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**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, 2003

or

- ☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission file number 1-6035



THE TITAN CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE

(State or other jurisdiction of
incorporation or organization)

95-2588754

(I.R.S. Employer
Identification No.)

3033 Science Park Road

San Diego, California 92121-1199

(Address of principal executive offices, zip code)

(Registrant's telephone number, including area code) **(858) 552-9500**

(Former name, former address and former fiscal year, if changed since last report.)

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 is an accelerated filer as defined in rule 12b-2 of the Securities Exchange Act of 1934. Yes ☒ No ☐.

The number of shares of registrant's common stock outstanding at May 5, 2003, was 79,406,518.

Part I—FINANCIAL INFORMATION

Item 1. Financial Statements

THE TITAN CORPORATION CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited) (in thousands, except per share data)

	Three months ended March 31,	
	2003	2002
Revenues	\$ 377,880	\$ 314,348
Costs and expenses:		
Cost of revenues	315,276	253,425
Selling, general and administrative	39,517	34,653
Research and development	2,368	2,447
Exit and restructuring charges and other (Note 2)	—	1,486
Total costs and expenses	357,161	292,011
Operating profit	20,719	22,337
Interest expense	(8,099)	(8,322)
Interest income	612	135
Income from continuing operations before income taxes and cumulative effect of change in accounting principle	13,232	14,150
Income tax provision	5,293	6,237
Income from continuing operations before cumulative effect of change in accounting principle	7,939	7,913
Loss from discontinued operations, net of tax benefit (Note 4)	(938)	(1,426)
Cumulative effect of change in accounting principle, net of tax benefit (discontinued operations) (Note 3)	—	(40,111)
Net income (loss)	7,001	(33,624)
Dividend requirements on preferred stock	(172)	(172)
Net income (loss) applicable to common stock	\$ 6,829	\$ (33,796)
Basic earnings (loss) per share:		
Income from continuing operations before cumulative effect of change in accounting principle	\$ 0.10	\$ 0.11
Loss from discontinued operations, net of tax benefit	(0.01)	(0.02)
Cumulative effect of change in accounting principle, net of tax benefit (discontinued operations)	—	(0.57)
Net income (loss)	\$ 0.09	\$ (0.48)
Weighted average shares	78,622	70,771
Diluted earnings (loss) per share:		
Income from continuing operations before cumulative effect of change in accounting principle	\$ 0.10	\$ 0.11
Loss from discontinued operations, net of tax benefit	(0.01)	(0.03)
Cumulative effect of change in accounting principle, net of tax benefit (discontinued operations)	—	(0.55)
Net income (loss)	\$ 0.09	\$ (0.47)
Weighted average shares	81,097	72,385

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

THE TITAN CORPORATION
CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share data)

	March 31, 2003	December 31, 2002
Assets	(Unaudited)	
Current Assets:		
Cash and cash equivalents	\$ 36,311	\$ 34,123
Restricted cash	135	394
Accounts receivable—net	340,714	314,363
Inventories	31,383	31,280
Prepaid expenses and other	22,098	19,441
Deferred income taxes	103,258	108,046
Current assets of discontinued operations	100,166	103,871
Total current assets	634,065	611,518
Property and equipment — net	61,492	63,705
Goodwill	462,199	462,719
Other assets — net	92,544	99,903
Deferred income taxes	53,015	53,015
Non-current assets of discontinued operations	6,836	6,582
Total assets	\$ 1,310,151	\$ 1,297,442
Liabilities and Stockholders' Equity		
Current Liabilities:		
Current portion of amounts outstanding under line of credit	\$ 3,500	\$ 3,500
Accounts payable	73,495	81,376
Current portion of long-term debt	855	847
Accrued compensation and benefits	79,879	66,639
Other accrued liabilities	82,281	87,602
Current liabilities of discontinued operations	46,273	49,143
Total current liabilities	286,283	289,107
Long-term portion of amounts outstanding under line of credit	344,750	344,750
Other long-term debt	1,817	2,045
Other non-current liabilities	56,802	54,401
Non-current liabilities of discontinued operations	43,700	44,826
Company obligated mandatory redeemable convertible preferred securities of a subsidiary trust whose sole assets are senior subordinated debentures of Titan	250,000	250,000
Stockholders' Equity:		
Preferred stock: \$1 par value, authorized 5,000,000 shares:		
Cumulative convertible, \$13,800 liquidation preference, designated 1,068,102 shares: 688,129 shares issued and outstanding	688	688
Series A junior participating: designated 1,000,000 authorized shares: None issued		—
Common stock: \$.01 par value, authorized 200,000,000 shares, issued and outstanding: 79,182,497 and 78,344,550 shares	792	783
Capital in excess of par value	652,371	647,752
Deferred compensation	(5,951)	(8,791)
Retained earnings (deficit)	(320,317)	(327,318)
Accumulated other comprehensive income (loss)	(115)	(132)
Treasury stock (245,750 shares), at cost	(669)	(669)
Total stockholders' equity	326,799	312,313
Total liabilities and stockholders' equity	\$ 1,310,151	\$ 1,297,442

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

THE TITAN CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(in thousands of dollars)

	Three months ended March 31,	
	2003	2002
Cash Flows from Operating Activities:		
Income from continuing operations before cumulative effect of change in accounting principle	\$ 7,939	\$ 7,913
Adjustments to reconcile income from continuing operations to net cash provided by operating activities, net of effects of businesses acquired and sold:		
Depreciation and amortization	4,878	4,660
Deferred income taxes and other	5,801	5,286
Deferred compensation	2,840	973
Changes in operating assets and liabilities, net of the effects of businesses acquired and sold:		
Accounts receivable	(26,351)	12,202
Inventories	935	28
Prepaid expenses and other assets	1,901	(7,062)
Accounts payable	(7,881)	21,388
Accrued compensation and benefits	13,240	(1,761)
Income taxes payable	—	7,800
Other liabilities	2,324	(3,963)
Net cash provided by continuing operations	5,626	47,464
Loss from discontinued operations	(938)	(1,426)
Minority interest attributable to discontinued operations	—	(112)
Issuance of stock in subsidiaries	—	130
Acquisition of businesses, net of cash acquired	—	71
Deferred compensation charge attributable to discontinued operations	—	3,890
Changes in net assets and liabilities of discontinued operations	(1,080)	(44,793)
Net cash used for discontinued operations	(2,018)	(42,240)
Net cash provided by operating activities	3,608	5,224
Cash Flows from Investing Activities:		
Capital expenditures	(2,500)	(5,378)
Acquisition of businesses, net of cash acquired	—	26,767
Proceeds from sale of investments and business	—	1,500
Other investments	(62)	(945)
Other	89	109
Net cash provided by (used for) investing activities	(2,473)	22,053
Cash Flows from Financing Activities:		
Retirements of debt	(220)	(18,349)
Issuance of stock by subsidiaries	—	123
Deferred debt issuance costs	—	(1,132)
Decrease (increase) in restricted cash	259	(1,104)
Dividends paid	(172)	(172)
Proceeds from stock issuances	1,233	2,605
Other	(64)	(11)
Net cash provided by (used for) financing activities	1,036	(18,040)
Effect of exchange rate changes on cash	17	67
Net increase in cash and cash equivalents	2,188	9,304
Cash and cash equivalents at beginning of period	34,123	18,621
Cash and cash equivalents at end of period	\$ 36,311	\$ 27,925

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

THE TITAN CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)
(In thousands of dollars, except per share data)

	Cumulative Convertible Preferred Stock	Common Stock	Capital In Excess of Par Value	Deferred Compensation	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Three Months Ended March 31, 2003								
Balances at December 31, 2002	\$ 688	\$ 783	\$ 647,752	\$ (8,791)	\$ (327,318)	\$ (132)	\$ (669)	\$ 312,313
Exercise of stock options and other		5	1,228					1,233
Amortization of deferred compensation				2,840				2,840
Foreign currency translation adjustment						17		17
Shares contributed to employee benefit plans		4	3,563					3,567
Dividends on preferred stock - Cumulative convertible, \$.25 per share			(172)					(172)
Net income					7,001			7,001
Balances at March 31, 2003	\$ 688	\$ 792	\$ 652,371	\$ (5,951)	\$ (320,317)	\$ (115)	\$ (669)	\$ 326,799
Three Months Ended March 31, 2002								
Balances at December 31, 2001	\$ 690	\$ 701	\$ 586,802	\$ (34,519)	\$ (55,857)	\$ 128	\$ (987)	\$ 496,958
Issuance of stock for acquisitions		66	134,071				39	134,176
Exercise of stock options and other		4	2,601					2,605
Amortization of deferred compensation				4,863				4,863
Foreign currency translation adjustment						67		67
Shares contributed to employee benefit plans		2	3,596				6	3,604
Dividends on preferred stock -Cumulative convertible, \$.25 per share			(172)					(172)
Net loss					(33,624)			(33,624)
Balances at March 31, 2002	\$ 690	\$ 773	\$ 726,898	\$ (29,656)	\$ (89,481)	\$ 195	\$ (942)	\$ 608,477

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

THE TITAN CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2003
(in thousands, except share and per share data, or as otherwise noted)

Note (1) Basis of Financial Statement Preparation

The accompanying consolidated financial information of The Titan Corporation and its subsidiaries ("Titan" or the "Company") should be read in conjunction with the Notes to Consolidated Financial Statements contained in the Company's Annual Report on Form 10-K to the Securities and Exchange Commission for the year ended December 31, 2002. The accompanying financial information includes substantially all subsidiaries on a consolidated basis and all normal recurring adjustments which are considered necessary by the Company's management for a fair presentation of the financial position, results of operations and cash flows for the periods presented. However, these results are not necessarily indicative of results for a full fiscal year. Additionally, certain prior period amounts have been reclassified to conform to the current period presentation.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Prior to the discontinuance of certain operations in 2002 and 2001, the Company grouped its businesses into five business segments – Titan Systems, Titan Wireless, Software Systems (including Cayenta), Titan Technologies and the SureBeam business. As discussed in Note 4, Titan is no longer reporting the results of operations by these segments, however, reference may be made to these segments in discussions of other historical information. In accordance with Statement of Financial Accounting Standards ("SFAS") No. 131, "Disclosures about Segments of an Enterprise and Related Information," substantially all of the Company's operations are aggregated into one reportable segment given the similarities of economic characteristics between the operations and the common nature of the products, services, and customers.

Recent Accounting Pronouncements

Stock-Based Compensation. The Company has elected to adopt the disclosure only provisions of SFAS No. 123, "Accounting for Stock-Based Compensation". Accordingly, the Company accounts for its stock-based compensation plans under the provisions of APB No. 25. The Company also follows the disclosure requirements of SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure," which amends SFAS No. 123.

As allowed by SFAS No. 123, the Company has elected to continue to apply the intrinsic value based method of accounting described in APB No. 25 and has adopted the disclosure only provisions of SFAS No. 123. Compensation cost, if any, is measured as the excess of the quoted market price of the Company's stock on the date of grant over the exercise price of the grant. Had compensation cost for the Company's stock-based compensation plans been determined based on the fair value at the grant dates for awards under those plans consistent with the method of SFAS No. 123, the Company's results of operations would have been reduced to the pro forma amounts indicated below:

	Three months ended March 31,	
	2003	2002
Net income (loss), as reported	\$ 7,001	\$ (33,624)

Less: Additional stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects		(361)	(851)
Net income (loss), pro forma	\$	6,640	\$ (34,475)
Earnings (loss) per share:			
Basic as reported	\$	0.09	\$ (0.48)
Basic pro forma	\$	0.08	\$ (0.49)
Diluted as reported	\$	0.09	\$ (0.47)
Diluted pro forma	\$	0.08	\$ (0.49)

Note (2) Exit and Restructuring Charges and Other

Included in the quarter ended March 31, 2002 is \$1.5 million of restructuring costs related to the shutdown of Cayenta's headquarters office and network operations center.

At December 31, 2002, accruals for all exit and restructuring charges totaled \$37.8 million, comprised primarily of restructuring charges related to the merger of Titan Systems into Titan on September 25, 2002 and exit charges related to the shutdown of Cayenta's headquarters office. These exit and restructuring activities were accounted for under the Financial Accounting Standards Board's ("FASB") Emerging Issues Task Force (EITF) Issue No. 94-3. Effective January 1, 2003, the Company was required to adopt Statement of Financial Accounting Standards ("SFAS") No. 146 "Accounting for Costs Associated with Exit or Disposal Activities". SFAS No. 146 requires companies to record a liability for a cost associated with an exit or disposal activity when that liability is incurred and can be measured at fair value. A summary of the utilization of exit and restructuring accruals during the quarter ended March 31, 2003 is as follows (in millions):

	Ending Balance December 31, 2002	Cash paid 2003	Ending Balance March 31, 2003
Titan Systems restructuring:			
Estimated facilities consolidation costs	\$ 32.1	\$ (0.7)	\$ 31.4
Employee termination/retention costs and other	1.7	(1.5)	0.2
	33.8	(2.2)	31.6
Unsuccessful transaction costs	0.6	(0.6)	—
	34.4	(2.8)	31.6
Cayenta headquarters exit costs:			
Lease commitment costs	3.2	(0.6)	2.6
Employee termination costs and other	0.2	(0.1)	0.1
	3.4	(0.7)	2.7
	\$ 37.8	\$ (3.5)	\$ 34.3

At March 31, 2003, \$18.1 million of the exit and restructuring accruals are included in Other Accrued Liabilities on the consolidated balance sheet and \$16.2 million are included in Other Non-current

Liabilities. The remaining liability balance is primarily comprised of amounts due under the facilities consolidation, which requires payments in 2003 and 2004 for certain lease cancellation fees and other lease costs, with the remainder expected to be paid over the remaining lease terms, which expire in 2009.

Note (3) Cumulative Effect of Change in Accounting Principle

Effective January 1, 2002, the Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets," which establishes financial accounting and reporting for acquired goodwill and other intangible assets and supersedes APB Opinion No. 17, "Intangible Assets". Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but instead tested for impairment at least annually in accordance with the provisions of SFAS No. 142. SFAS No. 142 also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 144, "Accounting for Impairment or Disposal of Long-Lived Assets."

SFAS No. 142 requires that goodwill be tested for impairment at the reporting unit level at adoption and at least annually thereafter, utilizing a two step methodology. The initial step requires the Company to assess whether indications of impairment exist. If indications of impairment are determined to exist, the second step of measuring impairment is performed, wherein the fair value of the relevant reporting unit is compared to the carrying value, including goodwill, of such unit. If the fair value exceeds the carrying value, no impairment loss is recognized. However, if the carrying value of the reporting unit exceeds its fair value, the goodwill of the reporting unit is impaired.

In connection with the initial adoption of this standard as of January 1, 2002, during the first quarter of 2002, the Company's independent valuation consultant, Bearing Point (formerly KPMG Consulting, Inc.), completed step one of the test for impairment, which indicated that the carrying values of certain reporting units exceeded their estimated fair values, as determined utilizing various evaluation techniques including discounted cash flow and comparative market analysis. Thereafter, given the indication of a potential impairment, the Company completed step two of the test. Based on that analysis, a transitional impairment loss of \$40.1 million, which was net of a \$10.0 million tax benefit, was recognized in the first quarter of 2002 as the cumulative effect of an accounting change. The impairment charge resulted from a change in the criteria for the measurement of the impairment loss from an undiscounted cash flow method, as required by SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," to an estimated fair value analysis as required by SFAS No. 142. The gross \$50.1 million impairment charge recorded in the first quarter of 2002 was comprised of approximately \$27.5 million in certain components of our Cayenta business, approximately \$14.9 million in our AverCom business, which was previously reported in our Titan Technologies segment, both attributable to lower valuations and weakened outlook in commercial IT services, and approximately \$7.7 million in our Titan Wireless business. The entire \$50.1 million charge was related to discontinued businesses; approximately \$42.4 million of this charge pertained to businesses that were discontinued by the Company on March 1, 2002 with the remaining charge of \$7.7 million related to the Company's long distance telecommunications business that was discontinued in the third quarter of 2002.

Note (4) Discontinued Operations

In August 2002, the Company's board of directors made the decision to sell or otherwise divest its LinCom Wireless business and to sell a remaining commercial information technology business, both of which were previously reported in the Company's Titan Technologies segment. Accordingly, Titan has reflected both operations as discontinued in accordance with SFAS No. 144.

In July 2002, the Company's board of directors made the decision to exit all of its international telecommunications business through a combination of selling its operations within its Titan Wireless segment. Titan began implementing these actions immediately and expects to complete these actions

during 2003. The Company has reported this exit of the Titan Wireless segment as a discontinued operation in accordance with SFAS No. 144.

During the first quarter of 2002, the Company's board of directors made the decision to sell certain of its commercial information technology operations within its Cayenta segment and the AverCom business within the Titan Technologies segment. In accordance with SFAS No. 144, all commercial operations that have been sold or that are held for sale have been reflected as discontinued operations for all periods presented in Titan's consolidated financial statements.

On March 16, 2001, SureBeam Corporation, Titan's subsidiary that provides electronic food irradiation systems and services, completed an initial public offering ("IPO") of 6,700,000 shares of Class A common stock at a price of \$10 per share. On October 16, 2001, Titan adopted a definitive plan to spin off SureBeam in the form of a tax-free dividend to Titan stockholders within the next 12 months from that date. The plan involved filing a letter ruling request with the Internal Revenue Service ("IRS") to obtain approval of the tax-free distribution. Titan received a favorable ruling in May 2002, and on August 5, 2002, Titan's remaining ownership interest in SureBeam was spun-off to Titan stockholders as a tax-free dividend.

Following is a summary in tabular format of the loss from discontinued operations for 2003 (amounts in millions):

Three months ended March 31, 2003					
	Titan Wireless	Titan Technologies	Cayenta	SureBeam	Total
Losses from operations	\$ (0.5)	\$ (0.9)	\$ —	\$ —	\$ (1.4)
Tax benefit	(0.2)	(0.3)	—	—	(0.5)
Net loss	\$ (0.3)	\$ (0.6)	\$ —	\$ —	\$ (0.9)

Balance Sheet Summary

Following is a table of all related balance sheet categories for each discontinued operation:

	As of March 31, 2003	As of December 31, 2002
Current assets of discontinued operations:		
Titan Wireless	\$ 88,299	\$ 93,145
Cayenta	661	661
SureBeam	—	—
Titan Technologies	11,206	10,065
	\$ 100,166	\$ 103,871
Non-current assets of discontinued operations:		
Titan Wireless	\$ 4,426	\$ 4,212
Cayenta	—	—
SureBeam	—	—
Titan Technologies	2,410	2,370

	\$	6,836	\$	6,582
Current liabilities of discontinued operations:				
Titan Wireless	\$	36,447	\$	38,603
Cayenta		1,419		2,155
SureBeam		205		187
Titan Technologies		8,202		8,198
	\$	46,273	\$	49,143
Non-current liabilities of discontinued operations:				
Titan Wireless	\$	42,003	\$	42,821
Cayenta		928		1,205
SureBeam		—		—
Titan Technologies		769		800
	\$	43,700	\$	44,826

Included in the total assets of Titan Wireless as of March 31, 2003 are approximately \$90.2 million of gross accounts receivable, less approximately \$40.5 million (classified as a non-current liability) representing the amounts drawn on the non-recourse loan facility with the African Merchant Bank to cover subcontract costs on Titan Wireless's contract with the Office of Post and Telecommunications (OPT). The net accounts receivable of \$49.7 million are comprised of approximately \$31.8 million due from the OPT, \$14.4 million due from Titan Wireless's customer in Nigeria, and \$3.5 million due from customers of the GlobalNet business. The current liabilities of \$36.4 million of Titan Wireless include approximately \$8.7 million of remaining exit costs and approximately \$17.9 million of accounts payable and lease obligations of GlobalNet. Titan is endeavoring to divest these businesses through stock and asset sales and is currently in negotiations with a number of potential buyers of GlobalNet. In the event that Titan is unsuccessful in its endeavors to sell GlobalNet, Titan may incur a net cash outlay of approximately \$12.6 million, the net liability balance of GlobalNet, to shut down the business.

The current assets of Titan Technologies are primarily comprised of accounts receivable balances and prepaid assets.

Note (5) Debt

At March 31, 2003, total borrowings outstanding under the Company's senior credit facility were \$348.3 million at a weighted average interest rate of 4.15%. Commitments under letters of credit were \$12.3 million at March 31, 2003, \$12.2 million of which reduces availability of the working capital line. Of the total borrowings, \$3.5 million was short-term. At March 31, 2003, the Company was in compliance with all financial covenants under its various debt agreements.

On May 9, 2003, the Company priced a private placement of \$200 million of its 8% senior subordinated notes due 2011. Titan intends to use the net proceeds of this offering, together with proceeds from borrowings of \$50 million the Company expects to make under its existing revolving senior credit facility plus additional cash on hand, to redeem in their entirety its 5³/₄% HIGH TIDES convertible preferred securities and to pay associated fees and expenses. This offering is conditioned upon the effectiveness of an amendment to our existing senior credit facility to permit the offering and the redemption of the 5³/₄% HIGH TIDES. The amendment has been approved by the requisite lenders in our bank group and becomes effective upon the funding of the senior subordinated notes, which is expected to occur on May 15, 2003. The amendment to the senior credit facility includes the modification of certain financial covenants, specifically the total debt to EBITDA (as defined) ratio and a new total senior debt to EBITDA ratio. In addition, the amendment to the senior credit facility also includes increased interest rate margins for loans

made or outstanding under the senior credit facility at times when the ratio of our total debt to EBITDA equals or exceeds 3.5 to 1. The terms of the 5³/₄% HIGH TIDES require that we provide holders at least 20 days notice prior to any optional redemption of the 5³/₄% HIGH TIDES. The Company will provide that notice to the holders upon the consummation of the offering, and will deposit the net proceeds of the offering, together with enough additional cash to permit the mandatory redemption of the notes, into a secured proceeds account for investment in United States Treasury securities. The 8% senior subordinated notes are subject to mandatory redemption by Titan in the event that we do not redeem the 5³/₄% HIGH TIDES on or prior to the date 30 days after the date of issuance of the notes. The redemption price for the mandatory redemption of the 8% senior subordinated notes is 101% of the issue price of the notes, plus accrued and unpaid interest to the redemption date. The Company will incur approximately \$12.4 million in charges related to the extinguishment of the HIGH TIDES, comprised of the write-off of \$7.9 million of remaining deferred financing costs of HIGH TIDES, a call premium of \$3.6 million to redeem the HIGH TIDES, and approximately \$0.9 million of interest during the call period. All extinguishment charges will be recorded in the second quarter of 2003 as a charge to income from continuing operations. Following the redemption of the HIGH TIDES, availability on the working capital line will be reduced by \$50 million for the borrowings expected on the Company's revolving line of credit. In addition, the borrowing capacity available on the line of credit is subject to compliance with financial and other covenants included in our senior credit facility.

Note (6) Other Financial Information

The Company's only element of other comprehensive income resulted from foreign currency translation adjustments in all periods reported, which is reflected in the Consolidated Statements of Stockholders' Equity.

In connection with the determination of the fair value of assets acquired in connection with acquisitions in 2001, 2000 and 1999, and pursuant to the provisions of SFAS No. 141, the Company has valued acquired contracts in process at contract price, minus the estimated costs to complete and an allowance for the normal industry profit on its effort to complete such contracts. This adjustment has been reflected in the accompanying consolidated balance sheet as an increase to goodwill and a corresponding increase to deferred profit. The Company recognized approximately \$1.0 million and \$0 million as a reduction of costs against the deferred profit in the first quarter of 2002 and 2003, respectively. The remaining amount of \$0.8 million at March 31, 2003 is estimated to reduce costs through 2007.

Earnings Per Share

The following data summarize information relating to the per share computations for income from continuing operations before the cumulative effect of a change in accounting principle:

	Three months ended March 31, 2003			Three months ended March 31, 2002		
	Income (Numerator)	Shares (000's) (Denominator)	Per Share Amounts	Income (Numerator)	Shares (000's) (Denominator)	Per Share Amounts
Income from continuing operations before cumulative effect of change in accounting principle	\$ 7,939			\$ 7,913		
Less preferred stock dividends	(172)			(172)		
Effect of minority interests	—			(104)		

Basic EPS:

Income from continuing operations before cumulative effect of change in accounting principle available to common stockholders	7,767	78,622	\$ 0.10	7,637	70,771	\$ 0.11
Effect of dilutive securities:						
Stock options and warrants	—	2,475	—	—	1,614	—
Diluted EPS:						
Income from continuing operations before cumulative effect of change in accounting principle available to common stockholders	\$ 7,767	81,097	\$ 0.10	\$ 7,637	72,385	\$ 0.11

The effect of the minority interests primarily represents the dilutive effect of outstanding stock options of Titan's subsidiaries, notably Titan Systems in 2002.

In the three months ended March 31, 2003, options and warrants to purchase approximately 4,689,100 shares of common stock at prices ranging from \$9.76 to \$29.74 per share were not included in the computation of diluted EPS as the effect would have been anti-dilutive due to the exercise price. Options to purchase approximately 1,218,400 shares of common stock at prices ranging from \$20.70 to \$47.50 per share were not included in the computation of diluted EPS for the three month period ended March 31, 2002, as the effect would have been anti-dilutive due to the exercise price.

Approximately 6,776,500 and 5,038,000 shares in 2003 and 2002, respectively, from the potential conversion of remarketable term income deferrable equity securities (HIGH TIDES) were not included in the computations as their effect was anti-dilutive. Approximately 537,400 and 460,000 shares of common stock in the three months in 2003 and 2002, respectively, that could result from the conversion of cumulative convertible preferred stock were not included in the computations of diluted EPS, as the effect would have been anti-dilutive. The primary change in potential dilution from 2002 to 2003 for the HIGH TIDES and preferred stock is the change in conversion ratios due to the SureBeam spin-off (see Note 4).

Select Balance Sheet Data

Following are details concerning certain balance sheet data:

	March 31, 2003	December 31, 2002
Inventories:		
Materials	\$ 10,587	\$ 11,213
Work-in-process	12,600	9,947
Finished goods	8,196	10,120
	<u>\$ 31,383</u>	<u>\$ 31,280</u>

Supplemental Cash Flow Information

Supplemental disclosure of cash flow information:

Three months ended

	March 31,	
	2003	2002
Noncash investing and financing activities:		
Issuance of stock for acquisitions	\$ —	\$ 134,176
Shares contributed to employee benefit plans	3,567	3,604
Cash paid for interest	\$ 8,085	\$ 8,605
Cash paid for (provided by) income tax	338	(574)

In addition, net cash proceeds of \$26.8 million resulting from the acquisition of businesses, net of cash acquired was reported for the three months ended March 31, 2002. This was primarily the result of cash acquired from Jaycor, which was a stock transaction completed in March 2002.

Note (7) Commitments and Contingencies

During the first quarter of 2003, the Company entered into new long-term lease and sublease agreements for office space in Virginia and Maryland as part of the Company's efforts to consolidate various facilities of its government business into centralized locations (see Note 2). The lease and subleases in Virginia require future minimum lease payments of approximately \$100.4 million over approximately 13 years, commencing at various dates from May 2003 through May 2004. The lease in Maryland requires future minimum lease payments of approximately \$45.8 million over 10 years, commencing approximately July 1, 2004.

On August 16, 2002, Perimex International Corporation ("Perimex") filed a complaint against Titan, Titan Wireless and a former Titan Wireless employee in San Diego Superior Court in San Diego, California. The complaint alleges breach of contract, breach of the covenant of good faith and fair dealing, intentional interference with existing contractual relationships and prospective business advantage and violation of the California unfair competition law arising from an alleged failure of Titan Wireless to enter a joint venture with Perimex to provide wireless telecommunication services in Argentina and other related alleged misconduct. The complaint seeks damages of \$53.65 million and seeks injunctive relief prohibiting Titan and Titan Wireless from transferring any of Titan Wireless' assets. The court recently denied Perimex's request for a preliminary injunction, sustained Titan and Titan Wireless' demurrer as to all causes of action in the complaint and granted Perimex leave to amend the complaint. The court also ordered Perimex to post a bond for \$0.09 million to secure payment of Titan and Titan Wireless' costs if Titan prevails, or if Perimex does not prevail. Perimex elected not to post the bond and the complaint was voluntarily dismissed without prejudice by Perimex. However, Perimex has the right to file a new complaint. The Company believes that Perimex's claims are without merit and the Company intends to defend its position vigorously.

We are involved in legal actions in the normal course of our business, including audits and investigations by various governmental agencies that result from our work as a defense contractor. We and our subsidiaries are named as defendants in legal proceedings from time to time and we or our subsidiaries may assert claims from time to time. In addition, we acquire companies from time to time that have legal actions pending against them at the time of acquisition. The Company has received a grand jury subpoena from the Antitrust Division of the Department of Justice requesting the production of documents relating to information technology service we performed for the Air Force at Hanscom Air Force Base in Massachusetts. The Company has been informed that other companies who have performed such services have received subpoenas as well. We have been cooperating and will continue to cooperate fully with the investigation.

The Company received a subpoena from the office of Inspector General for the National Aeronautics and Space Administration, or NASA, seeking certain records relating to billing for labor services in connection with our contracts with NASA. We also received a subpoena from the office of Inspector

General for the General Services Administration, or GSA, seeking similar records relating to billing for labor categories in connection with contracts with GSA. We are fully cooperating with the government's inquiries in these areas.

Based upon current information and review, we believe the ultimate liability or recovery with respect to pending actions would not materially affect our consolidated financial position or results of operations. However, our evaluation of the likely impact of these actions could change in the future and an unfavorable outcome, depending upon the amount and timing, could have a material adverse effect on the Company's results of operations or cash flows in a future period.

Note (8) Related Party Transactions

Agreements With Executive Officers

In 2000, the Company entered into an agreement with the Company's Chairman of the Board, President and Chief Executive Officer and the Company's General Counsel (hereinafter referred to as the "Executives") to reinforce and encourage their continued dedication without distraction arising from the possibility of a change in control of Titan. The terms of the agreements provide that, in the event of a Change in Control (as defined), and the termination of the Executive's employment at any time during the three-year period thereafter by the Company other than for cause (as defined) or by the Executive for good reason (as defined), the Executives will be paid a lump sum amount equal to three times their base salary plus maximum annual bonus. Additionally, the Executives will receive a prorated bonus for the year of termination and continuation of medical and dental benefits covering the Executives and their dependents for three years following the termination.

Under the agreements, Change in Control is deemed to have occurred in the event of (i) the acquisition by any person, together with its affiliates, of beneficial ownership of our voting securities possessing 20% or more of the combined voting power of our outstanding voting securities, (ii) the majority of the members of the board being comprised of individuals other than those who were members at the time of execution of the agreements, unless the new members elected were approved or nominated by a majority of the members of the then-incumbent board or (iii) the consummation of a merger, reorganization, consolidation or sale or other disposition of all or substantially all of our assets, subject to certain exceptions.

On April 2, 2003, the Company entered into an Employment Agreement with the Company's Chairman of the Board, President and Chief Executive Officer (hereinafter referred to as the "CEO") in connection with his duties in these positions. Among other things, the terms of the agreement provide for continued employment of the CEO by Titan for a term of three years, eligibility to receive annual incentive awards and to participate in long-term incentive, employee benefit and retirement programs. In the event that the CEO is terminated without cause, or retires at the end of the term of the agreement, he will be entitled to a lump sum equal to three times the sum of his current base salary and target bonus, a prorated bonus for the year of termination, vesting of all outstanding stock options and participation for the CEO and his dependents in our extended health benefits program for retired senior executives.

Also, on April 2, 2003 the Company entered into Employment Agreements with the Company's General Counsel and the Company's Chief Financial Officer (hereinafter referred to as the "Officers") in connection with their duties in those positions. Among other things, the terms of their agreements provide for continued employment by Titan for a term of two years, eligibility to receive annual incentive awards and to participate in long-term incentive, employee benefit and retirement programs. In the event of termination without cause, the Officers will each be entitled to a lump sum equal to two times the sum of their respective current base salaries and target bonuses, a prorated bonus for the year of termination, vesting of all outstanding stock options and continued medical and dental benefits coverage for a period of two years. The Chairman and Officers have agreed to non competition and non solicitation covenants in connection with their respective employment agreements.

Certain Relationships And Related Transactions

In conjunction with Titan's plan to exit its international telecommunications business, Titan entered into an agreement with Geolutions, Inc. ("Geolutions") to assume and perform all of Titan Wireless's outstanding warranty obligations. Geolutions is a newly formed company, founded by a former executive of Titan Wireless and former officer of Titan. Titan has a fixed price contract of \$1.9 million, plus incidental expenses of up to \$0.6 million and other third party costs of an aggregate maximum of \$1.4 million, which is payable through mid 2004, the period over which Titan's warranty obligations exist on its existing customer contracts. The contract is cancelable by Titan under certain circumstances of non-performance by Geolutions. In conjunction with Titan's agreement with Geolutions, Titan has assigned its existing warranty obligations in its international telecommunications business with its existing customers to Geolutions. If Geolutions fails to perform these contracted obligations, Titan Wireless remains obligated to perform them and may incur costs in excess of these contracted amounts.

In March 2002, our Board of Directors adopted a stock option relinquishment program, the primary purpose of which was to align the interests of our directors and senior executives more closely with our stockholders' interests by allowing directors and senior executives to participate in the appreciation in our equity value:

- without requiring our Directors and executive officers to trade shares of our common stock obtained through the exercise of options on the open market; and
- without the dilutive and potentially stock-price depressive effects associated with the exercise and subsequent sale of stock option shares.

The program also was intended to assist the participants with their individual financial planning. Under the program, a participant was allowed to relinquish eligible, in-the-money stock options in exchange for a loan, the principal amount of which was 150% of the difference between the aggregate exercise price of the options and the product of (i) the number of shares issuable upon exercise of the options and (ii) a 20 day trailing average of the daily high and low sales price of our common stock prior to relinquishment. The loans bear interest at a rate equal to the applicable federal rate as published by the Internal Revenue Service for the month in which the loan was made. The loans were made contingent upon the participant's utilizing a portion of the loan proceeds to purchase a life insurance policy with a death benefit sufficient to repay the loan and accrued interest thereon upon maturity.

Under the program the following transactions have occurred:

- Dr. Ray, Chairman of the Board and Chief Executive Officer: 222,380 options relinquished on June 18, 2002, \$3,985,725 principal amount of loan, 5.48% interest per annum;
- Mr. Fink, Director: 15,000 options relinquished on June 27, 2002, \$336,337.50 principal amount of loan, 5.48% interest per annum; and
- Mr. Alexander, Director: 19,972 options relinquished effective June 19, 2002, \$499,999 principal amount of loan, 5.48% interest per annum.

The amount of the stock options relinquished under the program do not reflect any adjustment as a result of the spin-off of our subsidiary SureBeam Corporation August 5, 2002, since the relinquishment occurred before the date for said adjustment. Titan has recorded interest income of \$0.2 million to date related to the accrued interest on the outstanding loans due from the directors noted above.

As of the effective date of the Sarbanes-Oxley Act in July 2002, which precludes such loans to company officers and directors, the Stock Option and Relinquishment Plan was no longer available to our Directors and executive officers.

SureBeam Agreements

Prior to the spin-off of SureBeam Corporation, Titan and SureBeam entered into a number of agreements.

Credit Agreement. We have extended a \$50 million senior secured revolving loan commitment to SureBeam that allows SureBeam to borrow up to \$29.5 million through the third quarter of 2002, and up to \$12.5 million per quarter beginning in the fourth quarter of 2002 through the fourth quarter of 2003, subject to the \$50 million limitation on borrowing. The amount available for borrowing in the second, third and fourth quarters of 2003 is based upon SureBeam's earnings before interest, taxes, depreciation and amortization (EBITDA) for the prior quarter as a percentage of the EBITDA target in its financial plan submitted to Titan. As of March 31, 2003, SureBeam had borrowed \$25 million on this facility, of which \$21.6 million is reflected as a non-current asset in Other Assets and \$3.4 million is reflected as a current asset in Prepaid expenses and other on the consolidated balance sheet. On February 3, 2003, SureBeam filed a Form 8-K with the Securities and Exchange Commission wherein SureBeam stated that they do not anticipate borrowing additional amounts on the credit facility during 2003 or during the remaining period that the credit facility is outstanding. There have been no additional borrowings in 2003.

SureBeam is obligated to make quarterly principal payments on the credit facility as follows: 13.75% of the outstanding principal balance as of December 31, 2003 during each quarter in 2004; 25% of the outstanding principal balance as of December 31, 2004 during each quarter in 2005; and all remaining principal by December 31, 2005. In March 2003, SureBeam and Titan entered into an agreement amending the credit agreement. That amendment waived, subject to certain conditions, SureBeam's obligation to use net proceeds from the sale of up to \$25 million of its equity securities to make mandatory payments under the credit agreement during the period of March 2003 through September 2004. In connection therewith, SureBeam agreed to provide for certain change orders and the furnishing of maintenance services under the Equipment Services Agreement.

In addition, Titan has guaranteed certain lease obligations of SureBeam, and SureBeam is obligated to reimburse Titan for any payments we make under these guarantees. Any guarantee payments Titan makes reduce amounts available for future borrowing under the credit agreement. The aggregate amount of the lease obligations Titan has guaranteed as of March 31, 2003 is approximately \$23.1 million. The leases extend through periods ending in 2020.

In relation to SureBeam's strategic alliance with Hawaii Pride, Titan has guaranteed up to the greater of SureBeam's equity interest in Hawaii Pride (which is currently zero), or 19.9% of Hawaii Pride's \$6.8 million, 15-year loan from its lender, Web Bank. As of March 31, 2003, Titan has guaranteed approximately \$1.2 million, or 19.9% of the current loan balance of \$6.0 million. In the event that Hawaii Pride defaults on the loan, Titan may be obligated to cover any defaults on the entire outstanding balance of the loan.

Tax Allocation Agreement and Tax Disaffiliation and Tax Sharing Agreement. We have agreed to pay SureBeam for any tax benefits we realized through our use of net operating losses generated by SureBeam while it was a member of our consolidated group for federal income tax purposes. Through 2001, Titan utilized net operating losses previously generated by SureBeam which resulted in an estimated liability of approximately \$6.2 million. The Company estimates that in 2002 it will utilize net operating losses previously generated by SureBeam which may result in a liability of approximately \$1.9 million, which will be finalized upon completion of the Company's 2002 corporate tax return. As of March 31, 2003, all amounts have been accrued related to the estimated liability related to the utilization of the net operating losses previously generated by SureBeam. Payment is due the earlier of the first year in which SureBeam

could have used those losses to reduce its taxes or when the net operating losses expire. SureBeam has not generated taxable income since its inception, and we do not know if and when SureBeam will generate taxable income and, accordingly, when such payment will become due. The net operating losses generated in 2001 and 2002 expire in 2021 and 2022, respectively.

Other Agreements. In connection with the license Titan purchased to use SureBeam's intellectual property, the remaining unamortized balance of \$7.4 million at March 31, 2003, is reflected as a non-current asset in Other Assets in the consolidated balance sheet. The license is being amortized over a 15 year life, the average life of the related patents.

Titan has agreed to purchase all of its requirements for electron beam accelerators from SureBeam through December 31, 2003 unless SureBeam does not offer competitive pricing or cannot meet required delivery schedules. The equipment and services are priced at SureBeam's cost plus a 20% markup unless Titan agrees to an alternative pricing arrangement for a purchase order.

Titan has subleased to SureBeam approximately 70,522 square feet used for its service center in Sioux City, Iowa, as well as facilities in Dublin, California, Omaha, Nebraska and Saudi Arabia. Generally, SureBeam is paying Titan sublease payments equal to Titan's monthly expense under these leases plus a 10% markup. SureBeam is obligated to continue to seek to have itself substituted as the direct lessee under each master lease so that the sublease can be terminated.

THE TITAN CORPORATION

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

(Dollar amounts in thousands, except share and per share data, or as otherwise noted)

Results of Operations

As a result of Titan's decision in the third quarter of 2002 to exit substantially all of its remaining commercial businesses and because most of Titan's remaining operations are its government businesses, Titan is no longer reporting the results of operations by segments in accordance with SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." Also, as a result of these decisions, the Company merged its Titan Systems Corporation subsidiary, which encompassed its primary government businesses, into The Titan Corporation on September 25, 2002.

Revenues

Our consolidated revenues increased from \$314.3 million in the first quarter of 2002 to \$377.9 million in the first quarter of 2003, reflecting a 20% increase. Increased revenues were attributable to our core national security business, which comprised over 99% of our revenue for the period. The most notable contributors to the increase in revenues were continued growth on our enterprise information technology contract with the Special Operations Command, which contributed approximately \$12.6 million of increased revenues and increased demand from the intelligence community for technical services including systems integration services, including our contact with the Army's Intelligence and Security Command for linguist support, which experienced increased demand resulting from the war on terrorism and the war in Iraq, which resulted in approximately \$11.3 million of increased revenues. In addition, increased revenues were due in part to increased work in areas related to homeland security such as continuity of operations planning and emergency response training and work for the Air Force's Electronic Systems Center (ESC) on a variety of technical, engineering, systems integration and acquisition support contracts. Revenues from the Navy also increased in the first quarter in large part as a result of increased work for the Naval Air Systems Command for systems engineering and program support services. Also, the acquisitions of Jaycor in the first quarter of 2002 and Wave Science in the fourth quarter of 2002, contributed \$19.7 million of the increase.

Selling, General and Administrative

Our SG&A expenses increased from \$34.7 million in the first quarter of 2002, to \$39.5 million in the first quarter of 2003, a 14% increase. The increase is primarily a result of the increased revenues discussed above and increased deferred compensation amortization in 2003. Included in SG&A was amortization of purchased intangibles of \$1.4 million and \$1.2 million, respectively, and deferred compensation amortization expense of \$1.0 million and \$2.8 million, respectively, in the quarters ended March 31, 2002 and 2003. The increase in the deferred compensation in the quarter ended March 31, 2003 resulted from the merger of Titan's defense subsidiary, Titan Systems, into Titan, which occurred on September 25, 2002, and resulted in the exchange of all outstanding Titan Systems stock options for Titan Corporation stock options. Excluding the amortization of purchased intangibles and deferred compensation, SG&A decreased as a percentage of revenues from 10.3% of revenues in the quarter ended March 31, 2002 to 9.4% in the quarter ended March 31, 2003. The decrease in 2003 is primarily attributable to overall increased economies of scale with higher revenues.

Research and Development

Our R&D expenses remained fairly constant at \$2.4 million in the first quarters of 2002 and 2003. As a percentage of revenues, R&D expenses decreased slightly from 0.8% in the first quarter of 2002 to 0.6% in the first quarter of 2003.

Exit and Restructuring Charges and Other

Fiscal 2002 Charges

Exit and restructuring charges and other of \$1.5 million in the first quarter of 2002 were related to the shut-down of Cayenta's headquarters office and network operations center.

Operating Profit

Our operating profit decreased from operating profit of \$22.3 million in the three months ended March 31, 2002 to operating profit of \$20.7 million in the three months ended March 31, 2003. Included in the operating results for the three months ended March 31, 2002 is deferred compensation amortization expense of \$1.0 million, amortization of purchased intangibles of \$1.4 million and exit and restructuring charges and other of \$1.5 million. Included in the operating results for the three months ended March 31, 2003 is deferred compensation amortization expense of \$2.8 million and amortization of purchased intangibles of \$1.2 million. Excluding the impact of these charges, operating income decreased from \$26.2 million in the first quarter of 2002 to \$24.8 million in the first quarter of 2003. The year over year decline in overall operating profit was primarily related to our non-core commercial electron beam medical products sterilization and mail sanitation business, which had particularly strong results in the first quarter of 2002 related to our contract with the United States Postal Service to deliver mail sanitation systems. Conversely, operating margin in the first quarter of 2003 was adversely impacted by a \$1 million loss in this business, which experienced higher than expected costs in delivering medical sterilization systems to two customers.

Interest Expense, Net

Our net interest expense decreased from \$8.2 million in the first quarter of 2002, to \$7.5 million in the first quarter of 2003. Net interest expense decreased primarily as a result of reduced effective interest rates on our credit facility as well as an increase of interest income in 2003. The increase in interest income was primarily related to interest income due from SureBeam on the outstanding balance of its credit facility. Borrowings from our senior credit facility, excluding working capital lines from acquired companies, averaged \$354.3 million for the three months ended March 31, 2003, at a weighted average rate of 4.68%, compared to \$312.5 million in the three months ended March 31, 2002, at weighted average interest rates of 5.04%.

Income Taxes

Consolidated income taxes reflect effective rates of 44% in the quarter ended March 31, 2002, compared to 40% in the quarter ended March 31, 2003. The 2003 rate reflects the expected provision rate for the full year.

Loss From Discontinued Operations

In the quarter ended March 31, 2002, loss from discontinued operations was \$1.4 million, net of a tax benefit of \$1.5 million. The net loss was primarily related to net operating losses of \$1.9 million and \$0.7 million in the Company's LinCom Wireless and Titan Wireless businesses, respectively, offset in part by net income of \$1.2 million generated in our commercial information technology business.

In the quarter ended March 31, 2003, loss from discontinued operations was \$0.9 million, net of a tax benefit of \$0.5 million. The net loss included \$0.3 million in net operating losses related to the exit of the Company's international telecommunications business, Titan Wireless, and \$0.6 million in net operating losses from the disposal or wind-down of the Company's commercial information technology business and the LinCom Wireless business which were discontinued in the first and third quarters of 2002.

Net Income (Loss)

In the quarter ended March 31, 2002, we reported a net loss of \$33.6 million, compared to net income of \$7.0 million in the quarter ended March 31, 2003. Loss from discontinued operations was \$1.4 million in the quarter ended March 31, 2002, compared to a loss of \$0.9 million in the quarter ended March 31, 2003. Included in the net loss for the three months ended March 31, 2002, is a charge of \$40.1 million for the Company's adoption of SFAS No. 142, all related to discontinued operations, which is reported as a cumulative effect of a change in accounting principle.

Liquidity and Capital Resources

We generated cash of approximately \$5.6 million from our continuing operations during the three months ended March 31, 2003, primarily resulting from our core government business, net of an increase in receivable balances of approximately \$26.4 million. Accounts receivable collections and billings of unbilled receivables have historically been more difficult for us in the first quarter of the year, which this year was further adversely affected by the delayed passage of the government budget for 2003, which impacted funding for some of our federal civilian agency contracts. Our investing activities used net cash of approximately \$2.5 million, primarily for capital expenditures. Financing activities provided \$1.0 million, primarily from the exercise of stock options.

At March 31, 2003, total borrowings under our credit facility were \$348.3 million at a weighted average interest rate of 4.15%. Commitments under letters of credit were \$12.3 million at March 31, 2003, \$12.2 million of which reduce availability of our working capital line, resulting in \$122.8 million of availability on our working capital line at March 31, 2003. Of the total borrowings, \$3.5 million was short-term. At March 31, 2003, the Company was in compliance with all financial covenants.

On May 9, 2003, the Company priced a private placement of \$200 million of its 8% senior subordinated notes due 2011. Titan intends to use the net proceeds of this offering, together with proceeds from borrowings of \$50 million the Company expects to make under its existing revolving senior credit facility plus additional cash on hand, to redeem in their entirety its 5³/₄% HIGH TIDES convertible preferred securities and to pay associated fees and expenses. This offering is conditioned upon the effectiveness of an amendment to our existing senior credit facility to permit the offering and the redemption of the 5³/₄% HIGH TIDES. The amendment has been approved by the requisite lenders in our bank group and becomes effective upon the funding of the senior subordinated notes, which is expected to occur on May 15, 2003. The amendment to the senior credit facility includes the modification of certain financial covenants, specifically the total debt to EBITDA (as defined) ratio and a new total senior debt to EBITDA ratio. In addition, the amendment to the senior credit facility also includes increased interest rate margins for loans made or outstanding under the senior credit facility at times when the ratio of our total debt to EBITDA equals or exceeds 3.5 to 1. The terms of the 5³/₄% HIGH TIDES require that we provide holders at least 20 days notice prior to any optional redemption of the 5³/₄% HIGH TIDES. The Company will provide that notice to the holders upon the consummation of the offering, and will deposit the net proceeds of the offering, together with enough additional cash to permit the mandatory redemption of the notes, into a secured proceeds account for investment in United States Treasury securities. The 8% senior subordinated notes are subject to mandatory redemption by Titan in the event that we do not redeem the 5³/₄% HIGH TIDES on or prior to the date 30 days after the date of issuance of the notes. The redemption price for the mandatory redemption of the 8% senior subordinated notes is 101% of the issue price of the notes, plus accrued and unpaid interest to the redemption date. The Company will incur approximately \$12.4 million in charges related to the extinguishment of the HIGH TIDES, comprised of the write-off of \$7.9 million of remaining deferred financing costs of HIGH TIDES, a call premium of \$3.6 million to redeem the HIGH TIDES, and approximately \$0.9 million of interest during the call period. All extinguishment charges will be recorded in the second quarter of 2003 as a charge to income from continuing operations. Following the redemption of the HIGH TIDES, availability on the working capital line will be reduced by \$50 million for the borrowings expected on the Company's revolving line of credit. In addition, the borrowing capacity available on the line of credit is subject to compliance with financial and other covenants included in our senior credit facility.

Related to the Company's contract with the national telephone company of Benin (the "OPT"), Titan has a \$72.3 million gross receivable due from the OPT, which is reflected in Non-current Assets of Discontinued Operations as of March 31, 2003. In addition, approximately \$40.5 million was drawn on the non-recourse loan with the Africa Merchant Bank, which has been reflected in Non-Current Liabilities of Discontinued Operations in the accompanying consolidated balance sheet. The \$40.5 million drawn on the facility reflects the amount that has been funded by the Africa Merchant Bank to cover subcontract costs. As of March 31, 2003, the carrying value, net of non-recourse debt, due on this contract was approximately \$31.8 million. During 2002, approximately \$2.4 million was collected on the Company's receivable from the OPT, and approximately \$3.7 million has been collected in the quarter ended March 31, 2003.

Titan is endeavoring to divest discontinued businesses through stock and asset sales, and is currently in negotiations with a number of potential buyers, including buyers interested in GlobalNet. In the event that Titan is unsuccessful in its endeavors specific to sell GlobalNet, Titan may have to pay the remaining net liabilities and incur a net cash outlay of approximately \$12.6 million to shut down the business. Titan may also incur unforeseen liabilities if it decides to shut down GlobalNet.

There are no Titan guarantees of debt, either directly or indirectly, associated with Ivoire Telecom or Sakon or any other unconsolidated subsidiaries other than approximately \$1.4 million of equipment financing.

The Company's \$50 million senior secured revolving loan commitment to SureBeam provides for borrowings up to \$29.5 million through the third quarter of 2002, and up to \$12.5 million per quarter beginning in the fourth quarter of 2002 through the fourth quarter of 2003, subject to the \$50 million limitation on borrowing. The amount available for borrowing in the second, third and fourth quarters of 2003 is based upon SureBeam's earnings before interest, taxes, depreciation and amortization (EBITDA) for the prior quarter as a percentage of the EBITDA target in its financial plan submitted to Titan. Our aggregate level of indebtedness, and our debt service requirements, may increase to the extent we loan additional funds to SureBeam under the credit facility. SureBeam is obligated to make quarterly principal payments on the credit facility as follows: 13.75% of the outstanding principal balance as of December 31, 2003 during each quarter in 2004; 25% of the outstanding principal balance as of December 31, 2004 during each quarter in 2005; and all remaining principal by December 31, 2005. In addition, with some exceptions, including as described below in connection with our recent amendment to the credit agreement, SureBeam is obligated to use net proceeds from the sale of assets and its securities to repay amounts advanced under this facility. In March 2003, Titan and SureBeam entered into an agreement amending the credit agreement. That amendment waived, subject to certain conditions, SureBeam's obligation to use net proceeds from the sale of up to \$25 million of its equity securities during the period from March 2003 through September 2004 to make mandatory payments under the credit agreement. In connection therewith, SureBeam agreed to provide for certain change orders and the furnishing of maintenance services under the Equipment Services Agreement between us and SureBeam executed in February 2002. Interest is payable monthly beginning in January 2003. As of March 31, 2003, SureBeam had borrowed \$25 million on this facility. On February 3, 2003, SureBeam filed a Form 8-K with the Securities and Exchange Commission wherein SureBeam stated that they do not anticipate borrowing additional amounts on the credit facility during 2003 or during the remaining period that the credit facility is outstanding. There have been no additional borrowings in 2003.

In addition, Titan has guaranteed certain lease obligations of SureBeam and SureBeam is obligated to reimburse us for any payments we make under these guarantees. Any guarantee payments we make reduce amounts available for future borrowing under the credit agreement. Some of the guaranteed leases have longer terms than the credit facility. If Titan remains a guarantor at the maturity date for the credit facility, then SureBeam will enter into a reimbursement agreement with Titan covering the outstanding guarantees. The aggregate amount of the lease obligations Titan has guaranteed as of March 31, 2003 is approximately \$23.1 million. The leases extend through periods ending in 2020. In relation to SureBeam's strategic alliance with Hawaii Pride, Titan has guaranteed up to the greater of SureBeam's equity interest in Hawaii Pride (which is currently zero), or 19.9% of Hawaii Pride's \$6.8 million, 15-year loan from its lender, Web Bank. As of March 31, 2003, Titan has guaranteed approximately \$1.2 million, or 19.9% of the current

loan balance of \$6.0 million. In the event Hawaii Pride defaults on the loan, Titan may be obligated to cover any defaults on the entire outstanding balance of the loan.

Titan and SureBeam have entered into an exclusive contract for the purchase and sale of electronic beam accelerators through December 31, 2003 unless SureBeam does not offer competitive pricing.

Our strategic goals include the pay down of indebtedness, continued funding of capital expenditures and the funding of potential strategic acquisitions. We plan to finance these requirements from a combination of sources, which include cash generation from our core businesses, our credit facility and potential cash generated from the disposal of discontinued businesses. Management believes that the combination of our existing cash, amounts available under our credit facility and cash flow expected to be generated from our operations will be sufficient to fund planned investments and working capital requirements for at least the next twelve months. However, we could elect, or we could be required, to raise additional funds during that period and we may need to raise additional capital in the future. Additional capital may not be available at all, or may not be available on terms favorable to us. Any additional issuance of equity or equity-linked securities may result in substantial dilution to our stockholders. Management is continually monitoring and reevaluating its level of investment in all of its operations and the financing sources available to achieve our goals.

Forward Looking Information: Certain Cautionary Statements: "Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995:

Statements contained in this Management's Discussion and Analysis of Financial Condition and Results of Operations and otherwise which are not historical facts are forward looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Examples of such forward looking statements include our expectations regarding our continuing funding for the advancement of our strategic goals, including the intent to pay down indebtedness, acquisitions, the Company's expectations regarding the operations of Titan Wireless, that it believes that it will be able to complete planned exit actions in Titan Wireless, that it will collect remaining receivable balances and sell GlobalNet in Titan Wireless, that the Company will be able to sell or dispose of any assets which are not material to its core business, that the Company's collection cycle will improve, and management's belief as to the outcome of pending litigation or claims and any other expressions of belief, expectation, anticipation, plan, strategies, intention, possibilities or elections, including statements of events or contingencies that may or could occur or similar statements. Actual results may differ materially from those stated or implied in the forward looking statements. Further, certain forward looking statements are based upon assumptions of future events which may not prove to be accurate and are subject to risks and uncertainties that could cause actual results to differ materially from those set forth or implied by forward looking statements. These risks and uncertainties include but are not limited to those referred to in the Company's Annual Report on Form 10-K for the year ended December 31, 2002, including its ability to access the capital markets, dependence on continued funding of U.S. Department of Defense and federal civilian agency programs, that the Government will fund, continue to make awards or exercise options, and issue task orders against the potential funding ceiling of contracts, contract termination risks, risks associated with acquiring other companies, including integration risks, risks associated with divesting its discontinued commercial businesses, and other risks described in the Company's Securities and Exchange Commission filings.

Item 4. Controls and Procedures.

Evaluation of Disclosure Control and Procedures.

Under the supervision and with the participation of our executive management, including our Chief Executive Officer and Chief Financial Officer, we performed an evaluation of the effectiveness and design of our disclosure controls and procedures within 90 days before the filing date of this quarterly report.

Based on that evaluation, our executive management, including our Chief Executive Officer and our Chief Financial Officer, concluded that our disclosure controls and procedures are effective.

Changes in internal controls.

There have been no significant changes in our internal controls or procedures or other factors that could significantly affect our internal controls.

PART II—OTHER INFORMATION

THE TITAN CORPORATION

Item 1. Legal Proceedings.

On August 16, 2002, Perimex International Corporation (“Perimex”) filed a complaint against Titan, Titan Wireless and a former Titan Wireless employee in San Diego Superior Court in San Diego, California. The complaint alleges breach of contract, breach of the covenant of good faith and fair dealing, intentional interference with existing contractual relationships and prospective business advantage and violation of the California unfair competition law arising from an alleged failure of Titan Wireless to enter a joint venture with Perimex to provide wireless telecommunication services in Argentina and other related alleged misconduct. The complaint seeks damages of \$53.65 million and seeks injunctive relief prohibiting Titan and Titan Wireless from transferring any of Titan Wireless’ assets. The court recently denied Perimex’s request for a preliminary injunction, sustained Titan and Titan Wireless’ demurrer as to all causes of action in the complaint and granted Perimex leave to amend the complaint. The court also ordered Perimex to post a bond for \$0.09 million to secure payment of Titan and Titan Wireless’ costs if Titan prevails, or if Perimex does not prevail. Perimex elected not to post the bond and the complaint was voluntarily dismissed without prejudice by Perimex. However, Perimex has the right to file a new complaint. The Company believes that Perimex’s claims are without merit and the Company intends to defend its position vigorously.

In the ordinary course of business, defense contractors are subject to many levels of audit and investigation by various government agencies. The Company has received a grand jury subpoena from the Antitrust Division of the Department of Justice requesting the production of documents relating to information technology service we performed for the Air Force at Hanscom Air Force Base in Massachusetts. The Company has been informed that other companies who have performed such services have received subpoenas as well. We have been cooperating and will continue to cooperate fully with the investigation.

We received a subpoena from the office of Inspector General for the National Aeronautics and Space Administration, or NASA, seeking certain records relating to billing for labor services in connection with our contracts with NASA. We also received a subpoena from the office of Inspector General for the General Services Administration, or GSA, seeking similar records relating to billing for labor categories in connection with contracts with GSA. We are fully cooperating with the government’s inquiries in these areas.

Further, we are subject to claims and from time to time are named as defendants in various types of legal proceedings. We may also assert claims from time to time. Based upon current information and review, in the opinion of management, the amount of ultimate liability or recovery with respect to these actions will not materially affect our financial position or results of operations taken as a whole. However, our evaluation of the likely impact of these actions could change in the future and an unfavorable outcome, depending upon the amount and timing, could have a material adverse effect on our results of operations or our cash flows in a future period.

Item 6. Exhibits and Reports on Form 8-K.

a. List of exhibits:

- 10.1 Agreement of Lease by and between NBP 220, LLC and The Titan Corporation (“220 National Business Park”), dated March 31, 2003, including all exhibits and attachments.
- 10.2 Deed of Lease dated April 1, 2003, by and between Two Freedom Square, L.L.C. and The Titan Corporation, including all exhibits and attachments.

- 10.3 Employment Agreement, made and entered into as of April 3, 2003 by and between The Titan Corporation, a Delaware corporation, and Dr. Gene W. Ray.
 - 10.4 Employment Agreement, made and entered into as of April 3, 2003 by and between The Titan Corporation, a Delaware corporation, and Mark Sopp.
 - 10.5 Employment Agreement, made and entered into as of April 3, 2003 by and between The Titan Corporation, a Delaware corporation, and Nicholas J. Costanza.
 - 99.1 Certification of Periodic Financial Reports pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- b. During the three months ended March 31, 2003, and through the date of this filing, the Company filed the following Forms 8-K and 8-K/A:
- (1) Current Report on Form 8-K dated April 29, 2003 and filed on April 30, 2003 to furnish Regulation FD Disclosure pursuant to “Item 12. Results of Operations and Financial Condition” on Form 8-K in accordance with the Securities and Exchange Commission’s Release Nos. 33-8216 and 34-47583.
 - (2) Current Report on Form 8-K dated and filed on April 30, 2003, to announce the Company’s intention to offer \$200 million of senior subordinated notes due 2001 for sale in a private placement.

**THE TITAN CORPORATION
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.

Dated: May 13, 2003

THE TITAN CORPORATION

By: /s/ GENE W. RAY

Gene W. Ray
*Chief Executive Officer,
Chairman of the Board*

By: /s/ MARK W. SOPP

Mark W. Sopp
*Senior Vice President,
Chief Financial Officer*

By: /s/ DEANNA J. HOM

Deanna J. Hom
*Vice President,
Corporate Controller
(Principal Accounting Officer)*

CERTIFICATION

I, Gene W. Ray, certify that:

1. I have reviewed this quarterly report on Form 10-Q of The Titan Corporation;
2. Based on my knowledge, this quarterly 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of The Titan Corporation as of, and for, the periods presented in this quarterly report;
4. Titan Corporation's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures 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 quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. Titan Corporation's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. Titan Corporation's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 13, 2003

/s/ GENE W. RAY

Gene W. Ray
Chief Executive Officer

CERTIFICATION

I, Mark W. Sopp, certify that:

1. I have reviewed this quarterly report on Form 10-Q of The Titan Corporation;
2. Based on my knowledge, this quarterly 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of The Titan Corporation as of, and for, the periods presented in this quarterly report;
4. Titan Corporation's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures 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 quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. Titan Corporation's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. Titan Corporation's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 13, 2003

/s/ MARK W. SOPP

Mark W. Sopp
Chief Financial Officer

QuickLinks

Part I — Financial Information

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Notes To Consolidated Financial Statements

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Part II — Other Information

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[Exhibit 99.1 Certification Pursuant to Section 906 of the Public Company Accounting Reform and Investor Protection Act of 2002](#)