish damages for the breach thereof, or to obtain any other appropriate relief, whether by way of prosecution or defense, the prevailing party shall be entitled to recover reasonable attorneys' fees and costs necessarily incurred therein.

SECTION 3.9 ADDITIONAL DOCUMENTS

Each party hereto agrees to execute any and all documents, and to perform such other acts that may be necessary or expedient to further the purposes of this Agreement.

SECTION 3.10 EXHIBITS

All exhibits referred to in this Agreement are incorporated into and made a part of this Agreement.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the day and year above written.

ATTEST OR WITNESS:

TELOS CORPORATION, a Maryland corporation, formerly named and known as C3, Inc.

____

By: /s/ William L.P. Brownley

Name: William L.P. Brownley

Title: V.P. General Counsel

UNION BANK OF SWITZERLAND

____

By:/s/ Bruce H. Mendelsohn

Name:Bruce H. Mendelsohn

Title: Attorney-In-Fact

____

By:/s/ M. Terri Reilly

Name: M. Terri Reilly

Title: Attorney-In-Fact

AGREED AND CONSENTED TO BY:

Union de Banques Suisses
(Luxembourg) S.A.

By:/s/ Bruce H. Mendelsohn

Name: Bruce H. Mendelsohn

Title: Attorney-In-Fact

By: /s/ N, Terri Reilly

Name: M. Terri Reilly

Title: Attorney-In-Fact

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This schedule contains summary financial information extracted from the consolidated balance sheets and statemens of income for Telos Corporation and is qualified in its entirety by reference to such financial statements.

6-MOS
Dec-31-1998
Jun-30-1998
141,000
0
42,450,000
780,000
10,024,000
54,673,000
38,738,000
23,592,000
84,548,000
31,144,000
40,761,000
38,297,000
0
79,000
(39,986,000)
84,548,000
34,346,000
90,503,000
32,235,000
80,115,000
0
0
3,316,000
(217,000)
(811,000)
(1,028,000)
0
0
0
(1,028,000)
0
0