



# Third Quarter 2023 Earnings

November 9, 2023



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# FINANCIAL PERFORMANCE SUMMARY

## DELIVERED \$36.2M OF REVENUE AND 36.0% GROSS MARGIN

### 3Q 2023 Summary

- Delivered \$36.2M of revenue vs. guidance of \$30M to \$34M
  - Security Solutions (“SS”) down 39% YoY (vs. guidance of down mid-50% to mid-40%); Up 15% sequentially; Results exceeded guidance primarily due to outperformance on important programs, including: higher than forecasted TSA PreCheck® renewal volume, a rebound in customer mission activity on a confidential program, and higher revenues on a cybersecurity program
  - Secure Networks (“SN”) down 47% YoY (vs. guidance of down low-50% to mid-40%); Up 4% sequentially; Results in line with guidance
- Delivered 36.0% gross margin vs. guidance of 30.4% to 34.2%
  - Revenue outperformance on higher margin SS programs
  - Several programs in SN outperformed due to strong program cost management
  - Revenue mix weighted 55% to higher margin SS (vs. guidance of 48% to 51%)
- Below The Line (“BTL”) expenses, net of stock based compensation (“SBC”) and depreciation and amortization (“D&A”), approximately in line with guidance excluding management reserve
- Adjusted EBITDA above high end of guidance range due to better than forecasted gross profit and lower BTL expenses

	3Q 2023 Actual	3Q 2023 Guidance
Revenue	\$36.2M	\$30M to \$34M
Revenue Growth	-43% YoY 10% Sequential	-53% to -47% YoY -9% to 3% Sequential
Gross Profit	\$13.0M 36.0% Margin +303 bps YoY	30.4% to 34.2% Margin -250 to +125 bps YoY
Adjusted EBITDA <sup>(1)</sup>	(\$1.3M) -3.5% Margin	(\$8.0M) to (\$6.0M) -26.7% to -17.6% Margin
Adjusted EPS <sup>(1)</sup>	(\$0.07)	

### Exceeded High End of Guidance Range on All Financial Metrics



**Notes:**

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



# RECENT BUSINESS HIGHLIGHTS

## NOTABLE EVENTS

- Achieved formal launch of the **TSA PreCheck** program
  - <https://tsaprecheckbytelos.tsa.dhs.gov/>
- Awarded **Xacta**® renewals with key government and commercial customers:
  - Government clients include the **National Geospatial-Intelligence Agency, Federal Bureau of Investigation, U.S. State Department, Defense Intelligence Agency, U.S. Social Security Administration, U.S. Environmental Protection Agency, and a classified customer**
  - Commercial customers include **Zscaler, EY, stackArmor, and a large confidential customer in the technology sector**
- Achieved renewals for **cyber services** at the **Defense Health Agency, General Services Administration, and U.S. Department of Homeland Security**
- Received a new award for the Telos **Automated Message Handling System** with the Joint Cryptologic Mission Simulation program through the **National Security Agency**
- Received a new contract award in Secure Networks for a new network installation with the **U.S. Air Force**



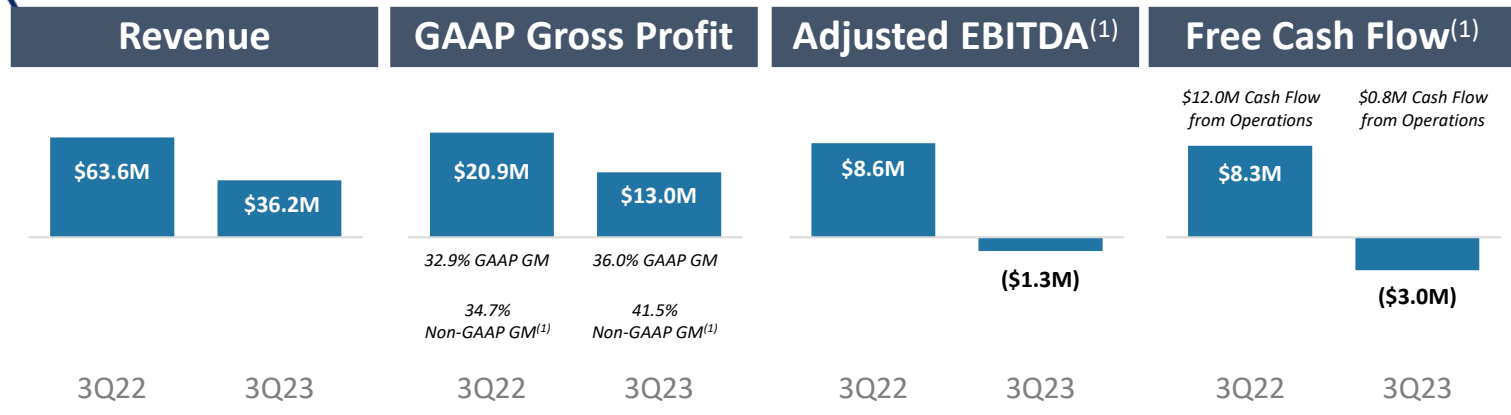
Formal Launch of TSA PreCheck Program Achieved in 3Q



# FINANCIAL PERFORMANCE SUMMARY

## 3Q AND 9M 2023 YEAR-OVER-YEAR COMPARISON

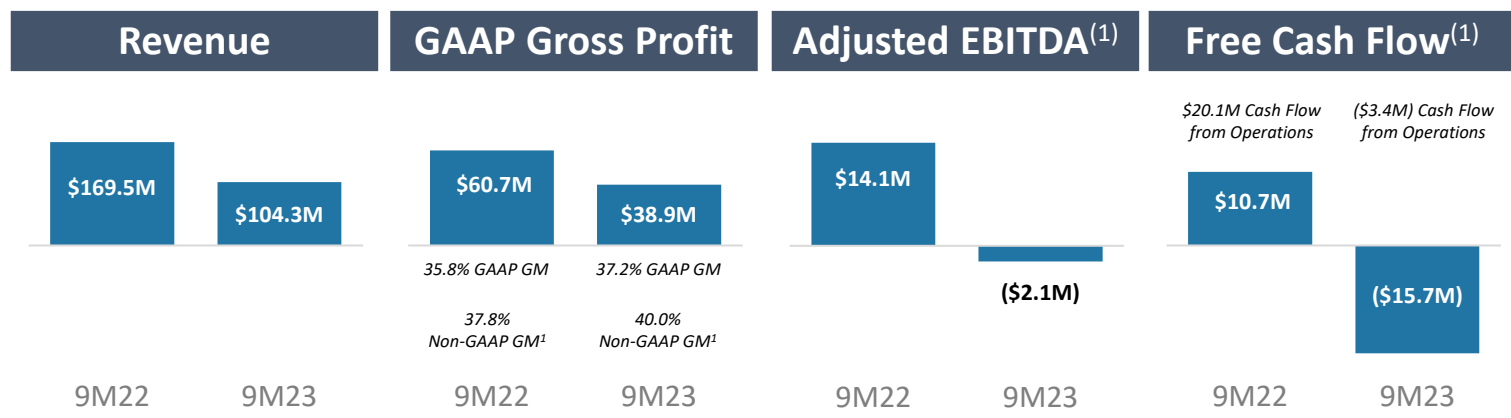
3Q YoY



### 3Q YoY Commentary

- **Revenue:** SS down 39% to \$19.8M primarily due to lower revenues on two ongoing programs. SN down 47% to \$16.4M primarily due to the successful completion of large programs.
- **GAAP Gross Profit:** Down \$7.9M primarily due to lower revenues, partially offset by higher GAAP GM. SS GAAP GM down 77 bps to 47% primarily due to commencement of amortization of TSA PC software development costs. SS Non-GAAP GM up 626 bps to 57%. SN GAAP GM up 509 bps to 22% due to strong program cost management and revenue shift away from lower margin programs.
- **Adj. EBITDA:** Down \$9.9M to (\$1.3M); Lower GP and higher BTL expenses, lower capitalization of R&D, and growth investments.
- **FCF:** Cash flow from operations positive, but lower YoY due to lower collections. CAPEX/capitalized software slightly higher. Ended the quarter with \$100M of cash, no debt, and an undrawn \$30M credit facility.

9M YoY



### 9M YoY Commentary

- **Revenue:** SS down 37% to \$56.8M primarily due to lower revenues on two ongoing programs. SN down 40% to \$47.5M primarily due to the successful completion of large programs.
- **GAAP Gross Profit:** Down \$21.9M primarily due to lower revenues, partially offset by higher GAAP GM. SS GAAP GM down 79 bps to 51% primarily due to commencement of amortization of TSA PC software development costs. SS Non-GAAP GM up 76 bps to 56%. SN GAAP GM up 311 bps to 20% due to strong program cost management and revenue shift away from lower margin programs.
- **Adj. EBITDA:** Down \$16.2M to (\$2.1M); Lower GP, partially offset by lower BTL expenses.
- **FCF:** Lower cash flow from operations and higher CAPEX/capitalized R&D. Ended the quarter with \$100M of cash, no debt, and an undrawn \$30M credit facility.

Returned to Positive Cash Flow From Operations in 3Q

**Notes:**

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



# 2023 OUTLOOK

## 4Q 2023

	Guidance	
	4Q 2023 Low End	4Q 2023 High End
Revenue	\$30M -37% YoY	\$34M -28% YoY
Adjusted EBITDA <sup>(1)</sup>	(\$6.5M)	(\$4.5M)

### Assumptions

- Revenue range primarily driven by risks and opportunities on preexisting programs
- SS revenue assumptions:
  - Down high-30% to low-30% YoY (down MSD to up MSD sequentially)
    - Primarily driven by Telos ID and Secure Communications (“SC”) YoY
- SN revenue assumptions:
  - Down low-30% to mid-20% YoY (down low-30% to low-20% sequentially)
    - Primarily driven by the same large program dynamics that have persisted throughout 2023
- GAAP gross margin down ~350 bps to ~225 bps YoY (down ~80 bps to up ~45 bps sequentially)
  - SS GM down due to higher amortization of software development costs
  - SN GM down due to revenue mix and impact of indirect expenses on lower revenue
  - Slightly less favorable mix between SS and SN YoY
    - SS to contribute approximately 61% to 62% (vs. 64% in Q4 2022)
- Cash BTL expenses (i.e. adjusted for capitalized software, stock based compensation, restructuring costs, and D&A) approximately \$3.0M - \$3.2M higher due to growth investments in business development, Information Assurance (“IA”), Telos ACA, and TSA PreCheck

### Security Solutions Revenue Comparable to 3Q; Growth Investments in 4Q

**Notes:**

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





## 2023 OUTLOOK

# 2023 GUIDANCE PROGRESSION

	Original Guidance <i>(as of 4Q22 Earnings Call)</i>	Reaffirmed Guidance <i>(as of 1Q23 Earnings Call)</i>	Raised Guidance <i>(as of 2Q23 Earnings Call)</i>	Raised Guidance <i>(as of 3Q23 Earnings Call)</i>
<b>Revenue</b>  <i>YoY</i>	<b>\$115M - \$140M</b>  <i>-47% to -35%</i>	<b>\$115M - \$140M</b>  <i>-47% to -35%</i>	<b>\$122M - \$137M</b>  <i>-44% to -37%</i>	<b>\$134M - \$138M</b>  <i>-38% to -36%</i>
<b>GAAP Gross Margin</b>  <i>YoY</i>	<b>31.5% - 36.5%</b>  <i>-500 bps to Flat</i>	<b>31.5% - 36.5%</b>  <i>-500 bps to Flat</i>	<b>34.9% - 36.4%</b>  <i>-150 bps to Flat</i>	<b>36.8% - 37.0%</b>  <i>+35 bps to +60 bps</i>
<b>Adjusted EBITDA<sup>1</sup></b>  <i>Margin<sup>1</sup></i>	<b>(\$27M) - (\$17M)</b>  <i>-23% to -12%</i>	<b>(\$27M) - (\$17M)</b>  <i>-23% to -12%</i>	<b>(\$19M) - (\$14M)</b>  <i>-16% to -10%</i>	<b>(\$9M) - (\$7M)</b>  <i>-7% to -5%</i>

### Changes Driving Improvement vs. Original Guidance

- SS revenue assumptions:
  - ~\$3M increase at midpoint
  - Risk mitigation at low end of guidance range, strong renewal rates in IA and SC, new contract wins in SC, better than expected performance on TSA PreCheck
- SN revenue assumptions:
  - ~\$6M increase at midpoint
  - Risk mitigation at low end of guidance range, favorable supply chain performance, and expanded revenues on a large program
- GAAP gross margin outlook improved across portfolio
  - SS midpoint up ~200 bps primarily due to revenue mix
  - SN midpoint up ~450 bps due to strong program and cost management
  - GAAP gross profit up \$6.5M at midpoint (Non-GAAP up \$8.8M)
- BTL (Net of D&A) more favorable by ~\$5.5M
  - Higher capitalization
  - Disciplined cost management and implementation of restructuring offset growth investments in 2H

## Managing 2023 To Better Than Originally Expected Results

### Notes:

- Adjusted EBITDA and Adjusted EBITDA Margin are non-GAAP financial measures. The Company has not provided the most directly comparable GAAP measures 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 Adjusted EBITDA and Adjusted EBITDA margin are not available without unreasonable effort.



## SUMMARY

**Delivered results above the high end of the guidance range on all financial metrics**

**TSA PreCheck program formally launched; first full quarter of revenue generation exceeded expectations**

**Managing 2023 to better than originally expected results; raising full-year guidance ranges again to reflect performance and risk reduction YTD and improved outlook on key programs**

**2024 outlook includes meaningful revenue potential primarily contingent on two pending long-term recurring revenue new business opportunities and ramp of TSA PreCheck program**

**Highly liquid balance sheet with \$100M of cash, no debt, and an undrawn \$30M revolving credit facility with a \$30M expansion feature**



# 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"), Non-GAAP Gross Profit, Non-GAAP 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. Non-GAAP Gross Profit and Non-GAAP 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.



## 2023 OUTLOOK

# UPDATED GUIDANCE VS. PRIOR GUIDANCE

	Updated Guidance	
	FY 2023 Low End	FY 2023 High End
Revenue	\$134M -38% YoY	\$138M -36% YoY
Adjusted EBITDA <sup>(1)</sup>	(\$9M)	(\$7M)

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

## Updated Guidance Assumptions

- SS revenue assumptions:
  - Down high-30% to mid-30% YoY
    - Expected lower revenues on two ongoing programs (~\$45M) and a program loss (~\$10M), partially offset by initial ramp of TSA PreCheck and new contracts within Secure Communications (already won)
- SN revenue assumptions:
  - Down high-30% to mid-30% YoY
    - Successful completion of large programs in 2022 and 2023 (~\$45M), and expected lower revenues on some ongoing programs (~\$5M)
- Assumes any new business wins for the remainder of the year will primarily convert to revenue beginning in 2024
- Total company 1H revenues represent approximately 49% - 51% of full-year revenue (vs. 49% in 2022)
- GAAP gross margin up ~35 bps to ~60 bps; SS revenues weighted mid-50% of total (vs. 56% in 2022)
- Cash BTL expenses (i.e. adjusted for capitalized software, stock based compensation, restructuring costs, and D&A) approximately \$0.2M to \$0.4M lower
- Notable updates from prior guidance: Risk reduction for revenue and gross margin as well as BTL expenses, ramp of TSA PreCheck program and improved outlook on another volume-driven program within Security Solutions

**Raising Guidance Ranges to Reflect YTD Performance, Improved Outlook on Key Programs and Risk Reduction**

**Notes:**

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



# 2023 ADDITIONAL MODELING INPUTS

	2022 Full Year	2023E Full Year	2023E 4Q	2023E Full Year YoY Commentary
GAAP Gross Margin	36.4%	36.8% - 37.0%	35.1% - 36.4%	<ul style="list-style-type: none"> <li>SS slightly down YoY, SN slightly up.</li> <li>Revenue mix between SS and SN roughly flat</li> </ul>
Stock Based Compensation (SBC)	\$64.7M	~\$26.5M	~\$4M	<ul style="list-style-type: none"> <li>Final vesting/amortization of IPO-related grants through end of 2022</li> <li>~\$0.7M included in COS for FY, up to ~\$0.1M in COS for 4Q</li> </ul>
Depreciation & Amortization	\$5.9M	\$9.0M - \$9.5M	\$2.7M - \$3.2M	<ul style="list-style-type: none"> <li>Higher amortization due to development initiatives achieving key milestones</li> <li>86% included in FY BTL in 2022 vs. ~60-65% in 2023</li> </ul>
Share Count	67.6M	69M - 70M	~70M	
Tax Rate	(0.01%)	-	-	<ul style="list-style-type: none"> <li>Not meaningful</li> </ul>
CAPEX & Capitalized Software	\$13.7M	\$15.5M - \$16.0M	\$3.2M - \$3.7M	<ul style="list-style-type: none"> <li>Capitalization higher YoY due to investment in growth initiatives</li> </ul>
Cash Below The Line Expenses <sup>(1)</sup>	\$77.6M	\$77.2M - \$77.4M	\$21.3M - \$21.5M	<ul style="list-style-type: none"> <li>YoY expected to be lower due to ~\$2.7M of labor savings, partially offset by ~\$2.3M - ~\$2.5M of miscellaneous higher costs partially due to growth initiatives</li> </ul>
Below The Line Expenses <sup>(2)</sup>	\$69.5M	\$67.8M - \$68.0M	\$19.8M - \$20.0M	<ul style="list-style-type: none"> <li>YoY driven by cost savings and management reserve described above in addition to ~\$0.7M higher depreciation and ~\$2.0M higher R&amp;D capitalization</li> </ul>

**Notes:**

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



# 2024 TELOS PRECHECK MODELING INPUTS

	New Enrollments (Per Transaction)	Renewals (Per Transaction)	2024 Additional Inputs
Gross Applicant Fee <sup>(1)</sup>	85.00	70.00	<ul style="list-style-type: none"> <li>Approximate last 12 months total market size<sup>2</sup> <ul style="list-style-type: none"> <li>New enrollments: ~4M applicants (market volume has nearly doubled from pre-COVID highs; unclear if elevated volume is sustainable or temporary pent-up demand)</li> <li>Renewals: ~1.5M applicants</li> </ul> </li> <li>Currently estimated other cost of sales                             <ul style="list-style-type: none"> <li>HSD millions, including ~\$3M of D&amp;A</li> </ul> </li> <li>Currently estimated SG&amp;A expense                             <ul style="list-style-type: none"> <li>Credit card fees: ~2.5% of gross applicant fee (included in G&amp;A)</li> <li>Other SG&amp;A expense: MSD millions</li> </ul> </li> </ul>
- TSA Fee <sup>(1)</sup>	(42.75)	(42.75)	
<b>Net Revenue</b> <i>(GAAP Recognized Revenue)</i>	<b>42.25</b>	<b>27.25</b>	
- FBI Fee <sup>(1)</sup>	(11.25)	(11.25)	
<b>Gross Profit Before Other Cost of Sales</b>	<b>31.00</b>	<b>16.00</b>	

**Notes:**

1. Subject to change
2. Source: Transportation Security Administration



# 2022 AND 2023 GAAP AND ADJUSTED FIRST 9M RESULTS

(Amounts in thousands, unaudited)

	2022								2023																			
	Three Months Ended September 30, 2022				Nine Months Ended September 30, 2022				Three Months Ended March 31, 2023				Three Months Ended June 30, 2023				Three Months Ended September 30, 2023				Nine Months Ended September 30, 2023							
	GAAP	SBC	Other Inc	Adjusted	GAAP	SBC	Other Inc	Adjusted	GAAP	SBC	Other Inc	Restructure	Adjusted	GAAP	SBC	Other Inc	Restructure	Adjusted	GAAP	SBC	Other Inc	Restructure	Adjusted	GAAP	SBC	Other Inc	Restructure	Adjusted
<b>Revenue</b>																												
Security Solutions	\$ 32,440	\$ -	\$ -	\$ 32,440	\$ 90,178	\$ -	\$ -	\$ 90,178	\$ 19,773	\$ -	\$ -	\$ -	\$ 19,773	\$ 17,196	\$ -	\$ -	\$ -	\$ 17,196	\$ 19,795	\$ -	\$ -	\$ -	\$ 19,795	\$ 56,764	\$ -	\$ -	\$ -	\$ 56,764
Secure Networks	31,153	-	-	31,153	79,366	-	-	79,366	15,449	-	-	-	15,449	15,715	-	-	-	15,715	16,391	-	-	-	16,391	47,555	-	-	-	47,555
<b>Total</b>	<b>63,593</b>	<b>-</b>	<b>-</b>	<b>63,593</b>	<b>169,544</b>	<b>-</b>	<b>-</b>	<b>169,544</b>	<b>35,222</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>35,222</b>	<b>32,911</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>32,911</b>	<b>36,186</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>36,186</b>	<b>104,319</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>104,319</b>
<b>Gross Profit</b>																												
Security Solutions	15,577	823	-	16,400	47,061	2,427	-	49,488	10,274	272	-	-	10,546	9,551	153	-	-	9,704	9,354	63	-	-	9,417	29,179	488	-	-	29,667
Secure Networks	5,368	106	-	5,474	13,684	371	-	14,055	3,208	54	-	-	3,262	2,808	72	-	-	2,880	3,659	10	-	-	3,669	9,675	136	-	-	9,811
<b>Total</b>	<b>20,945</b>	<b>929</b>	<b>-</b>	<b>21,874</b>	<b>60,745</b>	<b>2,798</b>	<b>-</b>	<b>63,543</b>	<b>13,482</b>	<b>326</b>	<b>-</b>	<b>-</b>	<b>13,808</b>	<b>12,359</b>	<b>225</b>	<b>-</b>	<b>-</b>	<b>12,584</b>	<b>13,013</b>	<b>73</b>	<b>-</b>	<b>-</b>	<b>13,086</b>	<b>38,854</b>	<b>624</b>	<b>-</b>	<b>-</b>	<b>39,478</b>
<b>Gross Margin</b>																												
Security Solutions	48.0%	2.5%	0.0%	50.6%	52.2%	2.7%	0.0%	54.9%	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%	51.4%	0.9%	0.0%	0.0%	52.3%
Secure Networks	17.2%	0.3%	0.0%	17.6%	17.2%	0.5%	0.0%	17.7%	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%	20.3%	0.3%	0.0%	0.0%	20.6%
<b>Total</b>	<b>32.9%</b>	<b>1.5%</b>	<b>0.0%</b>	<b>34.4%</b>	<b>35.8%</b>	<b>1.7%</b>	<b>0.0%</b>	<b>37.5%</b>	<b>38.3%</b>	<b>0.9%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>39.2%</b>	<b>37.6%</b>	<b>0.7%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>38.2%</b>	<b>36.0%</b>	<b>0.2%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>36.2%</b>	<b>37.2%</b>	<b>0.6%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>37.8%</b>
<b>SG&amp;A</b>																												
Sales and Marketing	3,042	611	-	2,431	13,035	3,699	-	9,336	1,643	58	-	-	1,585	1,793	43	-	-	1,750	1,728	24	-	-	1,704	5,164	125	-	-	5,039
Research and Development	3,981	897	-	3,084	13,900	2,884	-	11,016	2,833	770	-	-	2,063	2,646	847	-	-	1,799	3,154	328	-	-	2,826	8,633	1,945	-	-	6,688
General and Administrative	22,706	13,399	-	9,307	72,997	39,462	-	33,535	21,976	8,345	-	1,200	12,431	17,387	6,630	-	(3)	10,760	17,824	4,793	-	-	13,031	57,187	19,768	-	1,197	36,222
<b>Total</b>	<b>29,729</b>	<b>14,907</b>	<b>-</b>	<b>14,822</b>	<b>99,932</b>	<b>46,045</b>	<b>-</b>	<b>53,887</b>	<b>26,452</b>	<b>9,173</b>	<b>-</b>	<b>1,200</b>	<b>16,079</b>	<b>21,826</b>	<b>7,520</b>	<b>-</b>	<b>(3)</b>	<b>14,309</b>	<b>22,706</b>	<b>5,145</b>	<b>-</b>	<b>-</b>	<b>17,561</b>	<b>70,984</b>	<b>21,838</b>	<b>-</b>	<b>1,197</b>	<b>47,949</b>
<b>EBIT / Operating (Loss)/Income</b>	<b>(8,784)</b>	<b>15,836</b>	<b>-</b>	<b>7,052</b>	<b>(39,187)</b>	<b>48,843</b>	<b>-</b>	<b>9,656</b>	<b>(12,970)</b>	<b>9,499</b>	<b>-</b>	<b>1,200</b>	<b>(2,271)</b>	<b>(9,467)</b>	<b>7,745</b>	<b>-</b>	<b>(3)</b>	<b>(1,725)</b>	<b>(9,693)</b>	<b>5,218</b>	<b>-</b>	<b>-</b>	<b>(4,475)</b>	<b>(32,130)</b>	<b>22,462</b>	<b>-</b>	<b>1,197</b>	<b>(8,471)</b>
Interest Expense	(181)	-	-	(181)	(558)	-	-	(558)	(249)	-	-	-	(249)	(184)	-	-	-	(184)	(178)	-	-	-	(178)	(611)	-	-	-	(611)
Other Income	518	-	(518)	-	648	-	(648)	-	2,496	-	(2,496)	-	-	1,649	-	(1,649)	-	-	1,222	-	(1,222)	-	-	5,367	-	(5,367)	-	-
<b>Earnings Before Taxes (EBT)</b>	<b>(8,447)</b>	<b>15,836</b>	<b>(518)</b>	<b>6,871</b>	<b>(39,097)</b>	<b>48,843</b>	<b>(648)</b>	<b>9,098</b>	<b>(10,723)</b>	<b>9,499</b>	<b>(2,496)</b>	<b>1,200</b>	<b>(2,520)</b>	<b>(8,002)</b>	<b>7,745</b>	<b>(1,649)</b>	<b>(3)</b>	<b>(1,909)</b>	<b>(8,649)</b>	<b>5,218</b>	<b>(1,222)</b>	<b>-</b>	<b>(4,653)</b>	<b>(27,374)</b>	<b>22,462</b>	<b>(5,367)</b>	<b>1,197</b>	<b>(9,082)</b>
Provision for Income Taxes	(8)	-	-	(8)	(133)	-	-	(133)	(23)	-	-	-	(23)	(22)	-	-	-	(22)	(23)	-	-	-	(23)	(68)	-	-	-	(68)
<b>Net (Loss)/Income</b>	<b>\$ (8,455)</b>	<b>\$ 15,836</b>	<b>\$ (518)</b>	<b>\$ 6,863</b>	<b>\$ (39,230)</b>	<b>\$ 48,843</b>	<b>\$ (648)</b>	<b>\$ 8,965</b>	<b>\$ (10,746)</b>	<b>\$ 9,499</b>	<b>\$ (2,496)</b>	<b>\$ 1,200</b>	<b>\$ (2,543)</b>	<b>\$ (8,024)</b>	<b>\$ 7,745</b>	<b>\$ (1,649)</b>	<b>\$ (3)</b>	<b>\$ (1,931)</b>	<b>\$ (8,672)</b>	<b>\$ 5,218</b>	<b>\$ (1,222)</b>	<b>\$ -</b>	<b>\$ (4,676)</b>	<b>\$ (27,442)</b>	<b>\$ 22,462</b>	<b>\$ (5,367)</b>	<b>\$ 1,197</b>	<b>\$ (9,150)</b>
Share Count	67,493	67,493	67,493	67,493	67,641	67,641	67,641	67,641	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	69,062	69,062	69,062	69,062	69,062
<b>EPS</b>	<b>\$ (0.13)</b>	<b>\$ 0.23</b>	<b>\$ (0.01)</b>	<b>\$ 0.10</b>	<b>\$ (0.58)</b>	<b>\$ 0.72</b>	<b>\$ (0.01)</b>	<b>\$ 0.13</b>	<b>\$ (0.16)</b>	<b>\$ 0.14</b>	<b>\$ (0.04)</b>	<b>\$ 0.02</b>	<b>\$ (0.04)</b>	<b>\$ (0.12)</b>	<b>\$ 0.11</b>	<b>\$ (0.02)</b>	<b>\$ -</b>	<b>\$ (0.03)</b>	<b>\$ (0.12)</b>	<b>\$ 0.08</b>	<b>\$ (0.02)</b>	<b>\$ -</b>	<b>\$ (0.07)</b>	<b>\$ (0.40)</b>	<b>\$ 0.33</b>	<b>\$ (0.08)</b>	<b>\$ 0.02</b>	<b>\$ (0.13)</b>
<b>Net (Loss)/Income</b>	<b>\$ (8,455)</b>	<b>\$ 15,836</b>	<b>\$ (518)</b>	<b>\$ 6,863</b>	<b>\$ (39,230)</b>	<b>\$ 48,843</b>	<b>\$ (648)</b>	<b>\$ 8,965</b>	<b>\$ (10,746)</b>	<b>\$ 9,499</b>	<b>\$ (2,496)</b>	<b>\$ 1,200</b>	<b>\$ (2,543)</b>	<b>\$ (8,024)</b>	<b>\$ 7,745</b>	<b>\$ (1,649)</b>	<b>\$ (3)</b>	<b>\$ (1,931)</b>	<b>\$ (8,672)</b>	<b>\$ 5,218</b>	<b>\$ (1,222)</b>	<b>\$ -</b>	<b>\$ (4,676)</b>	<b>\$ (27,442)</b>	<b>\$ 22,462</b>	<b>\$ (5,367)</b>	<b>\$ 1,197</b>	<b>\$ (9,150)</b>
Other Income	(518)	-	518	-	(648)	-	648	-	(2,496)	-	2,496	-	-	(1,649)	-	1,649	-	-	(1,222)	-	1,222	-	-	(5,367)	-	5,367	-	-
Interest Expense	181	-	-	181	558	-	-	558	249	-	-	-	249	184	-	-	-	184	178	-	-	-	178	611	-	-	-	611
Provision for Income Taxes	8	-	-	8	133	-	-	133	23	-	-	-	23	22	-	-	-	22	23	-	-	-	23	68	-	-	-	68
Depreciation & Amortization	1,517	-	-	1,517	4,427	-	-	4,427	1,425	-	-	-	1,425	1,696	-	-	-	1,696	3,215	-	-	-	3,215	6,336	-	-	-	6,336
<b>EBITDA</b>	<b>\$ (7,267)</b>	<b>\$ 15,836</b>	<b>\$ -</b>	<b>\$ 8,569</b>	<b>\$ (34,760)</b>	<b>\$ 48,843</b>	<b>\$ -</b>	<b>\$ 14,083</b>	<b>\$ (11,545)</b>	<b>\$ 9,499</b>	<b>\$ -</b>	<b>\$ 1,200</b>	<b>\$ (846)</b>	<b>\$ (7,771)</b>	<b>\$ 7,745</b>	<b>\$ -</b>	<b>\$ (3)</b>	<b>\$ (29)</b>	<b>\$ (6,478)</b>	<b>\$ 5,218</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (1,260)</b>	<b>\$ (25,794)</b>	<b>\$ 22,462</b>	<b>\$ -</b>	<b>\$ 1,197</b>	<b>\$ (2,135)</b>
<b>Cash Flow from Operations</b>	<b>\$ 11,986</b>				<b>\$ 20,118</b>				<b>\$ (100)</b>					<b>\$ (4,113)</b>					<b>\$ 846</b>					<b>\$ (3,367)</b>				
Capitalized Software	(3,446)				(8,580)				(3,800)					(4,398)					(3,762)					(11,960)				
PPE	(174)				(815)				(223)					(47)					(80)					(350)				
<b>CAPEX</b>	<b>(3,620)</b>				<b>(9,395)</b>				<b>(4,023)</b>					<b>(4,445)</b>					<b>(3,842)</b>					<b>(12,310)</b>				
<b>Free Cash Flow</b>	<b>\$ 8,366</b>				<b>\$ 10,723</b>				<b>\$ (4,123)</b>					<b>\$ (8,558)</b>					<b>\$ (2,996)</b>					<b>\$ (15,677)</b>				

**Notes:**

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



# 2022 GAAP AND ADJUSTED FULL YEAR RESULTS

(Amounts in thousands, unaudited)

NOTE: As previously revised

	2022																					
	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
<b>Revenue</b>																						
Security Solutions	\$ 26,919	\$ -	\$ -	\$ 26,919	\$ 30,819	\$ -	\$ -	\$ 30,819	\$ 32,440	\$ -	\$ -	\$ 32,440	\$ 30,276	\$ -	\$ -	\$ -	\$ 30,276	\$ 120,454	\$ -	\$ -	\$ -	\$ 120,454
Secure Networks	23,241	-	-	23,241	24,972	-	-	24,972	31,153	-	-	31,153	17,067	-	-	-	17,067	96,433	-	-	-	96,433
<b>Total</b>	<b>50,160</b>	<b>-</b>	<b>-</b>	<b>50,160</b>	<b>55,791</b>	<b>-</b>	<b>-</b>	<b>55,791</b>	<b>63,593</b>	<b>-</b>	<b>-</b>	<b>63,593</b>	<b>47,343</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>47,343</b>	<b>216,887</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>216,887</b>
<b>Gross Profit</b>																						
Security Solutions	15,051	857	-	15,908	16,433	747	-	17,180	15,577	823	-	16,400	14,887	579	-	355	15,821	61,948	3,006	-	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
<b>Total</b>	<b>18,871</b>	<b>1,007</b>	<b>-</b>	<b>19,878</b>	<b>20,929</b>	<b>862</b>	<b>-</b>	<b>21,791</b>	<b>20,945</b>	<b>929</b>	<b>-</b>	<b>21,874</b>	<b>18,298</b>	<b>699</b>	<b>-</b>	<b>578</b>	<b>19,575</b>	<b>79,043</b>	<b>3,497</b>	<b>-</b>	<b>578</b>	<b>83,118</b>
<b>Gross Margin</b>																						
Security Solutions	55.9%	3.2%	0.0%	59.1%	53.3%	2.4%	0.0%	55.7%	48.0%	2.5%	0.0%	50.6%	49.2%	1.9%	0.0%	1.2%	52.3%	51.4%	2.5%	0.0%	0.3%	54.2%
Secure Networks	16.4%	0.6%	0.0%	17.1%	18.0%	0.5%	0.0%	18.5%	17.2%	0.3%	0.0%	17.6%	20.0%	0.7%	0.0%	1.3%	22.0%	17.7%	0.5%	0.0%	0.2%	18.5%
<b>Total</b>	<b>37.6%</b>	<b>2.0%</b>	<b>0.0%</b>	<b>39.6%</b>	<b>37.5%</b>	<b>1.5%</b>	<b>0.0%</b>	<b>39.1%</b>	<b>32.9%</b>	<b>1.5%</b>	<b>0.0%</b>	<b>34.4%</b>	<b>38.6%</b>	<b>1.5%</b>	<b>0.0%</b>	<b>1.2%</b>	<b>41.3%</b>	<b>36.4%</b>	<b>1.6%</b>	<b>0.0%</b>	<b>0.3%</b>	<b>38.3%</b>
<b>SG&amp;A</b>																						
Sales and Marketing	5,252	1,668	-	3,584	4,741	1,420	-	3,321	3,042	611	-	2,431	3,547	969	-	187	2,391	16,582	4,668	-	187	11,727
Research and Development	5,430	1,295	-	4,135	4,489	692	-	3,797	3,981	897	-	3,084	3,018	922	-	221	1,875	16,918	3,806	-	221	12,891
General and Administrative	24,556	11,961	-	12,595	25,735	14,102	-	11,633	22,706	13,399	-	9,307	26,396	13,227	-	1,781	11,388	99,393	52,689	-	1,781	44,923
<b>Total</b>	<b>35,238</b>	<b>14,924</b>	<b>-</b>	<b>20,314</b>	<b>34,965</b>	<b>16,214</b>	<b>-</b>	<b>18,751</b>	<b>29,729</b>	<b>14,907</b>	<b>-</b>	<b>14,822</b>	<b>32,961</b>	<b>15,118</b>	<b>-</b>	<b>2,189</b>	<b>15,654</b>	<b>132,893</b>	<b>61,163</b>	<b>-</b>	<b>2,189</b>	<b>69,541</b>
<b>EBIT / Operating (Loss)/Income</b>	<b>(16,367)</b>	<b>15,931</b>	<b>-</b>	<b>(436)</b>	<b>(14,036)</b>	<b>17,076</b>	<b>-</b>	<b>3,040</b>	<b>(8,784)</b>	<b>15,836</b>	<b>-</b>	<b>7,052</b>	<b>(14,663)</b>	<b>15,817</b>	<b>-</b>	<b>2,767</b>	<b>3,921</b>	<b>(53,850)</b>	<b>64,660</b>	<b>-</b>	<b>2,767</b>	<b>13,577</b>
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)	-	-
<b>Earnings Before Taxes (EBT)</b>	<b>(16,545)</b>	<b>15,931</b>	<b>(12)</b>	<b>(626)</b>	<b>(14,105)</b>	<b>17,076</b>	<b>(118)</b>	<b>2,853</b>	<b>(8,447)</b>	<b>15,836</b>	<b>(518)</b>	<b>6,871</b>	<b>(14,277)</b>	<b>15,817</b>	<b>(702)</b>	<b>2,767</b>	<b>3,605</b>	<b>(53,374)</b>	<b>64,660</b>	<b>(1,350)</b>	<b>2,767</b>	<b>12,703</b>
(Provision for)/Benefit From Income Taxes	(71)	-	-	(71)	(54)	-	-	(54)	(8)	-	-	(8)	79	-	-	-	79	(54)	-	-	-	(54)
<b>Net (Loss)/Income</b>	<b>\$ (16,616)</b>	<b>\$ 15,931</b>	<b>\$ (12)</b>	<b>\$ (697)</b>	<b>\$ (14,159)</b>	<b>\$ 17,076</b>	<b>\$ (118)</b>	<b>\$ 2,799</b>	<b>\$ (8,455)</b>	<b>\$ 15,836</b>	<b>\$ (518)</b>	<b>\$ 6,863</b>	<b>\$ (14,198)</b>	<b>\$ 15,817</b>	<b>\$ (702)</b>	<b>\$ 2,767</b>	<b>\$ 3,684</b>	<b>\$ (53,428)</b>	<b>\$ 64,660</b>	<b>\$ (1,350)</b>	<b>\$ 2,767</b>	<b>\$ 12,649</b>
Share Count	67,559	67,559	67,559	67,559	67,876	67,876	67,876	67,876	67,493	67,493	67,493	67,493	67,313	67,313	67,313	67,313	67,313	67,559	67,559	67,559	67,559	67,559
<b>EPS</b>	<b>\$ (0.25)</b>	<b>\$ 0.24</b>	<b>\$ -</b>	<b>\$ (0.01)</b>	<b>\$ (0.21)</b>	<b>\$ 0.25</b>	<b>\$ -</b>	<b>\$ 0.04</b>	<b>\$ (0.13)</b>	<b>\$ 0.23</b>	<b>\$ (0.01)</b>	<b>\$ 0.10</b>	<b>\$ (0.21)</b>	<b>\$ 0.23</b>	<b>\$ (0.01)</b>	<b>\$ 0.04</b>	<b>\$ 0.05</b>	<b>\$ (0.79)</b>	<b>\$ 0.96</b>	<b>\$ (0.02)</b>	<b>\$ 0.04</b>	<b>\$ 0.19</b>
<b>Net (Loss)/Income</b>	<b>\$ (16,616)</b>	<b>\$ 15,931</b>	<b>\$ (12)</b>	<b>\$ (697)</b>	<b>\$ (14,159)</b>	<b>\$ 17,076</b>	<b>\$ (118)</b>	<b>\$ 2,799</b>	<b>\$ (8,455)</b>	<b>\$ 15,836</b>	<b>\$ (518)</b>	<b>\$ 6,863</b>	<b>\$ (14,198)</b>	<b>\$ 15,817</b>	<b>\$ (702)</b>	<b>\$ 2,767</b>	<b>\$ 3,684</b>	<b>\$ (53,428)</b>	<b>\$ 64,660</b>	<b>\$ (1,350)</b>	<b>\$ 2,767</b>	<b>\$ 12,649</b>
Other Income	(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
<b>EBITDA</b>	<b>\$ (14,962)</b>	<b>\$ 15,931</b>	<b>\$ -</b>	<b>\$ 969</b>	<b>\$ (12,531)</b>	<b>\$ 17,076</b>	<b>\$ -</b>	<b>\$ 4,545</b>	<b>\$ (7,267)</b>	<b>\$ 15,836</b>	<b>\$ -</b>	<b>\$ 8,569</b>	<b>\$ (13,200)</b>	<b>\$ 15,817</b>	<b>\$ -</b>	<b>\$ 2,767</b>	<b>\$ 5,384</b>	<b>\$ (47,960)</b>	<b>\$ 64,660</b>	<b>\$ -</b>	<b>\$ 2,767</b>	<b>\$ 19,467</b>
<b>Cash Flow from Operations</b>	<b>\$ 249</b>				<b>\$ 7,883</b>				<b>\$ 11,986</b>				<b>\$ (3,610)</b>					<b>\$ 16,508</b>				
Capitalized Software	(2,795)				(2,339)				(3,446)				(4,128)					(12,708)				
PPE	(546)				(95)				(174)				(194)					(1,009)				
<b>CAPEX</b>	<b>(3,341)</b>				<b>(2,434)</b>				<b>(3,620)</b>				<b>(4,322)</b>					<b>(13,717)</b>				
Net cash - software presale	-				-				-				8,457					8,457				
<b>Free Cash Flow</b>	<b>\$ (3,092)</b>				<b>\$ 5,449</b>				<b>\$ 8,366</b>				<b>\$ 525</b>					<b>\$ 11,248</b>				

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





# 2022 AND 2023 NON-GAAP GROSS PROFIT AND NON-GAAP GROSS MARGIN FIRST 9M RESULTS

(Amounts in thousands, unaudited)

	2022		2023			
	Three Months Ended	Nine Months Ended	Three Months Ended			Nine Months Ended
	September 30, 2022	September 30, 2022	March 31, 2023	June 30, 2023	September 30, 2023	September 30, 2023
<b>Revenue</b>						
Security Solutions	\$ 32,440	\$ 90,178	\$ 19,773	\$ 17,196	\$ 19,795	\$ 56,764
Secure Networks	31,153	79,366	15,449	15,715	16,391	47,555
<b>Total</b>	<b>\$ 63,593</b>	<b>\$ 169,544</b>	<b>\$ 35,222</b>	<b>\$ 32,911</b>	<b>\$ 36,186</b>	<b>\$ 104,319</b>
<b>GAAP Gross Profit</b>						
Security Solutions	\$ 15,577	\$ 47,061	\$ 10,274	\$ 9,551	\$ 9,354	\$ 29,179
Secure Networks	5,368	13,684	3,208	2,808	3,659	9,675
<b>Total</b>	<b>\$ 20,945</b>	<b>\$ 60,745</b>	<b>\$ 13,482</b>	<b>\$ 12,359</b>	<b>\$ 13,013</b>	<b>\$ 38,854</b>
<b>GAAP Gross Margin</b>						
Security Solutions	48.0%	52.2%	52.0%	55.5%	47.3%	51.4%
Secure Networks	17.2%	17.2%	20.8%	17.9%	22.3%	20.3%
<b>Total</b>	<b>32.9%</b>	<b>35.8%</b>	<b>38.3%</b>	<b>37.6%</b>	<b>36.0%</b>	<b>37.2%</b>
<b>Stock Based Compensation - Cost of Sales</b>						
Security Solutions	\$ 823	\$ 2,427	\$ 272	\$ 153	\$ 63	\$ 488
Secure Networks	106	371	54	72	10	136
<b>Total</b>	<b>\$ 929</b>	<b>\$ 2,798</b>	<b>\$ 326</b>	<b>\$ 225</b>	<b>\$ 73</b>	<b>\$ 624</b>
<b>Depreciation &amp; Amortization - Cost of Sales</b>						
Security Solutions	\$ 183	\$ 580	\$ 170	\$ 168	\$ 1,943	\$ 2,281
Secure Networks	8	22	6	2	2	10
<b>Total</b>	<b>\$ 191</b>	<b>\$ 602</b>	<b>\$ 176</b>	<b>\$ 170</b>	<b>\$ 1,945</b>	<b>\$ 2,291</b>
<b>Non-GAAP Gross Profit</b>						
Security Solutions	\$ 16,583	\$ 50,068	\$ 10,716	\$ 9,872	\$ 11,360	\$ 31,948
Secure Networks	5,482	14,077	3,268	2,882	3,671	9,821
<b>Total</b>	<b>\$ 22,065</b>	<b>\$ 64,145</b>	<b>\$ 13,984</b>	<b>\$ 12,754</b>	<b>\$ 15,031</b>	<b>\$ 41,769</b>
<b>Non-GAAP Gross Margin</b>						
Security Solutions	51.1%	55.5%	54.2%	57.4%	57.4%	56.3%
Secure Networks	17.6%	17.7%	21.2%	18.3%	22.4%	20.7%
<b>Total</b>	<b>34.7%</b>	<b>37.8%</b>	<b>39.7%</b>	<b>38.8%</b>	<b>41.5%</b>	<b>40.0%</b>

**Notes:**

Non-GAAP Gross Profit and Non-GAAP Gross Margin are non-GAAP financial measures.



# 2022 NON-GAAP GROSS PROFIT AND NON-GAAP 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
<b>Revenue</b>					
Security Solutions	\$ 26,919	\$ 30,819	\$ 32,440	\$ 30,276	\$ 120,454
Secure Networks	23,241	24,972	31,153	17,067	96,433
<b>Total</b>	<b>\$ 50,160</b>	<b>\$ 55,791</b>	<b>\$ 63,593</b>	<b>\$ 47,343</b>	<b>\$ 216,887</b>
<b>GAAP Gross Profit</b>					
Security Solutions	\$ 15,051	\$ 16,433	\$ 15,577	\$ 14,887	\$ 61,948
Secure Networks	3,820	4,496	5,368	3,411	17,095
<b>Total</b>	<b>\$ 18,871</b>	<b>\$ 20,929</b>	<b>\$ 20,945</b>	<b>\$ 18,298</b>	<b>\$ 79,043</b>
<b>GAAP Gross Margin</b>					
Security Solutions	55.9%	53.3%	48.0%	49.2%	51.4%
Secure Networks	16.4%	18.0%	17.2%	20.0%	17.7%
<b>Total</b>	<b>37.6%</b>	<b>37.5%</b>	<b>32.9%</b>	<b>38.6%</b>	<b>36.4%</b>
<b>Stock Based Compensation - Cost of Sales</b>					
Security Solutions	\$ 857	\$ 747	\$ 823	\$ 579	\$ 3,006
Secure Networks	150	115	106	120	491
<b>Total</b>	<b>\$ 1,007</b>	<b>\$ 862</b>	<b>\$ 929</b>	<b>\$ 699</b>	<b>\$ 3,497</b>
<b>Depreciation &amp; Amortization - Cost of Sales</b>					
Security Solutions	\$ 205	\$ 192	\$ 183	\$ 183	\$ 763
Secure Networks	7	7	8	8	30
<b>Total</b>	<b>\$ 212</b>	<b>\$ 199</b>	<b>\$ 191</b>	<b>\$ 191</b>	<b>\$ 793</b>
<b>Non-GAAP Gross Profit</b>					
Security Solutions	\$ 16,113	\$ 17,372	\$ 16,583	\$ 15,649	\$ 65,717
Secure Networks	3,977	4,618	5,482	3,539	17,616
<b>Total</b>	<b>\$ 20,090</b>	<b>\$ 21,990</b>	<b>\$ 22,065</b>	<b>\$ 19,188</b>	<b>\$ 83,333</b>
<b>Non-GAAP Gross Margin</b>					
Security Solutions	59.9%	56.4%	51.1%	51.7%	54.6%
Secure Networks	17.1%	18.5%	17.6%	20.7%	18.3%
<b>Total</b>	<b>40.1%</b>	<b>39.4%</b>	<b>34.7%</b>	<b>40.5%</b>	<b>38.4%</b>

**Notes:**

Non-GAAP Gross Profit and Non-GAAP Gross Margin are non-GAAP financial measures.



# RECONCILIATIONS

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

	For the Three Months Ended				For the Nine Months Ended			
	September 30, 2023		September 30, 2022		September 30, 2023		September 30, 2022	
	Amount	Margin	Amount	Margin	Amount	Margin	Amount	Margin
	<i>(dollars in thousands)</i>							
Net loss	\$ (8,672)	(24.0) %	\$ (8,455)	(13.3) %	\$ (27,442)	(26.3) %	\$ (39,230)	(23.1) %
Other income	(1,222)	(3.4) %	(518)	(0.8) %	(5,367)	(5.1) %	(648)	(0.4) %
Interest expense	178	0.5 %	181	0.3 %	611	0.6 %	558	0.3 %
Provision for income taxes	23	0.1 %	8	— %	68	0.1 %	133	0.1 %
Depreciation and amortization	3,215	8.9 %	1,517	2.4 %	6,336	6.0 %	4,427	2.6 %
EBITDA (Non-GAAP)	(6,478)	(17.9) %	(7,267)	(11.4) %	(25,794)	(24.7) %	(34,760)	(20.5) %
Stock-based compensation expense <sup>(1)</sup>	5,218	14.4 %	15,836	24.9 %	22,462	21.5 %	48,843	28.8 %
Restructuring expenses <sup>(2)</sup>	—	— %	—	— %	1,197	1.2 %	—	— %
Adjusted EBITDA (Non-GAAP)	\$ (1,260)	(3.5) %	\$ 8,569	13.5 %	\$ (2,135)	(2.0) %	\$ 14,083	8.3 %

**Notes:**

- (1) The stock-based compensation adjustment to EBITDA is made up of stock-based compensation expense for the awarded restricted stock units (“RSUs”), performance-based restricted stock units (“PSUs”) and stock options, and other sources. Stock-based compensation expense for the awarded RSUs, PSUs and stock options was \$5.2 million and \$18.6 million for the three and nine months ended September 30, 2023, respectively, and \$16.1 million and \$46.8 million for the three and nine months ended September 30, 2022, respectively. No stock-based compensation from other sources was recorded for the three months ended September 30, 2023, while \$3.8 million was recorded for the nine months ended September 30, 2023. Stock-based compensation (adjustment)/expense from other sources was \$(0.3) million and \$2.0 million for the three and nine months ended September 30, 2022, respectively. The other sources of stock-based compensation consist of accrued compensation, which the Company intends to settle in shares of the Company's common stock. However, it is the Company's discretion whether this compensation will ultimately be paid in stock or cash. The Company has the right to dictate the form of these payments up until the date at which they are paid. Any change to the expected payment form would result in out-of-quarter adjustments to this add back to Adjusted EBITDA.
- (2) The restructuring expenses to EBITDA include severance and other related benefit costs (including outplacement services and continuing health insurance coverage), external consulting and advisory fees related to implementing the restructuring plan.



# RECONCILIATIONS

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

	For the Three Months Ended				For the Nine Months Ended			
	September 30, 2023		September 30, 2022		September 30, 2023		September 30, 2022	
	Amount	Earnings Per Share	Amount	Earnings Per Share	Amount	Earnings Per Share	Amount	Earnings Per Share
<i>(in thousands, except per share data)</i>								
Net loss	\$ (8,672)	\$ (0.12)	\$ (8,455)	\$ (0.13)	\$ (27,442)	\$ (0.40)	\$ (39,230)	\$ (0.58)
Adjustments:								
Other income	(1,222)	(0.02)	(518)	(0.01)	(5,367)	(0.08)	(648)	(0.01)
Stock-based compensation expense <sup>(1)</sup>	5,218	0.07	15,836	0.24	22,462	0.33	48,843	0.72
Restructuring expenses <sup>(2)</sup>	—	—	—	—	1,197	0.02	—	—
Adjusted net (loss)/income, Adjusted EPS (Non-GAAP)	\$ (4,676)	\$ (0.07)	\$ 6,863	\$ 0.10	\$ (9,150)	\$ (0.13)	\$ 8,965	\$ 0.13
Weighted-average shares of common stock outstanding, basic	69,571		67,493		69,062		67,641	

### Notes:

- (1) The stock-based compensation adjustment to net (loss)/income is made up of stock-based compensation expense for the awarded RSUs, PSUs and stock options, and other sources. Stock-based compensation expense for the awarded RSUs, PSUs and stock options was \$5.2 million and \$18.6 million for the three and nine months ended September 30, 2023, respectively, and \$16.1 million and \$46.8 million for the three and nine months ended September 30, 2022, respectively. No stock-based compensation from other sources was recorded for the three months ended September 30, 2023, while \$3.8 million was recorded for the nine months ended September 30, 2023. Stock-based compensation (adjustment)/expense from other sources was \$(0.3) million and \$2.0 million for the three and nine months ended September 30, 2022, respectively. The other sources of stock-based compensation consist of accrued compensation, which the Company intends to settle in shares of the Company's common stock. However, it is the Company's discretion whether this compensation will ultimately be paid in stock or cash. The Company has the right to dictate the form of these payments up until the date at which they are paid. Any change to the expected payment form would result in out-of-quarter adjustments to this add back to Adjusted Net (Loss)/Income.
- (2) The restructuring expenses to net loss include severance and other related benefit costs (including outplacement services and continuing health insurance coverage), external consulting and advisory fees related to implementing the restructuring plan.



# RECONCILIATIONS

## Non-GAAP Gross Profit and Non-GAAP Gross Margin (*Unaudited*)

	For the Three Months Ended				For the Nine Months Ended			
	September 30, 2023		September 30, 2022		September 30, 2023		September 30, 2022	
	Amount	Margin	Amount	Margin	Amount	Margin	Amount	Margin
	<i>(dollars in thousands)</i>							
Gross profit	\$ 13,013	36.0 %	\$ 20,945	32.9 %	\$ 38,854	37.2 %	\$ 60,745	35.8 %
Adjustments:								
Stock-based compensation expense — cost of sales	73	0.2 %	929	1.5 %	624	0.6 %	2,798	1.6 %
Depreciation and amortization — cost of sales	1,945	5.3 %	191	0.3 %	2,291	2.2 %	602	0.4 %
Non-GAAP gross profit	<u>\$ 15,031</u>	<u>41.5 %</u>	<u>\$ 22,065</u>	<u>34.7 %</u>	<u>\$ 41,769</u>	<u>40.0 %</u>	<u>\$ 64,145</u>	<u>37.8 %</u>



# RECONCILIATIONS

## Free Cash Flow (*Unaudited*)

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
	<i>(in thousands)</i>			
Net cash provided by/(used in) operating activities	\$ 846	\$ 11,986	\$ (3,367)	\$ 20,118
Adjustments:				
Purchases of property and equipment	(80)	(174)	(350)	(815)
Capitalized software development costs	(3,762)	(3,446)	(11,960)	(8,580)
Free cash flow (Non-GAAP)	<u>\$ (2,996)</u>	<u>\$ 8,366</u>	<u>\$ (15,677)</u>	<u>\$ 10,723</u>



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