FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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TELOS CORP

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Mailing Address
19886 ASHBURN ROAD
ASHBURN VA 20147

Business Address
19886 ASHBURN ROAD
ASHBURN VA 20147
7034716000

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended: March 31, 2021

? Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission file number: 001-08443

TELOS CORPORATION

(Exact name of registrant as specified in its charter)

Maryland	**52-0880974**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
19886 Ashburn Road, Ashburn, Virginia	**20147-2358**
(Address of principal executive offices)	(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading symbol	Name of each exchange on which registered
Common stock, $0.001 par value per share	TLS	The Nasdaq Stock Market LLC

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ?

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ?

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

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☐
		Emerging growth company	☒

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act): Yes ? No ☒

As of May 10, 2021, the registrant had outstanding 66,735,389 shares of common stock.

TELOS CORPORATION AND SUBSIDIARIES

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PART I - FINANCIAL INFORMATION

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

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

	Three Months Ended March 31,	
	2021	**2020**
Revenue		
Services	$ 52,058	$ 34,558
Products	3,699	4,422
	55,757	38,980
Costs and expenses		
Cost of sales - Services (including $737 stock-based compensation expense)	39,602	24,865
Cost of sales - Products	1,798	1,873
	41,400	26,738
Selling, general and administrative expenses		
Sales and marketing (including $1,547 stock-based compensation expense)	3,826	1,592
Research and development (including $461 stock-based compensation expense)	4,061	3,657
General and administrative (including $10,925 stock-based compensation expense)	19,964	6,590
	27,851	11,839
Operating (loss) income	(13,494)	403
Other income (expense)		
Other (expense) income	(1,054)	8
Interest expense	(196)	(2,017)
Loss before income taxes	(14,744)	(1,606)
(Provision for) benefit from income taxes (Note 7)	(34)	146
Net loss	(14,778)	(1,460)
Less: Net income attributable to non-controlling interest (Note 2)	–	(784)
Net loss attributable to Telos Corporation	$ (14,778)	$ (2,244)
Net loss per share attributale to Telos Corporation, basic	$ (0.23)	$ (0.06)
Net loss per share attributale to Telos Corporation, diluted	$ (0.23)	$ (0.06)
Weighted-average shares of common stock outstanding, basic	64,625	38,073
Weighted-average shares of common stock outstanding, diluted	64,625	38,073

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

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

	Three Months Ended March 31,	
	2021	**2020**
Net loss	$ (14,778)	$ (1,460)
Other comprehensive loss, net of tax:		
Foreign currency translation adjustments	(32)	(1)
Less: Comprehensive income attributable to non-controlling interest	–	(784)
Comprehensive loss attributable to Telos Corporation	$ (14,810)	$ (2,245)

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

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

	March 31, 2021 (Unaudited)	December 31, 2020
ASSETS		
Current assets		
Cash and cash equivalents	$ 93,761	$ 106,045
Accounts receivable, net of reserve of $313 and $308, respectively (Note 1)	52,563	30,913
Inventories, net of obsolescence reserve of $852 and $851, respectively (Note 1)	1,887	3,311
Prepaid expenses	3,985	3,059
Deferred program expenses	192	5
Other current assets	778	781
Total current assets	153,166	144,114
Property and equipment, including capitalized software development costs, net of accumulated depreciation of $37,948 and $36,891, respectively	23,863	22,397
Operating lease right-of-use assets (Note 10)	1,305	1,464
Goodwill (Note 3)	14,916	14,916
Other assets	990	926
Total assets	$ 194,240	$ 183,817

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

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

	March 31, 2021 (Unaudited)	December 31, 2020
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities		
Accounts payable and other accrued liabilities (Note 5)	31,765	20,899
Accrued compensation and benefits	7,261	8,474
Contract liabilities (Notes 1 and 5)	6,751	5,654
Finance lease obligations – short-term (Note 10)	1,368	1,339
Operating lease obligations – short-term (Note 10)	660	677
Other current liabilities	3,188	1,903
Total current liabilities	50,993	38,946
Finance lease obligations – long-term (Note 10)	13,951	14,301
Operating lease liabilities – long-term (Note 10)	788	941
Deferred income taxes (Note 7)	661	652
Other liabilities (Note 7)	1,883	1,873
Total liabilities	68,276	56,713
Commitments and contingencies (Note 8)		
Stockholders' equity		
Common stock	103	103
Additional paid-in capital	284,470	270,800
Accumulated other comprehensive income	12	44
Accumulated deficit	(158,621)	(143,843)
Total stockholders' equity	125,964	127,104
Total liabilities and stockholders' equity	$ 194,240	$ 183,817

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, 2021	Three Months Ended March 31, 2020
Operating activities:		
Net loss	$ (14,778)	$ (1,460)
Adjustments to reconcile net loss to cash (used in) provided by operating activities:		
Stock-based compensation	13,670	–
Dividends from preferred stock recorded as interest expense	–	956
Depreciation and amortization	1,360	1,389
Amortization of debt issuance costs	–	235
Deferred income tax provision	9	10
Other noncash items	5	(1)
Changes in other operating assets and liabilities	(9,584)	614
Cash (used in) provided by operating activities	(9,318)	1,743
Investing activities:		
Capitalized software development costs	(2,165)	(1,507)
Purchases of property and equipment	(480)	(210)
Cash used in investing activities	(2,645)	(1,717)
Financing activities:		
Payments under finance lease obligations	(321)	(294)
Amendment fee paid to lender	–	(100)
Cash used in financing activities	(321)	(394)
Decrease in cash and cash equivalents	(12,284)	(368)
Cash and cash equivalents, beginning of period	106,045	6,751
Cash and cash equivalents, end of period	$ 93,761	$ 6,383
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$ 196	$ 739

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

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

	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Non-Controlling Interest	Total Stockholders' Equity (Deficit)
For the Three Months Ended March 31, 2021						
Beginning balance	$ 103	$ 270,800	$ 44	$ (143,843)	$ –	$ 127,104
Net loss	–	–	–	(14,778)	–	(14,778)
Foreign currency translation loss	–	–	(32)	–	–	(32)
Stock-based compensation	–	13,670	–	–	–	13,670
Ending balance	$ 103	$ 284,470	$ 12	$ (158,621)	$ –	$ 125,964
For the Three Months Ended March 31, 2020						
Beginning balance	$ 78	$ 4,310	$ 6	$ (145,530)	$ 4,514	$ (136,622)
Net (loss) income	–	–	–	(2,244)	784	(1,460)
Foreign currency translation loss	–	–	(1)	–	–	(1)
Ending balance	$ 78	$ 4,310	$ 5	$ (147,774)	$ 5,298	$ (138,083)

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 and Basis of Presentation

Telos Corporation, together with its subsidiaries, (the "Company" or "Telos" or "We"), is an information technology solutions and services company addressing the needs of U.S. Government and commercial customers worldwide. We own all of the issued and outstanding share capital of Xacta Corporation, a subsidiary that develops, markets and sells government-validated secure enterprise solutions to government and commercial customers. We also own all of the issued and outstanding share capital of Ubiquity.com, Inc., a holding company for Xacta Corporation. We also have a 100% ownership interest in Telos Identity Management Solutions, LLC ("Telos ID"), Teloworks, Inc. ("Teloworks") and Telos APAC Pte. Ltd. ("Telos APAC").

Initial Public Offering of Common Stock

On November 19, 2020, we completed our initial public offering of shares of our common stock. We issued 17.2 million shares of our common stock at a price of $17.00 per share, generating net proceeds of approximately $272.8 million. We used approximately $108.9 million of the net proceeds in connection with the conversion of our outstanding shares of Exchangeable Redeemable Preferred Stock into the right to receive cash and shares of our common stock, $30.0 million to fund our acquisition of the outstanding Class B Units of Telos ID, and $21.0 million to repay our outstanding senior term loan and subordinated debt. We intend to use the remaining net proceeds for general corporate purposes. We also may use a portion of the net proceeds to acquire complementary businesses, products, services, or technologies. The amounts and timing of our actual use of the net proceeds will vary depending on numerous factors.

The accompanying condensed consolidated financial statements include the accounts of Telos and its subsidiaries, including Ubiquity.com, Inc., Xacta Corporation, Telos ID, Teloworks, and Telos APAC, all of whose issued and outstanding share capital is owned by the Company. Intercompany transactions have been eliminated in consolidation.

The accompanying condensed consolidated financial statements reflect all adjustments (which include normal recurring adjustments) and reclassifications necessary for their fair presentation in conformity with accounting principles generally accepted in the United States of America ("GAAP") and pursuant to rules and regulations of the Securities and Exchange Commission ("SEC"). The presented interim results are not necessarily indicative of fiscal year performance for a variety of reasons including, but not limited to, the impact of seasonal and short-term variations. We have continued to follow the accounting policies (including the critical accounting policies) set forth in the consolidated financial statements included in our 2020 Annual Report on Form 10-K filed with the SEC. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2020.

In December 2019, an outbreak of COVID-19 was reported in Wuhan, China. On March 11, 2020, the World Health Organization declared COVID-19 a global pandemic and on March 13, 2020, President Donald J. Trump declared the virus a national emergency. This highly contagious disease has spread to most of the countries in the world and throughout the United States, creating a serious impact on customers, workforces, and suppliers, disrupting economies and financial markets, and leading to a world-wide economic downturn. COVID-19, together with subsequently reported variants of this strain, have caused a disruption of the normal operations of many businesses, including the temporary closure or scale-back of business operations and/or the imposition of either quarantine or remote work or meeting requirements for employees, either by government order or on a voluntary basis. The pandemic may adversely affect our customers' ability to perform their missions and is in many cases disrupting their operations. It may also impact the ability of our subcontractors, partners, and suppliers to operate and fulfill their contractual obligations, and result in an increase in their costs and cause delays in performance. These supply chain effects, and the direct effect of the virus and the disruption on our operations, may negatively impact both our ability to meet customer demand and our revenue and profit margins. Our employees, in some cases, are working remotely due either to safety concerns or to customer imposed limitations and using various technologies to perform their functions. We could see delays or changes in customer demand, particularly if government funding priorities change. Additionally, the disruption and volatility in the global and domestic capital markets may increase the cost of capital and limit our ability to access capital. Both the health and economic aspects of COVID-19 are highly fluid and the future course of each is uncertain.

In preparing these condensed consolidated financial statements, we have evaluated subsequent events through the date that these condensed consolidated financial statements were issued.

Segment Reporting

Operating segments are defined as components of an enterprise for which separate financial information is available and evaluated regularly by the chief operating decision maker ("CODM"), or decision making group, in deciding how to allocate resources and assess performance. We currently operate in one operating and reportable business segment for financial reporting purposes. Our Chief Executive Officer is the CODM. The CODM only evaluates profitability based on consolidated results.

Recent Accounting Pronouncements

Recent Accounting Pronouncements Adopted

In December 2019, the Financial Accounting Standard Board ("FASB") issued Accounting Standards Update ('ASU") No. 2019-12, "Simplifying the Accounting for Income Taxes (Topic 740)", which simplifies the accounting for income taxes. This standard is effective for reporting periods beginning after December 15, 2020, which made this standard effective for us on January 1, 2021. The adoption of this ASU did not have a material impact on our condensed consolidated financial position, results of operations and cash flows.

Revenue Recognition

We account for revenue in accordance with ASC Topic 606, "Revenue from Contracts with Customers." The unit of account in ASC 606 is a performance obligation, which is a promise in a contract with a customer to transfer a good or service to the customer. ASC 606 prescribes a five-step model for recognizing revenue that includes identifying the contract with the customer, determining the performance obligation(s), determining the transaction price, allocating the transaction price to the performance obligation(s), and recognizing revenue as the performance obligations are satisfied. Timing of the satisfaction of performance obligations varies across our businesses due to our diverse product and service mix, customer base, and contractual terms. Significant judgment can be required in determining certain performance obligations, and these determinations could change the amount of revenue and profit recorded in a given period. Our contracts may have a single performance obligation or multiple performance obligations. When there are multiple performance obligations within a contract, we allocate the transaction price to each performance obligation based on our best estimate of standalone selling price.

The majority of our revenue is recognized over time, as control is transferred continuously to our customers who receive and consume benefits as we perform, and is classified as services revenue. All of our business groups earn services revenue under a variety of contract types, including time and materials, firm-fixed price, firm fixed price level of effort, and cost plus fixed fee contract types, which may include variable consideration as discussed further below. Revenue is recognized over time using costs incurred to date relative to total estimated costs at completion to measure progress toward satisfying our performance obligations. Incurred cost represents work performed, which corresponds with, and thereby best depicts, the transfer of control to the customer. Contract costs include labor, material, subcontractor costs and indirect expenses. This continuous transfer of control to the customer is supported by clauses in our contracts with U.S. Government customers whereby the customer may terminate a contract for convenience and then pay for costs incurred plus a profit, at which time the customer would take control of any work in process. For non-U.S. Government contracts where we perform as a subcontractor and our order includes similar Federal Acquisition Regulation (the FAR) provisions as the prime contractor's order from the U.S. Government, continuous transfer of control is likewise supported by such provisions. For other non-U.S. Government customers, continuous transfer of control to such customers is also supported due to general terms in our contracts and rights to recover damages which would include, among other potential damages, the right to payment for our work performed to date plus a reasonable profit.

Due to the transfer of control over time, revenue is recognized based on progress towards completion of the performance obligation. The selection of the method to measure progress towards completion requires judgment and is based on the nature of the performance obligations. We generally use the cost-to-cost measure of progress on a proportional performance basis for our contracts because it best depicts the transfer of control to the customer which occurs as we incur costs on our contracts. Under the cost-to-cost measure of progress, the extent of progress towards completion is measured based on the ratio of costs incurred to date to the total estimated costs at completion of the performance obligation. Revenues are recorded proportionally as costs are incurred. Due to the nature of the work required to be performed on certain of our performance obligations, the estimation of total revenue and cost at completion is complex, subject to many variables and requires significant judgment. Contract estimates are based on various assumptions including labor and subcontractor costs, materials and other direct costs and the complexity of the work to be performed. A significant change in one or more of these estimates could affect the profitability of our contracts. We review and update our contract-related estimates regularly and recognize adjustments in estimated profit on contracts on a cumulative catch-up basis, which may result in an adjustment increasing or decreasing revenue to date on a contract in a particular period that the adjustment is identified. Revenue and profit in future periods of contract performance are recognized using the adjusted estimate.

Revenue that is recognized at a point in time is for the sale of software licenses in our Information Assurance / Xacta® (previously referred to as Cyber & Cloud Solutions) and Secure Communications (previously referred to as Secure Communications Cyber and Enterprise Solutions) business groups and for the sale of resold products in Telos ID (previously referred to as Telos ID Enterprise Solutions) and Secure Networks (previously referred to as Secure Mobility and Network Management/Defense Enterprise Solutions), and is classified as product revenue. Revenue on these contracts is recognized when the customer obtains control of the transferred product or service, which is generally upon delivery of the product to the customer for their use, due to us maintaining control of the product until that point. Orders for the sale of software licenses may contain multiple performance obligations, such as maintenance, training, or consulting services, which are typically delivered over time, consistent with the transfer of control disclosed above for the provision of services. When an order contains multiple performance obligations, we allocate the transaction price to the performance obligations using our best estimate of standalone selling price.

Contracts are routinely and often modified to account for changes in contract requirements, specifications, quantities, or price. Depending on the nature of the modification, we determine whether to account for the modification as an adjustment to the existing contract or as a new contract. Generally, modifications are not distinct from the existing contract due to the significant interrelatedness of the performance obligations and are therefore accounted for as an adjustment to the existing contract, and recognized as a cumulative adjustment to revenue (as either an increase or reduction of revenue) based on the modification's effect on progress toward completion of a performance obligation.

Our contracts may include various types of variable consideration, such as claims (for instance, indirect rate or other equitable adjustments) or incentive fees. We include estimated amounts in the transaction price based on all of the information available to us, including historical information and future estimations, and to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when any uncertainty associated with the variable consideration is resolved.

Historically, most of our contracts do not include award or incentive fees. For incentive fees, we would include such fees in the transaction price to the extent we could reasonably estimate the amount of the fee. With limited historical experience, we have not included any revenue related to incentive fees in our estimated transaction prices. We may include in our contract estimates additional revenue for submitted contract modifications or claims against the customer when we believe we have an enforceable right to the modification or claim, the amount can be estimated reliably and its realization is probable. We consider the contractual/legal basis for the claim (in particular FAR provisions), the facts and circumstances around any additional costs incurred, the reasonableness of those costs and the objective evidence available to support such claims.

For our contracts that have an original duration of one year or less, we use the practical expedient applicable to such contracts and do not consider the time value of money. We capitalize sales commissions related to proprietary software and related services that are directly tied to sales. We do not elect the practical expedient to expense as incurred the incremental costs of obtaining a contract if the amortization period would have been one year or less. For the sales commissions that are capitalized, we amortize the asset over the expected customer life, which is based on recent and historical data.

Contract assets are amounts that are invoiced as work progresses in accordance with agreed-upon contractual terms, either at periodic intervals or upon achievement of contractual milestones. Generally, revenue recognition occurs before billing, resulting in contract assets. These contract assets are referred to as unbilled receivables and are reported within accounts receivable, net of reserve on our condensed consolidated balance sheets.

Billed receivables are amounts billed and due from our customers and are reported within accounts receivable, net of reserve on the condensed consolidated balance sheets. The portion of the payments retained by the customer until final contract settlement is not considered a significant financing component due to the intent of the retainage being the customer's protection with respect to full and final performance under the contract.

Contract liabilities are payments received in advance and milestone payments from our customers on selected contracts that exceed revenue earned to date, resulting in contract liabilities. Contract liabilities typically are not considered a significant financing component because they are generally satisfied within one year and are used to meet working capital demands that can be higher in the early stages of a contract. Contract liabilities are reported on our condensed consolidated balance sheets on a net contract basis at the end of each reporting period.

We have one reportable segment. We treat sales to U.S. customers as sales within the U.S. regardless of where the services are performed. Substantially all of our revenues are from U.S. customers as revenue derived from international customers is de minimus. The following tables disclose revenue (in thousands) by customer type and contract type for the three months ended March 31, 2021 and 2020.

	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020
Federal	$ 53,347	$ 36,092
State & Local, and Commercial	2,410	2,888
Total	$ 55,757	$ 38,980

	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020
Firm fixed-price	$ 49,141	$ 31,662
Time-and-materials	3,030	3,825
Cost plus fixed fee	3,586	3,493
Total	$ 55,757	$ 38,980

The following table discloses accounts receivable and contract assets (in thousands):

	March 31, 2021	December 31, 2020
Billed accounts receivable	$ 12,382	$ 12,060
Unbilled receivables	40,494	19,161
Allowance for doubtful accounts	(313)	(308)
Receivables – net	$ 52,563	$ 30,913

As of March 31, 2021 and December 31, 2020, we had $126.8 million and $127.7 million of remaining performance obligations, respectively, which we also refer to as funded backlog. We expect to recognize approximately 84.2% of our remaining performance obligations as revenue in 2021, an additional 10.3% in 2022, and the balance thereafter. Revenue recognized for the three months ended March 31, 2021 and 2020 that was included in the contract liabilities balance at the beginning of each reporting period was $2.0 million and $2.4 million, respectively. Contract liabilities were $6.8 million and $5.7 million as of March 31, 2021 and December 31, 2020, respectively.

Accounts Receivable

Accounts receivable are stated at the invoiced amount, less an allowance for doubtful accounts. Collectability of accounts receivable is regularly reviewed based upon management's knowledge of the specific circumstances related to overdue balances. The allowance for doubtful accounts is adjusted based on such evaluation. Accounts receivable balances are written off against the allowance when management deems the balances uncollectible.

Inventories

Inventories are stated at the lower of cost or net realizable value, where cost is determined using the weighted average method. Substantially all inventories consist of purchased off-the-shelf hardware and software, and component computer parts used in connection with system integration services that we perform. An allowance for obsolete, slow-moving or nonsalable inventory is provided for all other inventory. This allowance is based on our overall obsolescence experience and our assessment of future inventory requirements. This charge is taken primarily due to the age of the specific inventory and the significant additional costs that would be necessary to upgrade to current standards as well as the lack of forecasted sales for such inventory in the near future. Gross inventory was $2.7 million and $4.2 million as of March 31, 2021 and December 31, 2020, respectively. As of March 31, 2021, it is management's judgment that we have fully provided for any potential inventory obsolescence, which was $0.9 million as of March 31, 2021 and December 31, 2020.

Software Development Costs

Our policy on accounting for development costs of software to be sold is in accordance with ASC Topic 985-20, "Software – Costs of Software to be Sold, Leased, or Marketed" and ASC Topic 350-40 "Internal Use Software" in so far as our Xacta products being available in various deployment modalities including on premises licenses and cloud-based Software as a Service ("SaaS"). Under both standards, software development costs are expensed as incurred until technological feasibility is reached, at which time additional costs are capitalized until the product is available for general release to customers or is ready for its intended use, as appropriate. Technological feasibility is established when all planning, designing, coding and testing activities have been completed, and all risks have been identified. Software development costs are capitalized and amortized over the estimated product life of 2 years on a straight-line basis. As of March 31, 2021 and December 31, 2020, we capitalized $14.4 million and $12.3 million of software development costs, respectively, which are included as a part of property and equipment. Amortization expense was $0.5 million for each of the three months ended March 31, 2021 and 2020. Accumulated amortization was $5.3 million and $4.8 million as of March 31, 2021 and December 31, 2020, respectively. The Company analyzes the net realizable value of capitalized software development costs on at least an annual basis and has determined that there is no indication of impairment of the capitalized software development costs as forecasted future sales are adequate to support amortization costs.

Income Taxes

We account for income taxes in accordance with ASC 740, "Income Taxes." Under ASC 740, deferred tax assets and liabilities are recognized for the estimated future tax consequences of temporary differences and income tax credits. Deferred tax assets and liabilities are measured by applying enacted statutory tax rates that are applicable to the future years in which deferred tax assets or liabilities are expected to be settled or realized for differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. Any change in tax rates on deferred tax assets and liabilities is recognized in net income in the period in which the tax rate change is enacted. We record a valuation allowance that reduces deferred tax assets when it is "more likely than not" that deferred tax assets will not be realized. We are required to establish a valuation allowance for deferred tax assets if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Based on available evidence, realization of deferred tax assets is dependent upon the generation of future taxable income. We considered projected future taxable income, tax planning strategies, and reversal of taxable temporary differences in making this assessment. As such, we have determined that a full valuation allowance is required as of March 31, 2021 and December 31, 2020. As a result of a full valuation allowance against our deferred tax assets, a deferred tax liability related to goodwill remains on our condensed consolidated balance sheets at March 31, 2021 and December 31, 2020. Due to the tax reform enacted on December 22, 2017, net operating losses generated in taxable years beginning after December 31, 2017 will have an indefinite carryforward period, which will be available to offset future taxable income created by the reversal of temporary taxable differences related to goodwill. As a result, we have adjusted the valuation allowance on our deferred tax assets and liabilities at March 31, 2021 and December 31, 2020.

We follow the provisions of ASC 740 related to accounting for uncertainty in income taxes. The accounting estimates related to liabilities for uncertain tax positions require us to make judgments regarding the sustainability of each uncertain tax position based on its technical merits. If we determine it is more likely than not that a tax position will be sustained based on its technical merits, we record the impact of the position in our condensed consolidated financial statements at the largest amount that is greater than fifty percent likely of being realized upon ultimate settlement. These estimates are updated at each reporting date based on the facts, circumstances and information available. We are also required to assess at each reporting date whether it is reasonably possible that any significant increases or decreases to our unrecognized tax benefits will occur during the next 12 months.

The provision for income taxes in interim periods is computed by applying the estimated annual effective tax rate against earnings before income tax expense for the period. In addition, non-recurring or discrete items are recorded during the period in which they occur.

Goodwill

We evaluate the impairment of goodwill in accordance with ASC 350, “Intangibles - Goodwill and Other,” which requires goodwill and indefinite-lived intangible assets to be assessed on at least an annual basis for impairment using a fair value basis. Between annual evaluations, if events occur or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying amount, then impairment must be evaluated. Such circumstances could include, but are not limited to: (1) a significant adverse change in legal factors or business climate, or (2) a loss of key contracts or customers.

As the result of an acquisition, we record any excess purchase price over the net tangible and identifiable intangible assets acquired as goodwill. An allocation of the purchase price to tangible and intangible net assets acquired is based upon our valuation of the acquired assets. Goodwill is not amortized, but is subject to annual impairment tests. We complete our goodwill impairment tests as of December 31st each year. Additionally, we make evaluations between annual tests if events occur or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The evaluation is based on the estimation of the fair values of our three reporting units, CO&D (comprised of Information Assurance / Xacta and Secure Networks), Telos ID, and Secure Communications, of which goodwill is housed in the CO&D reporting unit, in comparison to the reporting unit’s net asset carrying values. Our discounted cash flows required management’s judgment with respect to forecasted revenue streams and operating margins, capital expenditures and the selection and use of an appropriate discount rate. We utilized the weighted average cost of capital as derived by certain assumptions specific to our facts and circumstances as the discount rate. The net assets attributable to the reporting units are determined based upon the estimated assets and liabilities attributable to the reporting units in deriving its free cash flows. In addition, the estimate of the total fair value of our reporting units is compared to the market capitalization of the Company. The Company’s assessment resulted in a fair value that was greater than the Company’s carrying value, therefore no impairment of goodwill was recorded as of December 31, 2020. Subsequent reviews may result in future periodic impairments that could have a material adverse effect on the results of operations in the period recognized. Recent operating results have reduced the projection of future cash flow growth potential, which indicates that certain negative potential events, such as a material loss or losses on contracts, or failure to achieve projected growth could result in impairment in the future. We estimate fair value of our reporting unit and compare the valuation with the respective carrying value for the reporting unit to determine whether any goodwill impairment exists. If we determine through the impairment review process that goodwill is impaired, we will record an impairment charge in our condensed consolidated statements of operations. Goodwill is amortized and deducted over a 15-year period for tax purposes.

Stock-Based Compensation

Under our 2016 Omnibus Long-Term Incentive Plan (the “2016 LTIP”), we have the ability to award restricted stock units with time-based vesting (“Service-Based RSUs”), and restricted stock units with performance-based vesting (“Performance-Based RSUs”) to senior executives, directors and eligible employees. Under the 2016 LTIP, our Board of Directors or the Compensation Committee of our Board of Directors may establish the performance conditions applicable to the Performance-Based RSUs, including the achievement of certain price targets for our common stock. Upon vesting, Service-Based RSUs and Performance-Based RSUs will be settled in the Company’s common stock.

- *Service-Based RSUs* granted to senior executives generally vest in three annual installments from the date of grant, with 30% vesting on the first and second anniversaries and 40% vesting on the third anniversary. Service-Based RSUs granted to eligible employees as an incentive generally vest in equal installments over two to three years from the date of grant. The grant date fair value per share is equal to the closing stock price on the date of grant.

- *Performance-Based RSUs* may vest upon the achievement of a defined performance target or at the end of the defined performance period from the date of grant, whichever initially occurs. The grant date fair value per share of these Performance-Based RSUs is equal to the closing stock price on the date of the grant. Performance-Based RSUs may vest upon the achievement of certain price targets for the Company’s common stock over anytime over a three-year period from the date of grant. In order to reflect the substantive characteristics of these market condition award, the Company employs a Monte Carlo simulation valuation model to calculate the grant date fair value and corresponding service period of the award. Monte Carlo approaches are a class of computational algorithms that rely on repeated random sampling to compute their results. This approach allows the calculation of the value of such awards based on a large number of possible stock price path scenarios.

We recognize these share-based payment transactions when services from the employees are received and recognize a corresponding increase in additional paid-in capital in our condensed consolidated balance sheets. The measurement objective for these equity awards is the estimated fair value at the date of grant of the equity instruments that we are obligated to issue when employees have rendered the requisite service and satisfied any other conditions necessary to earn the right to benefit from the instruments. The compensation expense for an award is recognized ratably over the requisite service period for the entire award, which is the period during which an employee is required to provide service in exchange for an award. Compensation expense for awards with performance conditions is recognized over the requisite service period if it is probable that the performance condition will be satisfied. If such performance conditions are not or are no longer considered probable, no compensation expense for these awards is recognized, and any previously recognized expense is reversed. Compensation expense for awards with performance conditions capable of being earned for satisfying the performance condition or as a result of completing a service requirement will be recognized ratably over the requisite service period for the entire award. If the performance condition is achieved prior to the completion of the requisite service period, any unrecognized compensation expense will be recognized in the period the performance condition is achieved. Compensation expense for awards with market conditions is recognized over the derived service period, or sooner, if the market condition is achieved. Previously recognized expense for awards with market conditions will never be reversed even if the market conditions is never achieved. We recognize forfeitures of share-based compensation awards as they occur. Share-based compensation expense is recognized as part of cost of sales and general and administrative expenses in our condensed consolidated statements of operations.

Net Income (Loss) per Share

Basic net earnings (loss) per share is computed by dividing the net earnings (loss) by the weighted-average number of common shares outstanding for the period, without consideration for potentially dilutive securities. Diluted net earnings (loss) per share is computed by dividing the net earnings (loss) by the weighted-average number of shares of common stock and dilutive common stock equivalents outstanding for the period determined using the treasury-stock and if-converted methods. Dilutive common stock equivalents are comprised of unvested restricted common stock and warrants.

Potentially dilutive securities not included in the calculation of diluted net earnings (loss) per share because to do so would be anti-dilutive are as follows (in common stock equivalent shares, in thousands):

	Three Months Ended March 31,	
	2021	2020
Unvested restricted stock and restricted stock units	3,167	957
Common stock warrants, exercisable at $1.665/sh.	901	901
Total	4,068	1,858

On November 12, 2020, we amended our Articles of Amendment and Restatement to effect an approximate 0.794-for-1 reverse stock split with respect to our common stock. The par value and the authorized shares of the common stock were not adjusted as a result of the reverse stock split. The accompanying condensed consolidated financial statements and notes to the condensed consolidated financial statements give retroactive effect to the reverse stock split for all periods presented.

Other Comprehensive Income (Loss)

Our functional currency is the U.S. Dollar. For one of our wholly owned subsidiaries, the functional currency is the local currency. For this subsidiary, the translation of its foreign currency into U.S. Dollars is performed for assets and liabilities using current foreign currency exchange rates in effect at the balance sheet date and for revenue and expense accounts using average foreign currency exchange rates during the period. Translation gains and losses are included in stockholders' deficit as a component of accumulated other comprehensive income (loss).

Accumulated other comprehensive income included within stockholders' equity (deficit) consists of the following (in thousands):

	March 31, 2021	December 31, 2020
Cumulative foreign currency translation loss	$ (95)	$ (63)
Cumulative actuarial gain on pension liability adjustment	107	107
Accumulated other comprehensive income	$ 12	$ 44

Note 2. Purchase of Telos ID/Non-controlling Interests

On October 5, 2020, we entered into a Membership Interest Purchase Agreement between the Company and Hoya ID Fund A, LLC ("Hoya") to purchase all of the Class B Units of Telos ID owned by Hoya (the "Telos ID Purchase"). Upon the closing of the Telos ID Purchase, Telos ID became our wholly owned subsidiary. On November 23, 2020, the Telos ID Purchase was consummated with the Company transferring $30.0 million in cash and issuing 7,278,040 shares of our common stock at $20.39 per share (which totals approximately $148.4 million); the total consideration transferred to Hoya was $178.4 million. As part of the common stock issuance, the Company recognized a credit to additional paid-in capital ("APIC") of $148.4 million. The Company further recognized a debit to APIC of $173.9 million as part of the elimination of Hoya's non-controlling interest in Telos ID. The net impact to APIC associated with the acquisition of the additional 50% interest in Telos ID was a debit of $25.5 million.

On April 11, 2007, Telos ID was formed as a limited liability company under the Delaware Limited Liability Company Act. We contributed substantially all of the assets of our Telos ID Enterprise business line and assigned our rights to perform under our U.S. Government contract with the Defense Manpower Data Center ("DMDC") to Telos ID at their stated book values. The net book value of assets we contributed totaled $17,000. Until April 19, 2007, we owned 99.999% of the membership interests of Telos ID and Hoya owned 0.001% of the membership interests of Telos ID. On April 20, 2007, we sold an additional 39.999% of the membership interests to Hoya in exchange for $6 million in cash consideration. As a result, we owned 60% of Telos ID, and therefore continued to account for the investment in Telos ID using the consolidation method.

On December 24, 2014 (the "Closing Date"), Hoya acquired from the Company an additional ten percent (10%) membership interest in Telos ID in exchange for $5 million (the "2014 Transaction"). In connection with the 2014 Transaction, the Company and Hoya entered into the Second Amended and Restated Operating Agreement (the "Operating Agreement") governing the business, allocation of profits and losses and management of Telos ID. Under the Operating Agreement, Telos ID was managed by a board of directors comprised of five (5) members (the "Telos ID Board"). The Company owned 50% of Telos ID, was entitled to receive 50% of the profits of Telos ID, and could appoint three (3) members of the Telos ID Board. Hoya owned 50% of Telos ID, was entitled to receive 50% of the profits of Telos ID, and could appoint two (2) members of the Telos ID Board.

As a result of the 2014 Transaction, each of the member owned 50% of Telos ID, as mentioned above, and as such each was allocated 50% of the profits, which was $784,000 for the three months ended March 31, 2020. Hoya was the non-controlling interest.

Distributions were made to the members only when and to the extent determined by Telos ID's Board of Directors, in accordance with the Operating Agreement. Hoya received a final distribution of $2.4 million in January 2021, which was accrued and presented in accounts payable and other accrued liabilities in the condensed consolidated balance sheets as of December 31, 2020. No distribution was made during the three months ended March 31, 2020.

Note 3. **Goodwill**

The goodwill balance was $14.9 million as of March 31, 2021 and December 31, 2020. Goodwill is subject to annual impairment tests and in the intereim if triggering events are present before the annual tests, we will assess impairment. For the three months ended March 31, 2021 and 2020, no impairment charges were taken.

Note 4. **Fair Value Measurements**

The accounting standard for fair value measurements provides a framework for measuring fair value and expands disclosures about fair value measurements. The framework requires the valuation of financial instruments using a three-tiered approach. The statement requires fair value measurement to be classified and disclosed in one of the following categories:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets and liabilities;

Level 2: Quoted prices in markets that are not active, or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability; or

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e. supported by little or no market activity).

As of March 31, 2021 and December 31, 2020, we did not have any financial instruments with significant Level 3 inputs and we did not have any financial instruments that are measured at fair value on a recurring basis.

For certain of our non-derivative financial instruments, including receivables, accounts payable and other accrued liabilities, the carrying amount approximates fair value due to the short-term maturities of these instruments.

Note 5. **Current Liabilities and Debt Obligations**

Accounts Payable and Other Accrued Liabilities

As of March 31, 2021 and December 31, 2020, the accounts payable and other accrued liabilities consisted of $9.8 million and $14.7 million, respectively, in trade accounts payable and $22.0 million and $6.2 million, respectively, in accrued liabilities.

Contract Liabilities

Contract liabilities are payments received in advance and milestone payments from our customers on selected contracts that exceed revenue earned to date, resulting in contract liabilities. Contract liabilities typically are not considered a significant financing component because they are generally satisfied within one year and are used to meet working capital demands that can be higher in the early stages of a contract. Contract liabilities are reported on our condensed consolidated balance sheets on a net contract basis at the end of each reporting period. As of March 31, 2021 and December 31, 2020, the contract liabilities primarily related to product support services.

Enlightenment Capital Credit Agreement

On January 25, 2017, we entered into a Credit Agreement (the "Credit Agreement") with Enlightenment Capital Solutions Fund II, L.P., as agent (the "Agent") and the lenders party thereto (the "Lenders"), (together referenced as “EnCap”). The Credit Agreement provides for an $11 million senior term loan (the "Loan") with a maturity date of January 25, 2022, subject to acceleration in the event of customary events of default.

All borrowings under the Credit Agreement accrue interest at the rate of 13.0% per annum (the "Accrual Rate"). If, at the request of the Company, the Agent executes an intercreditor agreement with another senior lender under which the Agent and the Lenders subordinate their liens (an "Alternative Interest Rate Event"), the interest rate will increase to 14.5% per annum. After the occurrence and during the continuance of any event of default, the interest rate will increase 2.0%. The Company is obligated to pay accrued interest in cash on a monthly basis at a rate of not less than 10.0% per annum or, during the continuance of an Alternate Interest Rate Event, 11.5% per annum. The Company could elect to pay the remaining interest in cash, by payment-in-kind (by addition to the principal amount of the Loan) or by combination of cash and payment-in-kind. Upon thirty days prior written notice, the Company may prepay any portion or the entire amount of the Loan.

The Credit Agreement contains representations, warranties, covenants, terms and conditions customary for transactions of this type. In connection with the Credit Agreement, the Agent has been granted, for the benefit of the Lenders, a security interest in and general lien upon various property of the Company, subject to certain permitted liens and any intercreditor agreement. The occurrence of an event of default under the Credit Agreement could result in the Loan and other obligations becoming immediately due and payable and allow the Lenders to exercise all rights and remedies available to them under the Credit Agreement or as a secured party under the UCC, in addition to all other rights and remedies available to them.

In connection with the Credit Agreement, on January 25, 2017, the Company issued warrants (each, a "Warrant") to the Agent and certain of the Lenders representing in the aggregate the right to purchase in accordance with their terms 900,970 shares of the Class A Common Stock of the Company, no par value per share, which is equivalent to approximately 2.5% of the common equity interests of the Company on a fully diluted basis. The exercise price is $1.665 per share and each Warrant expires on January 25, 2027. The value of the warrants was determined to be de minimis and no value was allocated to them on a relative fair value basis in accounting for the debt instrument.

The Credit Agreement also included an $825,000 exit fee, which was payable upon any repayment or prepayment of the loan. This amount had been included in the total principal due and treated as an unamortized discount on the debt, which would be amortized over the term of the loan, using the effective interest method at a rate of 15.0% at the time of the original loan. We incurred fees and transaction costs of approximately $374,000 related to the issuance of the Credit Agreement, which were amortized over the life of the Credit Agreement.

On March 30, 2018, the Credit Agreement was amended (the “Third Amendment”) to waive any actual or potential non-compliance with covenants in 2017 and to reset the covenants for 2018 measurement periods to more accurately reflect the Company’s projected performance for the year. The measurement against the covenants for consolidated leverage ratio and consolidated fixed charge coverage ratio were agreed to not be measured as of December 31, 2017 and were reset for 2018 measurement periods. Additionally, a minimum revenue covenant and a net working capital covenant were added. In consideration of these amendments, the interest rate on the loan was increased by 1%, which will revert back to the original rate upon achievement of two consecutive quarters of a specified fixed charge coverage ratio as defined in the agreement. The Company may elect to pay the increase in interest expense in cash or by payment-in-kind (by addition to the principal amount of the Loan). The increase in interest expense has been paid in cash. Contemporaneously with the Third Amendment, Mr. John B. Wood agreed to transfer 50,000 shares of the Company’s Class A Common Stock owned by him to EnCap.

On July 19, 2019, we entered into the Fourth Amendment to Credit Agreement and Waiver; First Amendment to Fee Letter ("Fourth Amendment") to amend the Credit Agreement. As a result of the Fourth Amendment, several terms of the Credit Agreement were amended, including the following:

- The Company borrowed an additional $5 million from the Lenders, increasing the total amount of the principal to $16 million.
- The maturity date of the Credit Agreement was amended from January 25, 2022 to January 15, 2021.
- The prepayment price was amended as follows: (a) from January 26, 2019 through January 25, 2020, the prepayment price is 102% of the principal amount, (b) from January 26, 2020 through October 14, 2020, the prepayment price is 101% of the principal amount, and (c) from October 15, 2020 to the maturity date, the prepayment price will be at par. However, the prepayment price for the additional $5 million loan attributable to the Fourth Amendment will be at par.
- The following financial covenants, as defined in the Credit Agreement, were amended and updated: Consolidated Leverage Ratio, Consolidated Senior Leverage Ratio, Consolidated Capital Expenditures, Minimum Fixed Charge Coverage Ratio, and Minimum Consolidated Net Working Capital.
- Any actual or potential non-compliance with the applicable provisions of the Credit Agreement were waived.
- The borrowing under the Credit Agreement continues to be collateralized by substantially all of the Company's assets including inventory, equipment and accounts receivable.
- The Company paid the Agent a fee of $110,000 in connection with the Fourth Amendment. We incurred immaterial third party transation costs which were expensed during the current period.
- The exit fee was increased from $825,000 to $1,200,000.

The exit fee had been included in the total principal due and treated as an unamortized discount on the debt, which was amortized over the term of the loan using the effective interest method at a rate of 17.3% over the remaining term of the loan.

On March 26, 2020, the Credit Agreement was amended (the "Fifth Amendment") to modify the financial covenants for 2020 through the maturity of the Credit Agreement to establish that the covenants will remain at the December 31, 2020 levels and to update the previously agreed-upon definition of certain financial covenants, specifically the amount of Capital Expenditures to be included in the measurement of the covenants. The Fifth Amendment also provides for the right for the Company to elect to extend the maturity date of the Credit Agreement which is currently scheduled to mature on January 15, 2021. The Fifth Amendment provides for four quarterly maturity date extensions, which would increase the Exit Fee payable under the Credit Agreement by $250,000 for each quarterly maturity date extension elected, for a total of $1 million increase to the Exit Fee were all four of the maturity date extensions to be elected. The Company paid EnCap an amendment fee of $100,000 and out-of-pocket costs and expenses in consideration for the Fifth Amendment.

We incurred interest expense in the amount of $0.8 million for the three months ended March 31, 2020, under the Credit Agreement.

On November 24, 2020, upon the closing of the IPO, the Company paid a total of $17.4 million which paid off the Credit Agreement in full including an exit fee of $1.2 million, accrued interest of $138,000, and legal fees of $13,000. On April 19, 2021, we repurchased all the shares and warrants from EnCap for approximately $28.1 million.

Subordinated Debt

On March 31, 2015, the Company entered into Subordinated Loan Agreements and Subordinated Promissory Notes ("Porter Notes") with affiliated entities of Mr. John R. C. Porter (together referenced as "Porter"). At the time, Mr. Porter and Toxford Corporation, of which Mr. Porter controls as the co-trustee of the trust that is the sole stockholder of Toxford, owned 35.0% of our Class A Common Stock. Under the terms of the Porter Notes, Porter lent the Company $2.5 million on or about March 31, 2015. Telos also entered into Subordination and Intercreditor Agreements with Porter and a prior senior lender, in which the Porter Notes were fully subordinated to the financing provided by that senior lender, and payments under the Porter Notes were permitted only if certain conditions were met. According to the original terms of the Porter Notes, the outstanding principal sum bore interest at the fixed rate of twelve percent (12%) per annum which would be payable in arrears in cash on the 20th day of each May, August, November and February, with the first interest payment date due on August 20, 2015. The Porter Notes did not call for amortization payments and were unsecured. The Porter Notes, in whole or in part, may be repaid at any time without premium or penalty. The unpaid principal, together with interest, was originally due and payable in full on July 1, 2017.

On April 18, 2017, we amended and restated the Porter Notes to reduce the interest rate from twelve percent (12%) to six percent (6%) per annum, to be accrued, and extended the maturity date from July 1, 2017 to July 25, 2022. Telos also entered into Intercreditor Agreements with Porter and EnCap, in which the Porter Notes were fully subordinated to the Credit Agreement and any subsequent senior lenders, and payments under the Porter Notes were permitted only if certain conditions were met. All other terms remained in full force and effect. We incurred interest expense in the amount of $80,000 for the three months ended March 31, 2020, on the Porter Notes. As of March 31, 2020, approximately $1.1 million of accrued interest was payable according to the stated interest rate of the Porter Notes.

On November 23, 2020, upon the closing of the IPO, the Porter Notes were paid in full.

Note 6. **Exchangeable Redeemable Preferred Stock Conversion**

Public Preferred Stock

Upon the closing of the IPO, which constituted a qualified initial public offering for the purposes of the terms of the Exchangeable Redeemable Preferred Stock (the "Public Preferred Stock"), each issued and outstanding share of Exchangeable Redeemable Preferred Stock automatically was converted (the "ERPS Conversion") into the right to receive (i) an amount of cash equal to (I) the ERPS Liquidation Value; multiplied by (II) 0.90; multiplied by (III) 0.85 and (ii) that number of shares of common stock (valued at the initial offering price to the public) equal to (I) the ERPS Liquidation Value; multiplied by (II) 0.90; multiplied by (III) 0.15. No fractional shares of common stock, however, were issued upon the ERPS Conversion but, in lieu thereof, the holder was entitled to receive an amount of cash equal to the fair market value of a share of common stock (valued at the initial offering price to the public) at the time of the ERPS Conversion multiplied by such fractional amount (rounded to the nearest cent). "ERPS Liquidation Value" means, per each share of Public Preferred Stock, $10 together with all accrued and unpaid dividends (whether or not earned or declared) thereon calculated as of the actual date of the ERPS Conversion without interest, which, was approximately $142.3 million as of November 19, 2020. All shares of common stock issued upon an ERPS Conversion were validly issued, fully paid and non-assessable. On November 23, 2020, holders of the Public Preferred Stock received $108.9 million in cash and 1.1 million shares of our common stock at $17 per share for a total value of $19.2 million in connection with the ERPS Conversion. The difference in the redemption value of the ERPS and the carrying value has been accounted for as a gain on extinguishment of debt in accordance with ASC 470 and ASC 480. Approximately $220,000 of costs directly attributable to this redemption were applied against the gain, resulting in a net gain of $14.0 million.

A maximum of 6,000,000 shares of the Public Preferred Stock, par value $.01 per share, has been authorized for issuance. We 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 we made periodic accretions under the interest method of the excess of the redemption value over the recorded value. We adjusted our estimate of accrued accretion in the amount of $1.5 million in the second quarter of 2006. The Public Preferred Stock was fully accreted as of December 2008. We declared stock dividends totaling 736,863 shares in 1990 and 1991. Since 1991, no other dividends, in stock or cash, had been declared. In November 1998, we retired 410,000 shares of the Public Preferred Stock. The total number of shares issued and outstanding at March 31, 2021 and December 31, 2020 was 3,185,586.

We paid dividends on the Public Preferred Stock when and if declared by the Board of Directors. The Public Preferred Stock accrued a semi-annual dividend at the annual rate of 12% ($1.20) per share, based on the liquidation preference of $10 per share, and was fully cumulative. Dividends in additional shares of the Public Preferred Stock for 1990 and 1991 were paid at the rate of 6% per share for each $.60 of such dividends not paid in cash. We accrued dividends on the Public Preferred Stock of $1.0 million for the three months ended March 31, 2020, which was recorded as interest expense. Prior to the effective date of ASC 480 on July 1, 2003, such dividends were charged to stockholders' accumulated deficit.

Note 7. Income Taxes

The income tax provision for interim periods is determined using an estimated annual effective tax rate adjusted for discrete items, if any, which are taken into account in the quarterly period in which they occur. We review and update our estimated annual effective tax rate each quarter. We recorded an approximately $34,000 income tax provision and $146,000 income tax benefit for the three months ended March 31, 2021 and 2020, respectively. For the three months ended March 31, 2021 and 2020, our estimated annual effective tax rate was primarily impacted by the overall valuation allowance position which reduced the net tax impact from taxable income or loss for both periods.

In March 2020, the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) was enacted. The CARES Act, among other things, includes certain changes to U.S. tax law that impact the Company, including deferment of employer social security payments, modifications to interest deduction limitation rules, a technical correction to tax depreciation methods for certain qualified improvement property, and alternative minimum tax credit refund.

We are required to establish a valuation allowance for deferred tax assets if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Based on available evidence, realization of deferred tax assets is dependent upon the generation of future taxable income. We considered projected future taxable income, tax planning strategies, and reversal of taxable temporary differences in making this assessment. As such, we have determined that a full valuation allowance is required as of March 31, 2021 and December 31, 2020. As a result of a full valuation allowance against our deferred tax assets and liabilities, a deferred tax liability related to goodwill of $661,000 and $652,000 remained on our condensed consolidated balance sheets at March 31, 2021 and December 31, 2020, respectively.

Under the provisions of ASC 740, we determined that there were approximately $835,000 and $763,000 of gross unrecognized tax benefits as of March 31, 2021 and December 31, 2020, respectively. Included in the balance of unrecognized tax benefits as of March 31, 2021 and December 31, 2020 were $278,000 of tax benefits that, if recognized, would impact the effective tax rate. Also included in the balance of unrecognized tax benefits as of March 31, 2021 and December 31, 2020 were $556,000 and $485,000, respectively, of tax benefits that, if recognized, would not impact the effective tax rate due to the Company’s valuation allowance. The Company had accrued interest and penalties related to the unrecognized tax benefits of $246,000 and $241,000, which were recorded in other liabilities as of March 31, 2021 and December 31, 2020, respectively. We believe that the total amounts of unrecognized tax benefits will not significantly increase or decrease within the next 12 months.

Note 8. Commitments and Contingencies

Financial Condition and Liquidity

Upon the closing of the IPO, we issued 17.2 million shares of our common stock at a price of $17.00 per share, generating net proceeds of approximately $272.8 million. We used approximately $108.9 million of the net proceeds in connection with the ERPS Conversion (see Note 6 – Exchangeable Redeemable Preferred Stock Conversion), $30.0 million to fund our acquisition of the outstanding Class B Units of Telos ID (see Note 2 – Purchase of Telos ID/Non-controlling Interests), $21.0 million to repay our outstanding senior term loan and subordinated debt (see Note 5 – Current Liabilities and Debt Obligations). We intend to use the remaining net proceeds for general corporate purposes. We also may use a portion of the net proceeds to acquire complementary businesses, products, services, or technologies. The amounts and timing of our actual use of the net proceeds will vary depending on numerous factors. Proceeds held by us is invested in short-term investments until needed for the uses described above. We currently anticipate that we will retain all available funds for use in the operation and expansion of our business, and we do not anticipate paying any cash dividends on our common stock in the foreseeable future.

Our working capital was $102.2 million and $105.2 million as of March 31, 2021 and December 31, 2020, respectively.

Legal Proceedings

Hamot et al. v. Telos Corporation

As previously disclosed in Note 13 of the Consolidated Financial Statements contained in our Annual Report on Form 10-K for the year ended December 31, 2020, beginning on August 2, 2007, Messrs. Seth W. Hamot (“Hamot”) and Andrew R. Siegel (“Siegel”), principals of Costa Brava Partnership III, L.P. (“Costa Brava”), were involved in litigation against the Company as Plaintiffs and Counter-defendants in the Circuit Court for Baltimore City, Maryland (the “Circuit Court”). Mr. Siegel is a Class D Director of the Company and Mr. Hamot was a Class D Director of the Company until his resignation on March 9, 2018. The Plaintiffs initially alleged that certain documents and records had not been provided to them promptly and were necessary to fulfill their duties as directors of the Company. Subsequently, Hamot and Siegel further alleged that the Company had failed to follow certain provisions concerning the noticing of Board committee meetings and the recording of Board meeting minutes and, additionally, that Mr. John Wood’s service as both CEO and Chairman of the Board was improper and impermissible under the Company’s Bylaws. On April 23, 2008, the Company filed a counterclaim against Hamot and Siegel for money damages and preliminary and injunctive relief based upon Hamot and Siegel’s interference with, and improper influence of, the Company’s independent auditors regarding, among other things, a specific accounting treatment. On June 27, 2008, the Circuit Court granted the Company’s motion for preliminary injunction and enjoined Hamot and Siegel from contacting the Company’s auditors until the completion of the Company’s Form 10-K for the preceding year, which injunction later expired by its own terms. As previously disclosed, trial on Hamot and Siegel’s claims and the Company’s counterclaims took place in July through September 2013, and the Court subsequently issued decisions on the various claims by way of memorandum opinions and orders dated September 11, 2017. Among other rulings, the Court found Hamot and Siegel liable for the intentional tort of tortious interference with the Company’s contractual relationship with one of its auditors and entered a monetary judgment in favor of the Company and against Hamot and Siegel for approximately $278,000. The Company’s subsequent appeal of the amount of damages awarded to it for Hamot and Siegel’s intentional interference was ultimately dismissed by way of the Mandate issued by the Court of Appeals of Maryland on October 11, 2019.

Hamot (and later, his Estate) and Siegel on multiple occasions during this litigation have sought to be indemnified or to be awarded advancement of various attorney’s fees and expenses incurred by them in this litigation. On October 20, 2020, Hamot’s Estate and Siegel (together the “Plaintiffs”) filed a Motion for Indemnification of Legal Fees and Expenses against the Company in the Circuit Court for Baltimore City and a Request for a Hearing and on January 28, 2021, Plaintiffs amended their motion by the filing of a Motion for Leave to File Amended Motion for Indemnification of Legal Fees and Expenses (“Amended Motion”). The Amended Motion demanded that the Company indemnify the Plaintiffs for legal fees and expenses incurred in the sum of $2,540,000 plus the costs incurred in obtaining indemnification. The Company opposed the motions, and a hearing on the Amended Motion was scheduled for May 18, 2021.

On May 5, 2021, the Company, Plaintiffs and Costa Brava entered into a settlement agreement, which included a mutual general release, fully and finally settling the indemnification claim in exchange for the payment of a specified amount on or before May 19, 2021. This settlement concludes all open matters or disputes between the Company and Messrs. Hamot (or his estate) and Siegel, as well as Costa Brava. We recorded an accrual of $1.0 million in other expense on our condensed consolidated statements of operations related to this settlement.

Other Litigation

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

Subsequent Events

On April 6, 2021, we completed our follow-on offering of 9.1 million shares of our common stock at a price of $33.00 per share, including a secondary public offering of 7.0 million shares of common stock by certain existing stockholders of Telos. The offering generated approximately $64.5 million of net proceeds to Telos. We did not receive any proceeds from the shares of common stock sold by the selling stockholders. On April 19, 2021, we used approximately $28.1 million of the net proceeds to repurchase all the shares and warrants owned by EnCap.

Note 9. Related Party Transactions

Emmett J. Wood, the brother of our Chairman and CEO, has been an employee of the Company since 1996. The amounts paid to this individual as compensation were $218,000 and $173,000 for the three months ended March 31, 2021 and 2020, respectively. Additionally, Mr. Wood owned 682,502 shares of the Company's common stock as of March 31, 2021 and December 31, 2020.

On March 31, 2015, the Company entered into the Porter Notes. At that time, Mr. Porter and Toxford Corporation, of which Mr. Porter controls as the co-trustee of the trust that is the sole stockholder of Toxford, owned 35.0% of our Class A Common Stock. Under the terms of the Porter Notes, Porter lent the Company $2.5 million on or about March 31, 2015. According to the original terms of the Porter Notes, the outstanding principal sum bore interest at the fixed rate of twelve percent (12%) per annum which would be payable in arrears in cash on the 20th day of each May, August, November and February, with the first interest payment date due on August 20, 2015. The Porter Notes did not call for amortization payments and were unsecured. The Porter Notes, in whole or in part, may be repaid at any time without premium or penalty. The unpaid principal, together with interest, was originally due and payable in full on July 1, 2017.

On April 18, 2017, we amended and restated the Porter Notes to reduce the interest rate from twelve percent (12%) to six percent (6%) per annum, to be accrued, and extended the maturity date from July 1, 2017 to July 25, 2022. Telos also entered into Intercreditor Agreements with Porter and EnCap, in which the Porter Notes were fully subordinated to the Credit Agreement and any subsequent senior lenders, and payments under the Porter Notes were permitted only if certain conditions were met. All other terms remained in full force and effect. We incurred interest expense in the amount of $87,000 for the three months ended March 31, 2020, respectively, on the Porter Notes. As of March 31, 2020, approximately $1.1 million of accrued interest was payable according to the stated interest rate of the Porter Notes.

On November 23, 2020, upon the closing of the IPO, the Porter Notes were paid in full.

On February 8, 2021, we hired Ms. Donna Hill, as Director, Human Resources, reporting directly to Ms. Nakazawa, CFO of the Company. Ms. Hill is the sister of Mr. Edward Williams, COO of the Company.

Note 10. Leases

We account for leases in accordance with ASC Topic 842, "Leases," which requires lessees to recognize a right-of-use ("ROU") asset and lease liability on the balance sheet and expands disclosures about leasing arrangements for both lessees and lessors, among other items, for most lease arrangements.

In accordance with the adoption of ASC 842 on January 1, 2019, we recorded operating lease ROU assets, which represent our right to use an underlying asset for the lease term, and operating lease liabilities which represent our obligation to make lease payments. Generally, we enter into operating lease agreements for facilities. Finance lease assets are recorded within property and equipment, net of accumulated depreciation. The amount of operating lease liabilities due within 12 months are recorded in other current liabilities, with the remaining operating lease liabilities recorded as non-current liabilities in our condensed consolidated balance sheets based on their contractual due dates. Finance lease liabilities are classified according to contractual due dates.

The operating lease ROU assets and liabilities are recognized as of the lease commencement date at the present value of the lease payments over the lease term. Most of our leases do not provide an implicit rate that can readily be determined. Therefore, we use a discount rate based on our incremental borrowing rate which was 5.75% for all operating leases. Our operating lease agreements may include options to extend the lease term or terminate it early. We have included options to extend in the operating lease ROU assets and liabilities when we are reasonably certain that we will exercise such options. The weighted average remaining lease terms and discount rates for our operating leases were approximately 2.3 years and 5.75% and for our finance leases were approximately 8.1 years and 5.04% at March 31, 2021. Operating lease expense is recognized as rent expense on a straight-line basis over the lease term. Some of our operating leases contain lease and non-lease components, which we account for as a single component. We evaluate ROU assets for impairment consistent with our property and equipment policy disclosure included in our Annual Report on Form 10-K for the year ended December 31, 2020.

As of March 31, 2021, operating lease ROU assets were $1.3 million and operating lease liabilities were $1.4 million, of which $0.8 million were classified as noncurrent.

Future minimum lease commitments at March 31, 2021 were as follows (in thousands):

Year ending December 31,	Operating Leases	Finance Leases
2021 (excluding the three months ended March 31, 2021)	$ 559	$ 1,580
2022	592	2,149
2023	373	2,203
2024	27	2,257
2025	–	2,314
After 2025	–	8,343
Total lease payments	1,551	18,847
Less imputed interest	(103)	(3,528)
Total	$ 1,448	$ 15,319

The components of lease expense were as follows (in thousands):

	Three Months Ended March 31,	
	2021	2020
Operating lease cost	$ 182	$ 177
Short-term lease cost (1)	4	18
Finance lease cost		
Amortization of right-of-use assets	305	305
Interest on lease liabilities	196	211
Total finance lease cost	501	516
Total lease costs	$ 687	$ 711

(1) Leases that have terms of 12 months or less

Supplemental cash flow information related to leases was as follows (in thousands):

	Three Months Ended March 31,	
	2021	2020
Cash paid for amounts included in the measurement of lease liabilities:		
Cash flows from operating activities - operating leases	$ 194	$ 184
Cash flows from operating activities - finance leases	196	211
Cash flows from financing activities - finance leases	321	294
Operating lease right-of-use assets obtained in exchange for lease obligations	160	145

Note 11 – Stock-Based Compensation

During January 2021, the Company amended the 2016 LTIP increasing the total number of shares available for issuance to 9,400,000 from 4,500,000 and extended the term to September 30, 2030. Our 2016 LTIP provides for the grant of stock options, stock appreciation rights, restricted stock, restricted stock units, unrestricted stock and dividend equivalent rights to our senior executives, directors, employees, and other service providers. Awards granted under the 2016 LTIP vest over the periods determined by the Board of Directors or the Compensation Committee of the Board of Directors, generally two to three years years and stock options granted under the 2016 LTIP expire no more than ten years after the date of grant. Approximately 6.2 million shares of our common stock were reserved for future grants as of March 31, 2021 under the 2016 LTIP.

Restrict Stock Awards and Restricted Stock Unit (collectively "RSU") Activity

During the first quarter of 2021, a number of RSUs were granted to our senior executives, directors and employees.

Service-Based RSU Awards

A summary of the awards of Service-Based RSUs that vest upon the completion of a service requirement are presented below (in thousands, except per share amounts and contractual life years):

	Number of Shares	Weighted-Average Grant Date Fair Value (per share)	Weighted-Average Contractual Life (years)	Aggregate Intrinsic Value
Unvested Balance - December 31, 2020	59,521	$ 0.18	2.4	$ 2,000
Granted	2,674,863	36.56	–	–
Vested	–	–	–	–
Forfeited	(5,900)	36.63	–	–
Unvested Balance - March 31, 2021	2,728,484	$ 35.76	1.9	$ 103,500

We recognized an expense of $7.7 million related to share-based compensation expense for Service-Based RSUs capable of being earned for completing a service requirement during the three months ended March 31, 2021. For comparative period ended March 31, 2020, we recorded immaterial share-based compensation expense. As of March 31, 2021, there was approximately $89.9 million of unrecognized stock-based compensation expense related to Service-Based RSUs, and this unrecognized expense is expected to be recognized over a weighted-average period of 1.9 years on a straight-line basis.

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Performance-Based RSU Awards

A summary of the awards of Performance-Based RSUs that vest upon the attainment of certain price targets of the Company's common stock are presented below (in thousands, except per share amounts and contractual life years):

	Number of Shares	Weighted-Average Grant Date Fair Value (per share)	Weighted-Average Contractual Life (years)	Aggregate Intrinsic Value
Unvested Balance - December 31, 2020	–	$ –	–	$ –
Granted	438,403	30.84	–	–
Vested	–	–	–	–
Forfeited	–	–	–	–
Unvested Balance - March 31, 2021	438,403	$ 30.84	0.2	$ 16,600

On January 28, 2021 the Company granted certain senior executives awards of Performance-Based RSUs that could settle in 438,403 shares of our common stock. The awards will vest only if, during the three-year period from the date of grant, (a) the Company's common stock, as listed on the Nasdaq Global Market, trades at or above $42.40 per share (the "Target Price") for 20 of 30 consecutive trading days or (b) the weighted average of the per share price of the Company's common stock over any 30 consecutive trading days is at least equal to the Target Price.

For these Performance-Based RSUs containing market conditions, the conditions are required to be considered when calculating the grant date fair value. In order to reflect the substantive characteristics of these awards, a Monte Carlo simulation valuation model was used to calculate the grant date fair value of such awards. Monte Carlo approaches are a class of computational algorithms that rely on repeated random sampling to compute their results. This approach allows the calculation of the value of such Performance-Based RSUs based on a large number of possible stock price path scenarios. Our key assumptions include a performance period of 2.92 years, expected volatility of 57.4%, and a risk-free rate of 0.18%. As the Company recently completed its IPO in November 2020, expected volatility was based on the average historical stock price volatility of comparable publicly-traded companies over the performance period. The risk-free rate is based on the U.S. treasury zero-coupon issues in effect at the time of grant over the performance period. Expense for these awards is recognized over the derived service period as determined through the Monte Carlo simulation model. The fair value at grant date and derived service periods calculated for these market condition Performance-Based RSUs were $30.84 and 0.38 years, respectively.

We recognized an expense of $6.0 million related to share-based compensation expense for these awards of Performance-Based RSUs during the three months ended March 31, 2021. As of March 31, 2021, there was approximately $7.5 million of unrecognized stock-based compensation expense related to these Performance-Based RSUs, and this unrecognized expense is expected to be recognized over a weighted-average period of 2.4 months on a straight-line basis.

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

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 in the risk factors section included in the Company's Form 10-K for the year ended December 31, 2020, as filed with the SEC.

General

We offer technologically advanced, software-based security solutions that empower and protect the world's most security-conscious organizations against rapidly evolving, sophisticated and pervasive threats. Our portfolio of security products, services and expertise empower our customers with capabilities to reach new markets, serve their stakeholders more effectively, and successfully defend the nation or their enterprise. We protect our customers' people, information, and digital assets so they can pursue their corporate goals and conduct their global missions with confidence in their security and privacy.

Our mission is to protect our customers' people, systems, and vital information assets with offerings for cybersecurity, cloud security, and enterprise security. In the current global environment, our mission is more critical than ever. The emergence of each new ICT introduces new vulnerabilities, as security is still too often overlooked in solution development. Networks and applications meant to enhance productivity and profitability often jeopardize an organization due to poor planning, misconfiguration, or an unknown gap in security. Ransomware, insider threats, cybercrime, and advanced persistent threats continue to menace public and private enterprises across all industries.

Cybersecurity, cloud security, and enterprise security of the modern organization share much in common, yet also call for a diverse range of skills, capabilities, and experience in order to meet the requirements of security-conscious customers. Decades of experience in developing, orchestrating, and delivering solutions across these three domains gives us the vision and the confidence to provide solutions that empower and protect the enterprise at an integrated, holistic level. Our experience in addressing challenges in one area of an enterprise helps us meet requirements in others. We understand that a range of complementary capabilities may be needed to solve a single challenge, and we also recognize when a single solution might address multiple challenges.

Our security solutions span across the following domains:

- *Cybersecurity* – We help our customers ensure the ongoing security, integrity, and compliance of their on-premises and related cloud-based systems, reducing threats and vulnerabilities to foil cyber adversaries before they can attack. Our consultants assess our customers' security environments and design, engineer, and operate the systems they need to strengthen their cybersecurity posture.

- *Cloud Security* – The cloud as an organizational resource is more than two decades old, yet the needs of cloud users are constantly changing. Telos offers the specialized skills and experience needed to help our customers plan, engineer, and execute secure cloud migration strategies and then assure ongoing management and security in keeping with the leading standards for cloud-based systems and workloads.

- *Enterprise Security* – Securing the enterprise means protecting the essential and timeless elements common to every organization: its people and processes, its supply chain and inventories, its finances and facilities, and its information and communications. As ICT and operational technology ("OT") have become part of the organizational make-up, we have offered solutions that ensure personnel can work securely and productively across and beyond the enterprise.

We refer to our cyber and cloud applications as Security Solutions, which includes Information Assurance / Xacta® (previously referred to as Cyber & Cloud Solutions), Secure Communications (previously referred to as Secure Communications Cyber and Enterprise Solutions), and Telos ID (previously referred to as Telos ID Enterprise Solutions). We refer to our offerings for enterprise security as Secure Networks (previously referred to as Secure Mobility and Network Management/Defense Enterprise Solutions).

Security Solutions

- **Information Assurance / Xacta:** a premier platform for enterprise cyber risk management and security compliance automation, delivering security awareness for systems in the cloud, on-premises, and in hybrid and multi-cloud environments. Xacta delivers automated cyber risk and compliance management solutions to large commercial and government enterprises. Across the U.S. federal government, Xacta is the de facto commercial cyber risk and compliance management solution.

- **Secure Communications:**
    - o **Telos Ghost:** a virtual obfuscation network-as-a-service with encryption and managed attribution capabilities to ensure the safety and privacy of people, information, and resources on the network. Telos Ghost seeks to eliminate cyber-attack surfaces by obfuscating and encrypting data, masking user identity and location, and hiding network resources. It provides the additional layers of security and privacy needed for intelligence gathering, cyber threat protection, securing critical infrastructure, and protecting communications and applications when operations, property, and even lives can be jeopardized by a single error in security.

    - o **Telos Automated Message Handling System ("AMHS"):** web-based organizational message distribution and management for mission-critical communications; the recognized gold standard for organizational messaging in the U.S. government. Telos AMHS is used by military field operatives for critical communications on the battlefield and is the only web-based solution for assured messaging and directory services using the DISA Organizational Messaging Service and its specialized communications protocols.

- **Telos ID:** offering Identity Trust and Digital Services through IDTrust360® – an enterprise-class digital identity risk platform for extending SaaS and custom digital identity services that mitigate threats through the integration of advanced technologies that fuse biometrics, credentials, and other identity-centric data used to continuously monitor trust. We maintain government certifications and designations that distinguish Telos ID, including TSA PreCheck® enrollment provider, Designated Aviation Channeling provider, FBI-approved Channeler, and FINRA Electronic Fingerprint Submission provider. We are the only commercial entity in our industry designated as a Secure Flight Services provider for terrorist watchlist checks.

Secure Networks

- **Secure Mobility:** solutions for business and government that enable remote work and minimize concern across and beyond the enterprise. Our secure mobility team brings credentials to every engagement, supplying deep expertise and experience as well as highly desirable clearances and industry recognized certifications for network engineering, mobility, and security.

- **Network Management and Defense:** services for operating, administrating, and defending complex enterprise networks and defensive cyber operations. Our diverse portfolio of capabilities addresses common and uncommon requirements in many industries and disciplines, ranging from the military and government agencies to Fortune 500 companies.

Backlog

We develop our annual budgeted revenue by estimating for the upcoming year our continuing business from existing customers and active contracts. We consider backlog, both funded and unfunded (as explained below), other expected annual renewals, and expansion planned by our current customers. In the context of our current customer portfolio, we view "recurring revenue" as revenue that occurs often and repeatedly. In each of the last three years, recurring revenue has exceeded 85% of our annual revenue. Our total budgeted revenue is the combination of recurring revenue and a forecast of new business.

Total backlog, a component of recurring revenue, consists of the aggregate contract revenues remaining to be earned by us at a given time over the life of our contracts, whether funded or unfunded. Funded backlog consists of the aggregate contract revenues remaining to be earned at a given time, which, in the case of U.S. government contracts, means that they have been funded by the procuring agency. Unfunded backlog is the difference between total backlog and funded backlog and includes potential revenues that may be earned if customers exercise delivery orders and/or renewal options to continue these contracts. Based on historical experience, we generally assume option year renewals to be exercised. Most of our customers fund contracts on a basis of one year or less and, as a result, funded backlog is generally expected to be earned within one year from any point in time, whereas unfunded backlog is expected to be earned over a longer period.

Consolidated Results of Operations (Unaudited)

The accompanying condensed consolidated financial statements include the accounts of Telos Corporation and its subsidiaries including Ubiquity.com, Inc., Xacta Corporation, Telos Identity Management Solutions, LLC, Teloworks, Inc., and Telos APAC Pte. Ltd., all of whose issued and outstanding share capital is owned by Telos Corporation (collectively, the “Company” or “Telos” or “We”). All intercompany transactions have been eliminated in consolidation.

We provide different solutions and are party to contracts of varying revenue types under the NETCENTS (Network-Centric Solutions) and NETCENTS-2 contracts to the U.S. Air Force. NETCENTS and NETCENTS-2 are IDIQ and GWAC, therefore any government customer may utilize the NETCENTS and NETCENTS-2 vehicles to meet its purchasing needs. Consequently, revenue earned on the underlying NETCENTS and NETCENTS-2 delivery orders varies from period to period according to the customer and solution mix for the products and services delivered during a particular period, unlike a standalone contract with one separately identified customer. The contracts themselves do not fund any orders and they state that the contracts are for an indefinite delivery and indefinite quantity. The majority of our task/delivery orders have periods of performance of less than 12 months, which contributes to the variances between interim and annual reporting periods. We have also been awarded other IDIQ/GWACs, including the Department of Homeland Security’s EAGLE II, GSA Alliant 2, and blanket purchase agreements under our GSA schedule.

We refer to our cyber and cloud applications as Security Solutions, which includes Information Assurance /Xacta® (previously referred to as Cyber & Cloud Solutions), Secure Communications (previously referred to as Secure Communications Cyber and Enterprise Solutions), and Telos ID (previously referred to as Telos ID Enterprise Solutions). We refer to our offerings for enterprise security as Secure Networks (previously referred to as Secure Mobility and Network Management/Defense Enterprise Solutions).

U.S. Government appropriations have been and continue to be affected by larger U.S. Government budgetary issues and related legislation. In 2011, Congress enacted the Budget Control Act of 2011 (the “BCA”), which established specific limits on annual appropriations for fiscal years 2012-2021. These limits were subsequently amended several times. With the expiration of the BCA at the end of FY 2021, there are no statutory limits in place for FY 2022 to guide federal spending negotiations and decisions.

According to the non-partisan Congressional Budget Office (CBO), since enactment of the BCA, federal outlays devoted to defense programs fell from 4.5 percent as a share of Gross Domestic Product (GDP) to as low as 3.1 percent of GDP in each of FYs 2016-18, before rising slightly the past two years to a level of 3.4 percent in FY 2020. Moreover, CBO reports that, as a result of the spending caps imposed by the BCA, non-adjusted defense outlays subsequently shrank from $699.4 billion in FY 2011 to as low as $583.4 billion in FY 2016, and did not again exceed their FY 2011 level until FY 2020, when outlays were $713.8 billion, two percent above the FY 2011 level.

In fiscal years 2020 and 2021, the COVID-19 pandemic and associated economic dislocation in the United States has resulted in an overwhelming federal response, including enactment of multiple massive and comprehensive emergency appropriations and economic stimulus measures. These were in addition to annual appropriations legislation for FY 2021, which was not enacted into law until late December 2020, nearly three months after the beginning of the fiscal year, during which time the government once again operated under a series of Continuing Resolutions which strictly limited new spending initiatives. These enormous emergency spending packages and their resulting increases in the budget deficit will necessarily factor into future federal budget planning and spending decisions, which will affect to an unknown degree the government contracts that we hold and the federal procurements that we would otherwise compete for.

While a detailed FY 2022 budget proposal has not been released, on April 9, 2021, the White House released an outline of President Biden’s discretionary budget request, with topline numbers to help Congress begin the annual appropriations process. The President’s budget proposes $715 billion in base spending for the Department of Defense (“DoD”) in FY 2022, which the Office of Management and Budget described as an $11.3 billion (1.6 percent) increase above the FY 2021 enacted level of $703.7 billion. However, this requested base defense budget also now includes wartime spending which was formerly provided in a separate account for Overseas Contingency Operations. Moreover, congressional support for the President’s proposed level of defense spending is uncertain, as there are some in Congress who are advocating large cuts to the defense budget, as well as others who are calling for much greater increases in military spending.

Should Congress and the White House be unable to make sufficient progress on the FY 2022 budget and enact appropriations legislation prior to the beginning of the new fiscal year on October 1, 2021, the DoD and other federal departments and agencies will likely again be funded for an unknown period of time under a Continuing Resolution, which would restrict new spending initiatives.

Despite the pandemic's resultant massive shift to teleworking by federal employees and contractors, the government has successfully maintained continuity of services as has Telos. With much of the business of government continuing to be conducted remotely through use of information technology systems, now and in the future, we believe there will continue to be a need on the part of the government for the types of solutions and services provided by Telos.

The principal elements of the Company's operating expenses as a percentage of sales for the three months ended March 31, 2021 and 2020 are as follows:

	Three Months Ended March 31,	
	2021	**2020**
	(unaudited)	
Revenue	100.0%	100.0%
Cost of sales	74.3	68.6
Selling, general and administrative expenses	49.9	30.4
Operating (loss) income	(24.2)	1.0
Other expense	(1.9)	----
Interest expense	(0.4)	(5.1)
Loss before income taxes	(26.5)	(4.1)
Benefit from income taxes	----	0.4
Net loss	(26.5)	(3.7)
Less: Net income attributable to non-controlling interest	----	(2.0)
Net loss attributable to Telos Corporation	(26.5)%	(5.7)%

Revenue increased by 43.0% to $55.8 million for the first quarter of 2021, from $39.0 million for the same period in 2020. Security Solutions revenue was $22.9 million and $27.3 million for the first quarter of 2021 and 2020, respectively. This decrease of approximately 16.1% was driven primarily by a decrease of $5.3 million in sales of offerings in Telos ID on the contract with the U.S. Census Bureau as the contract ramps down, offset by various increases in Information Assurance and Secure Communications offerings. Secure Networks revenue was $32.9 million and $11.7 million for the first quarter of 2021 and 2020, respectively. This increase of approximately 181.2% resulted from various contracts with the DoD, primarily in our Secure Mobility Solutions offerings. Due to the various solutions offerings within the business groups, sales may vary from period to period according to the solution mix and timing of deliverables for a particular period.

Cost of sales increased by 54.8% to $41.4 million for the first quarter of 2021, from $26.7 million for the same period in 2020 as a result of increases in revenue. Cost of sales for Security Solutions decreased to $13.6 million (inclusive of $660,000 of stock-based compensation) for the first quarter of 2021 from $17.2 million for the same period in 2020 (which had no stock-based compensation), which translates as a decrease in the cost of sales as a percentage of revenue to 59.4% from 63.0%, due to a change in the mix and nature of the programs. Cost of sales for Secure Networks increased to $27.8 million (inclusive of $77,000 of stock-based compensation) for the first quarter of 2021 from $9.5 million for the same period in 2020 (which had no stock-based compensation), which translates as an increase in the cost of sales as a percentage of revenue to 84.5% from 81.2%.

Gross profit increased by 17.3% to $14.4 million for the first quarter of 2021 from $12.3 million for the same period in 2020. Gross profit for Security Solutions decreased to $9.3 million for the first quarter of 2021 from $10.1 million for the same period in 2020. Gross profit for Secure Networks increased to $5.1 million for the first quarter of 2021 from $2.2 million for the same period in 2020. Gross margin decreased to 25.7% for the first quarter of 2021 from 31.4% for the same period in 2020, due to stock-based compensation and various changes in the mix of contracts in all business lines as discussed above. Gross margin for Security Solutions increased to 40.6% for the first quarter of 2021 from 37.0% for the same period in 2020. Gross margin for Secure Networks decreased to 15.5% for the first quarter of 2021 from 18.8% for the same period in 2020.

Selling, general, and administrative (“SG&A”) expense increased by 135.2% to $27.9 million for the first quarter of 2021, from $11.8 million for the same period in 2020, primarily attributable to increases in stock-based compensation of $12.9 million, labor costs of $2.2 million, outside services of $0.8 million, insurance costs of $0.3 million, legal costs of $0.2 million, and trade shows costs of $0.2 million, offset by the capitalization of software development costs of $0.7 million.

Operating loss was $13.5 million for the first quarter of 2021, compared to $0.4 million operating income for the same period in 2020, due primarily to the stock-based compensation related to the RSUs granted in the first quarter of 2021.

Other expense of $1.1 million for the first quarter of 2021 was attributable to an accrual for a litigation settlement agreement.

Interest expense decreased by 90.3% to $0.2 million for the first quarter of 2021, from $2.0 million for the same period in 2020, primarily due to the payoff of the EnCap senior term loan, subordinated debt, and redemption of public preferred stock upon the closing of our initial public offering (“IPO”) in November 2020.

Income tax provision was $34,000 for the first quarter of 2021, compared to $146,000 income tax benefit for the same period in 2020, which is based on the estimated annual effective tax rate applied to the pretax income incurred for the quarter plus discreet tax items, based on our expectation of pretax income for the fiscal year.

Net loss attributable to Telos Corporation was $14.8 million for the first quarter of 2021, compared to $2.2 million for the same period in 2020, primarily attributable to the stock-based compensation recorded in the first quarter of 2021 as mentioned above.

Non-GAAP Financial Measures

In addition to our results determined in accordance with GAAP, we believe the non-GAAP financial measures of Enterprise EBITDA, Adjusted EBITDA, Adjusted Net Income (Loss) and Adjusted EPS are useful in evaluating our operating performance. We believe that this non-GAAP financial information, when taken collectively with our GAAP results, may be helpful to readers of our 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.

We use the following non-GAAP financial measures to understand and evaluate our core operating performance and trends, to prepare and approve our annual budget, to develop short-term and long-term operating plans, and to evaluate the performance of certain management personnel when determining incentive compensation. We believe these non-GAAP financial measures facilitate comparison of our operating performance on a consistent basis between periods by excluding certain items that may, or could, have a disproportionate positive or negative impact on our results of operations in any particular period. When viewed in combination with our results prepared in accordance with GAAP, these non-GAAP financial measures help provide a broader picture of factors and trends affecting our results of operations.

Enterprise EBITDA and Adjusted EBITDA

Both Enterprise EBITDA and Adjusted EBITDA are supplemental measures of operating performance that are not made under GAAP and that does not represent, and should not be considered as, an alternative to net income (loss) as determined by GAAP. We define Enterprise EBITDA as net income (loss) attributable to Telos Corporation, adjusted for net income attributable to non-controlling interest, non-operating expense (income), interest expense, provision for (benefit from) income taxes, and depreciation and amortization. We define Adjusted EBITDA as Enterprise EBITDA, adjusted for transaction gains/losses/expenses related to our IPO and stock-based compensation expense.

A reconciliation of Enterprise EBITDA and Adjusted EBITDA to net income (loss) attributable to Telos Corporation, the most directly comparable GAAP measure, is as follows:

	Three Months Ended March 31,	
	2021	**2020**
Net loss attributable to Telos Corporation	$ (14,778)	$ (2,244)
Adjustments:		
Net income attributable to non-controlling interest	----	784
Non-operating expense (income)	1,054	(8)
Interest expense	196	2,017
Provision for (benefit from) income taxes	34	(146)
Depreciation and amortization	1,360	1,389
Enterprise EBITDA	(12,134)	1,792
Stock-based compensation expense	13,670	----
Adjusted EBITDA	$ 1,536	$ 1,792

Adjusted Net Income (Loss) and Adjusted EPS

The adjusted measures of Net Income (Loss) and Diluted EPS, (defined as “Adjusted Net Income (Loss)” and “Adjusted EPS”, respectively) are supplemental measures of operating performance that are not made under GAAP and that does not represent, and should not be considered as, an alternative to net income (loss) as determined by GAAP. We define Adjusted Net Income (Loss) as net income (loss) attributable to Telos Corporation, adjusted for non-operating expense (income) and stock-based compensation expense. We define Adjusted EPS as Adjusted Net Income (Loss) divided by the weighted-average number of common shares outstanding for the period.

A reconciliation of Adjusted Net Loss and Adjusted EPS to net loss attributable to Telos Corporation, the most directly comparable GAAP measure, is as follows:

	Three Months Ended March 31, 2021		**Three Months Ended March 31, 2020**	
	Net Loss Attributable to Telos Corporation (in thousands)	**Diluted Earnings Per Share**	**Net Loss Attributable to Telos Corporation** (in thousands)	**Diluted Earnings Per Share**
Reported GAAP measure	$ (14,778)	$ (0.23)	$ (2,244)	$ (0.06)
Adjustments:				
Non-operating expense (income)	1,054	0.02	(8)	----
Stock-based compensation expense	13,670	0.21	----	----
Adjusted non-GAAP measure	$ (54)	$ 0.00	$ (2,252)	$ (0.06)
Weighted-average shares of common stock outstanding	64,625		38,073	

Each of Enterprise EBITDA, Adjusted EBITDA, Adjusted Net Income (Loss) and Adjusted EPS has limitations as an analytical tool, and you should not consider it in isolation, or as a substitute for analysis of our results as reported under GAAP. Among other limitations, each of Enterprise EBITDA, Adjusted EBITDA, Adjusted Net Income (Loss) and Adjusted EPS does not reflect our cash expenditures, or future requirements, for capital expenditures or contractual commitments, does not reflect the impact of certain cash charges resulting from matters we consider not to be indicative of our ongoing operations, and does not reflect income tax expense or benefit. Other companies in our industry may calculate Adjusted EBITDA, Adjusted Net Income (Loss) and Adjusted EPS differently than we do, which limits its usefulness as a comparative measure. Because of these limitations, neither Enterprise EBITDA, Adjusted EBITDA, Adjusted Net Income (Loss) nor Adjusted EPS should be considered as a replacement for net income (loss) or earnings per share, as determined by GAAP, or as a measure of our profitability. We compensate for these limitations by relying primarily on our GAAP results and using non-GAAP measures only for supplemental purposes.

Liquidity and Capital Resources

Upon the closing of our IPO, we issued 17.2 million shares of our common stock at a price of $17.00 per share, generating net proceeds of approximately $272.8 million. We used approximately $108.9 million of the net proceeds in connection with the ERPS Conversion (see Note 6 – Exchangeable Redeemable Preferred Stock Conversion), $30.0 million to fund our acquisition of the outstanding Class B Units of Telos ID (see Note 2 – Purchase of Telos ID/Non-controlling Interests), $21.0 million to repay our outstanding senior term loan and subordinated debt (see Note 5 – Current Liabilities and Debt Obligations). We intend to use the remaining net proceeds for general corporate purposes. We also may use a portion of the net proceeds to acquire complementary businesses, products, services, or technologies. The amounts and timing of our actual use of the net proceeds will vary depending on numerous factors. Proceeds held by us are invested in short-term investments until needed for the uses described above. We currently anticipate that we will retain all available funds for use in the operation and expansion of our business, and we do not anticipate paying any cash dividends on our common stock in the foreseeable future.

On April 6, 2021, we completed our follow-on offering of 9.1 million shares of our common stock at a price of $33.00 per share, including a secondary public offering of 7.0 million shares of common stock by certain existing stockholders of Telos. The offering generated approximately $64.5 million of net proceeds to Telos. We did not receive any proceeds from the shares of common stock sold by the selling stockholders. On April 19, 2021, we used approximately $28.1 million of the net proceeds to repurchase all the shares and warrants owned by EnCap.

Our working capital was $102.2 million and $105.2 million as of March 31, 2021 and December 31, 2020, respectively. Although no assurances can be given, we expect that funds generated from operations are sufficient to maintain the liquidity we require to meet our operating, investing and financing needs for the next 12 months.

Cash used in operating activities was $9.3 million for the three months ended March 31, 2021, compared to cash provided by operating activities of $1.7 million for the same period in 2020. Cash provided by or used in operating activities is primarily driven by the Company’s operating income, the timing of receipt of customer payments, the timing of its payments to vendors and employees, and the timing of inventory turnover, adjusted for certain non-cash items that do not impact cash flows from operating activities. Additionally, net loss was $14.8 million for the three months ended March 31, 2021, compared to $1.5 million for the three months ended March 31, 2020.

Cash used in investing activities was approximately $2.6 million and $1.7 million for the three months ended March 31, 2021 and 2020, respectively, due primarily to the capitalization of software development costs of $2.2 million and $1.5 million for the three months ended March 31, 2021 and 2020, respectively, and the purchase of property and equipment.

Cash used in financing activities was $0.3 million and $0.4 million for the three months ended March 31, 2021 and 2020, respectively, primarily attributable to payments under finance leases for both periods and an amendment fee paid to lender for the three months ended March 31, 2020.

Recent Accounting Pronouncements

See Note 1 of the Condensed Consolidated Financial Statements for a discussion of recently issued accounting pronouncements.

Critical Accounting Policies

During the three months ended March 31, 2021, there were no material changes to our critical accounting policies as reported in our Annual Report on Form 10-K for the year ended December 31, 2020 as filed with the SEC on March 25, 2021.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

None.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

An evaluation of the effectiveness of our disclosure controls and procedures as of March 31, 2021 was performed under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in its reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms, and that information required to be disclosed by the Company in the reports the Company files or submits under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting during the quarter ended March 31, 2021 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

Information regarding legal proceedings may be found in Note 8 – Commitments and Contingencies to the condensed consolidated financial statements.

Item 1A. Risk Factors

There were no material changes in the period ended March 31, 2021 in our risk factors as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2020.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

On May 14, 2021, our Board of Directors terminated the Telos ID Sale Bonus Plan (“Telos ID Plan”). The purpose of the Telos ID Plan was to provide a long-term incentive program to motivate key executives of Telos ID to participate in the value creation of Telos ID and enjoy the benefits of participation in future increases in the value of Telos ID and its underlying assets.

Prior to the IPO, we had a 50% ownership interest in Telos ID. Participants in the Telos ID Plan were entitled to a payment upon the transfer for value of all of the Company’s ownership interest in Telos ID or upon the occurrence of a “Sale” (as defined in the Telos ID Plan) of Telos ID if the value of Telos ID at the time of such transaction was at least $50 million. Upon a transfer of our ownership interest, the bonuses payable under the Telos ID Plan would have equaled 2.5% of the value of Telos ID (as defined by the Telos ID Plan) up to $85 million, plus 4% of the of the value of Telos ID in excess of $85 million. Upon a Sale, the bonuses payable would have amounted to 5% of the proceeds up to $85 million, plus 8% of the proceeds in excess of $85 million. If the Sale occurred after the transfer of ownership, the bonuses payable would have been 5% of the proceeds up to $85 million, plus 8% of the proceeds in excess of $85 million, less any bonuses already paid as part of any prior transfer of Telos’ ownership interests. The total bonuses payable upon a transfer of interest or Sale would have been allocated as follows: (i) 50% of the total to the President of Telos ID; and (ii) 50% to other participants as determined by the President of Telos ID. Both of these allocations would have been subject to approval by the Chairman of our Board of Directors.

In connection with the IPO, we purchased the 50% ownership interest in Telos ID that we did not already own. As a result of our ownership of 100% of Telos ID, the Board of Directors decided to terminate the Telos ID Plan. Employees of Telos ID who would have been eligible to participate in the Telos ID Plan, including the President of Telos ID, participate in the Telos Corporation 2016 Omnibus Long-Term Incentive Plan.

Item 6. Exhibits

Exhibit Number	**Description of Exhibit**
10.1*	Forms of Indemnification Agreement between the Company and 16 of its directors and executive officers
31.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32*	Certification pursuant to 18 U.S.C. Section 1350, as Adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase
101.DEF**	XBRL Taxonomy Extension Definition Linkbase

* filed herewith

** in accordance with Regulation S-T, the XBRL-related information in Exhibit 101 to this Quarterly Report on Form 10-Q shall be deemed to be "furnished" and not "filed"

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 17, 2021

TELOS CORPORATION

/s/ John B. Wood
John B. Wood
Chief Executive Officer (Principal Executive Officer)

/s/ Michele Nakazawa
Michele Nakazawa
Chief Financial Officer (Principal Financial and Accounting Officer)

Exhibit 10.1

INDEMNIFICATION AGREEMENT

THIS INDEMNIFICATION AGREEMENT (this "Agreement") is made and entered into effective as of March 1, 2021 (the "Effective Date"), by and between Telos Corporation, a Maryland corporation (collectively, with its affiliates and subsidiaries, the "Company"), and [NAME] ("Indemnitee").

WHEREAS, Indemnitee commenced service as [A DIRECTOR/AN OFFICER] of the Company as of a date set forth in the records of the Company (the "Start Date");

WHEREAS, at the request of the Company, Indemnitee currently continues to serve in such capacity for the Company and may, because of his or her service, be subjected to claims, suits or proceedings arising as a result such service;

WHEREAS, as an inducement to Indemnitee to continue to serve the Company in such capacity, the Company has agreed to enter this Agreement to memorialize the terms related to indemnification and advancement of expenses and costs which may incurred by Indemnitee in connection with any claims, suits or proceedings, to the maximum extent permitted by law and as described herein;

WHEREAS, the parties by this Agreement desire to set forth their agreement regarding indemnification and advancement of expenses; and

WHEREAS, Indemnitee is relying upon the provisions of this Agreement in continuing to serve in such capacity the Company.

NOW, THEREFORE, in consideration of the premises and the covenants contained herein, the Company and Indemnitee do hereby covenant and agree as follows:

1. <u>Definitions</u>. For purposes of this Agreement:

   a. "Adjudged" shall mean adjudged finally by a court or arbitral or other authority of competent jurisdiction after the exhaustion of all rights of appeal.

   b. "Change in Control" means a change in control of the Company occurring after the Effective Date of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A (or in response to any similar item on any similar schedule or form) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), whether or not the Company is then subject to such reporting requirement; provided, however, that, without limitation, such a Change in Control shall be deemed to have occurred if, after the Effective Date (i) any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 50% or more of the combined voting power of all of the Company's then-outstanding securities entitled to vote generally in the election of directors without the prior approval of at least two-thirds of the members of the Board of Directors of the Company ("Board of Directors") in office immediately prior to such person's attaining such percentage interest; (ii) the Company is a party to a merger, consolidation, sale of assets, plan of liquidation or other reorganization not approved by at least two-thirds of the members of the Board of Directors then in office, as a consequence of which members of the Board of Directors in office immediately prior to such transaction or event constitute less than a majority of the Board of Directors thereafter; or (iii) at any time, a majority of the members of the Board of Directors are not comprised of individuals (A) who were directors as of the Effective Date or (B) whose election by the Board of Directors or nomination for election by the Company's stockholders was approved by the affirmative vote of at least two-thirds of the directors then in office who were directors as of the Effective Date or whose election or nomination for election was previously so approved.

c. “Corporate Status” means the status of a person as a present or former director, officer, employee or agent of the Company or as a director, trustee, officer, partner, manager, managing member, fiduciary, employee or agent of any other foreign or domestic corporation, partnership, limited liability company, joint venture, trust, employee benefit plan or other enterprise that such person is or was serving in such capacity at the request of the Company. Indemnitee’s Corporate Status shall be deemed to have commenced on the Start Date. As a clarification and without limiting the circumstances in which Indemnitee may be serving at the request of the Company, service by Indemnitee shall be deemed to be at the request of the Company: (i) if Indemnitee serves or served as a director, trustee, officer, partner, manager, managing member, fiduciary, employee or agent of any foreign or domestic corporation, partnership, limited liability company, joint venture, trust, employee benefit plan or other enterprise (A) of which a majority of the voting power or equity interest is or was owned directly or indirectly by the Company, or (B) the management of which is controlled directly or indirectly by the Company; or (ii) if, as a result of Indemnitee’s service to the Company, Indemnitee is subject to duties by, or required to perform services for, an employee benefit plan or its participants or beneficiaries, including as an actual or deemed fiduciary thereof.

d. “Disinterested Director” means a director of the Company who is not and was not a party to the Proceeding in respect of which indemnification and/or advancement of Expenses is sought by Indemnitee.

e. “Effective Date” has the meaning set forth in the first paragraph of this Agreement.

f. “Enterprise” shall mean (i) the Company and (ii) any other corporation, partnership, limited liability company, joint venture, trust, employee benefit plan or other enterprise which is an affiliate or wholly or partially owned subsidiary of the Company and of which the Indemnitee is or was serving as a director, trustee, general partner, managing member, officer, employee, agent or fiduciary; and (iii) any other corporation, partnership, limited liability company, joint venture, trust, employee benefit plan or other enterprise of which Indemnitee is or was serving at the request of the Company.

g. “ERISA” means the Employee Retirement Income Security Act of 1974, as amended.

h. “Expenses” means any and all disbursements or expenses incurred by Indemnitee in connection with prosecuting, defending, preparing to prosecute or defend, investigating, being or preparing to be a witness in or otherwise participating in a Proceeding, including, without limitation, reasonable and out-of-pocket attorneys’ fees and costs, retainers, court costs, arbitration and mediation costs, transcript costs, fees of experts, witness fees, travel expenses, duplicating costs, printing and binding costs, telephone charges, postage, delivery service fees, paralegal and secretarial services and fees, federal, state, local or foreign taxes imposed on Indemnitee as a result of the actual or deemed receipt of any payments under this Agreement and any ERISA excise taxes and penalties. Expenses shall also include (i) expenses incurred in connection with any appeal resulting from any Proceeding including, without limitation, the premium for, security for and other costs relating to any cost bond, supersedeas bond or other appeal bond or its equivalent, (ii) expenses incurred in connection with recovery under any directors’ and officers’ liability insurance policies maintained by the Company, and (iii) expenses incurred by Indemnitee in establishing or enforcing [his][her] right to indemnification or reimbursement under this Agreement.

i. “Independent Counsel” means a law firm, or a member of a law firm, that is experienced in matters of corporation law and securities law and neither is, nor in the past five years has been, retained to represent: (i) the Company or Indemnitee in any matter material to either such party (other than with respect to matters concerning Indemnitee under this Agreement or of other indemnitees under similar indemnification agreements), or (ii) any other party to or participant or witness in the Proceeding giving rise to a claim for indemnification or advancement of Expenses hereunder. Notwithstanding the foregoing, the term “Independent Counsel” shall not include any person who, under the applicable standards of professional conduct then prevailing, would have a conflict of interest in representing either the Company or Indemnitee in an action to determine Indemnitee’s rights under this Agreement.

j. “Jointly Indemnifiable Claims” shall mean any Proceeding for which the Indemnitee shall be entitled to indemnification, advancement of expenses or insurance coverage from (i) the Company and/or any Enterprise pursuant to this Agreement, the charter or Bylaws or other governing documents of the Company or any Enterprise, any agreement or a resolution of the stockholders of the Company entitled to vote generally in the election of directors or of the Board of Directors, or otherwise, on the one hand, and (ii) any Third-Party Indemnitor pursuant to any agreement between any Third-Party Indemnitor and the Indemnitee (including without limitation insurance coverage secured by or on behalf of the Indemnitee for personal coverage) pursuant to which the Indemnitee is indemnified, the laws of the jurisdiction of incorporation or organization of any Third-Party Indemnitor and/or the certificate/articles of incorporation, certificate/articles of organization, bylaws, stockholders agreement, partnership agreement, operating agreement, certificate of formation, certificate of limited partnership or other organizational or governing documents of any Third-Party Indemnitor, on the other hand.

k. “Proceeding” means any threatened, pending or completed action, suit, arbitration, mediation, alternate dispute resolution mechanism, investigation, inquiry, administrative hearing, claim, demand or discovery request or any other actual, threatened or completed proceeding, whether brought by or in the right of the Company, its stockholders, or otherwise and whether of a civil (including intentional or unintentional tort claims), criminal, administrative or investigative (formal or informal) nature, including any appeal therefrom, and including any Proceeding pending on or before the Effective Date. If Indemnitee reasonably believes that a given situation may lead to or culminate in the institution of a Proceeding, such situation shall also be considered a Proceeding. The term “Proceeding” shall be broadly construed and shall include, without limitation, the investigation, preparation, defense, settlement, arbitration, mediation, or appeal of, and the giving of testimony in or related to, any threatened, pending or completed claim, action, suit or other proceeding, whether of a civil, criminal, administrative or investigative nature.

l. “Third-Party Indemnitor” means any person or entity that has or may in the future provide to the Indemnitee any indemnification, exoneration, hold harmless or Expense advancement rights and/or insurance benefits other than (i) the Company, (ii) any Enterprise and (iii) any entity or entities through which the Company maintains liability insurance applicable to the Indemnitee.

2. Services by Indemnitee. The Company expressly confirms and agrees that it has entered into this Agreement and assumed the obligations imposed on it hereby in order to induce the Indemnitee to continue to serve the Company in the capacity earlier described, and the Company acknowledges that Indemnitee is relying upon this Agreement in continuing to serve in such capacity. However, this Agreement shall not impose any independent obligation on Indemnitee or the Company to continue Indemnitee’s service to the Company beyond any period otherwise required by law or by other agreements or commitments of the parties, if any. This Agreement shall not be deemed an employment contract between the Company (or any other entity) and Indemnitee.

3. Indemnification. Subject in all respects to Section 4 and Section 5, the Company shall indemnify and hold harmless, and advance Expenses to, Indemnitee (a) as provided in this Agreement and (b) otherwise to the maximum extent not prohibited by (and not merely to the extent affirmatively permitted by) Maryland law in effect on the Effective Date and as amended from time to time; provided, however, that no change in Maryland law shall have the effect of reducing the benefits available to Indemnitee hereunder based on Maryland law as in effect on the Effective Date, and provided further that the benefits available to Indemnitee hereunder in fact may be broader than those permitted or provided by Maryland law on the Effective Date. The rights of Indemnitee provided in this Section 3 shall include, without limitation, the rights set forth in the other sections of this Agreement, as well as any additional indemnification permitted or provided by the charter or bylaws of the Company or Section 2-418(b) of the Maryland General Corporation Law (the “MGCL”).

4. Standard for Indemnification. If, by reason of Indemnitee's Corporate Status, Indemnitee is, or is threatened to be, made a party to any Proceeding, the Company shall indemnify, defend and hold harmless Indemnitee against all judgments, penalties, fines and amounts paid in settlement and shall advance all Expenses actually and reasonably incurred by Indemnitee or on Indemnitee's behalf in connection with any such Proceeding, unless (and only to the extent) it is ultimately Adjudged that (i) the act or omission of Indemnitee was material to the matter giving rise to the Proceeding and (A) was committed in bad faith or (B) was the result of Indemnitee's active and deliberate dishonesty; (ii) Indemnitee actually received and is Adjudged to be liable for an improper personal benefit in money, property or services; or (iii) in the case of any criminal Proceeding, Indemnitee had reasonable cause to believe that his or her conduct was unlawful.

5. Certain Limitations. Indemnitee shall not be entitled to:

   a. indemnification hereunder if the Proceeding was one by or in the right of the Company and Indemnitee is Adjudged to be liable to the Company;

   b. indemnification hereunder if Indemnitee is Adjudged to be liable on the basis that personal benefit was improperly received in any Proceeding charging improper personal benefit to Indemnitee; or

   c. indemnification or advancement of Expenses hereunder if the Proceeding was brought by Indemnitee, unless: (i) the Proceeding was brought to establish or enforce indemnification rights under this Agreement, and then only to the extent in accordance with and as authorized by Section 12 of this Agreement, or (ii) the Company's charter or bylaws, a resolution of the stockholders entitled to vote generally in the election of directors or of the Board of Directors or an agreement approved by the Board of Directors to which the Company is a party, expressly provides otherwise.

6. Court-Ordered Indemnification. Notwithstanding any other provision of this Agreement (other than Section 16), a court of appropriate jurisdiction, upon application of Indemnitee and such notice as the court shall require may order indemnification of Indemnitee by the Company in the following circumstances:

   a. if such court determines that Indemnitee is entitled to reimbursement under Section 2-418(d)(1) of the MGCL, the court shall order indemnification, in which case Indemnitee also shall be entitled to recover the Expenses of securing such reimbursement; or

b. if such court determines that Indemnitee is fairly and reasonably entitled to indemnification in view of all the relevant circumstances, whether or not Indemnitee (i) has met the standards of conduct set forth in Section 2-418(b) of the MGCL or (ii) has been Adjudged liable for receipt of an improper personal benefit under Section 2-418(c) of the MGCL, the court may order such indemnification as the court shall deem proper. However, indemnification with respect to any Proceeding by or in the right of the Company or in which liability shall have been Adjudged in the circumstances described in Section 2-418(c) of the MGCL shall be limited to Expenses.

7. Partial Success. Notwithstanding any other provision of this Agreement, and without limiting any such provision, to the extent that Indemnitee was or is, by reason of Indemnitee's Corporate Status, made a party to (or otherwise becomes a participant in) any Proceeding and is successful, on the merits or otherwise, in the defense of such Proceeding, Indemnitee shall be indemnified for all Expenses actually incurred by Indemnitee or on Indemnitee's behalf in connection therewith. In addition to any other right to indemnification under any provision of this Agreement, and without limiting any such provision, if Indemnitee is not wholly successful in a Proceeding but is successful, on the merits or otherwise, as to one or more but less than all claims, issues or matters in such Proceeding, the Company shall indemnify Indemnitee under this Section 7 for all Expenses actually and reasonably incurred by Indemnitee or on Indemnitee's behalf in connection with each successfully resolved claim, issue or matter, allocated on a reasonable and proportionate basis. For purposes of this Section 7, and without limitation, the termination of any claim, issue or matter in such a Proceeding by dismissal, with or without prejudice, shall be deemed to be a successful result as to such claim, issue or matter. For the avoidance of doubt, in the event that Indemnitee is not wholly successful and is Adjudged liable, the Company shall indemnify Indemnitee to the maximum extent not prohibited by (and not merely to the extent affirmatively permitted by) Maryland law and as permitted by Sections 3, 4, 5 and 6 of this Agreement.

8. Advancement of Expenses. If Indemnitee was, is, or is threatened to be, made a party to (or otherwise becomes a participant in) any Proceeding, the Company shall, without requiring a preliminary determination of Indemnitee's ultimate entitlement to indemnification hereunder, advance all reasonable Expenses incurred by or on behalf of Indemnitee in connection with such Proceeding. Such advance or advances shall be made within ten (10) days after the receipt by the Company of a statement or statements requesting such advance or advances from time to time, whether prior to or after final disposition of such Proceeding, and may be in the form of, in the reasonable discretion of Indemnitee (but without duplication): (i) payment of such Expenses directly to third parties on behalf of Indemnitee; (ii) advancement to Indemnitee of funds in an amount sufficient to pay such Expenses; or (iii) reimbursement to Indemnitee for Indemnitee's payment of such Expenses. Such statement or statements shall reasonably evidence the Expenses incurred by or on behalf of Indemnitee and shall include or be preceded or accompanied by a written affirmation and undertaking by or on behalf of Indemnitee, in substantially the form attached hereto as Exhibit A or in such form as may be required under applicable law as in effect at the time of the execution thereof, to reimburse the portion (if any) of any Expenses advanced to Indemnitee relating to claims, issues or matters in the Proceeding as to which it shall ultimately be Adjudged by clear and convincing evidence, that the standard of conduct for indemnification has not been met by Indemnitee and which have not been successfully resolved as described in Section 7 of this Agreement. To the extent that Expenses advanced to Indemnitee do not relate to a specific claim, issue or matter in the Proceeding, such Expenses shall be allocated on a reasonable and proportionate basis taking into account all the circumstances. The undertaking required by this Section 8 shall be an unlimited general obligation by or

on behalf of Indemnitee and shall be accepted without reference to Indemnitee's financial ability to repay such advanced Expenses and without any requirement to post security therefor.

9. Indemnitee as Witness or Other Participant. Notwithstanding any other provision of this Agreement, to the extent that Indemnitee was, is or may be, by reason of Indemnitee's Corporate Status, made a witness or otherwise asked to participate in any Proceeding, including without limitation through any deposition, interview, interrogatory or document or similar request, whether instituted by the Company or any other party, and to which Indemnitee is not a party, Indemnitee shall be advanced all reasonable Expenses and indemnified and held harmless against all Expenses actually and reasonably incurred by Indemnitee or on Indemnitee's behalf in connection therewith within ten (10) days after the receipt by the Company of a statement or statements requesting any such advance or indemnification from time to time, whether prior to or after final disposition of such Proceeding. Such statement or statements shall reasonably evidence the Expenses incurred by Indemnitee. In connection with any such advancement of Expenses, the Company may require Indemnitee to provide a written affirmation and undertaking substantially in the form attached hereto as Exhibit A.

10. Procedure for Determination of Entitlement to Indemnification.

    a. To obtain indemnification under this Agreement, Indemnitee shall submit to the Company, through its General Counsel, a written request, including therein or therewith such documentation and information as is reasonably available to Indemnitee and is reasonably necessary or appropriate to determine whether and to what extent Indemnitee is entitled to indemnification. Indemnitee may submit one or more such requests from time to time and at such time(s) as Indemnitee deems appropriate in Indemnitee's sole discretion. The General Counsel of the Company, upon receiving any such request from Indemnitee, shall promptly advise the Board of Directors of the Company that Indemnitee has requested indemnification by the Company.

b. Upon written request by Indemnitee for indemnification pursuant to Section 10(a) above, a determination, if required by applicable law, with respect to Indemnitee's entitlement thereto shall promptly be made in the specific case: (i) if a Change in Control shall have occurred, by Independent Counsel in a written opinion to the Board of Directors, a copy of which shall be delivered to Indemnitee, which Independent Counsel shall be selected by Indemnitee and approved by the Board of Directors in accordance with Section 2-418(e)(2)(ii) of the MGCL, which approval shall not be unreasonably withheld; or (ii) if a Change in Control shall not have occurred, (A) by the Board of Directors by a majority vote of a quorum consisting of Disinterested Directors or, if such a quorum cannot be obtained, then by a majority vote of a duly authorized committee of the Board of Directors consisting solely of one or more Disinterested Directors, (B) if Independent Counsel has been selected by the Board of Directors in accordance with Section 2-418(e)(2)(ii) of the MGCL and approved by Indemnitee, which approval shall not be unreasonably withheld or delayed, by Independent Counsel in a written opinion to the Board of Directors, a copy of which shall be delivered to Indemnitee, or (C) if so directed by at least a majority of the members of the Board of Directors, the stockholders of the Company. If it is so determined that Indemnitee is entitled to indemnification, payment to Indemnitee shall be made within ten (10) days after such determination. Any Independent Counsel, or member of the Board of Directors shall act reasonably and in good faith in making a determination regarding Indemnitee's entitlement to indemnification under this Agreement. Indemnitee shall cooperate with the Company (including Independent Counsel selected by the Company) in its determination of Indemnitee's entitlement to indemnification, including providing to the Company, upon reasonable advance written request, any documentation or information which is not privileged or otherwise protected from disclosure and which is reasonably available to Indemnitee and reasonably necessary or appropriate to such determination in the discretion of the Board of Directors or Independent Counsel, as applicable; provided, however, in connection with such cooperation Indemnitee shall not be required to waive any applicable privilege or work product protection. Any Expenses incurred by Indemnitee in so cooperating with the Company or Independent Counsel shall be borne by the Company (irrespective of the determination as to Indemnitee's entitlement to indemnification) and the Company shall indemnify and hold Indemnitee harmless therefrom.

c. The Company shall pay the reasonable fees and expenses of any Independent Counsel and to fully indemnify such counsel against any and all Expenses, claims, liabilities and damages arising out of or relating to this Agreement or its engagement pursuant hereto. In no event shall the Indemnitee be required or requested to pay any such fees or expenses or to provide any such indemnification to any Independent Counsel.

11. <u>Presumptions and Effect of Certain Proceedings</u>.

a. In making any determination with respect to entitlement to indemnification hereunder, the person or persons or entity making such determination shall presume that Indemnitee is entitled to indemnification under this Agreement if Indemnitee has submitted a request for indemnification in accordance with Section 10(a) of this Agreement, and the Company shall have the burden of proof and the burden of persuasion by clear and convincing evidence to overcome that presumption in connection with the making of any determination contrary to that presumption.

b. The termination of any Proceeding, or of any claim, issue or matter therein, by any disposition other than a final judgment on the merits after exhaustion of all rights of appeal against Indemnitee, shall not create a presumption that Indemnitee did not meet the requisite standard of conduct described in this Agreement, including without limitation in Section 4 hereof, for indemnification. For the sake of clarity and the avoidance of doubt, a termination of any Proceeding, or of any claim, issue or matter therein, by way of settlement, the conviction upon a plea of nolo contendere or its equivalent, or the entry of an order of probation before or prior to judgment or its equivalent, shall not constitute a matter Adjudged against the Indemnitee within the meaning of Section 4 hereof and shall not create a presumption that Indemnitee did not meet the requisite standard of conduct described herein for indemnification.

c. The knowledge and/or actions, or failure to act, of any other director, officer, employee or agent of the Company or any other director, trustee, officer, partner, manager, managing member, fiduciary, employee or agent of any other foreign or domestic corporation, partnership, limited liability company, joint venture, trust, employee benefit plan or other enterprise shall not be imputed to Indemnitee for purposes of determining any right to indemnification under this Agreement.

d. For purposes of any determination as to Indemnitee's entitlement to indemnification, Indemnitee shall be presumed to have met the standard of conduct for indemnification if, among other things and without limitation, Indemnitee relied on any information, opinion, report or statement, including any financial statement or other financial data or the records or books of account of the Company or any Enterprise, prepared or presented by an officer or employee of the Company or any Enterprise whom Indemnitee reasonably believed to be reliable and competent in the matters presented, by a lawyer, certified public accountant, appraiser or other person, as to a matter which Indemnitee reasonably believed to be within the person's professional or expert competence, or, if Indemnitee was serving on the Board of Directors of the Company or as a member of any similar body of any Enterprise, by a committee of the Board of Directors or such other body on which Indemnitee does not serve, as to a matter within its designated authority, if Indemnitee reasonably believes the committee to merit confidence. The provisions of this Section 11(d) shall not be deemed to be exclusive or to limit in any way the other circumstances in which Indemnitee met, or be presumed to have met, the applicable standard of conduct set forth in this Agreement.

e. For purposes of this Agreement, Indemnitee shall be considered to have been wholly successful with respect to any Proceeding if such Proceeding is disposed of, on the merits or otherwise (including a disposition without prejudice), without (i) the disposition being adverse to Indemnitee, (ii) it being Adjudged that Indemnitee was liable to the Company, (iii) a plea of guilty by Indemnitee, (iv) it being Adjudged that an act or omission of Indemnitee was material to the matter giving rise to the Proceeding and was (A) committed in bad faith or (B) the result of Indemnitee's active and deliberate dishonesty, (v) it being Adjudged that Indemnitee actually received an improper personal benefit in money, property or services or (vi) with respect to any criminal proceeding, it being Adjudged that Indemnitee had reasonable cause to believe the act or omission was unlawful.

12. Remedies of Indemnitee.

a. If (i) a determination is made pursuant to Section 10(b) of this Agreement that Indemnitee is not entitled to indemnification under this Agreement; (ii) advancement of Expenses is not timely made pursuant to Sections 8 or 9 of this Agreement; (iii) no determination of entitlement to indemnification shall have been made pursuant to Section 10(b) of this Agreement within sixty (60) days after receipt by the Company of the request for indemnification; (iv) payment of indemnification is not made pursuant to Sections 7 or 9 of this Agreement within fifteen (15) days after receipt by the Company of a written request therefor; or (v) payment of indemnification pursuant to any other section of this Agreement or the charter or bylaws of the Company is not made within fifteen (15) days after a determination has been made that Indemnitee is entitled to indemnification, Indemnitee shall be entitled to an adjudication in an appropriate court located in the State of Maryland or the Commonwealth of Virginia, or in any other court of competent jurisdiction, with regard to Indemnitee's entitlement to indemnification or advancement of Expenses. Alternatively, Indemnitee, at Indemnitee's option, may seek an award in arbitration to be conducted by a single arbitrator pursuant to the Commercial Arbitration Rules of the American Arbitration Association. Indemnitee shall commence a proceeding seeking an adjudication or an award in arbitration within one hundred eighty (180) days following the date on which Indemnitee first has the right to commence such proceeding pursuant to this Section 12(a); provided, however, that the foregoing clause shall not apply to a proceeding brought by Indemnitee to enforce his or her rights under Section 7 of this Agreement. Except as set forth herein, the provisions of Maryland law (without regard to its conflicts of laws rules) shall apply to any such arbitration. The Company shall not oppose Indemnitee's right to seek any such adjudication or award in arbitration.

b. In any judicial proceeding or arbitration commenced pursuant to this Section 12, Indemnitee shall be presumed to be entitled to indemnification or advancement of Expenses, as the case may be, under this Agreement and the Company shall have the burden of proving that Indemnitee is not entitled to indemnification or advancement of Expenses, as the case may be. If Indemnitee commences a judicial proceeding or arbitration pursuant to this Section 12, Indemnitee shall not be required to reimburse the Company for any advances pursuant to Section 8 of this Agreement until a final determination is made with respect to Indemnitee's entitlement to indemnification (as to which all rights of appeal have been exhausted or lapsed). The Company shall, to the fullest extent not prohibited by law, be precluded from asserting in any judicial proceeding or arbitration commenced pursuant to this Section 12 that the procedures and presumptions of this Agreement are not valid, binding and enforceable and shall stipulate in any such court or before any such arbitrator that the Company is bound by all of the provisions of this Agreement.

c. If a determination shall have been made pursuant to Section 10(b) of this Agreement that Indemnitee is entitled to indemnification, the Company shall be bound by such determination in any judicial proceeding or arbitration commenced pursuant to this Section 12, absent a misstatement by Indemnitee of a material fact, or an omission of a material fact necessary to make Indemnitee's statement not materially misleading, in connection with the request for indemnification that was not disclosed in connection with the determination.

d. In the event that Indemnitee, pursuant to this Section 12, seeks a judicial adjudication of or an award in arbitration to enforce Indemnitee's rights under, or to recover damages for breach of, this Agreement, Indemnitee shall be entitled to advancement from the Company, and shall be indemnified and held harmless by the Company for, any and all Expenses actually and reasonably incurred by him or her in such judicial adjudication or arbitration. If it shall be determined in such judicial adjudication or arbitration that Indemnitee is entitled to receive part but not all of the indemnification or advancement of Expenses sought, the Expenses incurred by Indemnitee in connection with such judicial adjudication or arbitration shall be appropriately allocated and/or prorated, taking into account all the circumstances.

e. Interest shall be paid by the Company to Indemnitee at the maximum rate allowed to be charged for judgments under the Courts and Judicial Proceedings Article of the Annotated Code of Maryland for amounts which the Company pays or is obligated to pay for the period (i) commencing with either the 10th day after the date on which the Company was requested to advance Expenses in accordance with Sections 8 or 9 of this Agreement or the 45th day after the date on which the Company was requested to make the determination of entitlement to indemnification under Section 10(b) of this Agreement, as applicable, and (ii) ending on the date such payment is made to Indemnitee by the Company.

13. <u>Defense of Underlying Proceeding</u>.

a. Indemnitee shall notify the Company promptly in writing upon being served with or receiving any summons, citation, subpoena, complaint, indictment, notice, request or other document relating to any Proceeding which may result in the right to indemnification or the advancement of Expenses hereunder and shall include with such notice (or promptly after delivery of such notice) a description of the nature of the Proceeding and a summary of the facts underlying the Proceeding. The failure to give any such notice shall not disqualify Indemnitee from the right, or otherwise affect in any manner any right of Indemnitee, to indemnification or the advancement of Expenses under this Agreement, unless the Company's ability to defend in such Proceeding or to obtain proceeds under any insurance policy is materially and adversely prejudiced thereby, and then only to the extent the Company is thereby actually so prejudiced.

b. Subject to the provisions of the last sentence of this Section 13(b) and of Section 13(c) below, the Company shall have the right to defend Indemnitee in any Proceeding which may give rise to indemnification hereunder using a law firm of the Company's choice, subject to the prior written approval of the Indemnitee, which shall not be unreasonably withheld; provided, however, that the Company shall notify Indemnitee in writing of any such decision to defend within fifteen (15) calendar days following receipt of notice of any such Proceeding under Section 13(a) above. Indemnitee shall have the right to retain a separate law firm in any such Proceeding at Indemnitee's sole expense. The Company shall not, without the prior written consent of Indemnitee, which shall not be unreasonably withheld or delayed, consent to the entry of any judgment against Indemnitee or enter into any settlement or compromise of a claim against Indemnitee which (i) includes an admission of fault of Indemnitee; (ii) does not include, as an unconditional term thereof, (A) the full release with prejudice of Indemnitee from all liability in respect of such Proceeding, which release shall be in form and substance reasonably satisfactory to Indemnitee and (B) the complete dismissal of all claims against the Indemnitee with prejudice; or (iii) would impose any Expense, judgment, fine, penalty or limitation on Indemnitee. This Section 13(b) shall not apply to a Proceeding brought by Indemnitee under Section 12 of this Agreement, a Proceeding by or in the right of the Company or in the case of clause (ii) of Section 13(c).

c. Notwithstanding the provisions of Section 12(b) above, if in a Proceeding to which Indemnitee is a party, (i) Indemnitee reasonably concludes, based upon advice of counsel approved by the Company, which approval shall not be unreasonably withheld or delayed, that Indemnitee may have separate defenses or counterclaims to assert with respect to any issue which may not be consistent with other defendants in such Proceeding, (ii) Indemnitee reasonably concludes, based upon advice of counsel approved by the Company, which approval shall not be unreasonably withheld or delayed, that an actual or apparent conflict of interest or potential conflict of interest exists between Indemnitee and the Company, or (iii) if the Company fails to assume the defense of such Proceeding in a timely manner, Indemnitee shall be entitled to be represented by separate legal counsel of Indemnitee's choice, subject, except in the case of (ii) or (iii) above, to the prior approval of the Company, which approval shall not be unreasonably withheld or delayed, at the sole expense of the Company. In addition, if the Company fails to comply with any of its obligations under this Agreement or in the event that the Company or any other person takes any action to declare this Agreement void or unenforceable, or institutes any Proceeding to deny or to recover from Indemnitee the benefits intended to be provided to Indemnitee hereunder, Indemnitee shall have the right to retain counsel of Indemnitee's choice, subject to the prior approval of the Company, which approval shall not be unreasonably withheld or delayed, at the sole expense of the Company (subject to Section 12(d) of this Agreement), to represent Indemnitee in connection with any such matter.

14. Jointly Indemnifiable Claims. Given that certain Jointly Indemnifiable Claims may arise, the Company acknowledges and agrees that the Company shall, to the extent applicable, cause any Enterprise to (i) be fully and primarily responsible for, and be the indemnitor of first resort with respect to, payment to or payment on behalf of the Indemnitee in respect of indemnification or advancement of Expenses in connection with any such Jointly Indemnifiable Claim, irrespective of any right of recovery the Indemnitee may have from the Third-Party Indemnitors, and (ii) be required to advance the full amount of Expenses incurred by the Indemnitee and shall be liable for the full amount of all Expenses, judgments, fines, penalties and amounts paid in settlement to the extent not prohibited by (and not merely to the extent affirmatively permitted by) applicable law and as required by the terms of this Agreement, without regard to any rights the Indemnitee may have against the Third-Party Indemnitors. Under no circumstance shall the Company or any Enterprise be entitled to, and the Company hereby irrevocably waives, relinquishes and releases, any claims against the Third-Party Indemnitors for subrogation, contribution or recovery of any kind and no right of advancement or recovery the Indemnitee may have from the Third-Party Indemnitors shall reduce or otherwise alter the rights of the Indemnitee or the obligations of the Company or any Enterprise. The Company further agrees that no advancement or payment by any Third-Party Indemnitor on behalf of Indemnitee with respect to any Proceeding for which Indemnitee has sought indemnification, exoneration or any other rights from the Company shall affect the foregoing, and the Third-Party Indemnitor(s) shall have a right to receive from the Company contribution and/or be subrogated, to the extent of such advancement or payment, to all of the rights of recovery of Indemnitee against the Company. The Company and the Indemnitee agree that each of the Third-Party Indemnitors shall be third-party beneficiaries with respect to this Agreement entitled to enforce this Section 14 as though each such Third-Party Indemnitor were a party to this Agreement.

15. Non-Exclusivity; Survival of Rights; Subrogation.

a. The rights of indemnification and advancement of Expenses as provided by this Agreement shall not be deemed exclusive of any other rights to which Indemnitee may at any time be entitled under (i) applicable law (including, but not limited to, the MGCL), (ii) the charter or bylaws of the Company, (iii) any agreement or (iv) a resolution of (A) the stockholders entitled to vote generally in the election of directors or (B) the Board of Directors, or otherwise. Unless consented to in writing by Indemnitee, no amendment, alteration or repeal of this Agreement or of any provision hereof shall limit or restrict any right of Indemnitee under this Agreement in respect of any action taken or omitted by such Indemnitee in his or her Corporate Status prior to such amendment, alteration or repeal, regardless of whether a claim with respect to such action or inaction is raised prior or subsequent to such amendment, alteration or repeal. No right or remedy herein conferred is intended to be exclusive of any other right or remedy, and every other right or remedy shall be cumulative and in addition to every other right or remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion of any right or remedy hereunder, or otherwise, shall not prohibit the concurrent assertion or employment of any other right or remedy.

b. Except as set forth in Section 14, in the event of any payment under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of Indemnitee, who shall execute all papers required and take all action necessary to secure such rights, including execution of such documents as are necessary to enable the Company to bring suit to enforce such rights.

c. All rights of Indemnitee under this Agreement shall survive termination of Indemnitee's employment with the Company.

16. Insurance.

a. The Company shall purchase and maintain a policy or policies of directors and officers liability insurance with reputable insurance companies. The Company shall continue to provide such insurance coverage to Indemnitee and such insurance policies shall have coverage terms and policy limits at least as favorable to Indemnitee as the insurance coverage provided to any other director or officer of the Company. If the Company has such insurance in effect at the time it receives from Indemnitee any notice of the commencement of an action, suit, proceeding or other claim, the Company shall give prompt notice of the commencement of such action, suit, proceeding or other claim to the insurers and take such other actions in accordance with the procedures set forth in the policy as required or appropriate to secure coverage of Indemnitee for such action, suit, proceeding or other claim. The Company shall thereafter take all reasonably necessary or desirable action to cause such insurers to pay, on behalf of Indemnitee, all amounts payable as a result of such action, suit, proceeding or other claim in accordance with the terms of such policy. In the event of a Change in Control that would result in a loss or cancellation of the Company directors and officers liability insurance policy or policies, the Company shall purchase a directors and officers "Tail" insurance policy or policies to provide coverage to the Company's directors and officers for a period of six (6) years after such Change in Control, but only with respect to coverage for claims arising from wrongful acts, errors or omissions occurring before such Change in Control.

b. Without in any way limiting any other obligation under this Agreement, the Company shall indemnify Indemnitee for any payment by Indemnitee which would otherwise be indemnifiable hereunder arising out of the amount of any deductible or retention and the amount of any excess of the aggregate of all judgments, penalties, fines, settlements and Expenses incurred by Indemnitee in connection with a Proceeding over the coverage of any insurance referred to in Section 16(a). The purchase, establishment and maintenance of any such insurance shall not in any way limit or affect the rights or obligations of the Company or Indemnitee under this Agreement except as expressly provided herein, and the execution and delivery of this Agreement by the Company and Indemnitee shall not in any way limit or affect the rights or obligations of the Company under any such insurance policies. If, at the time the Company receives notice from any source of a Proceeding to which Indemnitee is a party or a participant (as a witness or otherwise), the Company has director and officer liability insurance in effect, the Company shall give prompt notice of such Proceeding to the insurers in accordance with the procedures set forth in the respective policies.

17. Contribution. If the indemnification provided in this Agreement is unavailable in whole or in part and may not be paid to Indemnitee for any reason, other than for failure to satisfy the standard of conduct set forth in Section 4 or due to the provisions of Section 5, then, with respect to any Proceeding in which the Company is jointly liable with Indemnitee (or would be if joined in such Proceeding), to the fullest extent permissible under applicable law, the Company, in lieu of indemnifying and holding harmless Indemnitee, shall pay, in the first instance, the entire amount incurred by Indemnitee, whether for Expenses, judgments, fines, penalties, and/or amounts paid or to be paid in settlement, in connection with any Proceeding without requiring Indemnitee to contribute to such payment, and the Company hereby waives and relinquishes any right of contribution it may have at any time against Indemnitee.

18. Miscellaneous.

a. This Agreement shall be effective as of the Effective Date and may apply to acts or omissions of Indemnitee taken in or in connection with Indemnitee's Corporate Status which occurred after the Start Date and prior to the Effective Date if Indemnitee was an officer, director, employee or agent of the Company or was a director, trustee, officer, partner, manager, managing member, fiduciary, employee or agent of any Enterprise at the time such act or omission occurred.

b. This Agreement shall continue until and terminate on the later of: (i) the date that Indemnitee shall have ceased to serve as a director, officer, employee or agent of the Company or as a director, trustee, officer, partner, manager, managing member, fiduciary, employee or agent of any other foreign or domestic corporation, partnership, limited liability company, joint venture, trust, employee benefit plan or other enterprise that such person is or was serving in such capacity at the request of the Company and (ii) the date that Indemnitee is no longer subject to any actual or possible Proceeding (including any rights of appeal thereto and any Proceeding commenced by Indemnitee pursuant to Section 12 of this Agreement).

c. The indemnification and advancement of Expenses provided by, or granted pursuant to, this Agreement shall be binding upon and be enforceable by the parties hereto and their respective successors and assigns (including any direct or indirect successor by purchase, merger, consolidation or otherwise to all, substantially all or a substantial part, of the business and/or assets of the Company), shall continue as to an Indemnitee who has ceased to be a director, officer, employee or agent of the Company or a director, trustee, officer, partner, manager, managing member, fiduciary, employee or agent of any other foreign or domestic corporation, partnership, limited liability company, joint venture, trust, employee benefit plan or other enterprise that such person is or was serving in such capacity at the request of the Company, and shall inure to the benefit of Indemnitee and Indemnitee's spouse, assigns, heirs, devisees, executors and administrators and other legal representatives.

d. If, by reason of Indemnitee's Corporate Status, Indemnitee's spouse is made a party to any Proceeding, the Company shall indemnify and hold harmless Indemnitee's spouse against all judgments, penalties, fines and amounts paid in settlement and all Expenses actually and reasonably incurred by Indemnitee's spouse in connection with any such Proceeding unless (and only to the extent) it is ultimately Adjudged that (a) the act or omission of Indemnitee was material to the matter giving rise to the Proceeding and (i) was committed in bad faith or (ii) was the result of active and deliberate dishonesty; (b) Indemnitee actually received an improper personal benefit in money, property or services; or (c) in the case of any criminal Proceeding, Indemnitee had reasonable cause to believe that his or her conduct was unlawful. Further, Indemnitee's spouse shall not be entitled to (x) indemnification hereunder if the Proceeding was one by or in the right of the Company and Indemnitee is Adjudged to be liable to the Company; (y) indemnification hereunder if Indemnitee is Adjudged to be liable on the basis that personal benefit was improperly received in any Proceeding charging improper personal benefit to Indemnitee; or (z) indemnification or advancement of Expenses hereunder if the Proceeding was brought by Indemnitee, unless: (i) the Proceeding was brought to establish or enforce indemnification rights under this Agreement, and then only to the extent in accordance with and as authorized by Section 12 of this Agreement, or (ii) the Company's charter or bylaws, a resolution of the stockholders entitled to vote generally in the election of directors or of the Board of Directors or an agreement approved by the Board of Directors to which the Company is a party, expressly provides otherwise. The foregoing right to indemnification shall include, without limitation, any Proceeding that seeks damages recoverable from marital community property, jointly-owned property or property purported to have been transferred from the Indemnitee to his or her spouse (or former spouse); provided that Indemnitee is indemnified and held harmless for the same pursuant to this Agreement. The Indemnitee's spouse or former spouse also shall be entitled to advancement of Expenses to the same extent that Indemnitee is entitled to advancement of Expenses herein. The Company may maintain insurance to cover its obligation hereunder with respect to Indemnitee's spouse (or former spouse) or set aside assets in a trust or escrow fund for that purpose.

e. The Company shall require and cause any successor (whether direct or indirect by purchase, merger, consolidation or otherwise) to all, substantially all or a substantial part, of the business and/or assets of the Company, by written agreement in form and substance satisfactory to Indemnitee, expressly to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform if no such succession had taken place.

f. The Company and Indemnitee agree that a monetary remedy for breach of this Agreement, at some later date, may be inadequate, impracticable and difficult to prove, and further agree that such breach may cause Indemnitee irreparable harm. Accordingly, the parties hereto agree that Indemnitee may enforce this Agreement by seeking injunctive relief and/or specific performance hereof, without any necessity of showing actual damage or irreparable harm and that, by seeking injunctive relief and/or specific performance, Indemnitee shall not be precluded from seeking or obtaining any other relief to which Indemnitee may be entitled. Indemnitee shall further be entitled to such injunctive relief and/or specific performance, including temporary restraining orders, preliminary injunctions and permanent injunctions, without the necessity of posting bonds or other undertakings in connection therewith. The Company acknowledges that, in the absence of a waiver, a bond or undertaking may be required of Indemnitee by a court, and the Company hereby waives any such requirement of such a bond or undertaking.

g. If any provision or provisions of this Agreement shall be held to be invalid, void, illegal or otherwise unenforceable for any reason whatsoever: (i) the validity, legality and enforceability of the remaining provisions of this Agreement (including, without limitation, each portion of any Section, paragraph or sentence of this Agreement containing any such provision held to be invalid, illegal or unenforceable that is not itself invalid, illegal or unenforceable) shall not in any way be affected or impaired thereby and shall remain enforceable to the fullest extent permitted by law; (ii) such provision or provisions shall be deemed reformed to the extent necessary to conform to applicable law and to give the maximum effect to the intent of the parties hereto; and (iii) to the fullest extent possible, the provisions of this Agreement (including, without limitation, each portion of any Section, paragraph or sentence of this Agreement containing any such provision held to be invalid, illegal or unenforceable, that is not itself invalid, illegal or unenforceable) shall be construed so as to give effect to the intent manifested thereby.

h. Except as provided in Section 18(g) above, no supplement, modification or amendment of this Agreement shall be binding unless executed in writing by both of the parties hereto. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provisions hereof (whether or not similar) nor, unless otherwise expressly stated, shall such waiver constitute a continuing waiver. The only exception to this clause being if the Company provides indemnification to another current or former director of the Company on terms that are more favorable to such current or former director than the terms of indemnification contained in this Agreement, then this Agreement shall automatically be deemed to be amended (without any action on the part of the Company or Indemnitee) to include such more favorable terms.

i. All notices, requests, demands and other communications hereunder shall be in writing and shall be deemed to have been duly given if (i) delivered by hand, facsimile, electronic mail, or overnight courier service and by the party to whom said notice, request, demand or other communication shall have been directed, on the day of such delivery, or (ii) mailed by certified or registered mail with postage prepaid, on the third business day after the date on which it is so mailed: (i) if to Indemnitee, to the address set forth on the signature page hereto; or (ii) if to the Company, to Telos Corporation, 19886 Ashburn Road Ashburn, Virginia 20147, Attn: General Counsel; or to such other address as may have been furnished in writing to Indemnitee by the Company or in writing to the Company by Indemnitee, as the case may be.

j. This Agreement shall be governed by, and construed and enforced in accordance with, the laws of the State of Maryland, without regard to its conflicts of laws rules.

k. This Agreement may be executed in one or more counterparts (delivery of which may be in electronic format), each of which shall for all purposes be deemed to be an original and all of which together shall constitute one and the same Agreement. One such counterpart signed by the party against whom enforceability is sought shall be sufficient to evidence the existence of this Agreement.

l. The headings of the paragraphs of this Agreement are inserted for convenience only and shall not be deemed to constitute part of this Agreement or to affect the construction thereof.

[Remainder of the Page Blank]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written, intending the Agreement to be under seal:

TELOS CORPORATION

By: (SEAL)

Name:

Title:

[INDEMNITEE]

(SEAL)

Address:

EXHIBIT A

AFFIRMATION AND UNDERTAKING TO REPAY EXPENSES ADVANCED

To: The Board of Directors of Telos Corporation

Re: Affirmation and Undertaking

Ladies and Gentlemen:

This Affirmation and Undertaking is being provided pursuant to the Indemnification Agreement, dated as of the [EFFECTIVE DATE], by and between Telos Corporation, a Maryland corporation (the "Company"), and me as the undersigned Indemnitee (the "Indemnification Agreement"), pursuant to which I am entitled to advancement of Expenses in connection with [DESCRIPTION OF PROCEEDING] (the "Proceeding").

Terms used herein and not otherwise defined shall have the meanings specified in the Indemnification Agreement.

I am subject to the Proceeding by reason of my Corporate Status or by reason of alleged actions or omissions by me in such capacity. I hereby affirm my good faith belief that at all times, insofar as I was involved as [a director][an officer] of the Company, in any of the facts or events giving rise to the Proceeding, I (i) did not act with active and deliberate dishonesty, (ii) did not receive any improper personal benefit in money, property or services and (iii) in the case of any criminal proceeding, had no reasonable cause to believe that any act or omission by me was unlawful.

In consideration of the advancement of Expenses by the Company for Expenses incurred by me in connection with the Proceeding (the "Advanced Expenses"), I hereby agree that if, in connection with the Proceeding, it is Adjudged that (i) an act or omission by me was material to the matter giving rise to the Proceeding and (A) was committed in bad faith or (B) was the result of active and deliberate dishonesty, (ii) I actually received an improper personal benefit in money, property or services, or (iii) in the case of any criminal proceeding, I had reasonable cause to believe that the act or omission was unlawful, then I shall promptly reimburse the portion of the Advanced Expenses relating to the claims, issues or matters in the Proceeding as to which the foregoing findings have been established.

IN WITNESS WHEREOF, I have executed this Affirmation and Undertaking on this _____ day of _______________, 20____.

Name:

Exhibit 31.1

CERTIFICATION

I, John B. Wood, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Telos Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and to the audit committee of registrant's board of directors:

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 17, 2021

/s/ John B. Wood

John B. Wood
Chief Executive Officer (Principal Executive Officer)

Exhibit 31.2

CERTIFICATION

I, Michele Nakazawa, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Telos Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and to the audit committee of registrant's board of directors:

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 17, 2021

/s/ Michele Nakazawa
Michele Nakazawa
Chief Financial Officer (Principal Financial and Accounting Officer)

Exhibit 32

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Telos Corporation (the "Company") on Form 10-Q for the period ended March 31, 2021, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, John B. Wood and Michele Nakazawa, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to our knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 17, 2021

/s/ John B. Wood
John B. Wood
Chief Executive Officer (Principal Executive Officer)

Date: May 17, 2021

/s/ Michele Nakazawa
Michele Nakazawa
Chief Financial Officer (Principal Financial and Accounting Officer)

Document and Entity Information - shares	3 Months Ended Mar. 31, 2021	May 10, 2021
Cover page.		
Entity Registrant Name	TELOS CORP	
Entity Central Index Key	0000320121	
Current Fiscal Year End Date	--12-31	
Document Type	10-Q	
Amendment Flag	false	
Document Period End Date	Mar. 31, 2021	
Document Fiscal Year Focus	2021	
Document Fiscal Period Focus	Q1	
Entity Address, State or Province	MD	
Entity Current Reporting Status	Yes	
Entity Interactive Data Current	Yes	
Entity Filer Category	Non-accelerated Filer	
Entity Small Business	false	
Entity Emerging Growth Company	true	
Entity Ex Transition Period	false	
Entity Shell Company	false	
Entity Common Stock, Shares Outstanding		66,735,389

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited) - USD ($) shares in Thousands, $ in Thousands	3 Months Ended	
	Mar. 31, 2021	Mar. 31, 2020
Revenue		
Revenue	$ 55,757	$ 38,980
Costs and expenses		
Total costs and expenses	41,400	26,738
Selling, general and administrative expenses		
Sales and marketing	3,826	1,592
Research and development	4,061	3,657
General and administrative	19,964	6,590
Selling, general and administrative expenses	27,851	11,839
Operating (loss) income	(13,494)	403
Other income (expense)		
Other (expense) income	(1,054)	8
Interest expense	(196)	(2,017)
Loss before income taxes	(14,744)	(1,606)
(Provision for) benefit from income taxes (Note 7)	(34)	146
Net loss	(14,778)	(1,460)
Less: Net income attributable to non-controlling interest (Note 2)	0	(784)
Net loss attributable to Telos Corporation	$ (14,778)	$ (2,244)
Net loss per share attributable to Telos Corporation, basic (in dollars per share)	$ (0.23)	$ (0.06)
Net loss per share attributable to Telos Corporation, diluted (in dollars per share)	$ (0.23)	$ (0.06)
Weighted-average shares of common stock outstanding, basic (in shares)	64,625	38,073
Weighted-average shares of common stock outstanding, diluted (in shares)	64,625	38,073
Service [Member]		
Revenue		
Revenue	$ 52,058	$ 34,558
Costs and expenses		
Total costs and expenses	39,602	24,865
Product [Member]		
Revenue		
Revenue	3,699	4,422
Costs and expenses		
Total costs and expenses	$ 1,798	$ 1,873

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited) (Parenthetical) $ in Thousands	3 Months Ended
	Mar. 31, 2021 USD ($)
Stock-based compensation expense	$ 13,670
Sales and Marketing [Member]	
Stock-based compensation expense	1,547
Research and Development [Member]	
Stock-based compensation expense	461
General and Administrative [Member]	
Stock-based compensation expense	10,925
Services [Member]	
Stock-based compensation expense	$ 737

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS (Unaudited) - USD ($) $ in Thousands	3 Months Ended	
	Mar. 31, 2021	Mar. 31, 2020
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS [Abstract]		
Net loss	$ (14,778)	$ (1,460)
Other comprehensive loss, net of tax:		
Foreign currency translation adjustments	(32)	(1)
Less: Comprehensive income attributable to non-controlling interest	0	(784)
Comprehensive loss attributable to Telos Corporation	$ (14,810)	$ (2,245)

CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited) - USD ($) $ in Thousands	Mar. 31, 2021	Dec. 31, 2020
Current assets		
Cash and cash equivalents	$ 93,761	$ 106,045
Accounts receivable, net of reserve of $313 and $308, respectively (Note 1)	52,563	30,913
Inventories, net of obsolescence reserve of $852 and $851, respectively (Note 1)	1,887	3,311
Prepaid expenses	3,985	3,059
Deferred program expenses	192	5
Other current assets	778	781
Total current assets	153,166	144,114
Property and equipment, including capitalized software development costs, net of accumulated depreciation of $37,948 and $36,891, respectively	23,863	22,397
Operating lease right-of-use assets (Note 10)	1,305	1,464
Goodwill (Note 3)	14,916	14,916
Other assets	990	926
Total assets	194,240	183,817
Current liabilities		
Accounts payable and other accrued liabilities (Note 5)	31,765	20,899
Accrued compensation and benefits	7,261	8,474
Contract liabilities (Notes 1 and 5)	6,751	5,654
Finance lease obligations - short-term (Note 10)	1,368	1,339
Operating lease obligations - short term (Note 10)	660	677
Other current liabilities	3,188	1,903
Total current liabilities	50,993	38,946
Finance lease obligations - long-term (Note 10)	13,951	14,301
Operating lease obligations - long-term (Note 10)	788	941
Deferred income taxes (Note 7)	661	652
Other liabilities (Note 7)	1,883	1,873
Total liabilities	68,276	56,713
Commitments and contingencies (Note 8)		
Stockholders' equity		
Common stock	103	103
Additional paid-in capital	284,470	270,800
Accumulated other comprehensive income	12	44
Accumulated deficit	(158,621)	(143,843)
Total stockholders' equity	125,964	127,104
Total liabilities and stockholders' equity	$ 194,240	$ 183,817

CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited) (Parenthetical) - USD ($) $ in Thousands	Mar. 31, 2021	Dec. 31, 2020
Current assets		
Accounts receivable, reserve	$ 313	$ 308
Inventories, obsolescence reserve	852	851
Property and equipment, accumulated depreciation	$ 37,948	$ 36,891

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited) - USD ($) $ in Thousands	3 Months Ended	
	Mar. 31, 2021	Mar. 31, 2020
Operating activities:		
Net loss	$ (14,778)	$ (1,460)
Adjustments to reconcile net loss to cash (used in) provided by operating activities:		
Stock-based compensation	13,670	0
Dividends from preferred stock recorded as interest expense	0	956
Depreciation and amortization	1,360	1,389
Amortization of debt issuance costs	0	235
Deferred income tax provision	9	10
Other noncash items	5	(1)
Changes in other operating assets and liabilities	(9,584)	614
Cash (used in) provided by operating activities	(9,318)	1,743
Investing activities:		
Capitalized software development costs	(2,165)	(1,507)
Purchases of property and equipment	(480)	(210)
Cash used in investing activities	(2,645)	(1,717)
Financing activities:		
Payments under finance lease obligations	(321)	(294)
Amendment fee paid to lender	0	(100)
Cash used in financing activities	(321)	(394)
Decrease in cash and cash equivalents	(12,284)	(368)
Cash and cash equivalents, beginning of period	106,045	6,751
Cash and cash equivalents, end of period	93,761	6,383
Cash paid during the period for:		
Interest	$ 196	$ 739

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT) (Unaudited) - USD ($) $ in Thousands	Common Stock [Member]	Additional Paid-In Capital [Member]	Accumulated Other Comprehensive Income [Member]	Accumulated Deficit [Member]	Non-Controlling Interest [Member]	Total
Beginning balance at Dec. 31, 2019	$ 78	$ 4,310	$ 6	$ (145,530)	$ 4,514	$ (136,622)
Increase (Decrease) in Stockholders' Equity [Roll Forward]						
Net (loss) income	0	0	0	(2,244)	784	(1,460)
Foreign currency translation loss	0	0	(1)	0	0	(1)
Ending balance at Mar. 31, 2020	78	4,310	5	(147,774)	5,298	(138,083)
Beginning balance at Dec. 31, 2020	103	270,800	44	(143,843)	0	127,104
Increase (Decrease) in Stockholders' Equity [Roll Forward]						
Net (loss) income	0	0	0	(14,778)	0	(14,778)
Foreign currency translation loss	0	0	(32)	0	0	(32)
Stock-based compensation	0	13,670	0	0	0	13,670
Ending balance at Mar. 31, 2021	$ 103	$ 284,470	$ 12	$ (158,621)	$ 0	$ 125,964

General and Basis of Presentation	3 Months Ended Mar. 31, 2021
General and Basis of Presentation [Abstract]	
General and Basis of Presentation	**Note 1. General and Basis of Presentation** Telos Corporation, together with its subsidiaries, (the "Company" or "Telos" or "We"), is an information technology solutions and services company addressing the needs of U.S. Government and commercial customers worldwide. We own all of the issued and outstanding share capital of Xacta Corporation, a subsidiary that develops, markets and sells government-validated secure enterprise solutions to government and commercial customers. We also own all of the issued and outstanding share capital of Ubiquity.com, Inc., a holding company for Xacta Corporation. We also have a 100% ownership interest in Telos Identity Management Solutions, LLC ("Telos ID"), Teloworks, Inc. ("Teloworks") and Telos APAC Pte. Ltd. ("Telos APAC").

Initial Public Offering of Common Stock

On November 19, 2020, we completed our initial public offering of shares of our common stock. We issued 17.2 million shares of our common stock at a price of $17.00 per share, generating net proceeds of approximately $272.8 million. We used approximately $108.9 million of the net proceeds in connection with the conversion of our outstanding shares of Exchangeable Redeemable Preferred Stock into the right to receive cash and shares of our common stock, $30.0 million to fund our acquisition of the outstanding Class B Units of Telos ID, and $21.0 million to repay our outstanding senior term loan and subordinated debt. We intend to use the remaining net proceeds for general corporate purposes. We also may use a portion of the net proceeds to acquire complementary businesses, products, services, or technologies. The amounts and timing of our actual use of the net proceeds will vary depending on numerous factors.

The accompanying condensed consolidated financial statements include the accounts of Telos and its subsidiaries, including Ubiquity.com, Inc., Xacta Corporation, Telos ID, Teloworks, and Telos APAC, all of whose issued and outstanding share capital is owned by the Company. Intercompany transactions have been eliminated in consolidation.

The accompanying condensed consolidated financial statements reflect all adjustments (which include normal recurring adjustments) and reclassifications necessary for their fair presentation in conformity with accounting principles generally accepted in the United States of America ("GAAP") and pursuant to rules and regulations of the Securities and Exchange Commission ("SEC"). The presented interim results are not necessarily indicative of fiscal year performance for a variety of reasons including, but not limited to, the impact of seasonal and short-term variations. We have continued to follow the accounting policies (including the critical accounting policies) set forth in the consolidated financial statements included in our 2020 Annual Report on Form 10-K filed with the SEC. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2020.

In December 2019, an outbreak of COVID-19 was reported in Wuhan, China. On March 11, 2020, the World Health Organization declared COVID-19 a global pandemic and on March 13, 2020, President Donald J. Trump declared the virus a national emergency. This highly contagious disease has spread to most of the countries in the world and throughout the United States, creating a serious impact on customers, workforces, and suppliers, disrupting economies and financial markets, and leading to a world-wide economic downturn. COVID-19, together with subsequently reported variants of this strain, have caused a disruption of the normal operations of many businesses, including the temporary closure or scale-back of business operations and/or the imposition of either quarantine or remote work or meeting requirements for employees, either by government order or on a voluntary basis. The pandemic may adversely affect our customers' ability to perform their missions and is in many cases disrupting their operations. It may also impact the ability of our subcontractors, partners, and suppliers to operate and fulfill their contractual obligations, and result in an increase in their costs and cause delays in performance. These supply chain effects, and the direct effect of the virus and the disruption on our operations, may negatively impact both our ability to meet customer demand and our revenue and profit margins. Our employees, in some cases, are working remotely due either to safety concerns or to customer imposed limitations and using various technologies to perform their functions. We could see delays or changes in customer demand, particularly if government funding priorities change. Additionally, the disruption and volatility in the global and domestic capital markets may increase the cost of capital and limit our ability to access capital. Both the health and economic aspects of COVID-19 are highly fluid and the future course of each is uncertain.

In preparing these condensed consolidated financial statements, we have evaluated subsequent events through the date that these condensed consolidated financial statements were issued.

Segment Reporting

Operating segments are defined as components of an enterprise for which separate financial information is available and evaluated regularly by the chief operating decision maker ("CODM"), or decision making group, in deciding how to allocate resources and assess performance. We currently operate in one operating and reportable business segment for financial reporting purposes. Our Chief Executive Officer is the CODM. The CODM only evaluates profitability based on consolidated results.

Recent Accounting Pronouncements

Recent Accounting Pronouncements Adopted

In December 2019, the Financial Accounting Standard Board ("FASB") issued Accounting Standards Update ('ASU") No. 2019-12, "Simplifying the Accounting for Income Taxes (Topic 740)", which simplifies the accounting for income taxes. This standard is effective for reporting periods beginning after December 15, 2020, which made this standard effective for us on January 1, 2021. The adoption of this ASU did not have a material impact on our condensed consolidated financial position, results of operations and cash flows.

Revenue Recognition

We account for revenue in accordance with ASC Topic 606, "Revenue from Contracts with Customers." The unit of account in ASC 606 is a performance obligation, which is a promise in a contract with a customer to transfer a good or service to the customer. ASC 606 prescribes a five-step model for recognizing revenue that includes identifying the contract with the customer, determining the performance obligation(s), determining the transaction price, allocating the transaction price to the performance obligation(s), and recognizing revenue as the performance obligations are satisfied. Timing of the satisfaction of performance obligations varies across our businesses due to our diverse product and service mix, customer base, and contractual terms. Significant judgment can be required in determining certain performance obligations, and these determinations could change the amount of revenue and profit recorded in a given period. Our contracts may have a single performance obligation or multiple performance obligations. When there are multiple performance obligations within a contract, we allocate the transaction price to each performance obligation based on our best estimate of standalone selling price.

The majority of our revenue is recognized over time, as control is transferred continuously to our customers who receive and consume benefits as we perform, and is classified as services revenue. All of our business groups earn services revenue under a variety of contract types, including time and materials, firm-fixed price, firm fixed price level of effort, and cost plus fixed fee contract types, which may include variable consideration as discussed further below. Revenue is recognized over time using costs incurred to date relative to total estimated costs at completion to measure progress toward satisfying our performance obligations. Incurred cost represents work performed, which corresponds with, and thereby best depicts, the transfer of control to the customer. Contract costs include labor, material, subcontractor costs and indirect expenses. This continuous transfer of control to the customer is supported by clauses in our contracts with U.S. Government customers whereby the customer may terminate a contract for convenience and then pay for costs incurred plus a profit, at which time the customer would take control of any work in process. For non-U.S. Government contracts where we perform as a subcontractor and our order includes similar Federal Acquisition Regulation (the FAR) provisions as the prime contractor's order from the U.S. Government, continuous transfer of control is likewise supported by such provisions. For other non-U.S. Government customers, continuous transfer of control to such customers is also supported due to general terms in our contracts and rights to recover damages which would include, among other potential damages, the right to payment for our work performed to date plus a reasonable profit.

Due to the transfer of control over time, revenue is recognized based on progress towards completion of the performance obligation. The selection of the method to measure progress towards completion requires judgment and is based on the nature of the performance obligations. We generally use the cost-to-cost measure of progress on a proportional performance basis for our contracts because it best depicts the transfer of control to the customer which occurs as we incur costs on our contracts. Under the cost-to-cost measure of progress, the extent of progress towards completion is measured based on the ratio of costs incurred to date to the total estimated costs at completion of the performance obligation. Revenues are recorded proportionally as costs are incurred. Due to the nature of the work required to be performed on certain of our performance obligations, the estimation of total revenue and cost at completion is complex, subject to many variables and requires significant judgment. Contract estimates are based on various assumptions including labor and subcontractor costs, materials and other direct costs and the complexity of the work to be performed. A significant change in one or more of these estimates could affect the profitability of our contracts. We review and update our contract-related estimates regularly and recognize adjustments in estimated profit on contracts on a cumulative catch-up basis, which may result in an adjustment increasing or decreasing revenue to date on a contract in a particular period that the adjustment is identified. Revenue and profit in future periods of contract performance are recognized using the adjusted estimate.

Revenue that is recognized at a point in time is for the sale of software licenses in our Information Assurance / Xacta® (previously referred to as Cyber & Cloud Solutions) and Secure Communications (previously referred to as Secure Communications Cyber and Enterprise Solutions) business groups and for the sale of resold products in Telos ID (previously referred to as Telos ID Enterprise Solutions) and Secure Networks (previously referred to as Secure Mobility and Network Management/Defense Enterprise Solutions), and is classified as product revenue. Revenue on these contracts is recognized when the customer obtains control of the transferred product or service, which is generally upon delivery of the product to the customer for their use, due to us maintaining control of the product until that point. Orders for the sale of software licenses may contain multiple performance obligations, such as maintenance, training, or consulting services, which are typically delivered over time, consistent with the transfer of control disclosed above for the provision of services. When an order contains multiple performance obligations, we allocate the transaction price to the performance obligations using our best estimate of standalone selling price.

Contracts are routinely and often modified to account for changes in contract requirements, specifications, quantities, or price. Depending on the nature of the modification, we determine whether to account for the modification as an adjustment to the existing contract or as a new contract. Generally, modifications are not distinct from the existing contract due to the significant interrelatedness of the performance obligations and are therefore accounted for as an adjustment to the existing contract, and recognized as a cumulative adjustment to revenue (as either an increase or reduction of revenue) based on the modification's effect on progress toward completion of a performance obligation.

Our contracts may include various types of variable consideration, such as claims (for instance, indirect rate or other equitable adjustments) or incentive fees. We include estimated amounts in the transaction price based on all of the information available to us, including historical information and future estimations, and to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when any uncertainty associated with the variable consideration is resolved.

Historically, most of our contracts do not include award or incentive fees. For incentive fees, we would include such fees in the transaction price to the extent we could reasonably estimate the amount of the fee. With limited historical experience, we have not included any revenue related to incentive fees in our estimated transaction prices. We may include in our contract estimates additional revenue for submitted contract modifications or claims against the customer when we believe we have an enforceable right to the modification or claim, the amount can be estimated reliably and its realization is probable. We consider the contractual/legal basis for the claim (in particular FAR provisions), the facts and circumstances around any additional costs incurred, the reasonableness of those costs and the objective evidence available to support such claims.

For our contracts that have an original duration of one year or less, we use the practical expedient applicable to such contracts and do not consider the time value of money. We capitalize sales commissions related to proprietary software and related services that are directly tied to sales. We do not elect the practical expedient to expense as incurred the incremental costs of obtaining a contract if the amortization period would have been one year or less. For the sales commissions that are capitalized, we amortize the asset over the expected customer life, which is based on recent and historical data.

Contract assets are amounts that are invoiced as work progresses in accordance with agreed-upon contractual terms, either at periodic intervals or upon achievement of contractual milestones. Generally, revenue recognition occurs before billing, resulting in contract assets. These contract assets are referred to as unbilled receivables and are reported within accounts receivable, net of reserve on our condensed consolidated balance sheets.

Billed receivables are amounts billed and due from our customers and are reported within accounts receivable, net of reserve on the condensed consolidated balance sheets. The portion of the payments retained by the customer until final contract settlement is not considered a significant financing component due to the intent of the retainage being the customer's protection with respect to full and final performance under the contract.

Contract liabilities are payments received in advance and milestone payments from our customers on selected contracts that exceed revenue earned to date, resulting in contract liabilities. Contract liabilities typically are not considered a significant financing component because they are generally satisfied within one year and are used to meet working capital demands that can be higher in the early stages of a contract. Contract liabilities are reported on our condensed consolidated balance sheets on a net contract basis at the end of each reporting period.

We have one reportable segment. We treat sales to U.S. customers as sales within the U.S. regardless of where the services are performed. Substantially all of our revenues are from U.S. customers as revenue derived from international customers is de minimus. The following tables disclose revenue (in thousands) by customer type and contract type for the three months ended March 31, 2021 and 2020.

	Three Months Ended March 31,	
	2021	**2020**
Federal	$ 53,347	$ 36,092
State & Local, and Commercial	2,410	2,888
Total	$ 55,757	$ 38,980

	Three Months Ended March 31,	
	2021	2020
Firm fixed-price	$ 49,141	$ 31,662
Time-and-materials	3,030	3,825
Cost plus fixed fee	3,586	3,493
Total	$ 55,757	$ 38,980

The following table discloses accounts receivable and contract assets (in thousands):

	March 31, 2021	December 31, 2020
Billed accounts receivable	$ 12,382	$ 12,060
Unbilled receivables	40,494	19,161
Allowance for doubtful accounts	(313)	(308)
Receivables – net	$ 52,563	$ 30,913

As of March 31, 2021 and December 31, 2020, we had $126.8 million and $127.7 million of remaining performance obligations, respectively, which we also refer to as funded backlog. We expect to recognize approximately 84.2% of our remaining performance obligations as revenue in 2021, an additional 10.3% in 2022, and the balance thereafter. Revenue recognized for the three months ended March 31, 2021 and 2020 that was included in the contract liabilities balance at the beginning of each reporting period was $2.0 million and $2.4 million, respectively. Contract liabilities were $6.8 million and $5.7 million as of March 31, 2021 and December 31, 2020, respectively.

Accounts Receivable

Accounts receivable are stated at the invoiced amount, less an allowance for doubtful accounts. Collectability of accounts receivable is regularly reviewed based upon management's knowledge of the specific circumstances related to overdue balances. The allowance for doubtful accounts is adjusted based on such evaluation. Accounts receivable balances are written off against the allowance when management deems the balances uncollectible.

Inventories

Inventories are stated at the lower of cost or net realizable value, where cost is determined using the weighted average method. Substantially all inventories consist of purchased off-the-shelf hardware and software, and component computer parts used in connection with system integration services that we perform. An allowance for obsolete, slow-moving or nonsalable inventory is provided for all other inventory. This allowance is based on our overall obsolescence experience and our assessment of future inventory requirements. This charge is taken primarily due to the age of the specific inventory and the significant additional costs that would be necessary to upgrade to current standards as well as the lack of forecasted sales for such inventory in the near future. Gross inventory was $2.7 million and $4.2 million as of March 31, 2021 and December 31, 2020, respectively. As of March 31, 2021, it is management's judgment that we have fully provided for any potential inventory obsolescence, which was $0.9 million as of March 31, 2021 and December 31, 2020.

Software Development Costs

Our policy on accounting for development costs of software to be sold is in accordance with ASC Topic 985-20, "Software – Costs of Software to be Sold, Leased, or Marketed" and ASC Topic 350-40 "Internal Use Software" in so far as our Xacta products being available in various deployment modalities including on premises licenses and cloud-based Software as a Service ("SaaS"). Under both standards, software development costs are expensed as incurred until technological feasibility is reached, at which time additional costs are capitalized until the product is available for general release to customers or is ready for its intended use, as appropriate. Technological feasibility is established when all planning, designing, coding and testing activities have been completed, and all risks have been identified. Software development costs are capitalized and amortized over the estimated product life of 2 years on a straight-line basis. As of March 31, 2021 and December 31, 2020, we capitalized $14.4 million and $12.3 million of software development costs, respectively, which are included as a part of property and equipment. Amortization expense was $0.5 million for each of the three months ended March 31, 2021 and 2020. Accumulated amortization was $5.3 million and $4.8 million as of March 31, 2021 and December 31, 2020, respectively. The Company analyzes the net realizable value of capitalized software development costs on at least an annual basis and has determined that there is no indication of impairment of the capitalized software development costs as forecasted future sales are adequate to support amortization costs.

Income Taxes

We account for income taxes in accordance with ASC 740, "Income Taxes." Under ASC 740, deferred tax assets and liabilities are recognized for the estimated future tax consequences of temporary differences and income tax credits. Deferred tax assets and liabilities are measured by applying enacted statutory tax rates that are applicable to the future years in which deferred tax assets or liabilities are expected to be settled or realized for differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. Any change in tax rates on deferred tax assets and liabilities is recognized in net income in the period in which the tax rate change is enacted. We record a valuation allowance that reduces deferred tax assets when it is "more likely than not" that deferred tax assets will not be realized. We are required to establish a valuation allowance for deferred tax assets if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Based on available evidence, realization of deferred tax assets is dependent upon the generation of future taxable income. We considered projected future taxable income, tax planning strategies, and reversal of taxable temporary differences in making this assessment. As such, we have determined that a full valuation allowance is required as of March 31, 2021 and December 31, 2020. As a result of a full valuation allowance against our deferred tax assets, a deferred tax liability related to goodwill remains on our condensed consolidated balance sheets at March 31, 2021 and December 31, 2020. Due to the tax reform enacted on December 22, 2017, net operating losses generated in taxable years beginning after December 31, 2017 will have an indefinite carryforward period, which will be available to offset future taxable income created by the reversal of temporary taxable differences related to goodwill. As a result, we have adjusted the valuation allowance on our deferred tax assets and liabilities at March 31, 2021 and December 31, 2020.

We follow the provisions of ASC 740 related to accounting for uncertainty in income taxes. The accounting estimates related to liabilities for uncertain tax positions require us to make judgments regarding the sustainability of each uncertain tax position based on its technical merits. If we determine it is more likely than not that a tax position will be sustained based on its technical merits, we record the impact of the position in our condensed consolidated financial statements at the largest amount that is greater than fifty percent likely of being realized upon ultimate settlement. These estimates are updated at each reporting date based on the facts, circumstances and information available. We are also required to assess at each reporting date whether it is reasonably possible that any significant increases or decreases to our unrecognized tax benefits will occur during the next 12 months.

The provision for income taxes in interim periods is computed by applying the estimated annual effective tax rate against earnings before income tax expense for the period. In addition, non-recurring or discrete items are recorded during the period in which they occur.

Goodwill

We evaluate the impairment of goodwill in accordance with ASC 350, "Intangibles - Goodwill and Other," which requires goodwill and indefinite-lived intangible assets to be assessed on at least an annual basis for impairment using a fair value basis. Between annual evaluations, if events occur or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying amount, then impairment must be evaluated. Such circumstances could include, but are not limited to: (1) a significant adverse change in legal factors or business climate, or (2) a loss of key contracts or customers.

As the result of an acquisition, we record any excess purchase price over the net tangible and identifiable intangible assets acquired as goodwill. An allocation of the purchase price to tangible and intangible net assets acquired is based upon our valuation of the acquired assets. Goodwill is not amortized, but is subject to annual impairment tests. We complete our goodwill impairment tests as of December 31st each year. Additionally, we make evaluations between annual tests if events occur or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The evaluation is based on the estimation of the fair values of our three reporting units, CO&D (comprised of Information Assurance / Xacta and Secure Networks), Telos ID, and Secure Communications, of which goodwill is housed in the CO&D reporting unit, in comparison to the reporting unit's net asset carrying values. Our discounted cash flows required management's judgment with respect to forecasted revenue streams and operating margins, capital expenditures and the selection and use of an appropriate discount rate. We utilized the weighted average cost of capital as derived by certain assumptions specific to our facts and circumstances as the discount rate. The net assets attributable to the reporting units are determined based upon the estimated assets and liabilities attributable to the reporting units in deriving its free cash flows. In addition, the estimate of the total fair value of our reporting units is compared to the market capitalization of the Company. The Company's assessment resulted in a fair value that was greater than the Company's carrying value, therefore no impairment of goodwill was recorded as of December 31, 2020. Subsequent reviews may result in future periodic impairments that could have a material adverse effect on the results of operations in the period recognized. Recent operating results have reduced the projection of future cash flow growth potential, which indicates that certain negative potential events, such as a material loss or losses on contracts, or failure to achieve projected growth could result in impairment in the future. We estimate fair value of our reporting unit and compare the valuation with the respective carrying value for the reporting unit to determine whether any goodwill impairment exists. If we determine through the impairment review process that goodwill is impaired, we will record an impairment charge in our condensed consolidated statements of operations. Goodwill is amortized and deducted over a 15-year period for tax purposes.

Stock-Based Compensation

Under our 2016 Omnibus Long-Term Incentive Plan (the "2016 LTIP"), we have the ability to award restricted stock units with time-based vesting ("Service-Based RSUs"), and restricted stock units with performance-based vesting ("Performance-Based RSUs") to senior executives, directors and eligible employees. Under the 2016 LTIP, our Board of Directors or the Compensation Committee of our Board of Directors may establish the performance conditions applicable to the Performance-Based RSUs, including the achievement of certain price targets for our common stock. Upon vesting, Service-Based RSUs and Performance-Based RSUs will be settled in the Company's common stock.

- *Service-Based RSUs* granted to senior executives generally vest in three annual installments from the date of grant, with 30% vesting on the first and second anniversaries and 40% vesting on the third anniversary. Service-Based RSUs granted to eligible employees as an incentive generally vest in equal installments over two to three years from the date of grant. The grant date fair value per share is equal to the closing stock price on the date of grant.

- *Performance-Based RSUs* may vest upon the achievement of a defined performance target or at the end of the defined performance period from the date of grant, whichever initially occurs. The grant date fair value per share of these Performance-Based RSUs is equal to the closing stock price on the date of the grant. Performance-Based RSUs may vest upon the achievement of certain price targets for the Company's common stock over anytime over a three-year period from the date of grant. In order to reflect the substantive characteristics of these market condition award, the Company employs a Monte Carlo simulation valuation model to calculate the grant date fair value and corresponding service period of the award. Monte Carlo approaches are a class of computational algorithms that rely on repeated random sampling to compute their results. This approach allows the calculation of the value of such awards based on a large number of possible stock price path scenarios.

We recognize these share-based payment transactions when services from the employees are received and recognize a corresponding increase in additional paid-in capital in our condensed consolidated balance sheets. The measurement objective for these equity awards is the estimated fair value at the date of grant of the equity instruments that we are obligated to issue when employees have rendered the requisite service and satisfied any other conditions necessary to earn the right to benefit from the instruments. The compensation expense for an award is recognized ratably over the requisite service period for the entire award, which is the period during which an employee is required to provide service in exchange for an award. Compensation expense for awards with performance conditions is recognized over the requisite service period if it is probable that the performance condition will be satisfied. If such performance conditions are not or are no longer considered probable, no compensation expense for these awards is recognized, and any previously recognized expense is reversed. Compensation expense for awards with performance conditions capable of being earned for satisfying the performance condition or as a result of completing a service requirement will be recognized ratably over the requisite service period for the entire award. If the performance condition is achieved prior to the completion of the requisite service period, any unrecognized compensation expense will be recognized in the period the performance condition is achieved. Compensation expense for awards with market conditions is recognized over the derived service period, or sooner, if the market condition is achieved. Previously recognized expense for awards with market conditions will never be reversed even if the market conditions is never achieved. We recognize forfeitures of share-based compensation awards as they occur. Share-based compensation expense is recognized as part of cost of sales and general and administrative expenses in our condensed consolidated statements of operations.

Net Income (Loss) per Share

Basic net earnings (loss) per share is computed by dividing the net earnings (loss) by the weighted-average number of common shares outstanding for the period, without consideration for potentially dilutive securities. Diluted net earnings (loss) per share is computed by dividing the net earnings (loss) by the weighted-average number of shares of common stock and dilutive common stock equivalents outstanding for the period determined using the treasury-stock and if-converted methods. Dilutive common stock equivalents are comprised of unvested restricted common stock and warrants.

Potentially dilutive securities not included in the calculation of diluted net earnings (loss) per share because to do so would be anti-dilutive are as follows (in common stock equivalent shares, in thousands):

	Three Months Ended March 31,	
	2021	**2020**
Unvested restricted stock and restricted stock units	3,167	957
Common stock warrants, exercisable at $1.665/sh.	901	901
Total	4,068	1,858

On November 12, 2020, we amended our Articles of Amendment and Restatement to effect an approximate 0.794-for-1 reverse stock split with respect to our common stock. The par value and the authorized shares of the common stock were not adjusted as a result of the reverse stock split. The accompanying condensed consolidated financial statements and notes to the condensed consolidated financial statements give retroactive effect to the reverse stock split for all periods presented.

Other Comprehensive Income (Loss)

Our functional currency is the U.S. Dollar. For one of our wholly owned subsidiaries, the functional currency is the local currency. For this subsidiary, the translation of its foreign currency into U.S. Dollars is performed for assets and liabilities using current foreign currency exchange rates in effect at the balance sheet date and for revenue and expense accounts using average foreign currency exchange rates during the period. Translation gains and losses are included in stockholders' deficit as a component of accumulated other comprehensive income (loss).

Accumulated other comprehensive income included within stockholders' equity (deficit) consists of the following (in thousands):

	March 31, 2021	December 31, 2020
Cumulative foreign currency translation loss	$ (95)	$ (63)
Cumulative actuarial gain on pension liability adjustment	107	107
Accumulated other comprehensive income	$ 12	$ 44

Purchase of Telos ID/Non-controlling Interests	3 Months Ended Mar. 31, 2021
Purchase of Telos ID/Non-Controlling Interests [Abstract]	
Purchase of Telos ID/Non-controlling Interests	**Note 2. Purchase of Telos ID/Non-controlling Interests** On October 5, 2020, we entered into a Membership Interest Purchase Agreement between the Company and Hoya ID Fund A, LLC ("Hoya") to purchase all of the Class B Units of Telos ID owned by Hoya (the "Telos ID Purchase"). Upon the closing of the Telos ID Purchase, Telos ID became our wholly owned subsidiary. On November 23, 2020, the Telos ID Purchase was consummated with the Company transferring $30.0 million in cash and issuing 7,278,040 shares of our common stock at $20.39 per share (which totals approximately $148.4 million); the total consideration transferred to Hoya was $178.4 million. As part of the common stock issuance, the Company recognized a credit to additional paid-in capital ("APIC") of $148.4 million. The Company further recognized a debit to APIC of $173.9 million as part of the elimination of Hoya's non-controlling interest in Telos ID. The net impact to APIC associated with the acquisition of the additional 50% interest in Telos ID was a debit of $25.5 million. On April 11, 2007, Telos ID was formed as a limited liability company under the Delaware Limited Liability Company Act. We contributed substantially all of the assets of our Telos ID Enterprise business line and assigned our rights to perform under our U.S. Government contract with the Defense Manpower Data Center ("DMDC") to Telos ID at their stated book values. The net book value of assets we contributed totaled $17,000. Until April 19, 2007, we owned 99.999% of the membership interests of Telos ID and Hoya owned 0.001% of the membership interests of Telos ID. On April 20, 2007, we sold an additional 39.999% of the membership interests to Hoya in exchange for $6 million in cash consideration. As a result, we owned 60% of Telos ID, and therefore continued to account for the investment in Telos ID using the consolidation method. On December 24, 2014 (the "Closing Date"), Hoya acquired from the Company an additional ten percent (10%) membership interest in Telos ID in exchange for $5 million (the "2014 Transaction"). In connection with the 2014 Transaction, the Company and Hoya entered into the Second Amended and Restated Operating Agreement (the "Operating Agreement") governing the business, allocation of profits and losses and management of Telos ID. Under the Operating Agreement, Telos ID was managed by a board of directors comprised of five (5) members (the "Telos ID Board"). The Company owned 50% of Telos ID, was entitled to receive 50% of the profits of Telos ID, and could appoint three (3) members of the Telos ID Board. Hoya owned 50% of Telos ID, was entitled to receive 50% of the profits of Telos ID, and could appoint two (2) members of the Telos ID Board. As a result of the 2014 Transaction, each of the member owned 50% of Telos ID, as mentioned above, and as such each was allocated 50% of the profits, which was $784,000 for the three months ended March 31, 2020. Hoya was the non-controlling interest. Distributions were made to the members only when and to the extent determined by Telos ID's Board of Directors, in accordance with the Operating Agreement. Hoya received a final distribution of $2.4 million in January 2021, which was accrued and presented in accounts payable and other accrued liabilities in the condensed consolidated balance sheets as of December 31, 2020. No distribution was made during the three months ended March 31, 2020.

Goodwill	3 Months Ended Mar. 31, 2021
Goodwill [Abstract]	
Goodwill	**Note 3. Goodwill** The goodwill balance was $14.9 million as of March 31, 2021 and December 31, 2020. Goodwill is subject to annual impairment tests and in the intereim if triggering events are present before the annual tests, we will assess impairment. For the three months ended March 31, 2021 and 2020, no impairment charges were taken.

Fair Value Measurements	3 Months Ended Mar. 31, 2021
Fair Value Measurements [Abstract]	
Fair Value Measurements	**Note 4. Fair Value Measurements** The accounting standard for fair value measurements provides a framework for measuring fair value and expands disclosures about fair value measurements. The framework requires the valuation of financial instruments using a three-tiered approach. The statement requires fair value measurement to be classified and disclosed in one of the following categories: Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets and liabilities; Level 2: Quoted prices in markets that are not active, or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability; or Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e. supported by little or no market activity). As of March 31, 2021 and December 31, 2020, we did not have any financial instruments with significant Level 3 inputs and we did not have any financial instruments that are measured at fair value on a recurring basis. For certain of our non-derivative financial instruments, including receivables, accounts payable and other accrued liabilities, the carrying amount approximates fair value due to the short-term maturities of these instruments.

Current Liabilities and Debt Obligations	3 Months Ended Mar. 31, 2021
Current Liabilities and Debt Obligations [Abstract]	
Current Liabilities and Debt Obligations	**Note 5. Current Liabilities and Debt Obligations**

Accounts Payable and Other Accrued Liabilities

As of March 31, 2021 and December 31, 2020, the accounts payable and other accrued liabilities consisted of $9.8 million and $14.7 million, respectively, in trade accounts payable and $22.0 million and $6.2 million, respectively, in accrued liabilities.

Contract Liabilities

Contract liabilities are payments received in advance and milestone payments from our customers on selected contracts that exceed revenue earned to date, resulting in contract liabilities. Contract liabilities typically are not considered a significant financing component because they are generally satisfied within one year and are used to meet working capital demands that can be higher in the early stages of a contract. Contract liabilities are reported on our condensed consolidated balance sheets on a net contract basis at the end of each reporting period. As of March 31, 2021 and December 31, 2020, the contract liabilities primarily related to product support services.

Enlightenment Capital Credit Agreement

On January 25, 2017, we entered into a Credit Agreement (the "Credit Agreement") with Enlightenment Capital Solutions Fund II, L.P., as agent (the "Agent") and the lenders party thereto (the "Lenders"), (together referenced as “EnCap”). The Credit Agreement provides for an $11 million senior term loan (the "Loan") with a maturity date of January 25, 2022, subject to acceleration in the event of customary events of default.

All borrowings under the Credit Agreement accrue interest at the rate of 13.0% per annum (the "Accrual Rate"). If, at the request of the Company, the Agent executes an intercreditor agreement with another senior lender under which the Agent and the Lenders subordinate their liens (an "Alternative Interest Rate Event"), the interest rate will increase to 14.5% per annum. After the occurrence and during the continuance of any event of default, the interest rate will increase 2.0%. The Company is obligated to pay accrued interest in cash on a monthly basis at a rate of not less than 10.0% per annum or, during the continuance of an Alternate Interest Rate Event, 11.5% per annum. The Company could elect to pay the remaining interest in cash, by payment-in-kind (by addition to the principal amount of the Loan) or by combination of cash and payment-in-kind. Upon thirty days prior written notice, the Company may prepay any portion or the entire amount of the Loan.

The Credit Agreement contains representations, warranties, covenants, terms and conditions customary for transactions of this type. In connection with the Credit Agreement, the Agent has been granted, for the benefit of the Lenders, a security interest in and general lien upon various property of the Company, subject to certain permitted liens and any intercreditor agreement. The occurrence of an event of default under the Credit Agreement could result in the Loan and other obligations becoming immediately due and payable and allow the Lenders to exercise all rights and remedies available to them under the Credit Agreement or as a secured party under the UCC, in addition to all other rights and remedies available to them.

In connection with the Credit Agreement, on January 25, 2017, the Company issued warrants (each, a "Warrant") to the Agent and certain of the Lenders representing in the aggregate the right to purchase in accordance with their terms 900,970 shares of the Class A Common Stock of the Company, no par value per share, which is equivalent to approximately 2.5% of the common equity interests of the Company on a fully diluted basis. The exercise price is $1.665 per share and each Warrant expires on January 25, 2027. The value of the warrants was determined to be de minimis and no value was allocated to them on a relative fair value basis in accounting for the debt instrument.

The Credit Agreement also included an $825,000 exit fee, which was payable upon any repayment or prepayment of the loan. This amount had been included in the total principal due and treated as an unamortized discount on the debt, which would be amortized over the term of the loan, using the effective interest method at a rate of 15.0% at the time of the original loan. We incurred fees and transaction costs of approximately $374,000 related to the issuance of the Credit Agreement, which were amortized over the life of the Credit Agreement.

On March 30, 2018, the Credit Agreement was amended (the "Third Amendment") to waive any actual or potential non-compliance with covenants in 2017 and to reset the covenants for 2018 measurement periods to more accurately reflect the Company's projected performance for the year. The measurement against the covenants for consolidated leverage ratio and consolidated fixed charge coverage ratio were agreed to not be measured as of December 31, 2017 and were reset for 2018 measurement periods. Additionally, a minimum revenue covenant and a net working capital covenant were added. In consideration of these amendments, the interest rate on the loan was increased by 1%, which will revert back to the original rate upon achievement of two consecutive quarters of a specified fixed charge coverage ratio as defined in the agreement. The Company may elect to pay the increase in interest expense in cash or by payment-in-kind (by addition to the principal amount of the Loan). The increase in interest expense has been paid in cash. Contemporaneously with the Third Amendment, Mr. John B. Wood agreed to transfer 50,000 shares of the Company's Class A Common Stock owned by him to EnCap.

On July 19, 2019, we entered into the Fourth Amendment to Credit Agreement and Waiver; First Amendment to Fee Letter ("Fourth Amendment") to amend the Credit Agreement. As a result of the Fourth Amendment, several terms of the Credit Agreement were amended, including the following:

- The Company borrowed an additional $5 million from the Lenders, increasing the total amount of the principal to $16 million.
- The maturity date of the Credit Agreement was amended from January 25, 2022 to January 15, 2021.
- The prepayment price was amended as follows: (a) from January 26, 2019 through January 25, 2020, the prepayment price is 102% of the principal amount, (b) from January 26, 2020 through October 14, 2020, the prepayment price is 101% of the principal amount, and (c) from October 15, 2020 to the maturity date, the prepayment price will be at par. However, the prepayment price for the additional $5 million loan attributable to the Fourth Amendment will be at par.
- The following financial covenants, as defined in the Credit Agreement, were amended and updated: Consolidated Leverage Ratio, Consolidated Senior Leverage Ratio, Consolidated Capital Expenditures, Minimum Fixed Charge Coverage Ratio, and Minimum Consolidated Net Working Capital.
- Any actual or potential non-compliance with the applicable provisions of the Credit Agreement were waived.
- The borrowing under the Credit Agreement continues to be collateralized by substantially all of the Company's assets including inventory, equipment and accounts receivable.
- The Company paid the Agent a fee of $110,000 in connection with the Fourth Amendment. We incurred immaterial third party transation costs which were expensed during the current period.
- The exit fee was increased from $825,000 to $1,200,000.

The exit fee had been included in the total principal due and treated as an unamortized discount on the debt, which was amortized over the term of the loan using the effective interest method at a rate of 17.3% over the remaining term of the loan.

On March 26, 2020, the Credit Agreement was amended (the "Fifth Amendment") to modify the financial covenants for 2020 through the maturity of the Credit Agreement to establish that the covenants will remain at the December 31, 2020 levels and to update the previously agreed-upon definition of certain financial covenants, specifically the amount of Capital Expenditures to be included in the measurement of the covenants. The Fifth Amendment also provides for the right for the Company to elect to extend the maturity date of the Credit Agreement which is currently scheduled to mature on January 15, 2021. The Fifth Amendment provides for four quarterly maturity date extensions, which would increase the Exit Fee payable under the Credit Agreement by $250,000 for each quarterly maturity date extension elected, for a total of $1 million increase to the Exit Fee were all four of the maturity date extensions to be elected. The Company paid EnCap an amendment fee of $100,000 and out-of-pocket costs and expenses in consideration for the Fifth Amendment.

We incurred interest expense in the amount of $0.8 million for the three months ended March 31, 2020, under the Credit Agreement.

On November 24, 2020, upon the closing of the IPO, the Company paid a total of $17.4 million which paid off the Credit Agreement in full including an exit fee of $1.2 million, accrued interest of $138,000, and legal fees of $13,000. On April 19, 2021, we repurchased all the shares and warrants from EnCap for approximately $28.1 million.

Subordinated Debt

On March 31, 2015, the Company entered into Subordinated Loan Agreements and Subordinated Promissory Notes ("Porter Notes") with affiliated entities of Mr. John R. C. Porter (together referenced as "Porter"). At the time, Mr. Porter and Toxford Corporation, of which Mr. Porter controls as the co-trustee of the trust that is the sole stockholder of Toxford, owned 35.0% of our Class A Common Stock. Under the terms of the Porter Notes, Porter lent the Company $2.5 million on or about March 31, 2015. Telos also entered into Subordination and Intercreditor Agreements with Porter and a prior senior lender, in which the Porter Notes were fully subordinated to the financing provided by that senior lender, and payments under the Porter Notes were permitted only if certain conditions were met. According to the original terms of the Porter Notes, the outstanding principal sum bore interest at the fixed rate of twelve percent (12%) per annum which would be payable in arrears in cash on the 20th day of each May, August, November and February, with the first interest payment date due on August 20, 2015. The Porter Notes did not call for amortization payments and were unsecured. The Porter Notes, in whole or in part, may be repaid at any time without premium or penalty. The unpaid principal, together with interest, was originally due and payable in full on July 1, 2017.

On April 18, 2017, we amended and restated the Porter Notes to reduce the interest rate from twelve percent (12%) to six percent (6%) per annum, to be accrued, and extended the maturity date from July 1, 2017 to July 25, 2022. Telos also entered into Intercreditor Agreements with Porter and EnCap, in which the Porter Notes were fully subordinated to the Credit Agreement and any subsequent senior lenders, and payments under the Porter Notes were permitted only if certain conditions were met. All other terms remained in full force and effect. We incurred interest expense in the amount of $80,000 for the three months ended March 31, 2020, on the Porter Notes. As of March 31, 2020, approximately $1.1 million of accrued interest was payable according to the stated interest rate of the Porter Notes.

On November 23, 2020, upon the closing of the IPO, the Porter Notes were paid in full.

Exchangeable Redeemable Preferred Stock Conversion	3 Months Ended Mar. 31, 2021
Exchangeable Redeemable Preferred Stock Conversion [Abstract]	
Redeemable Preferred Stock	**Note 6. Exchangeable Redeemable Preferred Stock Conversion** *Public Preferred Stock* Upon the closing of the IPO, which constituted a qualified initial public offering for the purposes of the terms of the Exchangeable Redeemable Preferred Stock (the "Public Preferred Stock"), each issued and outstanding share of Exchangeable Redeemable Preferred Stock automatically was converted (the "ERPS Conversion") into the right to receive (i) an amount of cash equal to (I) the ERPS Liquidation Value; multiplied by (II) 0.90; multiplied by (III) 0.85 and (ii) that number of shares of common stock (valued at the initial offering price to the public) equal to (I) the ERPS Liquidation Value; multiplied by (II) 0.90; multiplied by (III) 0.15. No fractional shares of common stock, however, were issued upon the ERPS Conversion but, in lieu thereof, the holder was entitled to receive an amount of cash equal to the fair market value of a share of common stock (valued at the initial offering price to the public) at the time of the ERPS Conversion multiplied by such fractional amount (rounded to the nearest cent). "ERPS Liquidation Value" means, per each share of Public Preferred Stock, $10 together with all accrued and unpaid dividends (whether or not earned or declared) thereon calculated as of the actual date of the ERPS Conversion without interest, which, was approximately $142.3 million as of November 19, 2020. All shares of common stock issued upon an ERPS Conversion were validly issued, fully paid and non-assessable. On November 23, 2020, holders of the Public Preferred Stock received $108.9 million in cash and 1.1 million shares of our common stock at $17 per share for a total value of $19.2 million in connection with the ERPS Conversion. The difference in the redemption value of the ERPS and the carrying value has been accounted for as a gain on extinguishment of debt in accordance with ASC 470 and ASC 480. Approximately $220,000 of costs directly attributable to this redemption were applied against the gain, resulting in a net gain of $14.0 million. A maximum of 6,000,000 shares of the Public Preferred Stock, par value $.01 per share, has been authorized for issuance. We 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 we made periodic accretions under the interest method of the excess of the redemption value over the recorded value. We adjusted our estimate of accrued accretion in the amount of $1.5 million in the second quarter of 2006. The Public Preferred Stock was fully accreted as of December 2008. We declared stock dividends totaling 736,863 shares in 1990 and 1991. Since 1991, no other dividends, in stock or cash, had been declared. In November 1998, we retired 410,000 shares of the Public Preferred Stock. The total number of shares issued and outstanding at March 31, 2021 and December 31, 2020 was 3,185,586. We paid dividends on the Public Preferred Stock when and if declared by the Board of Directors. The Public Preferred Stock accrued a semi-annual dividend at the annual rate of 12% ($1.20) per share, based on the liquidation preference of $10 per share, and was fully cumulative. Dividends in additional shares of the Public Preferred Stock for 1990 and 1991 were paid at the rate of 6% per share for each $.60 of such dividends not paid in cash. We accrued dividends on the Public Preferred Stock of $1.0 million for the three months ended March 31, 2020, which was recorded as interest expense. Prior to the effective date of ASC 480 on July 1, 2003, such dividends were charged to stockholders' accumulated deficit.

Income Taxes	3 Months Ended Mar. 31, 2021
Income Taxes [Abstract]	
Income Taxes	**Note 7. Income Taxes** The income tax provision for interim periods is determined using an estimated annual effective tax rate adjusted for discrete items, if any, which are taken into account in the quarterly period in which they occur. We review and update our estimated annual effective tax rate each quarter. We recorded an approximately $34,000 income tax provision and $146,000 income tax benefit for the three months ended March 31, 2021 and 2020, respectively. For the three months ended March 31, 2021 and 2020, our estimated annual effective tax rate was primarily impacted by the overall valuation allowance position which reduced the net tax impact from taxable income or loss for both periods. In March 2020, the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was enacted. The CARES Act, among other things, includes certain changes to U.S. tax law that impact the Company, including deferment of employer social security payments, modifications to interest deduction limitation rules, a technical correction to tax depreciation methods for certain qualified improvement property, and alternative minimum tax credit refund. We are required to establish a valuation allowance for deferred tax assets if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Based on available evidence, realization of deferred tax assets is dependent upon the generation of future taxable income. We considered projected future taxable income, tax planning strategies, and reversal of taxable temporary differences in making this assessment. As such, we have determined that a full valuation allowance is required as of March 31, 2021 and December 31, 2020. As a result of a full valuation allowance against our deferred tax assets and liabilities, a deferred tax liability related to goodwill of $661,000 and $652,000 remained on our condensed consolidated balance sheets at March 31, 2021 and December 31, 2020, respectively. Under the provisions of ASC 740, we determined that there were approximately $835,000 and $763,000 of gross unrecognized tax benefits as of March 31, 2021 and December 31, 2020, respectively. Included in the balance of unrecognized tax benefits as of March 31, 2021 and December 31, 2020 were $278,000 of tax benefits that, if recognized, would impact the effective tax rate. Also included in the balance of unrecognized tax benefits as of March 31, 2021 and December 31, 2020 were $556,000 and $485,000, respectively, of tax benefits that, if recognized, would not impact the effective tax rate due to the Company's valuation allowance. The Company had accrued interest and penalties related to the unrecognized tax benefits of $246,000 and $241,000, which were recorded in other liabilities as of March 31, 2021 and December 31, 2020, respectively. We believe that the total amounts of unrecognized tax benefits will not significantly increase or decrease within the next 12 months.

Commitments, Contingencies and Subsequent Events	3 Months Ended Mar. 31, 2021
Commitments, Contingencies and Subsequent Events	
Commitments, Contingencies and Subsequent Events	**Note 8. Commitments and Contingencies**

Financial Condition and Liquidity

Upon the closing of the IPO, we issued 17.2 million shares of our common stock at a price of $17.00 per share, generating net proceeds of approximately $272.8 million. We used approximately $108.9 million of the net proceeds in connection with the ERPS Conversion (see Note 6 – Exchangeable Redeemable Preferred Stock Conversion), $30.0 million to fund our acquisition of the outstanding Class B Units of Telos ID (see Note 2 – Purchase of Telos ID/ Non-controlling Interests), $21.0 million to repay our outstanding senior term loan and subordinated debt (see Note 5 – Current Liabilities and Debt Obligations). We intend to use the remaining net proceeds for general corporate purposes. We also may use a portion of the net proceeds to acquire complementary businesses, products, services, or technologies. The amounts and timing of our actual use of the net proceeds will vary depending on numerous factors. Proceeds held by us is invested in short-term investments until needed for the uses described above. We currently anticipate that we will retain all available funds for use in the operation and expansion of our business, and we do not anticipate paying any cash dividends on our common stock in the foreseeable future.

Our working capital was $102.2 million and $105.2 million as of March 31, 2021 and December 31, 2020, respectively.

Legal Proceedings

Hamot et al. v. Telos Corporation

As previously disclosed in Note 13 of the Consolidated Financial Statements contained in our Annual Report on Form 10-K for the year ended December 31, 2020, beginning on August 2, 2007, Messrs. Seth W. Hamot ("Hamot") and Andrew R. Siegel ("Siegel"), principals of Costa Brava Partnership III, L.P. ("Costa Brava"), were involved in litigation against the Company as Plaintiffs and Counter-defendants in the Circuit Court for Baltimore City, Maryland (the "Circuit Court"). Mr. Siegel is a Class D Director of the Company and Mr. Hamot was a Class D Director of the Company until his resignation on March 9, 2018. The Plaintiffs initially alleged that certain documents and records had not been provided to them promptly and were necessary to fulfill their duties as directors of the Company. Subsequently, Hamot and Siegel further alleged that the Company had failed to follow certain provisions concerning the noticing of Board committee meetings and the recording of Board meeting minutes and, additionally, that Mr. John Wood's service as both CEO and Chairman of the Board was improper and impermissible under the Company's Bylaws. On April 23, 2008, the Company filed a counterclaim against Hamot and Siegel for money damages and preliminary and injunctive relief based upon Hamot and Siegel's interference with, and improper influence of, the Company's independent auditors regarding, among other things, a specific accounting treatment. On June 27, 2008, the Circuit Court granted the Company's motion for preliminary injunction and enjoined Hamot and Siegel from contacting the Company's auditors until the completion of the Company's Form 10-K for the preceding year, which injunction later expired by its own terms. As previously disclosed, trial on Hamot and Siegel's claims and the Company's counterclaims took place in July through September 2013, and the Court subsequently issued decisions on the various claims by way of memorandum opinions and orders dated September 11, 2017. Among other rulings, the Court found Hamot and Siegel liable for the intentional tort of tortious interference with the Company's contractual relationship with one of its auditors and entered a monetary judgment in favor of the Company and against Hamot and Siegel for approximately $278,000. The Company's subsequent appeal of the amount of damages awarded to it for Hamot and Siegel's intentional interference was ultimately dismissed by way of the Mandate issued by the Court of Appeals of Maryland on October 11, 2019.

Hamot (and later, his Estate) and Siegel on multiple occasions during this litigation have sought to be indemnified or to be awarded advancement of various attorney's fees and expenses incurred by them in this litigation. On October 20, 2020, Hamot's Estate and Siegel (together the "Plaintiffs") filed a Motion for Indemnification of Legal Fees and Expenses against the Company in the Circuit Court for Baltimore City and a Request for a Hearing and on January 28, 2021, Plaintiffs amended their motion by the filing of a Motion for Leave to File Amended Motion for Indemnification of Legal Fees and Expenses ("Amended Motion"). The Amended Motion demanded that the Company indemnify the Plaintiffs for legal fees and expenses incurred in the sum of $2,540,000 plus the costs incurred in obtaining indemnification. The Company opposed the motions, and a hearing on the Amended Motion was scheduled for May 18, 2021.

On May 5, 2021, the Company, Plaintiffs and Costa Brava entered into a settlement agreement, which included a mutual general release, fully and finally settling the indemnification claim in exchange for the payment of a specified amount on or before May 19, 2021. This settlement concludes all open matters or disputes between the Company and Messrs. Hamot (or his estate) and Siegel, as well as Costa Brava. We recorded an accrual of $1.0 million in other expense on our condensed consolidated statements of operations related to this settlement.

Other Litigation

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

Subsequent Events

On April 6, 2021, we completed our follow-on offering of 9.1 million shares of our common stock at a price of $33.00 per share, including a secondary public offering of 7.0 million shares of common stock by certain existing stockholders of Telos. The offering generated approximately $64.5 million of net proceeds to Telos. We did not receive any proceeds from the shares of common stock sold by the selling stockholders. On April 19, 2021, we used approximately $28.1 million of the net proceeds to repurchase all the shares and warrants owned by EnCap.

Related Party Transactions	3 Months Ended Mar. 31, 2021
Related Party Transactions [Abstract]	
Related Party Transactions	**Note 9**. **Related Party Transactions** Emmett J. Wood, the brother of our Chairman and CEO, has been an employee of the Company since 1996. The amounts paid to this individual as compensation were $218,000 and $173,000 for the three months ended March 31, 2021 and 2020, respectively. Additionally, Mr. Wood owned 682,502 shares of the Company's common stock as of March 31, 2021 and December 31, 2020. On March 31, 2015, the Company entered into the Porter Notes. At that time, Mr. Porter and Toxford Corporation, of which Mr. Porter controls as the co-trustee of the trust that is the sole stockholder of Toxford, owned 35.0% of our Class A Common Stock. Under the terms of the Porter Notes, Porter lent the Company $2.5 million on or about March 31, 2015. According to the original terms of the Porter Notes, the outstanding principal sum bore interest at the fixed rate of twelve percent (12%) per annum which would be payable in arrears in cash on the 20th day of each May, August, November and February, with the first interest payment date due on August 20, 2015. The Porter Notes did not call for amortization payments and were unsecured. The Porter Notes, in whole or in part, may be repaid at any time without premium or penalty. The unpaid principal, together with interest, was originally due and payable in full on July 1, 2017. On April 18, 2017, we amended and restated the Porter Notes to reduce the interest rate from twelve percent (12%) to six percent (6%) per annum, to be accrued, and extended the maturity date from July 1, 2017 to July 25, 2022. Telos also entered into Intercreditor Agreements with Porter and EnCap, in which the Porter Notes were fully subordinated to the Credit Agreement and any subsequent senior lenders, and payments under the Porter Notes were permitted only if certain conditions were met. All other terms remained in full force and effect. We incurred interest expense in the amount of $87,000 for the three months ended March 31, 2020, respectively, on the Porter Notes. As of March 31, 2020, approximately $1.1 million of accrued interest was payable according to the stated interest rate of the Porter Notes. On November 23, 2020, upon the closing of the IPO, the Porter Notes were paid in full. On February 8, 2021, we hired Ms. Donna Hill, as Director, Human Resources, reporting directly to Ms. Nakazawa, CFO of the Company. Ms. Hill is the sister of Mr. Edward Williams, COO of the Company.

Leases	3 Months Ended Mar. 31, 2021
Leases [Abstract]	
Leases	

Note 10. Leases

We account for leases in accordance with ASC Topic 842, "Leases," which requires lessees to recognize a right-of-use ("ROU") asset and lease liability on the balance sheet and expands disclosures about leasing arrangements for both lessees and lessors, among other items, for most lease arrangements.

In accordance with the adoption of ASC 842 on January 1, 2019, we recorded operating lease ROU assets, which represent our right to use an underlying asset for the lease term, and operating lease liabilities which represent our obligation to make lease payments. Generally, we enter into operating lease agreements for facilities. Finance lease assets are recorded within property and equipment, net of accumulated depreciation. The amount of operating lease liabilities due within 12 months are recorded in other current liabilities, with the remaining operating lease liabilities recorded as non-current liabilities in our condensed consolidated balance sheets based on their contractual due dates. Finance lease liabilities are classified according to contractual due dates.

The operating lease ROU assets and liabilities are recognized as of the lease commencement date at the present value of the lease payments over the lease term. Most of our leases do not provide an implicit rate that can readily be determined. Therefore, we use a discount rate based on our incremental borrowing rate which was 5.75% for all operating leases. Our operating lease agreements may include options to extend the lease term or terminate it early. We have included options to extend in the operating lease ROU assets and liabilities when we are reasonably certain that we will exercise such options. The weighted average remaining lease terms and discount rates for our operating leases were approximately 2.3 years and 5.75% and for our finance leases were approximately 8.1 years and 5.04% at March 31, 2021. Operating lease expense is recognized as rent expense on a straight-line basis over the lease term. Some of our operating leases contain lease and non-lease components, which we account for as a single component. We evaluate ROU assets for impairment consistent with our property and equipment policy disclosure included in our Annual Report on Form 10-K for the year ended December 31, 2020.

As of March 31, 2021, operating lease ROU assets were $1.3 million and operating lease liabilities were $1.4 million, of which $0.8 million were classified as noncurrent.

Future minimum lease commitments at March 31, 2021 were as follows (in thousands):

Year ending December 31,	Operating Leases	Finance Leases
2021 (excluding the three months ended March 31, 2021)	$ 559	$ 1,580
2022	592	2,149
2023	373	2,203
2024	27	2,257
2025	–	2,314
After 2025	–	8,343
Total lease payments	1,551	18,847
Less imputed interest	(103)	(3,528)
Total	$ 1,448	$ 15,319

The components of lease expense were as follows (in thousands):

	Three Months Ended March 31,	
	2021	2020
Operating lease cost	$ 182	$ 177
Short-term lease cost (1)	4	18
Finance lease cost		

Amortization of right-of-use assets	305	305
Interest on lease liabilities	196	211
Total finance lease cost	501	516
Total lease costs	$ 687	$ 711

(1) Leases that have terms of 12 months or less

Supplemental cash flow information related to leases was as follows (in thousands):

	Three Months Ended March 31,	
	2021	**2020**
Cash paid for amounts included in the measurement of lease liabilities:		
Cash flows from operating activities - operating leases	$ 194	$ 184
Cash flows from operating activities - finance leases	196	211
Cash flows from financing activities - finance leases	321	294
Operating lease right-of-use assets obtained in exchange for lease obligations	160	145

Stock-Based Compensation | **3 Months Ended Mar. 31, 2021**

Stock-Based Compensation [Abstract]

Stock-Based Compensation

Note 11 – Stock-Based Compensation

During January 2021, the Company amended the 2016 LTIP increasing the total number of shares available for issuance to 9,400,000 from 4,500,000 and extended the term to September 30, 2030. Our 2016 LTIP provides for the grant of stock options, stock appreciation rights, restricted stock, restricted stock units, unrestricted stock and dividend equivalent rights to our senior executives, directors, employees, and other service providers. Awards granted under the 2016 LTIP vest over the periods determined by the Board of Directors or the Compensation Committee of the Board of Directors, generally two to three years years and stock options granted under the 2016 LTIP expire no more than ten years after the date of grant. Approximately 6.2 million shares of our common stock were reserved for future grants as of March 31, 2021 under the 2016 LTIP.

Restrict Stock Awards and Restricted Stock Unit (collectively "RSU") Activity

During the first quarter of 2021, a number of RSUs were granted to our senior executives, directors and employees.

Service-Based RSU Awards

A summary of the awards of Service-Based RSUs that vest upon the completion of a service requirement are presented below (in thousands, except per share amounts and contractual life years):

	Number of Shares	Weighted-Average Grant Date Fair Value (per share)	Weighted-Average Contractual Life (years)	Aggregate Intrinsic Value
Unvested Balance - December 31, 2020	59,521	$ 0.18	2.4	$ 2,000
Granted	2,674,863	36.56	–	–
Vested	–	–	–	–
Forfeited	(5,900)	36.63	–	–
Unvested Balance - March 31, 2021	2,728,484	$ 35.76	1.9	$ 103,500

We recognized an expense of $7.7 million related to share-based compensation expense for Service-Based RSUs capable of being earned for completing a service requirement during the three months ended March 31, 2021. For comparative period ended March 31, 2020, we recorded immaterial share-based compensation expense. As of March 31, 2021, there was approximately $89.9 million of unrecognized stock-based compensation expense related to Service-Based RSUs, and this unrecognized expense is expected to be recognized over a weighted-average period of 1.9 years on a straight-line basis.

Performance-Based RSU Awards

A summary of the awards of Performance-Based RSUs that vest upon the attainment of certain price targets of the Company's common stock are presented below (in thousands, except per share amounts and contractual life years):

Number of Shares	Weighted-Average Grant	Weighted-Average Contractual	Aggregate Intrinsic Value

		Date Fair Value (per share)	Life (years)	
Unvested Balance - December 31, 2020	–	$ –	–	$ –
Granted	438,403	30.84	–	–
Vested	–	–	–	–
Forfeited	–	–	–	–
Unvested Balance - March 31, 2021	438,403	$ 30.84	0.2	$ 16,600

On January 28, 2021 the Company granted certain senior executives awards of Performance-Based RSUs that could settle in 438,403 shares of our common stock. The awards will vest only if, during the three-year period from the date of grant, (a) the Company's common stock, as listed on the Nasdaq Global Market, trades at or above $42.40 per share (the "Target Price") for 20 of 30 consecutive trading days or (b) the weighted average of the per share price of the Company's common stock over any 30 consecutive trading days is at least equal to the Target Price.

For these Performance-Based RSUs containing market conditions, the conditions are required to be considered when calculating the grant date fair value. In order to reflect the substantive characteristics of these awards, a Monte Carlo simulation valuation model was used to calculate the grant date fair value of such awards. Monte Carlo approaches are a class of computational algorithms that rely on repeated random sampling to compute their results. This approach allows the calculation of the value of such Performance-Based RSUs based on a large number of possible stock price path scenarios. Our key assumptions include a performance period of 2.92 years, expected volatility of 57.4%, and a risk-free rate of 0.18%. As the Company recently completed its IPO in November 2020, expected volatility was based on the average historical stock price volatility of comparable publicly-traded companies over the performance period. The risk-free rate is based on the U.S. treasury zero-coupon issues in effect at the time of grant over the performance period. Expense for these awards is recognized over the derived service period as determined through the Monte Carlo simulation model. The fair value at grant date and derived service periods calculated for these market condition Performance-Based RSUs were $30.84 and 0.38 years, respectively.

We recognized an expense of $6.0 million related to share-based compensation expense for these awards of Performance-Based RSUs during the three months ended March 31, 2021. As of March 31, 2021, there was approximately $7.5 million of unrecognized stock-based compensation expense related to these Performance-Based RSUs, and this unrecognized expense is expected to be recognized over a weighted-average period of 2.4 months on a straight-line basis.

General and Basis of Presentation (Policies)	3 Months Ended Mar. 31, 2021
General and Basis of Presentation [Abstract]	
Segment Reporting	**Segment Reporting** Operating segments are defined as components of an enterprise for which separate financial information is available and evaluated regularly by the chief operating decision maker ("CODM"), or decision making group, in deciding how to allocate resources and assess performance. We currently operate in one operating and reportable business segment for financial reporting purposes. Our Chief Executive Officer is the CODM. The CODM only evaluates profitability based on consolidated results.
Recent Accounting Pronouncements	**Recent Accounting Pronouncements** *Recent Accounting Pronouncements Adopted* In December 2019, the Financial Accounting Standard Board ("FASB") issued Accounting Standards Update ('ASU") No. 2019-12, "Simplifying the Accounting for Income Taxes (Topic 740)", which simplifies the accounting for income taxes. This standard is effective for reporting periods beginning after December 15, 2020, which made this standard effective for us on January 1, 2021. The adoption of this ASU did not have a material impact on our condensed consolidated financial position, results of operations and cash flows.
Revenue Recognition	**Revenue Recognition** We account for revenue in accordance with ASC Topic 606, "Revenue from Contracts with Customers." The unit of account in ASC 606 is a performance obligation, which is a promise in a contract with a customer to transfer a good or service to the customer. ASC 606 prescribes a five-step model for recognizing revenue that includes identifying the contract with the customer, determining the performance obligation(s), determining the transaction price, allocating the transaction price to the performance obligation(s), and recognizing revenue as the performance obligations are satisfied. Timing of the satisfaction of performance obligations varies across our businesses due to our diverse product and service mix, customer base, and contractual terms. Significant judgment can be required in determining certain performance obligations, and these determinations could change the amount of revenue and profit recorded in a given period. Our contracts may have a single performance obligation or multiple performance obligations. When there are multiple performance obligations within a contract, we allocate the transaction price to each performance obligation based on our best estimate of standalone selling price. The majority of our revenue is recognized over time, as control is transferred continuously to our customers who receive and consume benefits as we perform, and is classified as services revenue. All of our business groups earn services revenue under a variety of contract types, including time and materials, firm-fixed price, firm fixed price level of effort, and cost plus fixed fee contract types, which may include variable consideration as discussed further below. Revenue is recognized over time using costs incurred to date relative to total estimated costs at completion to measure progress toward satisfying our performance obligations. Incurred cost represents work performed, which corresponds with, and thereby best depicts, the transfer of control to the customer. Contract costs include labor, material, subcontractor costs and indirect expenses. This continuous transfer of control to the customer is supported by clauses in our contracts with U.S. Government customers whereby the customer may terminate a contract for convenience and then pay for costs incurred plus a profit, at which time the customer would take control of any work in process. For non-U.S. Government contracts where we perform as a subcontractor and our order includes similar Federal Acquisition Regulation (the FAR) provisions as the prime contractor's order from the U.S. Government, continuous transfer of control is likewise supported by such provisions. For other non-U.S. Government customers, continuous transfer of control to such customers is also supported due to general terms in our

contracts and rights to recover damages which would include, among other potential damages, the right to payment for our work performed to date plus a reasonable profit.

Due to the transfer of control over time, revenue is recognized based on progress towards completion of the performance obligation. The selection of the method to measure progress towards completion requires judgment and is based on the nature of the performance obligations. We generally use the cost-to-cost measure of progress on a proportional performance basis for our contracts because it best depicts the transfer of control to the customer which occurs as we incur costs on our contracts. Under the cost-to-cost measure of progress, the extent of progress towards completion is measured based on the ratio of costs incurred to date to the total estimated costs at completion of the performance obligation. Revenues are recorded proportionally as costs are incurred. Due to the nature of the work required to be performed on certain of our performance obligations, the estimation of total revenue and cost at completion is complex, subject to many variables and requires significant judgment. Contract estimates are based on various assumptions including labor and subcontractor costs, materials and other direct costs and the complexity of the work to be performed. A significant change in one or more of these estimates could affect the profitability of our contracts. We review and update our contract-related estimates regularly and recognize adjustments in estimated profit on contracts on a cumulative catch-up basis, which may result in an adjustment increasing or decreasing revenue to date on a contract in a particular period that the adjustment is identified. Revenue and profit in future periods of contract performance are recognized using the adjusted estimate.

Revenue that is recognized at a point in time is for the sale of software licenses in our Information Assurance / Xacta® (previously referred to as Cyber & Cloud Solutions) and Secure Communications (previously referred to as Secure Communications Cyber and Enterprise Solutions) business groups and for the sale of resold products in Telos ID (previously referred to as Telos ID Enterprise Solutions) and Secure Networks (previously referred to as Secure Mobility and Network Management/Defense Enterprise Solutions), and is classified as product revenue. Revenue on these contracts is recognized when the customer obtains control of the transferred product or service, which is generally upon delivery of the product to the customer for their use, due to us maintaining control of the product until that point. Orders for the sale of software licenses may contain multiple performance obligations, such as maintenance, training, or consulting services, which are typically delivered over time, consistent with the transfer of control disclosed above for the provision of services. When an order contains multiple performance obligations, we allocate the transaction price to the performance obligations using our best estimate of standalone selling price.

Contracts are routinely and often modified to account for changes in contract requirements, specifications, quantities, or price. Depending on the nature of the modification, we determine whether to account for the modification as an adjustment to the existing contract or as a new contract. Generally, modifications are not distinct from the existing contract due to the significant interrelatedness of the performance obligations and are therefore accounted for as an adjustment to the existing contract, and recognized as a cumulative adjustment to revenue (as either an increase or reduction of revenue) based on the modification's effect on progress toward completion of a performance obligation.

Our contracts may include various types of variable consideration, such as claims (for instance, indirect rate or other equitable adjustments) or incentive fees. We include estimated amounts in the transaction price based on all of the information available to us, including historical information and future estimations, and to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when any uncertainty associated with the variable consideration is resolved.

Historically, most of our contracts do not include award or incentive fees. For incentive fees, we would include such fees in the transaction price to the extent we could reasonably estimate the amount of the fee. With limited historical experience, we have not included any revenue related to incentive fees in our estimated transaction prices. We may include in our contract estimates additional revenue for submitted contract modifications or claims against the customer when we believe we have an enforceable right to the modification or claim, the amount can be estimated reliably and its realization is probable. We consider the contractual/legal basis for the claim (in particular FAR provisions), the facts and circumstances around any additional costs incurred, the reasonableness of those costs and the objective evidence available to support such claims.

For our contracts that have an original duration of one year or less, we use the practical expedient applicable to such contracts and do not consider the time value of money. We capitalize sales commissions related to proprietary software and related services that are directly tied to sales. We do not elect the practical expedient to expense as incurred the incremental costs of obtaining a contract if the amortization period would have been one year or less. For the sales commissions that are capitalized, we amortize the asset over the expected customer life, which is based on recent and historical data.

Contract assets are amounts that are invoiced as work progresses in accordance with agreed-upon contractual terms, either at periodic intervals or upon achievement of contractual milestones. Generally, revenue recognition occurs before billing, resulting in contract assets. These contract assets are referred to as unbilled receivables and are reported within accounts receivable, net of reserve on our condensed consolidated balance sheets.

Billed receivables are amounts billed and due from our customers and are reported within accounts receivable, net of reserve on the condensed consolidated balance sheets. The portion of the payments retained by the customer until final contract settlement is not considered a significant financing component due to the intent of the retainage being the customer's protection with respect to full and final performance under the contract.

Contract liabilities are payments received in advance and milestone payments from our customers on selected contracts that exceed revenue earned to date, resulting in contract liabilities. Contract liabilities typically are not considered a significant financing component because they are generally satisfied within one year and are used to meet working capital demands that can be higher in the early stages of a contract. Contract liabilities are reported on our condensed consolidated balance sheets on a net contract basis at the end of each reporting period.

We have one reportable segment. We treat sales to U.S. customers as sales within the U.S. regardless of where the services are performed. Substantially all of our revenues are from U.S. customers as revenue derived from international customers is de minimus. The following tables disclose revenue (in thousands) by customer type and contract type for the three months ended March 31, 2021 and 2020.

	Three Months Ended March 31,	
	2021	**2020**
Federal	$ 53,347	$ 36,092
State & Local, and Commercial	2,410	2,888
Total	$ 55,757	$ 38,980

	Three Months Ended March 31,	
	2021	**2020**
Firm fixed-price	$ 49,141	$ 31,662
Time-and-materials	3,030	3,825
Cost plus fixed fee	3,586	3,493
Total	$ 55,757	$ 38,980

The following table discloses accounts receivable and contract assets (in thousands):

	March 31, 2021	December 31, 2020
Billed accounts receivable	$ 12,382	$ 12,060
Unbilled receivables	40,494	19,161
Allowance for doubtful accounts	(313)	(308)
Receivables – net	$ 52,563	$ 30,913

As of March 31, 2021 and December 31, 2020, we had $126.8 million and $127.7 million of remaining performance obligations, respectively, which we also refer to as funded backlog. We expect to recognize approximately 84.2% of our remaining performance obligations as revenue in 2021, an additional 10.3% in 2022, and the balance thereafter. Revenue recognized for the three months ended March 31, 2021 and 2020 that was included in the contract liabilities balance at the beginning of each reporting period was $2.0 million and $2.4 million, respectively. Contract liabilities were $6.8 million and $5.7 million as of March 31, 2021 and December 31, 2020, respectively.

Accounts Receivable

Accounts Receivable

Accounts receivable are stated at the invoiced amount, less an allowance for doubtful accounts. Collectability of accounts receivable is regularly reviewed based upon management's knowledge of the specific circumstances related to overdue balances. The allowance for doubtful accounts is adjusted based on such evaluation. Accounts receivable balances are written off against the allowance when management deems the balances uncollectible.

Inventories

Inventories

Inventories are stated at the lower of cost or net realizable value, where cost is determined using the weighted average method. Substantially all inventories consist of purchased off-the-shelf hardware and software, and component computer parts used in connection with system integration services that we perform. An allowance for obsolete, slow-moving or nonsalable inventory is provided for all other inventory. This allowance is based on our overall obsolescence experience and our assessment of future inventory requirements. This charge is taken primarily due to the age of the specific inventory and the significant additional costs that would be necessary to upgrade to current standards as well as the lack of forecasted sales for such inventory in the near future. Gross inventory was $2.7 million and $4.2 million as of March 31, 2021 and December 31, 2020, respectively. As of March 31, 2021, it is management's judgment that we have fully provided for any potential inventory obsolescence, which was $0.9 million as of March 31, 2021 and December 31, 2020.

Software Development Costs

Software Development Costs

Our policy on accounting for development costs of software to be sold is in accordance with ASC Topic 985-20, "Software – Costs of Software to be Sold, Leased, or Marketed" and ASC Topic 350-40 "Internal Use Software" in so far as our Xacta products being available in various deployment modalities including on premises licenses and cloud-based Software as a Service ("SaaS"). Under both standards, software development costs are expensed as incurred until technological feasibility is reached, at which time additional costs are capitalized until the product is available for general release to customers or is ready for its intended use, as appropriate. Technological feasibility is established when all planning, designing, coding and testing activities have been completed, and all risks have been identified. Software development costs are capitalized and amortized over the estimated product life of 2 years on a straight-line basis. As of March 31, 2021 and December 31, 2020, we capitalized $14.4 million and $12.3 million of software development costs, respectively, which are included as a part of property and equipment. Amortization expense was $0.5 million for each of the three months ended March 31, 2021 and 2020. Accumulated amortization was $5.3 million and $4.8 million as of March 31, 2021 and December 31, 2020, respectively. The Company analyzes the net realizable value of capitalized software development costs on at least an annual basis and has determined that there is no indication of impairment of the capitalized software development costs as forecasted future sales are adequate to support amortization costs.

Income Taxes

Income Taxes

We account for income taxes in accordance with ASC 740, "Income Taxes." Under ASC 740, deferred tax assets and liabilities are recognized for the estimated future tax consequences of temporary differences and income tax credits. Deferred tax assets and liabilities are measured by applying enacted statutory tax rates that are applicable to the future years in which deferred tax assets or liabilities are expected to be settled or realized for differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. Any change in tax rates on deferred tax assets and liabilities is recognized in net income in the period in which the tax rate change is enacted. We record a valuation allowance that reduces deferred tax assets when it is "more likely than not" that deferred tax assets will not be realized. We are required to establish a valuation allowance for deferred tax assets if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Based on available evidence, realization of deferred tax assets is dependent upon the generation of future taxable income. We considered projected future taxable income, tax planning strategies, and reversal of taxable temporary differences in making this assessment. As such, we have determined that a full valuation allowance is required as of March 31, 2021 and December 31, 2020. As a result of a full valuation allowance against our deferred tax assets, a deferred tax liability related to goodwill remains on our condensed consolidated balance sheets at March 31, 2021 and December 31, 2020. Due to the tax reform enacted on December 22, 2017, net operating losses generated in taxable years beginning after December 31, 2017 will have an indefinite carryforward period, which will be available to offset future taxable income created by the reversal of temporary taxable differences related to goodwill. As a result, we have adjusted the valuation allowance on our deferred tax assets and liabilities at March 31, 2021 and December 31, 2020.

We follow the provisions of ASC 740 related to accounting for uncertainty in income taxes. The accounting estimates related to liabilities for uncertain tax positions require us to make judgments regarding the sustainability of each uncertain tax position based on its technical merits. If we determine it is more likely than not that a tax position will be sustained based on its technical merits, we record the impact of the position in our condensed consolidated financial statements at the largest amount that is greater than fifty percent likely of being realized upon ultimate settlement. These estimates are updated at each reporting date based on the facts, circumstances and information available. We are also required to assess at each reporting date whether it is reasonably possible that any significant increases or decreases to our unrecognized tax benefits will occur during the next 12 months.

The provision for income taxes in interim periods is computed by applying the estimated annual effective tax rate against earnings before income tax expense for the period. In addition, non-recurring or discrete items are recorded during the period in which they occur.

Goodwill

Goodwill

We evaluate the impairment of goodwill in accordance with ASC 350, "Intangibles - Goodwill and Other," which requires goodwill and indefinite-lived intangible assets to be assessed on at least an annual basis for impairment using a fair value basis. Between annual evaluations, if events occur or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying amount, then impairment must be evaluated. Such circumstances could include, but are not limited to: (1) a significant adverse change in legal factors or business climate, or (2) a loss of key contracts or customers.

As the result of an acquisition, we record any excess purchase price over the net tangible and identifiable intangible assets acquired as goodwill. An allocation of the purchase price to tangible and intangible net assets acquired is based upon our valuation of the acquired assets. Goodwill is not amortized, but is subject to annual impairment tests. We complete our goodwill impairment tests as of December 31st each year. Additionally, we make evaluations between annual tests if events occur or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The evaluation is based on the estimation of the fair values of our three reporting units, CO&D (comprised of Information Assurance / Xacta and Secure Networks), Telos ID, and Secure Communications, of which goodwill is housed in the

CO&D reporting unit, in comparison to the reporting unit's net asset carrying values. Our discounted cash flows required management's judgment with respect to forecasted revenue streams and operating margins, capital expenditures and the selection and use of an appropriate discount rate. We utilized the weighted average cost of capital as derived by certain assumptions specific to our facts and circumstances as the discount rate. The net assets attributable to the reporting units are determined based upon the estimated assets and liabilities attributable to the reporting units in deriving its free cash flows. In addition, the estimate of the total fair value of our reporting units is compared to the market capitalization of the Company. The Company's assessment resulted in a fair value that was greater than the Company's carrying value, therefore no impairment of goodwill was recorded as of December 31, 2020. Subsequent reviews may result in future periodic impairments that could have a material adverse effect on the results of operations in the period recognized. Recent operating results have reduced the projection of future cash flow growth potential, which indicates that certain negative potential events, such as a material loss or losses on contracts, or failure to achieve projected growth could result in impairment in the future. We estimate fair value of our reporting unit and compare the valuation with the respective carrying value for the reporting unit to determine whether any goodwill impairment exists. If we determine through the impairment review process that goodwill is impaired, we will record an impairment charge in our condensed consolidated statements of operations. Goodwill is amortized and deducted over a 15-year period for tax purposes.

Stock-Based Compensation

Stock-Based Compensation

Under our 2016 Omnibus Long-Term Incentive Plan (the "2016 LTIP"), we have the ability to award restricted stock units with time-based vesting ("Service-Based RSUs"), and restricted stock units with performance-based vesting ("Performance-Based RSUs") to senior executives, directors and eligible employees. Under the 2016 LTIP, our Board of Directors or the Compensation Committee of our Board of Directors may establish the performance conditions applicable to the Performance-Based RSUs, including the achievement of certain price targets for our common stock. Upon vesting, Service-Based RSUs and Performance-Based RSUs will be settled in the Company's common stock.

- *Service-Based RSUs* granted to senior executives generally vest in three annual installments from the date of grant, with 30% vesting on the first and second anniversaries and 40% vesting on the third anniversary. Service-Based RSUs granted to eligible employees as an incentive generally vest in equal installments over two to three years from the date of grant. The grant date fair value per share is equal to the closing stock price on the date of grant.

- *Performance-Based RSUs* may vest upon the achievement of a defined performance target or at the end of the defined performance period from the date of grant, whichever initially occurs. The grant date fair value per share of these Performance-Based RSUs is equal to the closing stock price on the date of the grant. Performance-Based RSUs may vest upon the achievement of certain price targets for the Company's common stock over anytime over a three-year period from the date of grant. In order to reflect the substantive characteristics of these market condition award, the Company employs a Monte Carlo simulation valuation model to calculate the grant date fair value and corresponding service period of the award. Monte Carlo approaches are a class of computational algorithms that rely on repeated random sampling to compute their results. This approach allows the calculation of the value of such awards based on a large number of possible stock price path scenarios.

We recognize these share-based payment transactions when services from the employees are received and recognize a corresponding increase in additional paid-in capital in our condensed consolidated balance sheets. The measurement objective for these equity awards is the estimated fair value at the date of grant of the equity instruments that we are obligated to issue when employees have rendered the requisite service and satisfied any other conditions necessary to earn the right to benefit from the instruments. The compensation expense for an award is recognized ratably over the requisite service period for the entire award, which is the period during which an employee is required to provide service in exchange for an award. Compensation expense for awards with performance conditions is recognized over the requisite service period if it is probable that the performance condition will be satisfied. If such performance conditions are not or are no longer considered probable, no compensation expense for these awards is recognized, and any previously recognized expense is reversed. Compensation expense for awards with performance conditions capable of being earned for satisfying the performance condition or as a result of completing a service requirement will be recognized ratably over the requisite service period for the entire award. If the performance condition is achieved prior to the completion of the requisite service period, any unrecognized compensation expense will be recognized in the period the performance condition is achieved. Compensation expense for awards with market conditions is recognized over the derived service period, or sooner, if the market condition is achieved. Previously recognized expense for awards with market conditions will never be reversed even if the market conditions is never achieved. We recognize forfeitures of share-based compensation awards as they occur. Share-based compensation expense is recognized as part of cost of sales and general and administrative expenses in our condensed consolidated statements of operations.

Earnings (Loss) per Share

Net Income (Loss) per Share

Basic net earnings (loss) per share is computed by dividing the net earnings (loss) by the weighted-average number of common shares outstanding for the period, without consideration for potentially dilutive securities. Diluted net earnings (loss) per share is computed by dividing the net earnings (loss) by the weighted-average number of shares of common stock and dilutive common stock equivalents outstanding for the period determined using the treasury-stock and if-converted methods. Dilutive common stock equivalents are comprised of unvested restricted common stock and warrants.

Potentially dilutive securities not included in the calculation of diluted net earnings (loss) per share because to do so would be anti-dilutive are as follows (in common stock equivalent shares, in thousands):

	Three Months Ended March 31,	
	2021	**2020**
Unvested restricted stock and restricted stock units	3,167	957
Common stock warrants, exercisable at $1.665/sh.	901	901
Total	4,068	1,858

On November 12, 2020, we amended our Articles of Amendment and Restatement to effect an approximate 0.794-for-1 reverse stock split with respect to our common stock. The par value and the authorized shares of the common stock were not adjusted as a result of the reverse stock split. The accompanying condensed consolidated financial statements and notes to the condensed consolidated financial statements give retroactive effect to the reverse stock split for all periods presented.

Comprehensive Income (Loss)

Other Comprehensive Income (Loss)

Our functional currency is the U.S. Dollar. For one of our wholly owned subsidiaries, the functional currency is the local currency. For this subsidiary, the translation of its foreign currency into U.S. Dollars is performed for assets and liabilities using current foreign currency exchange rates in effect at the balance sheet date and for revenue and expense accounts using average foreign currency exchange rates during the period. Translation gains and losses are included in stockholders' deficit as a component of accumulated other comprehensive income (loss).

Accumulated other comprehensive income included within stockholders' equity (deficit) consists of the following (in thousands):

	March 31, 2021	December 31, 2020
Cumulative foreign currency translation loss	$ (95)	$ (63)
Cumulative actuarial gain on pension liability adjustment	107	107

Accumulated other comprehensive income	$ 12	$ 44

General and Basis of Presentation (Tables)	3 Months Ended Mar. 31, 2021
General and Basis of Presentation [Abstract]	
Disaggregation of Revenue	We have one reportable segment. We treat sales to U.S. customers as sales within the U.S. regardless of where the services are performed. Substantially all of our revenues are from U.S. customers as revenue derived from international customers is de minimus. The following tables disclose revenue (in thousands) by customer type and contract type for the three months ended March 31, 2021 and 2020.

	Three Months Ended March 31,	
	2021	**2020**
Federal	$ 53,347	$ 36,092
State & Local, and Commercial	2,410	2,888
Total	$ 55,757	$ 38,980

	Three Months Ended March 31,	
	2021	**2020**
Firm fixed-price	$ 49,141	$ 31,662
Time-and-materials	3,030	3,825
Cost plus fixed fee	3,586	3,493
Total	$ 55,757	$ 38,980

Contract Assets and Liabilities

The following table discloses accounts receivable and contract assets (in thousands):

	March 31, 2021	December 31, 2020
Billed accounts receivable	$ 12,382	$ 12,060
Unbilled receivables	40,494	19,161
Allowance for doubtful accounts	(313)	(308)
Receivables – net	$ 52,563	$ 30,913

Potentially Dilutive Securities not Included in Calculation of Diluted Net Earnings (Loss) per Share

Potentially dilutive securities not included in the calculation of diluted net earnings (loss) per share because to do so would be anti-dilutive are as follows (in common stock equivalent shares, in thousands):

	Three Months Ended March 31,	
	2021	**2020**
Unvested restricted stock and restricted stock units	3,167	957
Common stock warrants, exercisable at $1.665/sh.	901	901
Total	4,068	1,858

Accumulated Other Comprehensive Income

Accumulated other comprehensive income included within stockholders' equity (deficit) consists of the following (in thousands):

	March 31, 2021	December 31, 2020
Cumulative foreign currency translation loss	$ (95)	$ (63)
Cumulative actuarial gain on pension liability adjustment	107	107

Accumulated other comprehensive income	$ 12	$ 44

Leases (Tables)

3 Months Ended Mar. 31, 2021

Leases [Abstract]

Future Minimum Lease Commitments

Future minimum lease commitments at March 31, 2021 were as follows (in thousands):

Year ending December 31,	Operating Leases	Finance Leases
2021 (excluding the three months ended March 31, 2021)	$ 559	$ 1,580
2022	592	2,149
2023	373	2,203
2024	27	2,257
2025	–	2,314
After 2025	–	8,343
Total lease payments	1,551	18,847
Less imputed interest	(103)	(3,528)
Total	$ 1,448	$ 15,319

Components of Lease Expense

The components of lease expense were as follows (in thousands):

	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020
Operating lease cost	$ 182	$ 177
Short-term lease cost (1)	4	18
Finance lease cost		
Amortization of right-of-use assets	305	305
Interest on lease liabilities	196	211
Total finance lease cost	501	516
Total lease costs	$ 687	$ 711

(1) Leases that have terms of 12 months or less

Supplemental Cash Flow Information Related to Leases

Supplemental cash flow information related to leases was as follows (in thousands):

	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020
Cash paid for amounts included in the measurement of lease liabilities:		
Cash flows from operating activities - operating leases	$ 194	$ 184
Cash flows from operating activities - finance leases	196	211
Cash flows from financing activities - finance leases	321	294
Operating lease right-of-use assets obtained in exchange for lease obligations	160	145

Stock-Based Compensation (Tables)	3 Months Ended Mar. 31, 2021
Service-Based RSU Awards [Member]	
Share-based Compensation Arrangement by Share-based Payment Award [Line Items]	
Non-Vested Restricted Stock	A summary of the awards of Service-Based RSUs that vest upon the completion of a service requirement are presented below (in thousands, except per share amounts and contractual life years):

	Number of Shares	Weighted-Average Grant Date Fair Value (per share)	Weighted-Average Contractual Life (years)	Aggregate Intrinsic Value
Unvested Balance - December 31, 2020	59,521	$ 0.18	2.4	$ 2,000
Granted	2,674,863	36.56	–	–
Vested	–	–	–	–
Forfeited	(5,900)	36.63	–	–
Unvested Balance - March 31, 2021	2,728,484	$ 35.76	1.9	$ 103,500

Market Condition RSU Awards [Member]	
Share-based Compensation Arrangement by Share-based Payment Award [Line Items]	
Non-Vested Restricted Stock	A summary of the awards of Performance-Based RSUs that vest upon the attainment of certain price targets of the Company’s common stock are presented below (in thousands, except per share amounts and contractual life years):

	Number of Shares	Weighted-Average Grant Date Fair Value (per share)	Weighted-Average Contractual Life (years)	Aggregate Intrinsic Value
Unvested Balance - December 31, 2020	–	$ –	–	$ –
Granted	438,403	30.84	–	–
Vested	–	–	–	–
Forfeited	–	–	–	–
Unvested Balance - March 31, 2021	438,403	$ 30.84	0.2	$ 16,600

General and Basis of Presentation (Details) $ / shares in Units, shares in Thousands, $ in Thousands	Nov. 23, 2020 USD ($)	Nov. 19, 2020 USD ($) $ / shares shares	Nov. 12, 2020	3 Months Ended Mar. 31, 2021 USD ($) Segment Reportingunit Installment $ / shares shares	3 Months Ended Mar. 31, 2020 USD ($) $ / shares shares	Dec. 31, 2020 USD ($)
Segment Reporting [Abstract]						
Number of reportable segments | Segment				1		
Disaggregation of Revenue [Abstract]						
Revenue				$ 55,757	$ 38,980	
Components of Accounts Receivable [Abstract]						
Billed accounts receivable				12,382		$ 12,060
Unbilled receivables				40,494		19,161
Allowance for doubtful accounts				(313)		(308)
Receivables - net				52,563		30,913
Components of Contract Liabilities [Abstract]						
Contract liabilities				6,751		5,654
Revenue, Performance Obligation [Abstract]						
Remaining performance obligation				126,800		127,700
Revenue recognized included in opening contract liabilities				2,000	2,400	
Inventories [Abstract]						
Gross inventory				2,700		4,200
Inventory obsolescence reserves				852		851
Software Development Costs [Abstract]						
Capitalized software development costs				14,400		12,300
Amortization expense				500	$ 500	
Accumulated amortization				$ 5,300		4,800
Goodwill [Abstract]						
Number of reporting units | Reportingunit				3		
Goodwill amortization period for income tax purposes				15 years		
Antidilutive Securities Excluded from Computation of Earnings Per Share [Abstract]						
Antidilutive securities excluded from computation of earnings per share, amount | shares				4,068	1,858	
Warrants exercise price (in dollars per share) | $ / shares				$ 1.665	$ 1.665	
Reverse stock split			0.794			
Accumulated Other Comprehensive Income [Abstract]						

Cumulative foreign currency translation loss			$ (95)		(63)
Cumulative actuarial gain on pension liability adjustment			107		107
Accumulated other comprehensive income			12		$ 44
Exchangeable Redeemable Preferred Stock [Member]					
Initial Public Offering of Common Stock [Abstract]					
Conversion of preferred stock to common stock	$ 108,900				
Firm Fixed-Price [Member]					
Disaggregation of Revenue [Abstract]					
Revenue			49,141	$ 31,662	
Time-and-Materials [Member]					
Disaggregation of Revenue [Abstract]					
Revenue			3,030	3,825	
Cost Plus Fixed Fee [Member]					
Disaggregation of Revenue [Abstract]					
Revenue			$ 3,586	3,493	
Minimum [Member]					
Software Development Costs [Abstract]					
Software development estimated useful life			2 years		
Initial Public Offering [Member]					
Initial Public Offering of Common Stock [Abstract]					
Number of shares issued (in shares) | shares		17,200			
Share price (in dollars per share) | $ / shares		$ 17.00			
Net proceeds from initial public offering		$ 272,800			
Repayment of senior term loan and subordinated debt		21,000			
Initial Public Offering [Member] | Exchangeable Redeemable Preferred Stock [Member]					
Initial Public Offering of Common Stock [Abstract]					
Conversion of preferred stock to common stock		108,900			
Initial Public Offering [Member] | Telos ID [Member] | Class B Common Stock [Member]					
Initial Public Offering of Common Stock [Abstract]					
Treasury stock repurchase		$ 30,000			
Revenue, Remaining Performance Obligation, Expected Timing of Satisfaction, Start Date [Axis]: 2021-03-31					
Revenue, Performance Obligation [Abstract]					
Remaining performance obligation percentage			84.20%		
Remaining performance obligation, expected timing of satisfaction, period			9 months		
Revenue, Remaining Performance Obligation, Expected Timing of Satisfaction, Start Date [Axis]: 2022-01-01					

Revenue, Performance Obligation [Abstract]		
Remaining performance obligation percentage	10.30%	
Remaining performance obligation, expected timing of satisfaction, period	1 year	
Federal [Member]		
Disaggregation of Revenue [Abstract]		
Revenue	$ 53,347	36,092
State & Local, and Commercial [Member]		
Disaggregation of Revenue [Abstract]		
Revenue	$ 2,410	$ 2,888
Service Based RSU Awards [Member] | Senior Executive Officer [Member]		
Share Based Compensation [Abstract]		
Number of annual installments | Installment	3	
Vesting percentage on first anniversary	30.00%	
Vesting percentage on second anniversary	30.00%	
Vesting percentage on third anniversary	40.00%	
Unvested Restricted Stock and Restricted Stock Units [Member]		
Antidilutive Securities Excluded from Computation of Earnings Per Share [Abstract]		
Antidilutive securities excluded from computation of earnings per share, amount | shares	3,167	957
Common Stock Warrants [Member]		
Antidilutive Securities Excluded from Computation of Earnings Per Share [Abstract]		
Antidilutive securities excluded from computation of earnings per share, amount | shares	901	901

Purchase of Telos ID/Non-controlling Interests (Details)	Nov. 23, 2020 USD ($) $ / shares shares	Dec. 24, 2014 USD ($) Director	Apr. 20, 2007 USD ($)	Apr. 19, 2007	1 Months Ended Jan. 31, 2021 USD ($)	3 Months Ended Mar. 31, 2021 USD ($)	Mar. 31, 2020 USD ($)	Apr. 11, 2007 USD ($)
Business Combination [Abstract]								
Additional percentage of ownership interest						50.00%		
Non-controlling interest [Abstract]								
Net income						$ 0	$ 784,000	
Telos ID [Member]								
Net book value of assets [Abstract]								
Net book value of assets contributed								$ 17,000
Percentage of membership interest owned before				99.999%				
Owned membership interest from private equity investors				0.001%				
Percentage of membership interest sold to investor		10.00%	39.999%					
Cash consideration received on sale of membership interest		$ 5,000,000	$ 6,000,000					
Percentage of ownership interest owned after transaction			60.00%					
Number of members in board of director | Director		5						
Non-controlling interest [Abstract]								
Distributions					$ (2,400,000)		$ 0	
Telos ID [Member] | Class A Membership Unit [Member]								
Net book value of assets [Abstract]								
Percentage of ownership interest owned after transaction		50.00%						
Percentage of profit and loss allocated		50.00%						
Number of directors entitled to appoint | Director		3						

Telos ID [Member] | Class B Membership Unit [Member]		
Net book value of assets [Abstract]		
Percentage of ownership interest owned after transaction		50.00%
Percentage of profit and loss allocated		50.00%
Number of directors entitled to appoint | Director		2
Telos ID [Member]		
Business Combination [Abstract]		
Cash payment for acquisition	$ 30,000,000	
Number of shares issued in acquisition (in shares) | shares	7,278,040	
Share price (in dollars per share) | $ / shares	$ 20.39	
Value of stock issued	$ 148,400,000	
Total consideration transferred	178,400,000	
Issuance of common stock on APIC	148,400,000	
Non-controlling interest in APIC	$ 173,900,000	
Additional percentage of ownership interest	50.00%	
Impact of ownership interest on APIC	$ 25,500,000	

Goodwill (Details) - USD ($) $ in Thousands	3 Months Ended Mar. 31, 2021	 Mar. 31, 2020	 Dec. 31, 2020
Goodwill [Abstract]			
Goodwill	$ 14,916		$ 14,916
Asset impairment charges	$ 0	$ 0	

Current Liabilities and Debt Obligations, Enlightenment Capital Credit Agreement (Details)							3 Months Ended		
	Nov. 24, 2020 USD ($)	Mar. 26, 2020 USD ($) Extension	Jul. 19, 2019 USD ($)	Jul. 18, 2019 USD ($)	Mar. 30, 2018 qtr	Jan. 25, 2017 USD ($) $ / shares shares	Mar. 31, 2021 USD ($) $ / shares shares	Mar. 31, 2020 USD ($) $ / shares	Dec. 31, 2020 USD ($)
Accounts Payable and Other Accrued Payables [Abstract]									
Trade account payables							$ 9,800,000		$ 14,700,000
Accrued trade payables							$ 22,000,000		6,200,000
Enlightenment Capital Credit Agreement [Abstract]									
Warrants exercise price (in dollars per share) | $ / shares							$ 1.665	$ 1.665	
Credit Agreement [Member]									
Enlightenment Capital Credit Agreement [Abstract]									
Increase in interest rate							1.00%		
Number of consecutive quarters | qtr					2				
Effective interest rate							15.00%		
Credit agreement transaction costs							$ 374,000		
Senior term loan principal, including exit fee							17,200,000		17,200,000
Less: Unamortized discount, debt issuance costs, and lender fees							(281,000)		(865,000)
Senior term loan, net							16,919,000		$ 16,335,000
Interest expense								$ 800,000	
Exit fee	$ 1,200,000						$ 825,000		
Repayment of debt	17,400,000								
Accrued interest	138,000								
Legal fees	13,000								
Repurchase of shares and warrants	$ 28,100,000								
Enlightenment Capital Solutions Fund, II L.P. [Member]									
Enlightenment Capital Credit Agreement [Abstract]									

Senior term loan		$ 16,000,000			
Maturity date		Jan. 15, 2021	Jan. 25, 2022		
Effective interest rate		17.30%			
Additional borrowings		$ 5,000,000			
Principal amount		$ 16,000,000			
Prepayment price percentage for January 26, 2019 to January 25, 2020		102.00%			
Prepayment price percentage for January 26, 2020 to October 14, 2020		101.00%			
Agent fee		$ 110,000			
Exit fee		$ 1,200,000	$ 825,000		
Number of quarterly maturity date extensions | Extension	4				
Amount of increase in quarterly exit fee payable	$ 250,000				
Amount of increase in exit fee payable	1,000,000				
Amendment fee and out-of-pocket costs and expenses	$ 100,000				
Enlightenment Capital Solutions Fund, II L.P. [Member] | Class A Common Stock [Member]					
Enlightenment Capital Credit Agreement [Abstract]					
Warrants issued to purchase shares of common stock (in shares) | shares				900,970	
Common stock par value (in dollars per share) | $ / shares				$ 0	
Percentage of warrants issued of common equity interests				2.50%	
Warrants exercise price (in dollars per share) | $ / shares				$ 1.665	
Warrants expiration date					Jan. 25, 2027
Emmett J. Wood [Member] | Class A Common Stock [Member] | Credit Agreement [Member]					
Enlightenment Capital Credit Agreement [Abstract]					

Number of shares held by chief executive officer (in shares) | shares		50,000
Term Loan [Member] | Enlightenment Capital Solutions Fund, II L.P. [Member]		
Enlightenment Capital Credit Agreement [Abstract]		
Senior term loan	$ 11,000,000	
Maturity date		Jan. 25, 2022
Accrued interest rate	13.00%	
Increase in interest rate	14.50%	
Increase in interest rate in event of default	2.00%	
Monthly accrued interest rate during continuance of an Alternate Interest Rate Event	11.50%	
Number of days prior written notice		30 days
Principal amount	$ 11,000,000	
Term Loan [Member] | Enlightenment Capital Solutions Fund, II L.P. [Member] | Minimum [Member]		
Enlightenment Capital Credit Agreement [Abstract]		
Monthly accrued interest rate	10.00%	

Current Liabilities and Debt Obligations, Subordinated Debt (Details) - Porter [Member] - USD ($)	3 Months Ended				
	Mar. 31, 2015	Mar. 31, 2021	Mar. 31, 2020	Mar. 31, 2015	Apr. 18, 2017
Subordinated Debt [Abstract]					
Related party ownership percentage	35.00%			35.00%	
Proceeds from related party, debt				$ 2,500,000	
Debt instrument, fixed interest rate	12.00%			12.00%	6.00%
Debt instrument, first interest payment due date		Aug. 20, 2015			
Debt instrument, last principal and interest payment date	Jul. 01, 2017	Jul. 25, 2022			
Interest expense, related party			$ 80,000		
Accrued interest payable			$ 1,100,000		

Exchangeable Redeemable Preferred Stock Conversion (Details) - USD ($) $ / shares in Units, $ in Thousands				3 Months Ended			12 Months Ended	
	Nov. 23, 2020	Nov. 19, 2020	Nov. 30, 1998	Mar. 31, 2021	Mar. 31, 2020	Jun. 30, 2006	Dec. 31, 1991	Dec. 31, 1990
Public Preferred Stock [Member]								
Preferred stock [Abstract]								
Preferred stock authorized (in shares)				6,000,000				
Preferred stock par value (in dollars per share)				$ 0.01				
Preferred stock, shares issued (in shares)								2,858,723
Preferred stock dividend rate per annum				12.00%			6.00%	6.00%
Preferred stock issued and outstanding (in shares)				3,185,586				
12% Cumulative Exchangeable Redeemable Preferred Stock [Abstract]								
Adjusted accrued accretion of public preferred stock						$ 1,500		
Number of shares declared as dividend (in shares)							736,863	736,863
Preferred stock dividend rate per annum (in dollars per share)				$ 1.20			$ 0.60	$ 0.60
Preferred stock, liquidation preference (in dollars per share)				$ 10				
Dividends on preferred stock					$ 1,000			
Redemption of public preferred stock (in shares)			410,000					
Exchangeable Redeemable Preferred Stock [Member]								
Exchangeable Redeemable Preferred Stock [Abstract]								
Liquidation value in cash transaction in condition 1				0.90				
Liquidation value amount as per cash transaction in condition 2				0.85				
Liquidation value in issuance of shares common stock in condition 1				0.90				
Liquidation value in issuance of shares common stock in condition 2				0.15				
Number of fractional shares (in shares)				0				
Conversion per share amount (in dollars per share)		$ 10						
Conversion amount		$ 142,300						

Amount received in cash by stock	$ 108,900
Number of shares stock holder received (in shares)	1,100,000
Redemption price per share (in dollars per share)	$ 17
Amount received from converted shares	$ 19,200
Costs directly attributable to share redemption	220
Gain on extinguishment of debt	$ 14,000

Income Taxes (Details) - USD ($)	3 Months Ended		
	Mar. 31, 2021	Mar. 31, 2020	Dec. 31, 2020
Income Taxes [Abstract]			
(Provision) benefit from income taxes	$ (34,000)	$ 146,000	
Deferred income taxes (Note 7)	$ 661,000		$ 652,000
Additional percentage of interest in partnership	50.00%		
Unrecognized tax benefits	$ 835,000		763,000
Unrecognized tax benefits that would impact effective tax rate	278,000		278,000
Unrecognized tax benefits that would not impact effective tax rate	556,000		485,000
Interest and penalties	$ 246,000		$ 241,000

Commitments, Contingencies and Subsequent Events (Details) - USD ($) $ / shares in Units, shares in Millions	May 05, 2021	Apr. 19, 2021	Apr. 06, 2021	Nov. 23, 2020	Nov. 19, 2020	Oct. 20, 2020	Sep. 11, 2017	Mar. 31, 2021	Dec. 31, 2020
Financial Condition and Liquidity [Abstract]									
Working capital								$ 102,200,000	$ 105,200,000
Subsequent Event [Member]									
Financial Condition and Liquidity [Abstract]									
Net proceeds from initial public offering			$ 64,500,000						
Legal proceedings [Abstract]									
Other expense	$ 1,000,000								
Subsequent Event [Member] | Enlightenment Capital Solutions Fund, II L.P. [Member]									
Subsequent Events [Abstract]									
Payments to repurchase shares and warrants		$ 28,100,000							
Exchangeable Redeemable Preferred Stock [Member]									
Financial Condition and Liquidity [Abstract]									
Conversion of preferred stock to common stock				$ 108,900,000					
Hamot [Member]									
Legal proceedings [Abstract]									
Litigation amount							$ 278,000		
Legal fees and expenses						$ 2,540,000			
IPO [Member]									
Financial Condition and Liquidity [Abstract]									
Net proceeds from initial public offering					$ 272,800,000				
Number of shares issued (in shares)					17.2				
Share price (in dollars per share)					$ 17.00				
Repayment of senior term loan and subordinated debt					$ 21,000,000				
IPO [Member] | Subsequent Event [Member]									
Financial Condition and Liquidity [Abstract]									

Number of shares issued (in shares)	9.1	
Share price (in dollars per share)	$ 33.00	
IPO [Member] | Exchangeable Redeemable Preferred Stock [Member]		
Financial Condition and Liquidity [Abstract]		
Conversion of preferred stock to common stock		108,900,000
IPO [Member] | Telos ID [Member] | Class B Common Stock [Member]		
Financial Condition and Liquidity [Abstract]		
Treasury stock repurchase		$ 30,000,000
Secondary Public Offering [Member] | Subsequent Event [Member]		
Financial Condition and Liquidity [Abstract]		
Number of shares issued (in shares)	7.0	

Related Party Transactions (Details) - USD ($)		3 Months Ended				
	Mar. 31, 2015	Mar. 31, 2021	Mar. 31, 2020	Mar. 31, 2015	Dec. 31, 2020	Apr. 18, 2017
Emmett J. Wood [Member]						
Related party transactions compensation [Abstract]						
Compensation to related parties		$ 218,000	$ 173,000			
Number of shares held by related party (in shares)		682,502			682,502	
Porter [Member]						
Related party transactions compensation [Abstract]						
Proceeds from related party, debt				$ 2,500,000		
Debt instrument, fixed interest rate	12.00%			12.00%		6.00%
Debt instrument, first interest payment due date		Aug. 20, 2015				
Debt instrument, last principal and interest payment date	Jul. 01, 2017	Jul. 25, 2022				
Interest expense, related party			$ 87,000			
Accrued interest payable		$ 1,100,000				
Porter [Member] | Class A Common Stock [Member]						
Related party transactions compensation [Abstract]						
Percentage of shares owned	35.00%			35.00%		

Leases (Details) - USD ($) $ in Thousands	3 Months Ended Mar. 31, 2021	Mar. 31, 2020	Dec. 31, 2020
Weighted Average Remaining Lease Term [Abstract]			
Operating leases	2 years 3 months 18 days		
Finance leases	8 years 1 month 6 days		
Weighted Average Discount Rate [Abstract]			
Operating leases	5.75%		
Finance leases	5.04%		
Operating Leases, Right-of-Use Assets and Lease Liabilities [Abstract]			
Right-of-use asset	$ 1,305		$ 1,464
Operating lease liabilities, non-current	788		$ 941
Future Minimum Lease Commitments [Abstract]			
2021 (excluding the three months ended March 31, 2021)	559		
2022	592		
2023	373		
2024	27		
2025	0		
After 2025	0		
Total lease payments	1,551		
Less imputed interest	(103)		
Total	1,448		
Finance Lease Liabilities, Payments, Due [Abstract]			
2021 (excluding the three months ended March 31, 2021)	1,580		
2022	2,149		
2023	2,203		
2024	2,257		
2025	2,314		
After 2025	8,343		
Total lease payments	18,847		
Less imputed interest	(3,528)		
Total	15,319		
Lease, Cost [Abstract]			
Operating lease cost	182	$ 177	
Short-term lease cost	[1] 4	18	
Finance lease cost [Abstract]			
Amortization of finance lease assets	305	305	
Interest on finance lease liabilities	196	211	
Total finance lease cost	501	516	
Total lease costs	687	711	

Cash paid for amounts included in the measurement of lease liabilities [Abstract]		
Cash flows from operating activities - operating leases	194	184
Cash flows from operating activities - finance leases	196	211
Cash flows from financing activities - finance leases	321	294
Operating lease ROU assets obtained in exchange for operating lease liabilities	$ 160	$ 145

[1] Leases that have terms of 12 months or less.

Stock-Based Compensation (Details) - USD ($) $ / shares in Units, $ in Thousands	Jan. 28, 2021	3 Months Ended Mar. 31, 2021	12 Months Ended Dec. 31, 2020	Jan. 31, 2021
2016 Omnibus Long-Term Incentive Plan [Member]				
Share-based Payment Arrangement, Noncash Expense [Abstract]				
Number of shares available for issuance (in shares)			4,500,000	9,400,000
Number of shares available for grant (in shares)		6,200,000		
2016 Omnibus Long-Term Incentive Plan [Member] | Minimum [Member]				
Share-based Payment Arrangement, Noncash Expense [Abstract]				
Award vesting period		2 years		
2016 Omnibus Long-Term Incentive Plan [Member] | Maximum [Member]				
Share-based Payment Arrangement, Noncash Expense [Abstract]				
Award vesting period		3 years		
Stock Options [Member] | 2016 Omnibus Long-Term Incentive Plan [Member] | Maximum [Member]				
Share-based Payment Arrangement, Noncash Expense [Abstract]				
Award vesting period		10 years		
Service-Based RSU Awards [Member]				
Number of Shares [Roll Forward]				
Outstanding, beginning balance (in shares)		59,521		
Granted (in shares)		2,674,863		
Vested (in shares)		0		
Forfeited (in shares)		(5,900)		
Outstanding, beginning balance (in shares)		2,728,484	59,521	
Weighted-Average Grant Date Fair Value [Roll Forward]				
Outstanding, beginning balance (in dollars per share)		$ 0.18		
Grants (in dollars per share)		36.56		
Vested (in dollars per share)		0		
Forfeited (in dollars per share)		36.63		
Outstanding, beginning balance (in dollars per share)		$ 35.76	$ 0.18	
Weighted-Average Remaining Contractual Term [Abstract]				
Outstanding, weighted-average remaining contractual term		1 year 10 months 24 days	2 years 4 months 24 days	
Aggregate Intrinsic Value [Abstract]				
Outstanding, aggregate intrinsic value		$ 103,500	$ 2,000	

Recognized share-based compensation expense		7,700	
Unrecognized stock-based compensation expense		$ 89,900	
Weighted-average period term		1 year 10 months 24 days	
Market Condition RSU Awards [Member]			
Number of Shares [Roll Forward]			
Outstanding, beginning balance (in shares)		0	
Granted (in shares)		438,403	
Vested (in shares)		0	
Forfeited (in shares)		0	
Outstanding, beginning balance (in shares)		438,403	0
Weighted-Average Grant Date Fair Value [Roll Forward]			
Outstanding, beginning balance (in dollars per share)		$ 0	
Grants (in dollars per share)		30.84	
Vested (in dollars per share)		0	
Forfeited (in dollars per share)		0	
Outstanding, beginning balance (in dollars per share)		$ 30.84	$ 0
Weighted-Average Remaining Contractual Term [Abstract]			
Outstanding, weighted-average remaining contractual term		2 months 12 days	
Aggregate Intrinsic Value [Abstract]			
Outstanding, aggregate intrinsic value		$ 16,600	
Recognized share-based compensation expense		6,000	
Unrecognized stock-based compensation expense		$ 7,500	
Share-based compensation service period		4 months 17 days	
Key Assumptions [Abstract]			
Performance period		2 years 11 months 1 day	
Expected volatility		57.40%	
Risk free rate		0.18%	
Market Condition RSU Awards [Member] | Senior Executive Officer [Member]			
Number of Shares [Roll Forward]			
Granted (in shares)	438,403		
Aggregate Intrinsic Value [Abstract]			
Share price (in dollars per share)	$ 42.40		
Number of consecutive trading days required for shares to vest		20 days	
Number of maximum consecutive trading days required for shares to vest		30 days	
Period of weighted average of share price of consecutive trading days equal to target price		30 days	

Weighted average period from date of grant	3 years