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: March 31, 2002

[ ] 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 May 1, 2002 the registrant had 21,171,202 shares of Class A Common Stock, no par value, 4,037,628 shares of Class B Common Stock, no par value; and 3,185,586 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): 21

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 March 31, 2002	Three Months Ended March 31, 2001
Sales		
Systems and Support Services	$14,355	$13,887
Products	16,581	27,477
Xacta	2,403	2,565
	33,339	43,929
Costs and expenses		
Cost of sales	29,929	37,039
Selling, general and administrative expenses	5,271	5,713
Goodwill amortization	--	62
Operating (loss) income	(1,861)	1,115
Other income (expenses)		
Other income	2	--
Interest expense	(796)	(1,287)
Loss before taxes	(2,655)	(172)
Income tax benefit (provision)	1,088	(1)
Net loss	$ (1,567)	$ (173)

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

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

(unaudited)

ASSETS

	March 31, 2002	December 31, 2001
Current assets		
Cash and cash equivalents (includes restricted cash of $54 at March 31, 2002 and December 31, 2001)	$ 349	$ 115
Accounts receivable, net	26,241	26,353
Inventories, net	3,811	4,227
Deferred income taxes, current	3,269	3,146
Other current assets	64	540
Total current assets	33,734	34,381
Property and equipment, net of accumulated depreciation of $10,868 and $10,628, respectively	11,065	11,370
Goodwill	2,499	2,499
Deferred income taxes, long term	6,145	5,143
Other assets	260	168
	$53,703	$53,561

LIABILITIES AND STOCKHOLDERS' INVESTMENT (DEFICIT)

	March 31, 2002	December 31, 2001
Current liabilities		
Accounts payable	$11,368	$10,603
Other current liabilities	1,899	1,394
Unearned revenue	7,413	8,710
Senior credit facility	14,573	--
Accrued compensation and benefit	6,608	6,948
Total current liabilities	41,861	27,655
Senior credit facility	--	12,387
Senior subordinated notes	8,179	8,179
Capital lease obligations	10,612	10,722
Total liabilities	60,652	58,943
Redeemable preferred stock		
Senior redeemable preferred stock	7,008	6,903
Redeemable preferred stock	48,337	47,876
Total preferred stock	55,345	54,779
Stockholders' investment (deficit)		
Common stock	78	78
Capital in excess of par	--	--
Retained deficit	(62,372)	(60,239)
Total stockholders' investment (deficit)	(62,294)	(60,161)
	$53,703	$53,561

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)

	Three Months Ended March 31, 2002	Three Months Ended March 31, 2001
Operating activities:		
Net loss	$(1,567)	$ (173)
Adjustments to reconcile net loss to		

cash (used in) provided by operating activities:		
Depreciation and amortization	447	490
Goodwill amortization	--	62
Other non-cash items	130	308
Changes in assets and liabilities, net	(786)	1,904
Cash (used in) provided by operating activities	(1,776)	2,591
Investing activities:		
Purchase of property and equipment	(91)	(308)
Cash used in investing activities	(91)	(308)
Financing activities:		
Proceeds from(repayments of) senior credit facility, net	2,186	(2,359)
Payments under capital leases	(85)	(96)
Cash provided by (used in) financing activities	2,101	(2,455)
Increase(decrease) in cash and cash equivalents	234	(172)
Cash and cash equivalents at beginning of period	115	286
Cash and cash equivalents at end of period	$ 349	$ 114

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 are unaudited and include the accounts of Telos Corporation ("Telos") and its wholly owned subsidiaries Telos Corporation (California), ubIQuity.com, Inc., Telos International Corporation, Xacta Corporation, Telos.com, Inc., and Telos Delaware, Inc.(collectively, the "Company"). Significant intercompany transactions have been eliminated. In the opinion of the Company, the accompanying financial statements reflect all adjustments and reclassifications (which include only normal recurring adjustments) necessary for their fair presentation in conformity with generally accepted accounting principles. Interim results are not necessarily indicative of fiscal year performance for a variety of reasons including the impact of seasonal and short-term variations. These 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, 2001.

In June 2001, the Financial Accounting Standards Board ("FASB") approved Statement of Financial Accounting Standards ("SFAS") No 142, "Goodwill and Other Intangible Assets". SFAS No. 142 addresses financial accounting and reporting for acquired goodwill and other intangible assets. Implementation of this Statement requires the Company to cease amortization of goodwill, and goodwill is tested for impairment at least annually at the reporting unit level. Goodwill is tested for impairment on an interim basis if any event occurs or circumstances change that would "more likely than not" reduce the fair value of a reporting unit below its carrying value. Intangible assets that are subject to amortization will be reviewed for impairment in accordance with SFAS 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed of". The Company adopted the provisions of SFAS 142 on January 1, 2002. The Company no longer amortizes goodwill to expense, but instead reviews goodwill periodically for impairment. The adoption of SFAS 142 reduced goodwill amortization expense by $250,000 annually. No material changes to the carrying value of goodwill were made as a result of the adoption of SFAS 142.

In September 2001, FASB Statement No. 143 (SFAS 143) "Accounting for Asset Retirement Obligations" was issued. SFAS 143 provides guidance on the initial measurement and subsequent accounting for obligations associated with the sale, abandonment, or other type of disposal of long-lived tangible assets. The Company is currently evaluating the provisions of SFAS 143, but does not anticipate the implementation of SFAS 143 to have a material impact on the results of operations, cash flows or financial position.

In October 2001, FASB Statement No. 144 (SFAS 144) "Accounting for the Impairment of Disposal of Long-Lived Assets" was issued. SFAS 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets and this statement supercedes FASB Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-lived Assets to be Disposed of". The Company has adopted the provisions of SFAS 144, and the adoption of SFAS 144 did not have a material impact on the Company's financial statements.

Note 2. Investment in Enterworks

During the first quarter of 2001, the Company and Enterworks, Inc. ("Enterworks") entered into an agreement whereby the Company, as a participant in an additional round of financing for Enterworks, substituted approximately $530,000 of receivables owed to the Company and in addition funded Enterworks $470,000 of cash in three equal installments during the quarter. The receivables included rent owed to the Company, services performed by the Company under a service agreement between the Company and Enterworks, and expenses advanced by the Company on behalf of Enterworks for which the Company is reimbursed. In return, the Company received four separate Demand 10% Convertible Promissory Notes from Enterworks totaling $1 million, as well as warrants to purchase 2.5 million of underlying shares of Enterworks common stock. The warrants to purchase 2.5 million underlying shares of Enterworks common stock have an exercise price of $0.01 per share and an exercise period of five years.

During the second quarter of 2001, the Company and Enterworks entered into an agreement whereby the Company, as a participant in an additional round of financing for Enterworks, committed an additional $800,000 which represented the estimate of amounts owed to the Company for the period May through December 2001 for rent and services performed by the Company under a service agreement. In return, the Company received a $300,000 Demand 10% Convertible Promissory Note from Enterworks, as well as a warrant to purchase 750,000 of underlying shares of Enterworks common stock. The warrants to purchase the shares of Enterworks common stock have an exercise price of $0.01 per share and an exercise period of five years.

During the third and fourth quarters of 2001, the Company received five separate Demand 10% Convertible Promissory Notes from Enterworks totaling $500,000, as well as warrants to purchase 1,250,000 of underlying shares of Enterworks common stock. The warrants to purchase the shares of Enterworks common stock have an exercise price of $0.01 per share and an exercise period of five years.

In accordance with APB 18 and EITF 98-13 "Accounting by an Equity Method Investor for Investee Losses when the Investor has Loans to and Investments in Other Securities of the Investee", the Company has reduced the carrying amounts of the Notes to zero during 2001 and at March 31, 2002, as the Company's share of the Enterworks losses exceeded the carrying value of the Notes.

Note 3. Debt Obligations

Senior Credit Facility

The Company has a $20 million Senior Credit Facility ("the Facility") with Endeavour, LLC which matures on January 15, 2003. At March 31, 2002, the Facility was classified as a current liability as the Facility has a term of less than one year. Borrowings under the Facility are collateralized by a majority of the Company's assets including accounts receivable, inventory, and Telos' stock in its subsidiaries and affiliates. The amount of available borrowings fluctuates based on the underlying asset borrowing base, as defined in the Facility agreement.

Senior Subordinated Notes

In 1995 the Company issued Senior Subordinated Notes ("Notes") to certain shareholders. The Notes are classified as either Series B or Series C. Series B Notes are collateralized by fixed assets of the Company. Series C Notes are unsecured. The Notes mature on May 23, 2003. The Notes have interest rates ranging from 14% to 17%. Interest is paid quarterly on January 1, April 1, July 1, and October 1 of each year. The Notes can be prepaid at the Company's option. Additionally, these Notes have a cumulative payment premium of 13.5% per annum payable only upon certain circumstances. These circumstances include, but are not limited to, an initial public offering of the Company's common stock or a significant refinancing, to the extent that net proceeds from either of the above events are received and are sufficient to pay the premium. Due to the contingent nature of the premium payment, the associated premium expense will only be recorded subsequent to the occurrence of a triggering event. At March 31, 2002, the prepayment premium that would be due upon a triggering event is approximately $10.9 million.

In April 2001, the Company retired one of its Series C Subordinated notes with a principal amount of $358,000.

The balances of the Series B and Series C Notes were $5.5 million and $2.6 million, respectively, at March 31, 2002 and December 31, 2001.

In November 1998, the Company issued additional Senior Subordinated Notes to certain shareholders which were classified as Series D. The Series D Notes totaled $1.8 million and were unsecured. In connection with the debt, the Company issued two warrants to purchase a total of 1,500,000 shares of the Company's Class A Common Stock. As previously discussed, the Warrants had an exercise price of $.01 and an exercise period of 22 months and expired on October 1, 2000. The Series D Notes were retired in conjunction with the Enterworks private placement in 1999.

Note 4. Preferred Stock

Senior Redeemable Preferred Stock

The components of the senior redeemable preferred stock are Series A-1 and Series A-2, 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 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 30th and December 31st of each year. The liquidation preference of the preferred stock is the face amount of the Series A-1 and A-2 Stock ($1,000 per share), plus all accrued and unpaid dividends. The Company is required to redeem all of the outstanding shares of the stock on May 23, 2003, subject to the legal availability of funds. Mandatory redemptions are required from excess cash flows, as defined in the stock agreements. The Series A-1 and A-2 redeemable preferred stock is senior to all other present and future equity of the Company. The Series A-1 is senior to the Series A-2. The Company has not declared dividends on its senior redeemable preferred stock since its issuance. At March 31, 2002 and December 31, 2001 undeclared, unpaid dividends relating to Series A-1 and A-2 redeemable preferred stock totaled $4,008,000 and $3,903,000, respectively.

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, has been authorized for issuance. The Company initially issued 2,858,723 shares of the Public Preferred Stock pursuant to the acquisition of the Company during fiscal year 1990. The Public Preferred Stock was recorded at fair value on the date of original issue, November 21, 1989, and the Company is making periodic accretions under the interest method of the excess of the redemption value over the recorded value. Accretion for the three months ended March 31, 2002 was $461,000. The Company declared stock dividends totaling 736,863 shares in 1990 and 1991. No other stock dividends have been declared since 1991. In November 1998, the Company retired 410,000 shares of the Public Preferred Stock held by certain shareholders.

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 21, 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.

The Public Preferred Stock accrues a semi-annual dividend at an annual rate of 12% ($1.20) per share, based on the liquidation preference of $10 per share, and is cumulative. Through November 21, 1995, the Company had the option to pay dividends in additional shares of Preferred Stock in lieu of cash. Dividends in additional shares of the Preferred Stock are paid at the rate of 6% of a share of the Preferred Stock for each $.60 of such dividends not paid in cash. Dividends are payable by the Company, provided the Company has legally available funds under Maryland law, when and if declared by the Board of Directors, commencing June 1, 1990, and on each six month anniversary thereof. For the years 1992 through 1994 and for the dividend payable June 1, 1995, the Company has accrued undeclared dividends in additional shares of preferred stock. These accrued dividends are valued at $3,950,000. Had the Company accrued such 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 $26,323,000.

Based upon the Company's interpretation of charter provisions pertaining to restrictions upon payment of dividends, similar dividend payment restrictions contained in its Senior Credit Facility, and limitations pursuant to Maryland law, the Company has not declared or paid dividends on its Public Preferred Stock since 1991.

Note 5. Reportable Business Segments

The Company adopted SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information" in 1998 which changes the way the Company reports information about its operating segments.

At March 31, 2002, the Company has three reportable segments:

Systems and Support Services - provides post-deployment and post-production software and systems development and support services including technology insertion, system redesign and software re-engineering. This Group's largest customer is the U.S. Army's Communications and Electronics Command ("CECOM") and has significant operations at Ft. Monmouth in New Jersey and Ft. Sill in Oklahoma. Tasks are performed on a time and materials basis and on a firm fixed price basis.

Products - delivers solutions that combine information technology products and services to solve customer problems. These solutions consist of a combination of commercial-off-the-shelf (COTS) products from major original equipment manufacturers (OEM's), Telos proprietary products, Telos and subcontractor services and Telos proprietary practices. Key customers of this group include agencies of the US Government such as: military services, Defense Agencies, Treasury Department, US Courts and others. Significant government procurement vehicles for customers of the Products Group include: Infrastructure Solutions - 1 (government-wide); GSA schedule (government-wide); Data Communications Network Equipment/Software (US Courts); and Treasury Distributed Processing Infrastructure (Treasury).

In addition to the above, The Product's Group includes the Company's wireless networking, secure messaging solutions and is a value added reseller for Xacta's information security products into the federal government.

Xacta - develops enterprise risk management software to help organizations to proactively manage and monitor the security of their network environments in accordance with information security and privacy standards. The applications, Xacta Web C&A and Xacta Commerce Trust, leverage information assurance technology and processes that Xacta has proven in the government's most secure and demanding agencies, departments, and branches (Defense, Intelligence, and Treasury). Xacta customers include agencies of the U.S. Government and a number of commercial credit unions.

The Company evaluates the performance of its operating segments based on revenue, gross profit and income before goodwill amortization, income taxes, non-recurring items and interest income or expense.

Summarized financial information concerning the Company's reportable segments for the three months ended March 31, 2002 and 2001 is shown in the following table. The "other" column includes corporate related items.

	Systems and Support Services	Products	Xacta	Other(1)	Total
March 31, 2002					
External Revenues	$14,355	$16,581	$ 2,403	$ --	$33,339
Intersegment Revenues	216	1,944	--	--	2,160
Gross Profit	1,258	1,891	261	--	3,410
Segment profit (loss)(3)	(276)	281	(1,866)	--	(1,861)
Total assets	9,510	19,802	1,608	22,783	53,703
Capital Expenditures	--	47	12	32	91
Depreciation & Amortization (2)	11	97	67	272	447
March 31, 2001					
External Revenues	$13,887	$27,477	$ 2,565	--	$43,929
Intersegment Revenues	569	1,963	--	--	2,532
Gross Profit	1,249	5,095	546	--	6,890
Segment profit (loss)(3)	(434)	2,651	(1,040)	--	1,177
Total assets	8,521	32,830	5,149	23,273	69,773
Capital Expenditures	136	10	95	67	308
Depreciation & Amortization (2)	90	93	52	317	552

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

The Company does not have material international revenues, profit (loss), assets or capital expenditures. The Company's business is not concentrated in a specific geographical area within the United States, as it has 5 separate facilities located in various states, the District of Columbia and Europe.

Note 6. Subsequent Event

On April 30, 2002, the Company received a Senior Demand Promissory Note from Enterworks totaling $305,945. This Note represents amounts owed to the Company for rent and services performed by the Company under a service agreement during the first quarter 2002. The billings represented in this Note have been fully reserved for at March 31, 2002. This Note contains a maturity date of April 30, 2007, and also includes a provision for repayment of four times principal and accrued interest in the event that Enterworks liquidates, enters into dissolution or seeks the protection of bankruptcy.

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

General

Sales for the first three months of 2002 were $33.3 million, a decrease of $10.6 million or 24.1% as compared to the same 2001 period. This decrease was primarily attributable to a $10.9 million decrease in sales from the Company's Products Group, which was impacted by decreased order volume under both its traditional businesses and its wireless product line.

The Company incurred an operating loss of approximately $1.9 million for the three months ended March 31, 2002 as compared to an operating profit of $1.1 million during the same 2001 period. Operating profitability declined principally because of the decreased sales volume discussed above coupled with reduced profit margins on the Company's traditional business contracts and information security product line.

Total backlog from existing contracts was approximately $808.1 million and $830.0 million as of March 31, 2002 and December 31, 2001, respectively. As of March 31, 2002, the funded backlog of the Company totaled $29.4 million, an increase of $1.4 million from December 31, 2001. 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. The major elements of the Company's operating expenses as a percentage of sales for the three-month periods ended March 31, 2002 and 2001 were as follows:

	Three Months Ended March 31,	
	2002	2001
Sales	100.0%	100.0%
Cost of sales	(89.8)	(84.3)
SG&A expenses	(15.8)	(13.1)
Goodwill amortization	--	(0.1)
Operating (loss) income	(5.6)	2.5
Other income	--	--
Interest expense	(2.4)	(2.9)
Loss before taxes	(8.0)	(0.4)
Income tax benefit (provision)	3.3	--
Net loss	(4.7)%	(0.4)%

Financial Data by Market Segment

Sales, gross profit, and gross margin by market segment for the first quarter of 2002 and 2001 were as follows:

	Three Months Ended March 31,	
	2002	2001
	(amounts in thousands)	
Sales:		
Systems and Support Services	$ 14,355	$13,887
Products	16,581	27,477
Xacta	2,403	2,565
Total	$ 33,339	$43,929
Gross Profit:		
Systems and Support Services	$ 1,258	$ 1,249
Products	1,891	5,095
Xacta	261	546
Total	$ 3,410	$ 6,890
Gross Margin:		
Systems and Support Services	8.8%	9.0%
Products	11.4%	18.5%
Xacta	10.9%	21.3%
Total	10.2%	15.7%

For the three-month period ended March 31, 2002, sales decreased by $10.6 million, or 24.1%, to $33.3 million from $43.9 million for the comparable 2001 period. Of the $10.6 million decrease, $10.9 million was attributable to the Products Group. The Products Group's comparable revenues declined principally due to decreased sales under the Group's traditional contracts such as Infrastructure Solutions-1 and DCN Courts, as well as decreased sales from the Group's wireless product line. The decreases in revenue were partially offset by increases in the revenue of the Systems and Support Services Group, which experienced revenue growth of $468,000. The sales levels in the Xacta Group remained unchanged in the comparable periods.

Cost of sales was 89.8% of sales for the three-month period ended March 31, 2002, as compared to 84.3% in the comparable 2001 period. The increase in cost of sales as a percentage of sales is mainly attributable to decreased profits realized under the Products Group's wireless product line, as well as reduced profits on some of the Xacta Group's firm fixed price contracts.

Gross profit decreased by $3.5 million in the first quarter of 2002 to $3.4 million from $6.9 million in the comparable 2001 period as a result of the decrease in sales and increases in cost of sales discussed above. Total Company gross margins were 10.2% and 15.7% for the three-month periods ended March 31, 2002 and 2001, respectively.

Selling, general and administrative costs decreased for the three-month period by approximately $442,000 to $5.3 million in 2002 from $5.7 million in 2001. This decrease is primarily due to indirect cost control measures implemented in early 2002. SG&A as a percentage of sales was 15.8% and 13.1% for the three-month periods ended March 31, 2002 and 2001, respectively.

Goodwill amortization expense was zero for the three months ended March 31, 2002 compared to $62,000 for the period ended March 2001. The decrease in goodwill amortization was a result of the application of SFAS 142. Under SFAS 142, the Company no longer depreciates its goodwill asset.

Operating profitability declined by $3.0 million during the three months ended March 31, 2002 to approximately $1.9 million in operating loss. The Company had an operating profit of $1.1 million in the comparable period of 2001. The decrease in operating profit resulted primarily from the aforementioned gross profit decreases.

Interest expense decreased by approximately $491,000 to $796,000 during the three-month period ended March 31, 2002, from $1.3 million in the comparable period of 2001. The decrease was attributable to decreased debt levels in 2002.

The Company recorded a tax benefit of approximately $1.1 million and a tax provision of approximately $1,000 for the three-month periods ended March 31, 2002 and 2001, respectively. The tax benefit recorded for the first quarter of 2002 is attributable to the net operating loss generated by the Company.

Liquidity and Capital Resources

For the three months ended March 31, 2002, the Company used $1.8 million of cash for operating activities. This usage of cash was principally due to losses incurred in operations. Cash used in investing activities was approximately $91,000. The Company generated cash during the quarter by drawing on its credit facility in the amount of $2.2 million.

At March 31, 2002, the Company had outstanding debt and long-term obligations of $33.4 million, consisting of $14.6 million under the secured senior credit facility, $8.2 million in subordinated debt, and $10.6 million in capital lease obligations.

At March 31, 2002, the Company had an outstanding balance of $14.6 million on its $20 million Senior Credit Facility (the "Facility"). The Facility matures on January 15, 2003 and is collateralized by a majority of the Company's assets (including inventory, accounts receivable and Telos' stock in its subsidiaries and affiliates). The amount of borrowings fluctuates based on the underlying asset borrowing base as well as the Company's working capital requirements. The Facility has various covenants that may, among other things, restrict the ability of the Company to merge with another entity, to sell or transfer certain assets, the payment of dividends and other distributions beyond certain limitations. The Facility also requires the Company to meet certain fixed coverage and operating goals. The Company is currently in the process of negotiating a replacement for the Facility.

New Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board ("FASB") approved Statement of Financial Accounting Standards ("SFAS") No 142, "Goodwill and Other Intangible Assets". SFAS No. 142 addresses financial accounting and reporting for acquired goodwill and other intangible assets. Implementation of this Statement requires the Company to cease amortization of goodwill, and goodwill is tested for impairment at least annually at the reporting unit level. Goodwill is tested for impairment on an interim basis if any event occurs or circumstances change that would "more likely than not" reduce the fair value of a reporting unit below its carrying value. Intangible assets that are subject to amortization will be reviewed for impairment in accordance with SFAS 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed of". The Company adopted the provisions of SFAS 142 on January 1, 2002. The Company no longer amortizes goodwill to expense, but instead reviews goodwill periodically for impairment. The adoption of SFAS 142 reduced goodwill amortization expense by $250,000 annually. No material changes to the carrying value of goodwill were made as a result of the adoption of SFAS 142.

In September 2001, FASB Statement No. 143 (SFAS 143) "Accounting for Asset Retirement Obligations" was issued. SFAS 143 provides guidance on the initial measurement and subsequent accounting for obligations associated with the sale, abandonment, or other type of disposal of long-lived tangible assets. The Company is currently evaluating the provisions of SFAS 143, but does not anticipate the implementation of SFAS 143 to have a material impact on the results of operations, cash flows or financial position.

In October 2001, FASB Statement No. 144 (SFAS 144) "Accounting for the Impairment of Disposal of Long-Lived Assets" was issued. SFAS 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets and this statement supercedes FASB Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-lived Assets to be Disposed of". The Company has adopted the provisions of SFAS 144, and the adoption of SFAS 144 did not have a material impact on the Company's financial statements.

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 which in the present period of economic downturn may include, and adversely affect, the cost and continued availability of the Company to secure adequate capital and financing to support its business; the impact of adverse economic conditions on the Company's customers and suppliers; the ability to sell assets or to obtain alternative sources of commercially reasonable refinancing for the Company's debt; or the ability to successfully restructure its debt obligations. Additional uncertainties include the Company's ability to convert contract backlog to revenue, the success of the Company's investment in Enterworks and Xacta and the Company's access to ongoing development, product support and viable channel partner relationships with Enterworks and Xacta.

While in the past the Company has not experienced contract terminations with the U.S. Government, the U.S. Government can terminate at its convenience. Should such a termination occur, the Company's operating results could be adversely impacted. The Company's total backlog (referenced above) includes $700 million attributable to the dual award of the U.S. Army CECOM SEC contract to the Company's 50% owned joint venture, ITel Solutions. The Company will be a subcontractor to this joint venture, and estimates that upon the successful award of each competing task order, its total backlog relating to such contract could be up to $700 million. Conversely, failure to be awarded the majority of the competing task orders for such contract would adversely impact the Company.

It should also be noted that post September 11, 2001, all U.S. Government programs, especially those pertaining to national security, have been subject to review and reprioritization. While the Company believes its products and services are well positioned to benefit from such post September 11 demands, the magnitude of such events certainly serves to emphasize how the Company's high percentage of revenue derived from business with the U.S. Government could alternatively be dramatically, swiftly and adversely impacted.

The Company has many patents and patents pending, trademarks and copyrights and other valuable proprietary information, and the Company has taken reasonable and prudent steps to so protect its intellectual property. With regard to the Company's wholly owned subsidiary, Xacta, whose software products require constant monitoring as it develops future releases and creates additional intellectual property, vigilant oversight of such intellectual property rights is imperative. Similarly, the intellectual property associated with our wireless division and our automated message handling system division require constant oversight with regard to the development and protection of their respective intellectual property. Accordingly, any event that brings into question the Company's ownership of its intellectual property could, therefore, materially and adversely impact the Company.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company's exposure to market risk for changes in interest rates relates primarily to the Company's long-term debt obligations.

The Company is exposed to interest rate volatility with regard to its variable rate debt obligations under its Senior Credit Facility. This facility bears interest at 1.5%, subject to certain adjustments, over the bank's base rate. This rate will escalate 25 basis points every other month from April 1, 2002 until expiration. The weighted average interest rate in the first three months of 2002 was 6.5%. This facility expires on January 15, 2003 and had an outstanding balance of $14.6 million at March 31, 2002.

The Company's other debt at March 31, 2002 consists of Senior Subordinated Notes B and C which bear interest at fixed rates ranging from 14% to 17%. The Senior Subordinated Notes principal balance at March 31, 2002 is $8.2 million, and this principal amount matures on May 23, 2003. The Company has no cash flow exposure due to rate changes for its Senior Subordinated Notes.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

The Company is party to various lawsuits arising in the ordinary course of business. While the results of litigation cannot be predicted with certainty, based upon the Company's present understanding of its pending legal matters, it is of the opinion such matters for this quarter will not have a material adverse effect on the Company's consolidated financial position, results of operations, or of cash flows.

Item 3. Defaults Upon Senior Securities

Senior Redeemable Preferred Stock

The Company has not declared dividends on its Senior Redeemable Preferred Stock, Series A-1 and A-2, since its issuance. Total undeclared unpaid dividends, accrued for financial reporting purposes, are $4,008,000 for the Series A-1, A-2 Preferred stock at March 31, 2002.

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 6% of a share for each $.60 of such dividends not paid in cash. Cumulative undeclared dividends as of March 31, 2002 accrued for financial reporting purposes totaled $30.3 million. 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 $26,323,000.

Based upon the Company's interpretation of charter provisions pertaining to restrictions upon payment of dividends, similar dividend payment restrictions contained in its Senior Credit Facility, and limitations pursuant to Maryland law, the Company has not declared or paid dividends on its public preferred stock since 1991.

Item 5. Other Events

On March 20, 2002, Dr. Stephen Bryen resigned as both a Proxy Holder and Director. On March 26, 2002, Dr. Fred Ikle resigned as Chairman of the Board of Directors, but remains on the Board as a Director and Proxy Holder.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits: None

(b) Reports on Form 8-K: None

Items 2, 4, and 5 are not applicable and have been omitted.

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: May 14, 2002

TELOS CORPORATION
/s/Thomas J. Ferrara
Thomas J. Ferrara
(Principal Financial Officer)