NEW APPLICATION

ORIGINAL

STINSON
MORRISON
HECKER LLP

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AZ CORP COMMISSION
DOCKET CONTROL

1150 18th Street N.W., Suite 800
Washington, DC 20036-3845

Tel (202) 785-9100
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January 27, 2010

T-20772A-10-0026

Clerk
Arizona Corporation Commission, Docket Control
1200 W. Washington Street
Phoenix, AZ 85007-2927

Re: NextGen Communications, Inc.'s Application for a Certificate of Convenience and Necessity

Dear Sir or Madam:

Enclosed for fling please find an original and thirteen (13) copies of NextGen Communications, Inc.'s Application for a Certificate of Convenience and Necessity.

Also enclosed is a copy of this letter. Please file stamp the letter and return it to me in the enclosed self-addressed envelope.

If you have any questions please do not hesitate to contact me at 202-728-3035. Thank you in advance for your attention to this matter.

Arizona Corporation Commission
DOCKETED

JAN 28 2010

DOCKETED BY

Sincerely,

STINSON MORRISON HECKER LLP

Douglas E. Micheel
Associate

DEM:SMH

Enclosures

KANSAS CITY
OVERLAND PARK
WICHITA
WASHINGTON, D.C.
PHOENIX
ST. LOUIS
OMAHA
JEFFERSON CITY

ARIZONA CORPORATION COMMISSION

Application and Petition for Certificate of Convenience and Necessity to Provide Intrastate Telecommunications Services

Mail original plus 13 copies of completed application to:

Docket Control Center
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007-2927

For Docket Control Only:
(Please Stamp Here)

Please indicate if you have current applications pending in Arizona as an Interexchange reseller, AOS provider, or as the provider of other telecommunication services.

Type of Service: N/A

Docket No.: ____________ Date: ____________ Date Docketed: ____________

Type of Service: ____________

Docket No.: ____________ Date: ____________ Date Docketed: ____________

A. COMPANY AND TELECOMMUNICATION SERVICE INFORMATION

(A-1) Please indicate the type of telecommunications services that you want to provide in Arizona and mark the appropriate box(s).

- ☐ Resold Long Distance Telecommunications Services (Answer Sections A, B).
- ☐ Resold Local Exchange Telecommunications Services (Answer Sections A, B, C).
- ☐ Facilities-Based Long Distance Telecommunications Services (Answer Sections A, B, D).
- ☐ Facilities-Based Local Exchange Telecommunications Services (Answer Sections A, B, C, D, E)
- ☐ Alternative Operator Services Telecommunications Services (Answer Sections A, B)
- ☒ Other See attached description of proposed service. (Please attach complete description)

(A-2) The name, address, telephone number (including area code), facsimile number (including area code), e-mail address, and World Wide Web address (if one is available for consumer access) of the Applicant:

NextGen Communications Inc. c/o TeleCommunication Systems Inc. 275 West Street Suite 400 Annapolis, MD 21401

Phone: 410-349-7097 Fax: 410-295-1884 Web address: www.telecomsys.com

(A-3) The d/b/a ("Doing Business As") name if the Applicant is doing business under a name different from that listed in Item (A-2): N/A

(A-4) The name, address, telephone number (including area code), facsimile number (including area code), and E-mail address of the Applicant's Management Contact:

Mr. Kim Robert Scovill
Senior Director, Government Affairs
NextGen Communications, Inc. c/o TeleCommunication Systems, Inc
275 West Street Suite 400
Annapolis, MD 21401
Tel: 410-349-7097
Fax: 410-295-1884
E-mail: kscovill@telecomsys.com

(A-5) The name, address, telephone number (including area code), facsimile number (including area code), and E-mail address of the Applicant's Attorney and/or Consultant:

Mr. H. Russell Frisby, Jr.
Mr. Douglas E. Micheel
Stinson Morrison Hecker LLP
1150 18th Street NW Suite 800
Washington, D.C. 20036-3816
Tel: 202-785-9100
Fax: 202-785-9163
E-Mail: rfrisby@stinson.com
E-mail: dmicheel@stinson.com

(A-6) The name, address, telephone number (including area code), facsimile number (including area code), and E-mail address of the Applicant's Complaint Contact Person:

Mr. Kim Robert Scovill
Senior Director, Government Affairs
NextGen Communications, Inc. c/o TeleCommunication Systems, Inc
275 West Street Suite 400
Annapolis, MD 21401
Tel: 410-349-7097
Fax: 410-295-1884
E-mail: kscovill@telecomsys.com

(A-7) What type of legal entity is the Applicant? Mark the appropriate box(s) and category.

- [ ] Sole proprietorship
- [ ] Partnership: ____ Limited, ____ General, ____ Arizona, ____ Foreign
- [ ] Limited Liability Company: ____ Arizona, ____ Foreign
- [X] Corporation: ____ "S", __X__ "C", ____ Non-profit
- [ ]

Other, specify: ______________________________

(A-8) Please include "Attachment A":

Attachment "A" must include the following information:

1. A copy of the Applicant's Certificate of Good Standing as a domestic or foreign corporation, LLC, or other entity in Arizona.
2. A list of the names of all owners, partners, limited liability company managers (or if a member managed LLC, all members), or corporation officers and directors (specify). NextGen is a wholly owned subsidiary of TeleCommunication Systems, Inc. ("TCS"). TCS is a publicly traded company. See information attached to Attachment A-19 detailing NextGen's officers and directors.
3. Indicate percentages of ownership of each person listed in A-8.2. TCS owns 100% of NextGen's outstanding stock.

(A-9) Include your Tariff as "Attachment B".

Your Tariff must include the following information:

1. Proposed Rates and Charges for each service offered (reference by Tariff page number). See tariff page number 21
2. Tariff Maximum Rate and Prices to be charged (reference by Tariff page number). See Tariff page number 21.
3. Terms and Conditions Applicable to provision of Service (reference by Tariff page number). See page numbers 22-24.
4. Deposits, Advances, and/or Prepayments Applicable to provision of Service (reference by Tariff page number). See page 23.
5. The proposed fee that will be charged for returned checks (reference by Tariff page number). See page 23.

Due to the special and limited services offered by NextGen, and the requirement the customer be a carrier or a governmental agency, the proposed rates and charges will be provided for on an individual contract basis ("ICB"). See Original pages 21 through 24.

(A-10) Indicate the geographic market to be served:

☒ Statewide. (Applicant adopts statewide map of Arizona provided with this application).

☐ Other. Describe and provide a detailed map depicting the area.

(A-11) Indicate if the Applicant or any of its officers, directors, partners, or managers has been or are currently involved in any formal or informal complaint proceedings pending before any state or federal regulatory commission, administrative agency, or law enforcement agency. N/A

Describe in detail any such involvement. Please make sure you provide the following information:

1. States in which the Applicant has been or is involved in proceedings.
2. Detailed explanations of the Substance of the Complaints.
3. Commission Orders that resolved any and all Complaints.

4. Actions taken by the Applicant to remedy and/or prevent the Complaints from re-occurring.

(A-12) Indicate if the Applicant or any of its officers, directors, partners, or managers has been or are currently involved in any civil or criminal investigation, or had judgments entered in any civil matter, judgments levied by any administrative or regulatory agency, or been convicted of any criminal acts within the last ten (10) years. N/A

Describe in detail any such judgments or convictions. Please make sure you provide the following information:

1. States involved in the judgments and/or convictions.
2. Reasons for the investigation and/or judgment.
3. Copy of the Court order, if applicable.

(A-13) Indicate if the Applicant's customers will be able to access alternative toll service providers or resellers via 1+101XXXX access.

☐ Yes ☒ No NextGen will not be offering the type of long distance services applicable to this question.

(A-14) Is Applicant willing to post a Performance Bond? Please check appropriate box(s).

☐ <u>For Long Distance Resellers, a $10,000 bond will be recommended for those resellers who collect advances, prepayments or deposits.</u>

☐ Yes ☒ No

If "No", continue to question (A-15).

☐ <u>For Local Exchange Resellers, a $25,000 bond will be recommended.</u>

☐ Yes ☒ No

If "No", continue to question (A-15).

☐ <u>For Facilities-Based Providers of Long Distance, a $100,000 bond will be recommended.</u>

☐ Yes ☒ No

If "No", continue to question (A-15).

☐ <u>For Facilities-Based Providers of Local Exchange, a $100,000 bond will be recommended.</u>

☐ Yes ☒ No

If any box in (A-14) is marked "No", continue to question (A-15).

<u>Note:</u> Amounts are cumulative if the Applicant is applying for more than one type of service.

(A-15) If any box in (A-14) is marked "No", provide the following information. Clarify and explain the Applicant's deposit policy (reference by tariff page number). Provide a detailed explanation of why the Applicant's superior financial position limits any risk to Arizona consumers. Some of the important purposes of deposits are to protect residential customers who may have made deposits for service or prepaid services from the unexpected closure or withdrawal from service of a carrier. NextGen does not serve residential customers. NextGen's deposit policy is found on Original page 23 Section 4 D of its proposed tariffs. As noted, because of the special and limited services offered by NextGen, and the fact that the customer must be a carrier or governmental agency, Arizona customers will not see any financial risk. Moreover, as demonstrated by the financial information attached to Attachment D, NextGen possesses adequate financial resources to limit any risk that may arise.

(A-16) Submit copies of affidavits of publication that the Applicant has, as required, published legal notice of the Application in all counties where the Applicant is requesting authority to provide service.

Note: For Resellers, the Applicant must complete and submit an Affidavit of Publication Form as Attachment "C" before Staff prepares and issues its report. Refer to the Commission's website for Legal Notice Material (Newspaper Information, Sample Legal Notice and Affidavit of Publication). For Facilities-Based Service Providers, the Hearing Division will advise the Applicant of the date of the hearing and the publication of legal notice. Do not publish legal notice or file affidavits of publication until you are advised to do so by the Hearing Division.

(A-17) Indicate if the Applicant is a switchless reseller of the type of telecommunications services that the Applicant will or intends to resell in Arizona:

☐ Yes ☒ No

If "Yes", provide the name of the company or companies whose telecommunications services the Applicant resells.

(A-18) List the States in which the Applicant has had an application approved or denied to offer telecommunications services similar to those that the Applicant will or intends to offer in Arizona: The following states have all approved similar applications for NextGen: Iowa, Michigan, Utah, Virginia, Indiana, Vermont, Oregon, Massachusetts, and Illinois. TeleCommunication Systems, Inc. ("TCS") is certified to offer services in California, Florida, Minnesota, Tennessee, Texas, and Washington. Neither NextGen nor TCS have ever been denied certification.

Note: If the Applicant is currently approved to provide telecommunications services that the Applicant intends to provide in Arizona in less than six states, excluding Arizona, list the Public Utility Commission ("PUC") of each state that granted the authorization. For each PUC listed provide the name of the contact person, their phone number, mailing address including zip code, and e-mail address.

(A-19) List the States in which the Applicant currently offers telecommunications services similar to those that the Applicant will or intends to offer in Arizona. Although approved to provide service in the states listed in response to A-18, NextGen is not currently providing service in any of those jurisdictions.

Note: If the Applicant currently provides telecommunication services that the Applicant intends to provide in Arizona in six or more states, excluding Arizona, list the states. If the Applicant does not currently provide telecommunications services that the Applicant intends to provide in Arizona in five or less states, list the key personnel employed by the Applicant. Indicate each employee's name, title, position, description of their work experience, and years of service in the telecommunications services industry. See attachment A-19 listing key personnel of NextGen.

(A-20) List the names and addresses of any alternative providers of the service that are also affiliates of the telecommunications company, as defined in R14-2-801. TeleCommunication Systems, Inc. is the parent of NextGen. As noted in the response to A-18 TCS is certified to provide service in six states.

(A-21) Check here if you wish to adopt as your petition a statement that the service has already been classified as competitive by Commission Decision:

☐ Decision # 64178 Resold Long Distance

☐ Decision # 64178 Resold LEC

☐ Decision # 64178 Facilities Based Long Distance

☐ Decision # 64178 Facilities Based LEC

B. FINANCIAL INFORMATION

(B-1) Indicate if the Applicant has financial statements for the two (2) most recent years.

☐ Yes ☒ No

If "No," explain why and give the date on which the Applicant began operations.

NextGen processes sufficient financial ability to provide service in the State of Arizona. NextGen is wholly owned subsidiary of TeleCommunication Systems, Inc. ("TCS"), a public company (NASDAQ: TSYS). Therefore, NextGen uses consolidated accounting with its parent TCS and does not make public a separate income statement or balance sheet. However, due to its consolidated financial strength, NextGen possesses sufficient financial ability to provide reliable and financially stable service in the State of Arizona, as demonstrated in Attachment D.

(B-2) Include "Attachment D".

Provide the Applicant's financial information for the two (2) most recent years.

1. A copy of the Applicant's balance sheet.
2. A copy of the Applicant's income statement.
3. A copy of the Applicant's audit report.
4. A copy of the Applicant's retained earnings balance.
5. A copy of all related notes to the financial statements and information.

Note: Make sure "most recent years" includes current calendar year or current year reporting period.

(B-3) Indicate if the Applicant will rely on the financial resources of its Parent Company, if applicable.

NextGen is a wholly owned subsidiary of TeleCommunication System, Inc. ("TCS"). NextGen uses consolidated G.A.A.P. accounting with its parent TCS and does not make public a separate income statement or balance sheet. NextGen's finances are identical to its parent company's. Attachment D demonstrates that NextGen possesses sufficient financial resources to provide the services it proposes in this application competently and effectively.

(B-4) The Applicant must provide the following information.

1. Provide the projected total revenue expected to be generated by the provision of telecommunications services to Arizona customers for the first twelve months following certification, adjusted to reflect the maximum rates for which the Applicant requested approval. Adjusted revenues may be calculated as the number of units sold times the maximum charge per unit.

   NextGen is a wholly owned subsidiary of TeleCommunication System, Inc. ("TCS"). NextGen uses consolidated G.A.A.P. accounting with its parent TCS and does not make public a separate income statement or balance sheet. NextGen's finances are identical to its parent company's. Attachment D demonstrates that NextGen possesses sufficient financial resources to provide the services it proposes in this application competently and effectively. Similarly, assets are shared and fully accounted for in TCS' public filings as required by securities regulations.

2. Provide the operating expenses expected to be incurred during the first twelve months of providing telecommunications services to Arizona customers following certification.
3. Provide the net book value (original cost less accumulated depreciation) of all Arizona jurisdictional assets expected to be used in the provision of telecommunications service to Arizona customers at the end of the first twelve months of operation. Assets are not limited to plant and equipment. Items such as office equipment and office supplies should be included in this list.
4. If the projected value of all assets is zero, please specifically state this in your response.
5. If the projected fair value of the assets is different than the projected net book value, also provide the corresponding projected fair value amounts.

C. RESOLD AND/OR FACILITIES-BASED LOCAL EXCHANGE TELECOMMUNICATIONS SERVICES

(C-1) Indicate if the Applicant has a resale agreement in operation,

☐ Yes ☒ No

If "Yes", please reference the resale agreement by Commission Docket Number or Commission Decision Number.

D. FACILITIES-BASED LONG DISTANCE AND/OR FACILITIES BASED LOCAL EXCHANGE TELECOMMUNICATIONS SERVICES

(D-1) Indicate if the Applicant is currently selling facilities-based long distance telecommunications services AND/OR facilities-based local exchange telecommunications services in Arizona. This item applies to an Applicant requesting a geographic expansion of their CC&N:

☐ Yes ☒ No

If "Yes," provide the following information:

1. The date or approximate date that the Applicant began selling facilities-based long distance telecommunications services AND/OR facilities-based local exchange telecommunications services in Arizona.

2. Identify the types of facilities-based long distance telecommunications services AND/OR facilities-based local exchange telecommunications services that the Applicant sells in Arizona.

If "No," indicate the date when the Applicant will begin to sell facilities-based long distance telecommunications AND/OR facilities-based local exchange telecommunications services in Arizona.

Given the unique nature of the services that NextGen is seeking to provide in Arizona, NextGen never intends to offer the type of services contemplated by this question. Please see description of services attached in response to question A-1.

E. FACILITIES-BASED LOCAL EXCHANGE TELECOMMUNICATIONS SERVICES

(E-1) Indicate whether the Applicant will abide by the quality of service standards that were approved by the Commission in Commission Decision Number 59421:

☒ Yes, to the extent applicable. ☐ No

(E-2) Indicate whether the Applicant will provide all customers with 911 and E911 service, where available, and will coordinate with incumbent local exchange carriers ("ILECs") and emergency service providers to provide this service:

☒ Yes ☐ No

(E-3) Indicate that the Applicant's switch is "fully equal access capable" (i.e., would provide equal access to facilities-based long distance companies) pursuant to A.A.C. R14-2-1111 (A): ☐ Yes ☒ No, NextGen will not be providing switched long distance/toll service to residential or business end user customers.

I certify that if the applicant is an Arizona corporation, a current copy of the Articles of Incorporation is on file with the Arizona Corporation Commission and the applicant holds a Certificate of Good Standing from the Commission. If the company is a foreign corporation or partnership, I certify that the company has authority to transact business in Arizona. I certify that all appropriate city, county, and/or State agency approvals have been obtained. Upon signing of this application, I attest that I have read the Commission's rules and regulations relating to the regulations of telecommunications services (A.A.C. Title 14, Chapter 2, Article 11) and that the company will abide by Arizona state law including the Arizona Corporation Commission Rules. I agree that the Commission's rules apply in the event there is a conflict between those rules and the company's tariff, unless otherwise ordered by the Commission. I certify that to the best of my knowledge the information provided in this Application and Petition is true and correct.

(Signature of Authorized Representative)

1/26/10
(Date)

Kim Robert Scovill
(Print Name of Authorized Representative)

Sr. Director
(Title)

SUBSCRIBED AND SWORN to before me this 26th day of January, 2010

NOTARY PUBLIC

Theresa Mackey
Notary Public, District of Columbia
My Commission Expires 8-14-2010

My Commission Expires 8-14-2010

Supplemental Answer to A-1

NextGen seeks certification so that it may aggregate and transport emergency local, VoIP, telemetric, PBX, and mobile E9-1-1 traffic, manage and transmit location and calling number data, and provide call routing management for the delivery of emergency calls to PSAPs throughout Arizona. NextGen's services are used by large wireless carriers, VoIP providers, cable TV system operators who provide telecommunications services and/or VoIP, telemetric operators, PBX users, and mobile voice service providers. NextGen does not provide long distance voice toll services or local exchange voice dial tone services and does not intend to provide such services. However, in order to aggregate and transport emergency calls, NextGen may require the same sort of interconnection and collection made available to certificated Competitive Local Exchange Carriers ("CLECs").

In addition, certification will enable NextGen to acquire and manage pANI numbering resources, which are essential to routing emergency calls, pursuant to the Federal Communications Commission's ("FCC's") directive of September 8, 2006 which states that CLEC certification is now required for pANI management. Furtherance of this FCC objective and of the availability of competitive sources for emergency call routing and management are in the public interest.

ATTACHMENT A-19

NextGen Communications, Inc. and TeleCommunication Systems, Inc.

Personnel BIOs

LIST OF OFFICERS AND DIRECTORS

NextGen Company Directors

Maurice B. Tosé
Chairman of the Board, Chief Executive Office, and President

Thomas M. Brandt, Jr.
Senior Vice President and Chief Financial Officer

NextGen Key Company Officers

Maurice B. Tosé
Chairman of the Board, Chief Executive Officer, and President

Thomas M. Brandt, Jr.
Senior Vice President and Chief Financial Officer

Bruce White
Vice President, General Counsel & Secretary

Maurice B. Tosé, Chairman of the Board, Chief Executive Officer, and President of TCS and President and CEO of NextGen Communications, Inc.

Maurice B. Tosé founded TeleCommunication Systems (TCS) in 1987, initially as a military contractor for software development and network projects. Since then, TCS has evolved into a leader in wireless messaging and location technology. Today, TCS is delivering the essential software, services, and solutions to wireless telecommunication carriers that enable people to better manage their mobile lifestyle.

Since its inception, the company has experienced significant growth, from generating $28 million in revenues during its first 10 years to $58.1 million in revenues in 2000. The company has grown to more than 500 employees based principally in Annapolis, Seattle and Tampa. In August of 2000, TCS launched itself as a public company with a successful Initial Public Offering (IPO) raising $92 million.

Mr. Tosé graduated from the United States Naval Academy with a Bachelor of Science degree in Operations Analysis. Following his graduation, he served on active duty in the United States Navy for eight years in posts throughout the United States, rising to the rank of Lieutenant. Tours of duty at sea included USS Bagley as Damage Control Assistant and as the Operations Officer on USS Mauna Kea, where he was responsible for the operations and maintenance of all voice and data communications. After his service at sea, Mr. Tosé returned immediately to the Naval Academy as an instructor. For more than 10 years, Mr. Tosé has been an active member of the Naval Reserves, attaining the rank of Commander, including an extensive assignment to the staff of the United States Secretary of Defense.

Prior to founding TCS, Mr. Tosé was the Director of Department of Defense Programs for Techmatics, Inc., headquartered in Silver Spring, Maryland. At Techmatics, Mr. Tosé was responsible for the marketing and management of systems integration contracts for the DoD. These contracts involved the installation, maintenance, personnel training and integrated logistics support for turnkey communications systems.

With over 21 years of experience providing technical solutions through operations research techniques in engineering, telecommunications, complex automated data processing and wireless systems, Mr. Tosé and his company have been recognized through the receipt of numerous awards including 2000 and 1997 Ernst & Young Entrepreneur of the Year finalist, The Lamond Godwin Bridge Builders Award for Excellence in Minority Business Relations, The national Association of Black Telecommunication Professional's Granville T. Woods Award for Outstanding Achievement, The AT&T Spectrum Award for Innovators, three-time winner of the Greater Washington Technology Fast 50 Award, two-time winner of the Maryland Fast 50 Award, the national Technology Fast 500 Award, five times included in the Black Enterprise Top 100, and the Government Computer News Industry Information Technology Award. Additionally, Mr. Tosé is a member of numerous professional organizations including the Wireless Data Forum, AT&T's Diversity Roundtable, the International Engineering Consortium and the Intelligent Network Forum.

Richard A. Young, Executive Vice President and Chief Operating Officer

Mr. Young directs all day-to-day activities in the company including goal setting, performance monitoring, and deployment of key personnel. Mr. Young joined TCS in 1992. He has over twenty-seven years of experience in technology management, with in-depth technical experience in hardware and software life cycle program management. Prior to TCS, Mr. Young worked as Senior Manager for ICF Information Technology, Inc. where he was responsible for managing over thirty technical staff in designing and developing applications to customer specifications. From 1986 to 1989, Mr. Young was the Director of the Information Systems Department of the Navy Recruiting Command where he managed over seventy technical employees and was responsible for the information management requirements of the nationwide recruiting force. Mr. Young holds a B.S. degree in Engineering from the U.S. Naval Academy and holds a Master of Science degree in Information Technology from the Naval Postgraduate School.

Thomas M. Brandt, Jr., Senior Vice President and Chief Financial Officer of TCS and NextGen Communications, Inc.

As Chief Financial Officer, Mr. Brandt is responsible for the Company's financial management, reporting, controls, accounting, and administration. Mr. Brandt joined TCS in early 1997. He has twenty-seven years experience in finance and accounting. Mr. Brandt was previously Senior Vice President and CFO of DIGEX, Inc., an Internet service provider, where he helped lead its 1996 IPO. His experience includes twelve years with Price Waterhouse, and services as CFO or controller of other corporations including Easco Corporation, a Fortune 500 company listed on the New York Stock Exchange. He serves on the Boards of Antenna Research Associates, Inc., a private technology company. He is a CPA with an AB from Duke University and an MBA from the Wharton School of the University of Pennsylvania.

Dan Allen, Senior Vice President, Service Bureau Operations

As Senior Vice President of Service Bureau Operations for TeleCommunication Systems, Dan has responsibility for Wireless E9-1-1 operations, Wireline E9-1-1- operations, Voice-over-Internet Protocol (VoIP) E9-1-1 operations, hosted location services, and data center operations and for ensuring that the Company maintains its enviable record of reliability through ISO 9001 and TL 9000.

Dan has over 30 years experience in telecommunications in senior management positions, including over 13 years in wireline systems management and over 17 years in the cellular industry. He has been responsible for multiple telecommunication company start-ups in the U.S. and internationally. After a long and successful career with United Telephone, Dan was President and CEO of Airbiquity, a wireless software company providing the automotive industry with major telematics applications. Dan was previously President of Nextel for the Mid-Atlantic Area where he had complete responsibility for all aspects of the implementation and operation of the iDEN® digital wireless communication company including Washington, D.C., Northern Virginia, Maryland, Pennsylvania, Delaware, and New Jersey, covering 15 million subscribers. Prior to that he held positions as Vice President of Operations for both Time Warner Telecommunications and Bell South International where he started companies both domestically and abroad.

Bruce A. White, Esq., Vice President, General Counsel and Secretary

Mr. White directs all of the legal and regulatory functions for TeleCommunication Systems, Inc. (TCS) and its subsidiaries. His 14 years of experience at TCS includes: developing TCS's in-house legal function as an integral part of this telecommunication infrastructure software provider focused on profit optimization and risk management; Board of Directors management; all SEC reporting; acquisition and litigation management; contract negotiations; IP protections; and management of Human Resources, facilities and security functions.

In his role, Bruce works closely with CEO and CFO on corporate financing and capitalization, debt restructure, venture funding, and managed TCS's IPO in 2000. His securities responsibilities include serving as Corporate Secretary and primary interface with Board of Directors, preparing documents and advising on offerings pursuant to the Securities Act of 1933 and preparing 10-K, 10-Q, proxy statements, annual reports, insider trading restrictions, and other public reporting and disclosures under the Securities Exchange Act of 1934 and Sarbanes-Oxley Act. Mr. White must select and manage outside counsel and manage litigation, Draft and negotiate international, domestic and government contracts, and also manages the contracts department.

He received his J.D. degree from the University of Baltimore and has a B.B.A., Finance, *cum laude*, from the University of Georgia. He is a member in good standing with the Maryland Bar, and is a member of the American Bar Association, Maryland Bar Association, Association of Corporate Counsels.

Richard H. Dickinson, Senior Director, Public Safety of TCS and NextGen Communications, Inc.

Richard (Dick) Dickinson has over eighteen years experience in wireless telecommunications, project management, and communications center management. He has built wireless networks nationally and internationally, managing site acquisition and zoning, construction, and warehouse logistics. Dick has managed the communications center for the University of Washington, a 24X7 emergency response center. He has participated in all aspects of wireless Phase I and Phase II E9-1-1 deployments, usually in a lead role for most FOAs and trail blazing deployments for various technologies. With the emergence of VoIP, Dick applied his knowledge of E9-1-1 to develop and patent the E9-1-1 solution for nomadic VoIP which has become the basis for the NENA i2 standard. He is active in various industry forums and standards bodies, including NENA, APCO, NRIC7, ESIF, and is Chair of the E9-1-1 Institute VoIP Subcommittee for Policy. Dick received his Masters Degree in International Studies from Pacific Lutheran University and his Bachelors Degree from the United States Military Academy.

ATTACHMENT A

ARIZONA CORPORATION COMMISSION

February 3, 2009

CORPORATION SERVICE COMPANY
2338 W ROYAL PALM RD, STE J
PHOENIX, AZ 85021

RE: NEXTGEN COMMUNICATIONS, INC.
File Number: F15031201

We are pleased to notify you that the Application for Authority to transact business or conduct affairs in Arizona for the above-referenced entity HAS BEEN APPROVED.

You must publish a copy of the Application for Authority. The publication must be in a newspaper of general circulation in the county of the known place of business in Arizona for three consecutive publications. A list of acceptable newspapers in each county is enclosed and is also posted on the Commission website. Publication must be completed WITHIN 60 DAYS after February 3, 2009, which is the date the document was approved for filing by the Commission. The corporation may be subject to revocation of authority if it fails to publish. You will receive an Affidavit of Publication from the newspaper, and you may file it with the Commission.

Corporations are required to file an Annual Report with the Commission. Your Annual Report is due on 01/30/2010, and on the anniversary of that date each subsequent year. You may receive a postcard reminding you to file, but even if you don't, it is your responsibility to file the corporation's Annual Report by the deadline each year. You can visit our website at www.azcc.gov/divisions/corporations to electronically file your annual report. You can also complete the form online, print it out and mail it in, or you can call the Annual Reports section at 602-542-3285.

Corporations must notify the Commission immediately, in writing, if they change their corporate address, statutory agent, or statutory agent address. Address change orders must be signed by a duly authorized corporate officer. A forwarding order placed with the U.S. Postal Service is not sufficient to change your address with the Commission.

We strongly recommend you periodically monitor your corporationÆs record with the Commission, which can be viewed at www.azcc.gov/Divisions/Corporations. If you have questions or need further information please contact us at (602) 542-3026 in Phoenix, (520) 628-6560 in Tucson, or Toll Free (Arizona Residents only) at 1-800-345-5819.

Sincerely,
Enrique Lira
Examiner, Corporations Division

CF:07
REV. 01/2009

DO NOT PUBLISH THIS SECTION

5.a. The street address of the known place of business of the foreign corporation in Arizona IF DIFFERENT from the street address of the statutory agent is:

____

____

____

5.b. Indicate to which address the Annual Report should be mailed.

5.b. The Annual Report and general correspondence should be mailed to the address specified above in section 4 X or 5a______.

6. If the purpose of your corporation has any limitations please indicate. If not, state no limitations or leave blank.

6. The purpose of the corporation is to engage in any and all lawful business in which corporations may engage in the state, province or country under whose law the foreign corporation is incorporated, with the following limitations if any:

None

7. The names and business addresses of the current directors and officers of the foreign corporation are: (Attach additional sheets if necessary.)

Name: Maurice B. Tose, President and Director [title]
Address: 275 West Street
City, State, Zip Annapolis, MD 21401

Name: Thomas M. Brandt, Jr., Treasurer and Director [title]
Address: 275 West Street
City, State, Zip Annapolis, MD 21401

Name: Bruce A. White, Secretary [title]
Address: 275 West Street
City, State, Zip Annapolis, MD 21401

8. The total number of authorized shares cannot be 'zero' or 'N/A'. Include authorized, not issued shares in this section.

8. The foreign corporation is authorized to issue 1000 shares, itemized as follows: (Attach additional sheets if necessary.)

1000 shares of common [class or series] stock at ______ no par value or par value of $ .001 per share.

______ shares of ______ [class or series] stock at ______ no par value or par value of $______ per share.

______ shares of ______ [class or series] stock at ______ no par value or par value of $______ per share.

PROFIT
CERTIFICATE OF DISCLOSURE
Pursuant to A.R.S. §10-202. (D).

NextGen Communications, Inc.
EXACT CORPORATE NAME

A. Has any person serving either by election or appointment as officer, director, trustee, incorporator and persons controlling or holding over 10% of the issued and outstanding common shares or 10% of any other proprietary, beneficial or membership interest in the corporation:

1. Been convicted of a felony involving a transaction in securities, consumer fraud or antitrust in any state or federal jurisdiction within the seven-year period immediately preceding the execution of this Certificate?
2. Been convicted of a felony, the essential elements of which consisted of fraud, misrepresentation, theft by false pretenses, or restraint of trade or monopoly in any state or federal jurisdiction within the seven-year period immediately preceding the execution of this Certificate?
3. Been or are subject to an injunction, judgment, decree or permanent order of any state or federal court entered within the seven-year period immediately preceding the execution of this Certificate wherein such injunction, judgment, decree or permanent order:
   (a) Involved the violation of fraud or registration provisions of the securities laws of that jurisdiction; or
   (b) Involved the violation of the consumer fraud laws of that jurisdiction; or
   (c) Involved the violation of the antitrust or restraint of trade laws of that jurisdiction?

Yes_____ No X

B. IF YES, the following information MUST be attached:

1. Full name, prior name(s) and aliases, if used.
2. Full birth name.
3. Present home address.
4. Prior addresses (for immediate preceding 7-year period).
5. Date and location of birth.
6. The nature and description of each conviction or judicial action, date and location, the court and public agency involved and file or cause number of case.

C. Has any person serving as an officer, director, trustee, incorporator or holder of over twenty per cent of the issued and outstanding common shares or twenty per cent of any other proprietary, beneficial or membership interest in the corporation served in any such capacity or held a twenty per cent interest in any other corporation in any jurisdiction on the bankruptcy or receivership of the other corporation?

Yes_____ No X

IF YOUR ANSWER TO THE ABOVE QUESTION IS "YES", YOU MUST ATTACH THE FOLLOWING INFORMATION FOR EACH CORPORATION:

1. Name and address of the corporation.
2. Full name (including aliases) and address of each person involved.
3. State(s) in which the corporation:
   (a) Was incorporated.
   (b) Has transacted business.
4. Dates of corporate operation.
5. Date and case number of bankruptcy or receivership.

Under penalties of law, the undersigned incorporator(s)/officer(s) declare(s) that I(we) have examined this Certificate, including any attachments, and to the best of my(our) knowledge and belief it is true, correct and complete, and hereby declare as indicated above.
THE SIGNATURE(S) MUST BE DATED WITHIN THIRTY (30) DAYS OF THE DELIVERY DATE.

BY Bruce A White BY __________

PRINT NAME Bruce A. White PRINT NAME __________

TITLE Secretary DATE 1/29/09 TITLE __________ DATE __________

DOMESTIC CORPORATIONS: ALL INCORPORATORS MUST SIGN THE INITIAL CERTIFICATE OF DISCLOSURE. If within sixty days, any person becomes an officer, director, trustee or person controlling or holding over 10% of the issued and outstanding shares or 10% of any other proprietary, beneficial, or membership interest in the corporation and the person was not included in this disclosure, the corporation must file an AMENDED certificate signed by at least one duly authorized officer of the corporation.

FOREIGN CORPORATIONS: MUST BE SIGNED BY AT LEAST ONE DULY AUTHORIZED OFFICER OF THE CORPORATION.

ATTACHMENT B

ARIZONA TELECOMMUNICATIONS
TARIFF NO. 1

FOR
NextGen Communications, Inc.

275 West Street

Annapolis, MD 21401

This tariff contains the descriptions, regulations, and rates applicable to the furnishing of E9-1-1 services by NextGen Communications, Inc. (NextGen). This tariff is on file with the Arizona Corporation Commission and copies may be inspected during normal business hours at the principal place of business of NextGen Communications, Inc., at the above-listed address.

CHECK SHEET

The TITLE page through page 25 inclusive of the tariff are effective as of the date shown on an individual sheet. Original and revised pages, as named below, comprise all changes from the original Tariff in effect on the date indicated.

SECTION	PAGE	REVISION	EFFECTIVE DATE
Title	1	Original	April__, 2010
Check Sheet	2	Original	April__, 2010
Table of Contents	3	Original	April__, 2010
Tariff Format and Explanation of Symbols	4	Original	April__, 2010
Section 1 – Definitions	5	Original	April__, 2010
Section 1 – Definitions	6	Original	April,__, 2010
Section 1 – Definitions	7	Original	April__, 2010
Section 1 – Definitions	8	Original	April__, 2010
Section 1 – Definitions	9	Original	April__, 2010
Section 2 – Rules and Regulations	10	Original	April__, 2010
Section 2 – Rules and Regulations	11	Original	April__, 2010
Section 2 – Rules and Regulations	12	Original	April__, 2010
Section 3 – Service Offerings and Features	13	Original	April__, 2010
Section 3 – Service Offerings and Features	14	Original	April__, 2010
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Section 3 – Service Offerings and Features	19	Original	April__, 2010
Section 3 – Service Offerings and Features	20	Original	April__, 2010
Section 4 – Rates, Charges, and Conditions of Service	21	Original	April__, 2010
Section 4 – Rates, Charges, and Conditions of Service	22	Original	April__, 2010
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TARIFF FORMAT AND EXPLANATION OF SYMBOLS

Page Numbering: Page numbers appear in the upper right hand corner of the page. Pages are numbered sequentially. From time to time new pages may be added to the Tariff. When a new page is added between existing pages a decimal is added to the preceding page number. For example, a new page added between Pages 3 and 4 would be numbered 3.1.

Explanation of Symbols: When changes are made in any Tariff page, a revised page will be issued replacing the affected Tariff page. Changes will be identified on the revised page(s) in the right hand margin on each line changed through the use of the following symbols:

(C) To signify changed regulation

(D) To signify discontinued material

(I) To signify rate or charge increase

(M) To signify material relocated without change in text or rate

(N) To signify new material

(O) To signify material relocated without change in text but with an increase in rate

(R) To signify reduction

(S) To signify reissued material

(T) To signify a change in text but no change in rate or regulation

(Z) To signify a correction

APPLICATION OF TARIFF

This tariff sets forth the service offerings, rates, terms and conditions applicable to the furnishing of intrastate end-user telecommunications services by NextGen Communications, Inc., hereinafter referred to as the Company, to customers within the State of Arizona.

SECTION 1. - DEFINITIONS

Automatic Location Identification (ALI) Database

See Location Database. Traditionally, the ALI Database maintained the name and address associated with the calling party's telephone number (identified by ANI Feature). In the future, ALI data may only be a portion of the location data available in the Location database.

Automatic Location Identification (ALI) to Automatic Location Identification (ALI) data transfer

A feature by which Automatic Location Identification (ALI) data is transferred to another provider's Automatic Location Identification (ALI) system.

Automatic Location Identification (ALI) PSAP port

A port on the ALI database system used to deliver Automatic Number Identification (ANI) to the PSAP.

Automatic Number Identification (ANI)

A feature by which the calling party's ANI telephone number is forwarded to the E9-1-1 Control Office and to the PSAPs Display and Transfer Units.

Business Customer

A Customer who subscribes to the Company's Service(s) and whose primary use of the Service is of a business, professional, institutional, or otherwise occupational nature.

Call Routing Device
An intelligent network device that, based on the identified number of the calling party (and potentially other factors), routes an E9-1-1 call from a central office to the designated primary PSAP. (See "Selective Routing")

Company

Used throughout this tariff to refer to NextGen Communications, Inc., a Maryland corporation, unless otherwise clearly indicated by the context.

Customer

A current or potential buyer or user of the services identified in this tariff. This is typically through purchasing the services; however, the term also includes by extension anyone who uses or experiences the services of another.

SECTION 1. – DEFINITIONS, CONTINUED

Database Management System (DBMS)

See Location Validation Function

Default Routing (DR)

A feature activated when an incoming E9-1-1 call cannot be selectively routed due to an ANI failure, garbled digits, or other causes. Such incoming calls are routed from the E9-1-1 Control Office to a default PSAP. Each incoming E9-1-1 facility group to the E9-1-1 Control Office is assigned to a designated default PSAP. This is a standard feature of E9-1-1 Service.

Display and Transfer Unit

A console and associated common equipment for displaying ANI numbers at the PSAP attendant position and used by the attendant to activate Fixed and/or Selective Transfer functions.

E9-1-1 Call or E9-1-1 Service

A telecommunications service that uses ANI, ALI (including non-listed and non-published numbers and addresses), Selective Routing, and the three-digit number "9-1-1," for a caller wishing to report police, fire, medical, or other emergency situations (as examples) to a PSAP for referral to a public safety agency. As used in this tariff, E9-1-1 does not include discretionary equipment purchased, or contracted for that is not essential to the provision of E9-1-1 service.

Emergency Service Number (ESN)

Unique numbers provided by the Company to be associated by the customer with street address ranges or other mutually agreed upon routing criteria for selective routing of calls to unique combinations of police, fire, ambulance and any other appropriate agencies responsible for providing emergency service in the E9-1-1 serving area.

End Office

The central office(s) which receive originating E9-1-1 calls.

Enhanced 9-1-1 (E9-1-1) Service Area

The geographic area in which the E9-1-1 authority will respond to all E9-1-1 calls and dispatch appropriate emergency assistance.

SECTION 1. – DEFINITIONS, CONTINUED

Enhanced 9-1-1 (E9-1-1) Transport

Telephone lines or facilities that are dedicated to an E9-1-1 system. Enhanced 9-1-1 transport lines for PSALI connect a customer's PBX to the E9-1-1 Control Office.

Individual Contract Basis (ICB)

A service arrangement where the regulations, rates, and charges are developed based on the specific circumstances of the Customer's situation and set out in a separate agreement with the Customer. An ICB may incorporate this or other applicable tariffs by reference.

Internet Protocol (IP)

The Internet Protocol (IP) is a method used for communicating data across a packet-switched digital network. Sometimes also referred to as TCP/IP.

Location Database

An ALI, Location Information Server, or other database that stores location information for emergency services use.

Location Database Call Routing Device Port

A port on the Location database system used to deliver 9-1-1 calling information to the Call Routing Device.

SECTION 1. – DEFINITIONS, CONTINUED

Location Validation Function

A system that stores and receives updates of the data required to provide the Call Routing Device and Location Database features and determines whether a location description is valid for the given area. This function was traditionally provided by a DBMS using the MSAG. For NextGen's 9-1-1, the data source will not be only the MSAG if an MSAG is used at all. In NextGen's 9-1-1 system, the creation of the valid locations is carried out by the Master Location Validation System.

Manual Transfer

A feature that enables the PSAP attendant to transfer an incoming call by depressing the switchhook of the associated telephone or a button on the Display and Transfer Unit and dialing either a 7-digit or 10-digit telephone number or a 2-digit speed calling code. Manual Transfer is associated with the E9-1-1 trunk unit and is a standard feature of E9-1-1 Service.

Master Location Validation System

A system that acts as the master source for valid locations in a given area. Traditionally, a DBMS is used to create and maintain an MSAG. In NextGen's 9-1-1 system, the Master Location Validation System will be a GIS system.

Master Street Address Guide (MSAG)

The document or computer file that lists the standard street names, address ranges, political community designations, and routing codes (ESNs).

Pseudo Automatic Number Identification

A feature in which a number, assigned to the area served by a wireless communications provider's tower or a sector of the area served by a tower, is forwarded to the E9-1-1 Call Routing Device and to the PSAPs Display and Transfer Units.

Private Switch/Automatic Location Identification Customer

The Private Switch or Location Database customer may be a municipality or other state or local governmental unit, or an authorized agent of one or more municipalities or other state or local governmental units to whom authority has been lawfully delegated, or a PBX owner/operator, or Centrex/CENTRON customer who desires to provide station location information to the E9-1-1 system.

SECTION 1. – DEFINITIONS, CONTINUED

Public Safety Answering Point (PSAP)

An answering location for 9-1-1 calls originating in a given area. A PSAP may be designated as Primary or Secondary, which refers to the order in which calls are directed for answering. Primary PSAPs respond first; Secondary PSAPs receive calls on a transfer basis only and generally serve as a centralized answering location for a particular type of emergency call. PSAPs are staffed by employees of service agencies such as police, fire, or emergency medical or by employees of a common bureau serving a group of such entities.

Public Safety Answering Point (PSAP) Trunk

A trunk used to deliver ANY information from a Call Routing Device to a PSAP. The PSAP trunk may be set to receive a 9-1-1 call in several different formats. The trunk could be TDM or IP. The PSAP trunk is also used to connect and carry voice transmission, and in the case of IP (VoIP) possibly the location information, from the Call Routing Device.

Routing Telephone Number (RTN)

A number that when dialed rings to a specific Public Safety Answering Point. This is used for connectivity from the PSTN to the 9-1-1 network of a Public Safety Answering Point.

Routing Telephone Number Port

A port in the Call Routing Device used to connect the routing telephone number line.

Selective Routing (SR)

A form of call routing that may or may not be applicable to the Company's E9-1-1 that routes an E9-1-1 call from a central office to the designated primary PSAP based upon the identified number of the calling party (other factors may be used to determine the call routing in addition to the calling party's number). (See "Call Routing Device")

Selective Transfer

A feature providing persons at the PSAP the ability to transfer an incoming call to another agency by depressing a single button labeled with the type of agency, e.g., "Fire", on the Display and Transfer Unit. This type of transfer is only available when the SR feature is provided.

SECTION 2. RULES AND REGULATIONS

A. Company Liability and Indemnification

1. Limitations on Company Liability

   The Company's liability for any loss or damage arising from errors, interruptions, defects, failures, delays, or malfunctions of any service, equipment, or any part thereof provided pursuant to this Tariff or ICB, whether caused by the negligence of the Company or otherwise, except gross negligence, shall not exceed the greater of $50.00 or an amount equivalent to the pro rata charges for the service or equipment affected during the period of time that the service or equipment was fully or partially inoperative.

2. Release and Indemnification / Intellectual Property

   a. The customer agrees to release, indemnify, defend, and hold harmless the Company from any and all loss, claims, demands, suits or other action; or any liability whatsoever, whether suffered, made, instituted or asserted by the customer or by any other party or person, for any personal injury to or death of any person or persons, or for any loss, damage or destruction of any property, whether owned by the customer or others, caused in whole or part by the act or omissions of the Company, its agents and its employees. Unless otherwise provided for by an ICB, title to all facilities and intellectual property provided in accordance with this tariff remains in the Company, its partners, agents, contractors, or suppliers. The Company is not obligated to compensate, defend, or indemnify the Customer or any other person for alleged or adjudicated claims of infringement by third parties for any services offered, or for any licensing or court costs related thereto.

   b. The Company will not be liable for any direct, indirect, incidental, special, consequential, exemplary or punitive damages to Customer as a result of any Company service, equipment or facilities, or the acts or omissions or negligence of the Company's employees or agents.

   c. The Company shall not be liable for any delay or failure of performance or equipment due to causes beyond its control, including but not limited to: acts of God, fire, flood, explosion or other catastrophes; any law, order, regulation, direction, action, or request of the United States Government or any state and local governments having or claiming jurisdiction over the Company, or of any department, agency, commission, bureau, corporation, or other instrumentality of any one or more of these federal, state, or local governments, or of any civil or military authority; national emergencies; insurrections; riots; wars; unavailability of rights-of-way or materials; or strikes, lock-outs, work stoppages, or other labor difficulties when it does not involve the Company's employees.

3. THE COMPANY MAKES NO WARRANTIES OR REPRESENTATIONS, EXPRESS OR IMPLIED EITHER IN FACT OR BY OPERATION OF LAW, STATUTORY OR OTHERWISE, INCLUDING WARRANTIES OF MERCHANTABILITY OR FITNESS

SECTION 2. RULES AND REGULATIONS, CONTINUED

FOR A PARTICULAR USE, EXCEPT THOSE EXPRESSLY SET FORTH HEREIN.

4. Invasions of Privacy

   a. The customer agrees to release, indemnify, and hold harmless the Company for any infringement or invasion of the right of privacy of any person or persons, caused or claimed to have been caused, directly or indirectly, by the installation, operation, failure to operate, maintenance, removal, presence, condition, occasion or use of any service features and the equipment associated therewith provided pursuant to this Tariff, or by any services furnished by the Company in connection therewith, including, but not limited to, the identification of the telephone number, address or name associated with the telephone used by persons accessing 9-1-1 service hereunder, and which arises out of the negligence or other wrongful act of the Company, except gross negligence, or the employees or agents of any one of them. Notwithstanding the foregoing, such indemnification does not apply to Company's use of customer data for any purpose other than the provision of 9-1-1 services.

   b. The Company shall be indemnified, defended and held harmless by the Customer against any claim, loss or damage arising from Customer's use of services, involving claims for libel, slander, or allegations of infringement of patent or copyright arising from the Customer's own communications.

B. General Terms and Conditions

1. Term of Service; Termination.

   The Company and each customer may enter into a separate agreement specifying the term during which the Company shall provide Services.

2. Payments; Late Fees

   Payment for Services provided by the Company shall be due in accordance with the terms and conditions of each customer's contract. Customer agrees to pay a late fee in accordance with the terms and conditions of each customer's contract, but in no event to exceed the late fees which may be charged to customer under the laws of the state of Arizona.

3. Attorneys' Fees

   The Company and each customer may enter into a separate agreement specifying that if any dispute in connection with the provision of Services to customer is submitted to a court, arbitrator, tribunal or other appropriate entity, then all costs and expenses of the parties (including reasonable attorneys' fees) will be paid by the party against whom a determination by such court, arbitrator, tribunal or entity is made, or, in the absence of a determination, wholly against one party, as such court, arbitrator, tribunal or entity directs.

SECTION 2. RULES AND REGULATIONS, CONTINUED

C. Notices and Communications

1. The Customer shall designate the address to which the Company shall mail or deliver all notices and other communications, except that the Customer may also designate a separate address to which Company bills for service shall be mailed. The Company shall designate an address to which the Customer shall mail or deliver all notices and other communications, except that Company may designate a separate address on each bill for service to which the Customer shall mail payment on that bill.

2. Except as otherwise stated in this tariff, or an ICB, all notices or other communications required to be given pursuant to this tariff, or an ICB, or the Agreement for Services will be in writing. Notices and other communications of either party, and all bills mailed by the Company, shall be presumed to have been delivered to the other party on the third business day following placement of the notice, communication or bill with the U.S. Mail or a private delivery service, prepaid and properly addressed, or when actually received or refused by the addressee, whichever occurs first.

3. The Company or the Customer shall advise the other party of any changes to the addresses designated for notices, other communications or billing, by following the procedures for giving notice set forth herein, or as may be required in an ICB.

SECTION 3. SERVICE OFFERINGS AND FEATURES

A. Description of Services

1. Enhanced Universal Emergency Number Service (E9-1-1 Service)

a. Enhanced Emergency Number Service, also referred to as E9-1-1, is a telephone communication service whereby one or more Public Safety Answering Points (PSAP) designated by the local 9-1-1 authority may receive telephone calls dialed to the telephone number 9-1-1. *Traditional* E9-1-1 Service has typically included lines and equipment within one telephone company exchange and/or area served by a Mobile Telephone Switching Office, which could be connected to lines and equipment in another telephone company exchange to permit answering, transferring and dispatching of public emergency telephone 9-1-1 calls originated by persons within the same serving area.

However, E9-1-1 Service may become more decentralized insofar that no single company may provide all of the E9-1-1 hardware, software, or features. The use of twisted pair telephone "lines" is becoming obsolete, replaced by broadband IP connectivity via cable or DSL or other dedicated IP networks. The Company anticipates that different companies shall provide the IP E9-1-1 infrastructure, while other companies provide the E9-1-1 content, features, and functions. This tariff identifies the rules, regulations, and prices that shall govern the Company's offering of the E9-1-1 features and functions.

b. Enhanced 9-1-1 Service is offered subject to availability of IP broadband facilities.

c. The E9-1-1 customer may be:

(1) A municipality or other state or local governmental unit, or an authorized agent of one or more municipalities or other state or local governmental units to whom authority has been lawfully delegated. The customer must be legally authorized to subscribe to the service and have public safety responsibility by law to respond to telephone calls from the public for emergency police, fire or other emergency services within the telephone areas arranged for 9-1-1 calling.

(2) A private telecommunications provider of LEC, CLEC, wireless, or VoIP service with an obligation to route emergency 9-1-1 calls to the appropriate PSAP.

(3) A private enterprise with a PBX telephone system with a desire and appropriate state and/or federal authority to route emergency calls to the appropriate PSAP.

SECTION 3. SERVICE OFFERINGS AND FEATURES, CONTINUED

2. Private Switch/Automatic Location Identification Service

   The Private Branch Exchange (PBX) switch located on a customer's premises sends Automatic Number Identification information to an Enhanced 9-1-1 (E9-1-1) Control Office or the Company's E9-1-1 Call Routing Device from individual PBX stations for the purpose of providing site or station location information on an E9-1-1 call, or for selectively routing that call to the appropriate Public Safety Answering Point (PSAP). A PS/Location Database also is available to Centrex/CENTRON or VoIP enterprise customers who wish to provide the E9-1-1 system with more specific location and routing information. These are the only intended uses for this service.

3. E9-1-1 Call Routing Device Service

   The E9-1-1 Call Routing Device service will connect local telecommunications or VoIP switches via IP and will route the calls to one or more PSAPs via IP or circuit switched technology as required by the PSAP.

4. Location Database Service

   The Company Location Database will provide the 9-1-1- caller's name, address, phone number, and location (if available) to the PSAP via IP simultaneously with the voice call as it is routed via the IP Call Routing Device. As other content becomes available, the Company will provide such content. For legacy PSAPs with traditional ALI requirements, the Company will provide appropriate connectivity to the Company Location Database. The Company will provide access for authorized users to update Location Database data.

5. Terms and Conditions

   a. These services are limited to the use of the central office, VoIP, or mobile telephone switching office telephone number, 9-1-1, as the universal emergency telephone number. The Company does not provide the telephone number or dial tone. These services will be provided by the telecommunications carrier.

   b. The 9-1-1 emergency telephone number is not intended as a replacement for the telephone service of the various public safety agencies which participate in the use of this number. The public safety agencies will subscribe to other telephone services as provided in other tariffs/price lists of other providers.

   c. E9-1-1 Service is furnished to the customer only for the purpose of receiving reports from the public of emergencies or similar events appropriate for action by a PSAP.

   d. E9-1-1 Service provides a one-way incoming service to the appropriate PSAP. Outgoing calls can only be made on a transfer basis or to reconnect a disconnected incoming 9-1-1 call.

SECTION 3. SERVICE OFFERINGS AND FEATURES, CONTINUED

e. E9-1-1 Service is provided solely for the benefit of the customer operating the PSAP, or for the carrier providing telecommunications or data communications service to individuals. The provision of the E9-1-1 Service by the Company shall not be interpreted, construed, or regarded, either expressly or implied, as being for the benefit of or creating any Company obligation toward any third person or legal entity other than the customer(s). The Company does undertake to provide E9-1-1 services using facilities obtained by the PSAP to enable the PSAPs personnel to respond to emergency calls on the PSAPs premises. The PSAP is responsible for the provision and maintenance of cable and wire facilities on the PSAPs side of the Demarcation Point.

f. Temporary suspension of service at reduced rate is not provided for any part of the E9-1-1 Service.

g. E9-1-1 information consisting of the names, addresses, and telephone numbers of telephone customers of carriers using Company service is confidential. This information will be provided via Location Database data on a call-by-call basis only for the purpose of responding to emergency calls.

h. The E9-1-1 calling party forfeits the privacy afforded by non-listed and non-published service to the extent that the telephone number, address, and name associated with the originating station location are furnished to the PSAP.

i. Default Routing will be provided in lieu of Selective Routing and ANI/ALI Display for E9-1-1 systems served from central offices or mobile telephone switching offices not equipped to transmit ANI.

j. The rates charged for E9-1-1 Service do not contemplate the inspection or 100 percent constant monitoring of facilities to discover errors, defects, and malfunctions in the service, nor does the Company undertake such responsibility. The customer shall make such operational tests as, in the judgment of the customer(s), are required to determine whether the system is functioning properly for its use. The customer(s) shall notify the Company promptly in the event the system is not functioning properly.

l. It is the obligation of the E9-1-1 authority to make arrangements to handle all E9-1-1 calls that originate from telephones served by central offices in the local service area, whether or not the calling telephone is situated on property within the geographical boundaries of the E9-1-1 authority's public safety jurisdiction.

SECTION 3. SERVICE OFFERINGS AND FEATURES, CONTINUED

m. Applications for E9-1-1 Service must be executed in writing by each PSAP or 9-1-1 authority. If application for service is made by an agent, the Company must be provided in writing with satisfactory proof of appointment of the agent by the customer.

n. The PSAP or 9-1-1 authority is required to furnish the Company its agreement to the following terms and conditions. The PSAP or 9-1-1 authority will subscribe to or provide telephone equipment with a capacity adequate to handle the number of incoming E9-1-1 calls recommended by the Company. The PSAP or 9-1-1 authority is to insure that PSAP premises equipment selected to operate E9-1-1 system features is compatible with the service furnished by the Company. The PSAP or 9-1-1 authority is responsible for the provision and maintenance of cable and wire facilities on the 9-1-1 authority's side of the Demarcation Point.

o. When the Selective Routing (or comparable) feature is provided, PSAP is responsible for identifying primary and secondary PSAP locations and the unique combinations of police, fire and ambulance or any other appropriate agencies responsible for providing emergency service. The PSAP is responsible for identifying the E9-1-1 serving area and for associating the Company-provided Emergency Service Numbers with the street address ranges or other criteria for selective routing of calls. Legacy ESNs may be used. ESNs will be carried in the Data Management System (DMS) or equivalent to permit routing of 9-1-1 calls to the primary and secondary PSAPs responsible for handling of calls from each telephone in the E9-1-1 serving area. The following terms define the 9-1-1 authority's responsibility in providing this information.

   (1) Initial and subsequent ESN assignments by street name, address range and area or other mutually agreed upon routing criteria shall be furnished by the 9-1-1 authority to the Company prior to the effective date of service. If the PSAP has legacy ESNs assigned by previous E9-1-1 service providers, these ESNs may be retained if the PSAP prefers.

   (2) After establishment of service, it is the PSAP's responsibility to continue to verify the accuracy of routing information contained in the address file and to advise the Company of any changes in street names, establishment of new streets, changes in address numbers used on existing streets, closing and abandonment of streets, changes in police, fire, ambulance or other appropriate agencies, jurisdiction over any address, annexations and other changes in municipal and county boundaries, incorporation of new cities or any other matter that will affect the routing of E9-1-1 calls to the proper PSAP.

   (3) The Company will provide; with reasonable frequency to the 9-1-1 authority, upon request a complete electronic copy of the address file previously supplied to the Company by the 9-1-1 authority to permit the 9-1-1 authority to verify accuracy of the police, fire, and ambulance PSAP routing designation.

SECTION 3. SERVICE OFFERINGS AND FEATURES, CONTINUED

(4) Changes, deletions, and additions which the PSAP desires to have made in the address file should be submitted on an "as occurred" basis.

(5) The Company will furnish an electronic copy to the 9-1-1 authority for verifications showing each change, deletion, and addition to the address file.

B. Private Switch/Location Database Service

1. Terms and Conditions

a. Private Switch/ Automatic Location Identification

(1) In a Private Switch/Location Database service application, the Private Branch Exchange (PBX) owner/operator (or Centrex/similar service customer) must meet the following requirements: Application for Private Switch/Location Database Service must be executed in writing by each PBX customer. If application for service is made by an agent, the Company must be provided in writing with satisfactory proof of appointment of the agent by the customer.

(2) The customer will coordinate with the E9-1-1 Public Jurisdiction to ensure that area boundaries are identified and that any required additions or modifications to the Master Location Validation System are provided to the Company.

(3) The customer will provide full local Automatic Number Identification (ANI) for every station within the PBX. The information must be approved by the Company prior to implementation to ensure that no conflict exists between the PBX's numbering plan and the numbering plans of other PBXs or telecommunications carriers.

(4) ANI multi-frequency signaling must conform to the specifications established by the Company.

(5) The customer must create, maintain and forward to the Company, current telephone number and address data in the format and time intervals negotiated between the Company and the customer.

(6) The PBX must be connected to the E9-1-1 Call Routing Device office via IP circuits. The PBX must route 9-1-1 calls to the IP 9-1-1 facilities without overflowing to any other access facility. The Company recommends the enterprise customer order or maintains diverse IP connectivity to provide redundancy to the system.

SECTION 3. SERVICE OFFERINGS AND FEATURES, CONTINUED

(7) The enterprise customer must develop and implement procedures to prevent the unauthorized or illegal use of Private Switch/Location Database trunks. These dedicated trunks may not be used for any purpose other than 9-1-1.

(8) The customer must use personal computer hardware and software (or PC equivalent hardware and software) for ongoing customer record update programs and processes that conform to specifications established by the Company.

b. Diversification and Redundancy

Customers can request diversification and redundancy of any or all IP facility routes. These IP facilities shall be provided by the appropriate ISP selected by the customer(s). Additional charges for such service utilizing the facilities, or the construction and provisioning thereof, will be the responsibility of the customer and will be assessed by the ISP.

C. E9-1-1 Trunks

1. E9-1-1 Trunks are high speed broadband IP or equivalent data-only circuits which:

   a. Originate from the Company Call Routing Device and terminate at PSAP premises demarcation; or

   b. Originate from the local exchange carrier end office (LEC or CLEC) and terminate at the Company E9-1-1 Call Routing Device; or

   c. Originate from the mobile telephone switching office and terminate at the Company E9-1-1 Call Routing Device; or

   d. Originate from any VoIP Service Provider softswitch and terminate at the Company E9-1-1 Call Routing Device; or

   e. Originate from any enterprise VoIP PBX softswitch and terminate at the Company E9-1-1 Call Routing Device; or

   f. Originate from any Emergency Services Gateway and terminate at the Company E9-1-1 Call Routing Device

2. The E9-1-1 Trunks are provided for the purpose of transporting only E9-1-1 traffic information.

3. E9-1-1 traffic from various enterprises, LECs, CLECs, mobile switching centers, and/or ESGWs may be combined on a single IP circuit.

SECTION 3. SERVICE OFFERINGS AND FEATURES, CONTINUED

D. E9-1-1 Call Routing Device

The E9-1-1 Call Routing Device will be able to provide two services:

1. Aggregation

   The Call Routing Device can aggregate E9-1-1 calls originating from multiple sources in multiple 9-1-1 jurisdictions into IP circuits that terminate at the appropriate PSAPs demarcation point. The PSAP does not need to designate or arrange for the connectivity between the local telecommunications carrier(s) to the Call Routing Device, or from the Call Routing Device to the customer premises demarcation point. The PSAP or 9-1-1 authority is obligated to acquire connectivity to the IP network.

2. Alternate Routing

   It is the customer's responsibility to designate the alternate location if traffic is to be routed to a secondary PSAP.

E. Automatic Number Identification (ANI)

Automatic Number Identification (ANI) is the feature by which the telephone number or other related routing (pANI) number associated with an inbound 9 -1-1 caller is received by the Company and passed on to the proper PSAP. The ANI is also used to determine the proper PSAP to receive the inbound call.

F. ALI Management Service

1. MSAG Management

   The Company provides a data management and administration tool that automates the viewing and communication of updates, insertions, and deletions to the MSAG database.

2. MSAG Build Services

   The Company acts as the facilitator with the addressing authority in the creation and maintenance of the MSAG utilizing recognized National Emergency Number Association (NENA) standards.

3. Subscriber Record Management

   Subscriber Record Management is the collection of service order records from Telephone Service Providers (TSPs), validation of those records against the MSAG, and storage of the records for the generation of the ALI database.

SECTION 3. SERVICE OFFERINGS AND FEATURES, CONTINUED

4. ALI Database Updates

   After processing and validating subscriber record updates, the Company posts ALI records for call routing and for retrieval and display by the PSAP during 9-1-1 calls.

5. ANI/ALI Discrepancy Resolution

   An *ANI/ALI discrepancy* occurs when an ALI record delivered to a PSAP does not match the information of the caller. The Company will investigate ANI/ALI discrepancy reports and refer each discrepancy to the respective TSP for resolution.

SECTION 4. RATES, CHARGES, AND CONDITIONS OF SERVICE

	Tariff Price	Tariff Price
Feature	**Non-Recurring Fee**	**Recurring Fee**
Private Switch/Automatic Location Identification Service	ICB	ICB
E911 Call Routing Device Service	ICB	ICB
Selective Routing (data)	ICB	ICB
Location Database Service	ICB	ICB
Master Location Validation System Management	ICB	ICB
Administer Pseudo ANI (per record)	ICB	ICB
E911 Trunks	ICB	ICB
Automatic Number Identification (ANI)	ICB	ICB
ALI Management Service	ICB	ICB

A. Rates By Individual Contract Basis (ICB)

In lieu of the rates otherwise set forth in this tariff, rates and charges, including minimum usage, installation, and recurring charges for the Company's services may be established at negotiated rates on an individual contract basis (ICB), taking into account the nature of the facilities and services, the costs of construction and operation, the volume of traffic, the length of service commitment by the Customer, and use of facilities by other customers. Such arrangements shall be considered Special Pricing Arrangements, the terms of which will be set forth in individual Customer contracts. However, unless otherwise specified, the terms, conditions, obligation and regulation set forth in this tariff shall be incorporated into, and become a part of, said contract, and shall be binding on the Company and the Customer. Specialized rates or charges will be made available to similarly situated customers on a non-discriminatory basis. The Company reserves the right to protection from public disclosure of proprietary information contained in such contracts as allowed under law.

In addition to the charges specifically for the customer's services, there may be additional surcharges as mandated by the Arizona Corporation Commission, other Arizona state authorities, and / or the Federal Communications Commission. The customer is hereby notified that these fees, as applicable, will be added to the customer's bill and that the rates may change periodically. No prior notice of any change will be provided to the customer. The then-current surcharge rate will be applied to the customer's bill even if this tariff has not been updated.

SECTION 4. RATES, CHARGES, AND CONDITIONS OF SERVICE, CONTINUED

B. Application for Service

1. Requests for this service:

   a. can only be initiated by a 9-1-1 customer, a PSAP, or authorized state agency;

   b. must be provided to the Company in writing; and

   c. must identify service locations and arrangements.

2. Customer Obligations

   a. Customer will comply with all applicable provisions of this tariff and/or an ICB.

   b. The telecommunications service provider will create, maintain, and forward to the Company current telephone number(s) and address data according to the format and procedures specified by the Company.

   c. The PSAP must develop and implement procedures to prevent the unauthorized or illegal use of Company Next Gen 9-1-1 services. These dedicated facilities may not be used for any purpose other than for 9-1-1 service.

   d. The PSAP must use computer hardware and software for ongoing Private Switch End User (PSEU) record update programs and processes that conform to the specifications outlined by the Company.

   e. PS/ALI Service information consisting of the name, address, and telephone number of PSEUs is confidential. The 9-1-1 customer agrees to use such information only for the purpose of responding to emergency calls.

   f. The PSEU forfeits the privacy afforded by non-listed and non-published service to the extent that the telephone number, the address, and name associated with the originating station location are furnished to the PSAP and to the Company. The PSEU (published and non-published) consents to the storage and retention of PSEU name, telephone number, and address in the data base and also consents to access to this information by the PSAP for the sole purpose of responding to an emergency call.

   g. Cancellation of the service in whole or in part by the 9-1-1 customer prior to establishment thereof, will require payment to the Company of an amount equal to the cost of engineering, manufacturers' billings resulting from equipment orders, installation, assembly, labor, cost of removal and any other costs incurred by the Company up to the time of cancellation resulting from the 9-1-1 customer's order for service. This requirement may be superseded by an explicit Cancellation Clause in the ICB contract with the customer.

SECTION 4. RATES, CHARGES, AND CONDITIONS OF SERVICE, CONTINUED

h. Temporary suspension of service at the request of the customer, either partial or complete, is not applicable.

C. Contracts

Due to the special and limited nature of the services offered by the Company, all services not defined in this tariff and/or as required by the customer will be provided for in an ICB between the Company and the customer.

D. Special Information Required on Forms

Due to the special and limited nature of the services offered by the Company, and the requirement that the customer be a carrier or a governmental agency, any special information required of the customer will be provided for in an ICB between the Company and the customer.

E. Establishment and Reestablishment of Credit

Due to the special and limited nature of the services offered by the Company, and the requirement that the customer be a carrier or a governmental agency, all credit requirements of the customer will be provided for in an ICB between the Company and the customer.

F. Deposits

Due to the special and limited nature of the services offered by the Company, and the requirement that the customer be a carrier or a governmental agency, all deposit requirements of the customer will be provided for in an ICB between the Company and the customer.

G. Notices in ICB

Due to the special and limited nature of the services offered by the Company, and the requirement that the customer be a carrier or a governmental agency, all notice requirements between the customer and the Company may also be provided for in an ICB between the Company and the customer.

H. Issuance and Payment of Bills

Due to the special and limited nature of the services offered by the Company, and the requirement that the customer be a carrier or a governmental agency, all billing procedures between the customer and the Company will be provided for in an ICB between the Company and the customer.

I. Discontinuance and Restoration of Service

Due to the special and limited nature of the services offered by the Company, and the requirement that the customer be a carrier or a governmental agency, all terms and conditions for the discontinuance and/or restoration of service will be provided for in an ICB between the Company and the customer.

SECTION 4. RATES, CHARGES, AND CONDITIONS OF SERVICE, CONTINUED

J. Information on Services and Promotional Offerings

Due to the special and limited nature of the services offered by the Company, the requirement that the customer be a carrier or a governmental agency, the Company does not anticipate that it will offer any promotional offerings.

K. Temporary Service

Due to the special and limited nature of the services offered by the Company, and the requirement that the customer be a carrier or a governmental agency, all temporary service needs between the customer and the Company will be provided for in an ICB between the Company and the customer.

L. Continuity of Service

Due to the special and limited nature of the services offered by the Company, and the requirement that the customer be a carrier or a governmental agency, all determinations of interruptions of service, notice to the customer, and apportionment of available services between the customer and the Company will be provided for in an ICB between the Company and the customer.

M. Extension of Lines and Mains

Not applicable to the Company.

N. Facilities on Customers' Premises and Service Connections

Due to the special and limited nature of the services offered by the Company, and the requirement that the customer be a carrier or a governmental agency, all procedures regarding the installation of the services, and the respective rights of the Company and the customer regarding access to the customer's premises will be provided for in an ICB between the Company and the customer.

SECTION 5. SERVICE AREAS

A. Service Areas

The Company proposes to serve the entire state of Arizona.

ATTACHMENT D

FORM 10-K

TELECOMMUNICATION SYSTEMS INC /FA/ - TSYS

Filed: March 03, 2009 (period: December 31, 2008)

Annual report which provides a comprehensive overview of the company for the past year

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

☑ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the year ended December 31, 2008

OR

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

Commission File No. 0-30821

TELECOMMUNICATION SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

Maryland	**52-1526369**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
275 West Street, Annapolis, MD	**21401**
(Address of principal executive offices)	(Zip Code)

(410) 263-7616
Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: None.

Securities registered pursuant to Section 12(g) of the Act: Class A Common Stock, Par Value $0.01 per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act: Yes ☐ No ☑

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act: Yes ☐ No ☑

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer.

Large accelerated filer ☐ Accelerated filer ☑ Non-accelerated filer ☐ Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in rule 12b-2 of the Act): Yes ☐ No ☑

As of June 30, 2008, the aggregate market value of the Class A Common Stock held by non-affiliates, as reported on the NASDAQ Global Market, was approximately $157,546,510.*

As of January 31, 2009 there were 38,559,279 shares of Class A Common Stock and 6,876,334 shares of Class B Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Document	Part of 10-K into which incorporated
Portions of the registrant's Proxy Statement for the Annual Meeting of Stockholders to be held June 11, 2009	Part III

* Excludes 1,478,026 shares of Class A Common Stock and 7,226,334 shares of Class B Common Stock deemed to be held by stockholders whose ownership exceeds ten percent of the shares outstanding at June 30, 2008. Exclusion of shares held by any person should not be construed to indicate that such person possesses the power, direct or indirect, to direct or cause the direction of the

management or policies of the registrant, or that such person is controlled by or under common control with the registrant.

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Cautionary Note Concerning Factors That May Affect Future Results

This document contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Forward-looking statements are statements other than historical information or statements of current condition. We generally identify forward-looking statements by the use of terms such as "believe", "intend", "expect", "may", "should", "plan", "project", "contemplate", "anticipate", or other similar statements. Examples of forward looking statements in this Annual Report on Form 10-K include, but are not limited to statements that

(i) we are well positioned to address the evolving integration needs of our clients through our expertise in messaging and location determination;

(ii) we are developing relationships with communication infrastructure providers and we intend to expand our domestic and international carrier base;

(iii) we plan to continue to develop and sell software and engineered systems which we will deliver through deployment in customer networks or through hosted and subscription business models and we believe that our software is positioned for early adoption by carriers;

(iv) wireless growth is expected to continue to increase in all regions around the world for the foreseeable future;

(v) both the number of users and messages per individual are projected to increase significantly;

(vi) we will continue to develop network software for wireless carriers that operate on all major types of networks;

(vii) we will continue to leverage our knowledge of complex call control technology to unlock valuable information and expand the range of capabilities that the technology can accomplish for our customers;

(viii) we will continue to invest in our underlying technology and to capitalize on our expertise to meet the growing demand for sophisticated wireless applications;

(ix) we intend to continue to selectively consider acquisitions of companies and technologies in order to increase the scale and scope of our operations, market presence, products, services and customer base;

(x) the Broadband Global Area Network upgrade of the Inmarsat satellite constellation expands our opportunity for SwiftLink sales volume;

(xi) we believe our expertise in the area of wireless E9-1-1, location and messaging services, and secure satellite communications can be leveraged into providing products and services to the Federal agencies;

(xii) we are continuing to enhance our deployable communication systems product line to take advantage of the evolving environment of satellite communications;

(xiii) we believe that our company enjoys a competitive advantage because of its secure teleport and integration capabilities along with deployable systems as a bundled offering;

(xiv) federal agencies, as well as state and local governments, are increasingly contracting with specialist teams for functions such as network management, and for long-term projects such as software development and systems integration;

(xv) we expect to continue generate significant portions of our total revenue from our largest customers;

(xvi) we expect to realize $116.0 million of backlog within the next twelve months;

(xvii) the bases on which we expect to continue to compete;

(xviii) we expect to require increasing levels of support from subcontractors and vendors and expand our work under contract vehicles;

(xix) we believe we have sufficient capital resources to meet our anticipated cash operating expenses, working capital and capital expenditure and debt services needs for the next twelve months;

(xx) that we believe our capitalized research and development expense will be recoverable from future gross profits generated by the related products;

(xxi) we believe our intellectual property assets are valuable and that we may realize revenue from patent infringement claims;

(xxii) we believe we should not incur an material liabilities from customer indemnification requests;

(xxiii) the WWSS procurement vehicle is expected to contribute to significant sales growth and that we expect to fulfill the potential values under WWSS orders;

(xxiv) expectations about the amount of future non-cash stock compensation;

(xxv) our assumptions and expectations related to income taxes and deferred tax assets;

(xxvi) we do not expect that the adoption of new accounting standards to have a material impact on the company's financial statements, and

(xxvii) statements about financial covenants related to our loan agreements.

Other such statements include without limitation risks and uncertainties relating to our financial results and our ability to (i) continue to rely on our customers and other third parties to provide additional products and services that create a demand for our products and services, (ii) conduct our business in foreign countries, (iii) adapt and integrate new technologies into our products, (iv) develop software without any errors or defects, (v) protect our intellectual property rights, (vi) implement our business strategy, (vii) realize backlog, (viii) compete with small business competitors, (ix) effectively manage our counter party risks, and (x) achieve continued revenue growth in the foreseeable future in certain of our business lines. This list should not be considered exhaustive.

These forward-looking statements relate to our plans, objectives and expectations for future operations. We base these statements on our beliefs as well as assumptions made using information currently available to us. In light of the risks and uncertainties inherent in all projected operational matters, the inclusion of forward-looking statements in this document should not be regarded as a representation by us or any other person that our objectives or plans will be achieved or that any of our operating expectations will be realized. Revenues, results of operations, and other matters are difficult to forecast and could differ materially from those projected in the forward-looking statements contained in this Annual Report on Form 10-K as a result of factors discussed in "Management's Discussion and Analysis of Financial Conditions and Results of Operations", the matters discussed in "Risk Factors Affecting Our Business and Future Results", which are included in Item 1A, and those factors discussed elsewhere in this Annual Report on Form 10-K including, changes in economic conditions, technology and the market in general, and our ability to adapt our products and services to these changes. We undertake no obligation to release publicly the results of any future revisions we make to forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. We caution you not to put undue reliance on these forward-looking statements.

Item 1. *Business*

Overview

TeleCommunication Systems, Inc. develops and applies highly reliable wireless data communications technology, with emphasis on text messaging, location-based services including enhanced 9-1-1 (E9-1-1) for wireless carriers and Voice over Internet Protocol (VoIP) service providers, and secure satellite-based communication solutions for government customers.

We are a Maryland corporation founded in 1987 with headquarters at 275 West Street, Annapolis, Maryland 21401. Our Web address is www.telecomsys.com. The information contained on our Web site does not constitute part of this Annual Report on Form 10-K. All of our filings with the Securities and Exchange Commission are available through a link on our website. The terms "TCS", "we", "us" and "our" as used in this

Annual Report on Form 10-K refer to TeleCommunication Systems, Inc. and its subsidiaries as a combined entity, except where it is made clear that such terms mean only TeleCommunication Systems, Inc.

Our business is conducted through two operating segments, Commercial (46% of 2008 revenue) and Government (54% of 2008 revenue). See discussion of segment reporting in Note 20 to the audited Consolidated *Financial Statements* presented elsewhere in this Annual Report on Form 10-K for additional segment information.

Commercial Segment: Our carrier services and systems products enable wireless carriers to deliver short text messages, location information, internet content, and other enhanced communication services to and from wireless phones. We provide E9-1-1 services, commercial location-based services, and inter-carrier text message distribution services on a hosted, or service bureau basis, that is, customers use our software functionality through connections to and from our network operations centers, paying us monthly fees based on the number of subscribers, cell sites, call center circuits, or message volume. We provide hosted services under contracts with wireless carrier networks, as well as VoIP service providers. We earn subscriber revenue through wireless applications including our navigation and traffic application which are available via many wireless carriers. We earn carrier software-based revenue through the sale of licenses, deployment and customization fees and maintenance fees. Pricing is generally based on the volume of capacity purchased from us by the carrier. As of December 31, 2008, we had deployed 108 of our software systems in wireless carrier networks around the world, including those of Verizon Wireless, Telefonica and its affiliate Vivo, and Hutchison Whampoa's "3" brand third generation networks.

Government Segment: Since our founding in 1987 we have provided communication systems integration, information technology services, and software solutions to the U.S. Department of Defense and other government customers. We also own and operate secure satellite teleport facilities, and resell access to satellite airtime (known as space segment.) We design, furnish, install and operate wireless and data network communication systems, including our SwiftLink® deployable communication systems which incorporate high speed, satellite, and internet protocol technology. More than 1,500 of our SwiftLink® deployable communication systems are in use for security, defense, and law enforcement around the world. In 2006, we were named one of six prime contractors on the US Army's Worldwide Satellite Systems ("WWSS") contract vehicle, with a ceiling value of up to $5 billion in procurements through 2011.

We currently have more than 65 patents, primarily for wireless messaging and location technology, and more than 210 patent applications pending. During 2008, we sold one of our patents to TIP Communication LLC netting $8.1 million, as part of settling a patent infringement suit again Research in Motion Limited. We employ approximately 600 people.

SwiftLink®, Xypoint®, and Enabling Convergent Technologies®, are trademarks or service marks of TeleCommunication Systems, Inc. or our subsidiaries. This Annual Report on Form 10-K also contains trademarks, trade names and services marks of other companies that are the property of their respective owners.

I. Commercial Segment:

We provide software, related systems, hosted services, maintenance and related services to wireless carriers, Voice Over IP service providers, and users of electronic map and related location-based technology, based on our portfolio of patented intellectual property.

A. Commercial Product and Service Offerings

1. Commercial services. We own and lease network operation centers that host software for which customers make recurring monthly usage payments. Our hosted offerings include wireless and Voice over IP E9-1-1, and commercial location-based applications. Through wireless carriers, we sell subscriptions to services using our client software applications such as navigation, traffic, and points of interest, sometimes in collaboration with owners of brand names such as Rand McNally®. Our primary commercial product offerings include:

a. Hosted Location-Based Services, including E9-1-1. Our E9-1-1 service bureau works with wireless carriers and local emergency services in compliance with the Federal Communication Commission requirements. When a wireless subscriber covered by this service makes a 9-1-1 call from his or her wireless phone, the software (1) identifies the call as an emergency call, (2) accesses the handset's location information from the wireless network, (3) routes the call to the appropriate public safety jurisdiction, (4) translates the information into a dispatcher-friendly format, and (5) transmits the data to the local emergency service call center. Our E9-1-1 service operates on a platform at our network operations center in Seattle, Washington with data center redundancy in Phoenix, Arizona. As of December 31, 2008, we are under contract to provide E9-1-1 services to more than 40 customers including wireless carriers Verizon and AT&T Wireless, and Voice over IP service providers including Vonage and Level 3.

b. Customer subscriptions to application-based services such as Navigation, Traffic and Points-of-Interest. TCS' strategy is to provide wireless subscriber applications that use location-based technology, which subscribers may select and pay recurring monthly fees. TCS has launched its real-time traffic application downloadable mobile applications that deliver easy access to maps, directions and directory listings for the entire United States, and its navigation applications on multiple networks. Variations of all applications are sold under the Rand McNally® brand as well as carrier or other brands.

c. Software and system maintenance. For our installed base of systems in use by customers (see system descriptions below), we provide ongoing operational support, including administration of system components, system optimization and configuration management. Maintenance services include tracking customer support issues, trouble shooting, and developing and installing maintenance releases. We typically provide maintenance services for an annual fee paid in advance, which is priced based on the cumulative license fees we have billed for the systems being supported.

d. Professional services involving electronic map technology. We provide custom software development and professional services to customers engaged in telematics (the use of Global Positioning System technology integrated with computers and mobile communications technology in automotive navigation systems). Customers include DENSO Corporation of Japan, and services include points-of-interest applications, and compilation and maintenance of geographic information databases used in vehicle navigation systems for products including Toyota, Lexus, Land Rover and Hyundai brands.

2. Commercial Licensed Software-based Systems: We design and develop software products for wireless carrier and enterprise networks that enable the delivery of secure and personalized content, services, and transactions to wireless devices. We design our software using industry standards for easy implementation, customization, and interoperability with other network components. Most of our commercial software is designed and delivered together with third-party software and related hardware, which is integrated into new and existing networks by our engineers. Our primary commercial software-based system offerings include:

a. Xypoint® Location Platform (XLP) and Applications for Location-based Services: Our Xypoint® Location Platform system interacts with wireless network to extract location information (the "X/Y" coordinates) of a user's device. In order to determine a user's location with sufficient precision for U.S. public safety compliance and for commercial location-based applications, our technology interacts with networks that have incorporated Assisted GPS systems that use Global Positioning System (GPS) chips in user handsets; it can also work with network triangulation software which some carriers have added to cell towers and switches in the network. We have been a leader in developing the location platform standard called Secure User Plane for Location (SUPL) and have incorporated the technology in our product. Our platform also provides privacy controls so that the wireless device user controls access to the user's location information. The "X/Y" information extracted from networks by our XLP is used by application software including E9-1-1, driving navigation directions, identification of points of interest locations near the end user (such as gas stations, restaurants, or hotels), and locating other network subscribers near the user's current position.

b. Short Message Service Center and Wireless Intelligent Gateway. Our Short Message Service Center software enables users to send and receive text or data messages to and from wireless devices. The Wireless Intelligent Gateway is a portal for two-way data communication between users of wireless networks and the Internet. The Gateway allows users to customize the services they receive on wireless devices by setting up a user profile through a single Internet-based procedure. Wireless carriers can access these user profiles and usage data to gain a better understanding of customer behavior. The Wireless Intelligent Gateway allows additional wireless applications to be added as desired, as well as personalization, instant messaging and spam-blocking capabilities that can be independently customized by the end-user. It can interoperate with our location-based service platform and applications.

B. Commercial Market Opportunities and Strategy

We plan to continue to develop and sell software and engineered systems which we will deliver through deployment in customer networks or through hosted and subscription business models. Our development investment is focused on the delivery of Internet content, proprietary third-party content, short messages, location information, corporate network data and other enhanced data-communication services to and from wireless devices. The following trends are driving demand for our products and services:

Growth in Wireless and Voice over Internet Protocol (VoIP) Subscribers. The use of wireless communications has increased significantly in recent years, driven by expanded wireless network coverage, upgraded high-speed digital wireless networks, more affordable wireless communications service plans, and higher quality and less expensive wireless devices. VoIP service offers cost advantages over traditional wireline service. Wireless growth is expected to continue to increase in all regions around the world for the foreseeable future. Driving this growth is the replacement of landline connections with wireless connections. Some households are now using cellular phones exclusively. This is especially true for young adults, but also true in developing countries where wireless may often be the only means of communications.

The FCC's E9-1-1 Mandates. We are one of the two leading providers of E9-1-1 service to wireless and VoIP service providers in the U.S. The ability to call for help or communicate with family members in need is the reason many people cite for having a wireless phone. A key to enhancing personal safety through a cell phone is the availability of E9-1-1 wireless capabilities. In 1996, the Federal Communications Commission (FCC) mandated the adoption of E9-1-1 technology by wireless carriers. In June 2005, the FCC ordered providers of interconnected VoIP service to provide E9-1-1 services to all of their customers as a standard feature of the service, rather than as an optional enhancement. The FCC requires wireless carriers to issue quarterly reports as to their progress and compliance with FCC-mandated deployment schedules.

Cellular Network Improvements to Third Generation Capabilities. Mobile operators are deploying high-speed data networks based on third generation technologies that, in many cases, equal or surpass data rates that are typically available for residential wireline users. The deployments of these high-speed wireless data networks have made it possible for individuals and enterprises to "wireless-enable" many services that previously required a wireline connection, such as connecting to the Internet and accessing corporate data outside the office. Our location-based technology and applications incorporating map graphics take advantage of these network enhancements.

Improving Wireless Device Functionality. Manufacturers continue to increase the functionality of mobile devices including phones and personal digital assistants through higher resolution, color screens, and increased computing capability for sophisticated applications. These devices enable the user to take advantage of the high-speed data networks for Internet and data usage. Broad adoption of location-based services (LBS) has required, among other things, handsets incorporating components for interoperation with Global Positioning System satellites and with LBS network components that we have developed and provide. A growing number of handheld wireless device models contain Global Positioning System (GPS) chipsets which interoperate with our network platforms and applications.

Growing Use of Commercial Location-Based Wireless Services (LBS). A driver of wireless communication subscriber revenue growth is the delivery of timely, highly specialized, interactive and location-specific information. Technology incorporated in a growing number of networks and handsets now enables determination of the handset's location with sufficient precision to allow useful applications beyond public safety's E9-1-1. Wireless users benefit from the ability to receive highly customized location-specific information in response to their queries or via targeted opt-in content delivered to the wireless device. Enterprises benefit from wireless location technology by utilizing routing and tracking applications for their mobile field forces. Our software provides wireless location solutions to mobile operators today through our Xypoint® Location Platform (XLP.) This technology is being used, via interconnection with XLP systems hosted in our network operations, by MetroPCS and Ntelos in the U.S., Bell Mobility in the U.S. and Canada, Centennial Puerto Rico in Puerto Rico, and Iusacell in Mexico. Our XLP in-network system customers include Alltel (now part of Verizon Wireless), Hutchison Whampoa's "3"™ networks, and Telefonica's Vivo network in Brazil. We are deploying hosting infrastructure in Mumbai, India to serve Tata Teleservices and other carriers in India with location data and downloadable navigation application software.

Growing Use of Short Messaging and Internet Applications. The number of short messaging services (SMS) users and messages per individual are projected to continue to increase significantly. Mobile operators in the United States are experiencing rapid SMS traffic growth, according to statistics from mobile operators. The Internet and internal corporate data networks, or intranets, have emerged as global communications channels that allow users to share information and conduct business transactions electronically. We provide solutions for mobile operators to receive and route e-mail and SMS messages through our Short Message Service Center and Wireless Intelligent Gateway systems.

The key elements of our commercial strategy are to:

- **Focus our Software and Integration Resources on Evolving Carrier Network Capabilities.** Mobile operators and the federal government increasingly seek integrated solutions that can harness both messaging capabilities of networks and location information of end-users. We are well positioned to address the evolving integration needs of our commercial and government clients through our demonstrated expertise in both messaging and location determination. Mobile operators have made large capital expenditure investments in infrastructure for wireless data and location determination technologies. While originally envisioned as separate technologies, messaging and location determination technologies can be integrated to provide value-added services and applications for the operators' end-users.

- **Expand Our Sales and Marketing Relationships.** We are developing relationships with communication infrastructure providers in order to expand our sales channels for our carrier software products and services. We have historically leveraged our strategic relationships with original equipment manufacturers to market our Commercial Segment products to wireless carriers worldwide. We have long standing relationships with Qualcomm Incorporated and its subsidiary SnapTrack Inc., including the BREW Locate Signature Solution. We are adding partnerships for our location technologies, including a marketing alliance in China established in January 2009.

- **Grow Our Wireless Carrier and Voice Over IP Customer Base.** We now serve or are under contract with more than 40 wireless carrier networks and VoIP service providers in 16 countries. We intend to expand our domestic and international carrier base by capitalizing on our relationships with original equipment manufacturers and establish new distribution partnerships and by expanding our own sales and marketing initiatives. We will continue to develop network software for wireless carriers that operate on all major types of networks.

- **Leverage Our Expertise in Accessing Information Stored Inside Wireless Networks.** We will continue to leverage our knowledge of complex call control technology, including Signaling System 7 and Internet Protocol standards, to unlock valuable information such as user location, device on/off status, and billing and transaction records that reside inside wireless networks and are difficult to retrieve and utilize. Using this information, we intend to expand the range of capabilities that wireless data technology can accomplish for our customers.

- **Develop and Enhance Our Technology.** We will continue to invest in our underlying technology and to capitalize on our expertise to meet the growing demand for sophisticated wireless applications. As of January 1, 2009, our staff included approximately 300 personnel with technical expertise in wireless network, client software development, hosted wireless operations, satellite-based communication technology and integrated network solutions. We also have research and development relationships with wireless handset manufacturers, wireless carriers, and content and electronic commerce providers. Our Xypoint® platform architecture efficiently integrates our presence, location, call control and messaging technology, resulting in reduced costs, increased reliability, more efficient deployments, compatibility with our existing products and a migration path to third-generation services.

- **Pursue Select Acquisitions.** We intend to continue to selectively consider acquisitions of companies and technologies in order to increase the scale and scope of our operations, market presence, products, services and customer base.

II. Government Segment:

We provide secure, deployable communication systems, and engineering and technical services, with emphasis on satellite-based communication technology, to agencies of the U.S. Departments of Defense (DoD), State, Justice, Homeland Security, as well as the City of Baltimore and other government customers.

A. Government Products and Services

1. Government Services. We enter into fee-for-service contracts under which revenue is generated based on contract labor billing rates or based on fixed fees for deliverables. These services, typically under multi-year contracts or contract vehicles, include:

a. Network Operation and Telecom Expense Management Support. We design, install, and operate data networks that integrate computing and communications, including systems that provide communications via both satellite and terrestrial links. We can provide complete network installation services from cabling infrastructure to complex communications system components. We also provide ongoing network operation and management support services including telecom expense management under multi-year contracts with government customers.

b. Secure Satellite Teleport Data Landing and Transmission Services. We own and operate a high-speed satellite communications teleports in Manassas, Virginia that are connected to the public switched telephone network. These facilities provide transport services for Internet Protocol (IP)-based media content consisting of Voice over IP (VoIP), Internet, video, and messaging data using Very Small Aperture Terminal (VSAT) satellite technology as part of our communication solutions for our customers. We purchase space segment and resell it to customers using our facilities.

c. Maintenance Services. We offer basic and extended maintenance services related to our SwiftLink® products and customized deployable communication systems.

2. Government Systems. We have designed and developed our SwiftLink® product line a series of ruggedized, wireless and satellite-based secure communication systems, which can be rapidly deployed in remote areas where other means of reliable communications may not be available. SwiftLink® products provide secure voice, video and data communications for multiple personnel. All of our SwiftLink® systems can be deployed by a single person in less than ten minutes, creating critical communication channels from any location around the world. Uses include critical communications for DoD warfighters and command headquarters, emergency response, news reporting, public safety, drilling and mining operations, field surveys and other activities that require remote capabilities for video and data transmission. Integration work which typically accompanies customer purchases of our secure deployable systems is reported together with the system sales revenue. The Broadband Global Area Network upgrade of the Inmarsat satellite constellation, which enables lower cost internet protocol traffic with broader band capability, expands our opportunity for SwiftLink® sales. More importantly, our deployable VSAT multi-band terminals provide access to a wide array of commercial and military satellites that make broadband capabilities available on a global basis. In addition, our deployable broadband wireless systems provide additional extensions of secure wireless communications services for up to 30 miles from a Switlink® point of presence.

B. Government Market Opportunities and Strategy

We plan to continue to provide communication systems integration, information technology services, software solutions to the U.S. Department of Defense, and other government customers, in addition to operating secure satellite teleport facilities and reselling access to satellite airtime. Our development and business growth is focused on continuity of operations, field service operations and increased satellite managed bandwidth services. The following trends are driving demand for our products and services:

Expanded Need for Secure, Interoperable Deployable Communication Solutions. In recognition of the military imperative of enabling secure, broadband access to data for missions in disparate, remote locations, the US Army awarded the WWSS 5-year procurement contract vehicle to six prime contractors, including TeleCommunication Systems, Inc. in the third quarter of 2006, with a ceiling value of up to $5 billion in procurements through 2011. This procurement encompasses systems like our SwiftLink® family of deliverables, and during 2008 we generated significant revenue under WWSS, including fulfillment of orders for equipment under three WWSS programs: MiTT (Military Transition Team); WPPL (Wireless Point-to-point Link, and SNAP (Secure and Non-secure IP Network Access Point) systems. We are continuing to enhance our deployable communication systems product line to take advantage of the evolving environment, including the benefits of Very Small Aperture Terminal (VSAT) satellite communications architectures deployable in multiple aperture sizes from 0.45 meter man pack terminals to 2.4 meters where desirable and the use of Inmarsat Broadband Global Area Network enhancements to our satellite services.

Growing Use of Secure Wireless Communications and Location Technology for Defense, Intelligence and Homeland Security. Wireless communications and location technology are key initiatives within the federal government for both security and supply-chain management. Wireless communications in emergencies are of paramount importance, as emergency personnel need to be able to communicate and share information across agencies and departments where wireline systems may be unavailable. We believe that our expertise in the areas of wireless E9-1-1, location and messaging services, and secure satellite communications can be leveraged to provide the needed wireless infrastructure for the U.S. Departments of Homeland Security and Defense and we are currently pursuing opportunities to provide such products and services. Our SwiftLink® deployable communication systems are also increasingly used by military and other government agencies around the globe for communications in times of emergencies. SwiftLink® is designed to provide secure voice and data communications through encrypted satellite links.

Government Outsourcing of Network and Telecom Technical Functions. Federal agencies, as well as state and local governments, are increasingly contracting with specialist teams for functions such as network management, and for long-term projects such as software development and systems integration. Since the founding of our Company, we have built relationships with federal agencies, as well as the State of Maryland and the City of Baltimore. Since early 2004, we have made it a management priority to aggressively expand our base of long-term service contract engagements. We have added experienced sales personnel and enhanced our relationships with systems integrators and specialist vendors to expand our penetration of the government service market.

Secure Teleport and Integration Capabilities along with Deployable Systems as a Bundled Offering. Government customers can benefit from single-sourcing secure communications solutions which include a secure U.S. landing site for backhaul traffic as well as network engineering expertise and secure remote terminals. We believe that TCS enjoys a competitive advantage, because it can offer all of these elements from a single vendor.

Application of Commercially Proven Technology to Government Solutions. Government customers increasingly are using commercial carrier networks. Procurement officers have expressed a preference for solutions that incorporate proven commercial technology, rather than reliance on government research and development funding. Our portfolio of software, patented intellectual property, and teams of wireless and encryption specialists positions us to tap into this opportunity.

Customers

Commercial Segment. Our commercial customers include wireless telecommunications carriers in the United States and foreign countries, either directly or through our channel partners. We provide licensed software-based systems, and hosted service bureau offerings to carriers around the world. Our wireless carrier customers include Verizon Wireless (22% of total 2008 revenue from continuing operations), AT&T Wireless, T-Mobile and the Hutchison Whampoa third generation "3" brand networks. Customers for our Voice Over IP E9-1-1 services include Vonage and Level 3. We provide electronic map technology solutions to telematics vendors including DENSO Corporation. Our sales efforts target wireless and Voice over IP service providers around the world.

Government Segment. Our major Government Segment customers include major elements of the U.S. Departments of Defense, Justice, Homeland Security, and State, the General Services Administration, the City of Baltimore, and Northrop Grumman. In the aggregate, U.S. federal government entities accounted for 42% of total 2008 revenue from continuing operations.

Backlog

As of December 31, 2008 and 2007, we had unfilled orders, or funded contract and total backlog, as follows:

	December 31,		2008 vs. 2007	
($ in millions)	**2008**	**2007**	**$**	**%**
Commercial Segment	$ 80.1	$ 93.9	$ (13.8)	(15%)
Government Segment	79.7	36.7	43.0	117%
Total funded contract backlog	$ 159.8	$ 130.6	$ 29.2	22%
Commercial Segment	$ 91.0	$ 103.4	$ (12.4)	(12%)
Government Segment	354.0	128.8	225.2	175%
Total backlog of orders and commitments, including customer options	$ 445.0	$ 232.2	$ 212.8	92%
Expected to be realized within next 12 months	$ 116.0	$ 84.6	$ 31.4	37%

Funded contract backlog represents contracts for which fiscal year funding has been appropriated by our customers (mainly federal agencies), and for our hosted services is computed by multiplying the most recent month's recurring revenue times the remaining months under existing long-term agreements, which we believe is the best available information for anticipating revenue under those agreements. Total backlog, as is typically measured by government contractors, includes orders covering optional periods of service and/or deliverables, but for which budgetary funding may not yet have been approved. Company backlog at any given time may be affected by a number of factors, including the availability of funding, contracts being renewed or new contracts being signed before existing contracts are completed. Some of our backlog could be canceled for causes such as late delivery, poor performance and other factors. Accordingly, a comparison of backlog from period to period is not necessarily meaningful and may not be indicative of eventual actual revenue.

Sales and Marketing

We sell our products and services through our direct sales force and through indirect channels. Our direct sales force consists of approximately 20 professionals in the U.S. and Europe. We have also historically leveraged our relationships with original equipment manufacturers (OEMs) to market our commercial systems to wireless carrier customers. These indirect sales relationships include Alcatel Lucent, and Qualcomm. We are also adding partnerships for our location technologies, including a marketing alliance in China established in January 2009. During the indirect sales process, as well as during installation and maintenance, we have extensive direct contact with prospective carrier customers.

We are pre-qualified as an approved vendor for some government contracts, and some of our products and services are available to government customers via the General Services Administration's Information Technology

Schedule 70, and the Worldwide Satellite Services (WWSS) and the Space and Naval Warfare Foreign Military Sales (SPAWAR FMS) contract vehicles. We collaborate in sales efforts under various arrangements with integrators. Our marketing efforts also include advertising, public relations, speaking engagements and attending and sponsoring industry conferences.

Competition

The markets for our products and services are competitive. The adoption of industry standards may make it easier for new market entrants to compete with us. We expect that we will continue to compete primarily on the basis of the functionality, breadth, time to market, ease of integration, price, and quality of our products and services, as well as our market experience and reputation. The market and competitive conditions are continually developing. Our software products compete with many similar products provided by other companies. It is difficult to present a meaningful comparison between our competitors and us because there is a large variation in revenue generated by different customers, different products and services, as well as the different combinations of products and services offered by our competitors. We cannot, therefore, quantify our relative competitive position.

Our current and potential competitors include:

- **Commercial Segment.** Intrado Inc. division of West Corporation; Motorola Inc.; Siemens AG; Ericsson LM Telephone Co.; Openwave Systems Inc.; Acision; Comverse Technology Inc.
- **Government Segment.** Computer Sciences Corporation; ViaSat Inc.; General Dynamics corp.; DataPath Inc.; CACI International Inc.; Globecomm Systems, Inc.; Comtech Telecommunications, Corp.

Many of our existing and potential competitors have substantially greater financial, technical, marketing and distribution resources than we do. Many of these companies have greater name recognition and more established relationships with their target customers. Furthermore, these competitors may be able to adopt more aggressive pricing policies and offer customers more attractive terms than we can. With time and capital, it would be possible for our competitors to replicate our products and services.

We partner with vendors of precise location technology. Certain of our partners may attempt to compete with our operating platform by developing their own transmission platform or by purchasing another mobile location platform. The markets for commercial location and other mobile wireless applications for carriers and enterprises are relatively new and continually developing. The convergence of wireless technologies and the Internet is creating many initiatives to bring data and transaction capabilities to wireless devices. There is a wide array of potential competitors in this market, including providers of competing location management platforms, competing e-mail products, competing enterprise mobility platforms and other competing applications for wireless devices.

Research and Development

Our success depends on a number of factors, which include, among other items, our ability to identify and respond to emerging technological trends in our target markets, to develop and maintain competitive products, to enhance our existing products by adding features and functionality that differentiate the products from those of our competitors, and to bring products to market on a timely basis and at competitive prices. As of January 1, 2009, our overall staff included approximately 300 professionals with technical expertise in wireless network, client software development and satellite-based communication technology. Since 1996, we have made substantial investments in wireless technology research and development, most of which has been devoted to the development of carrier and enterprise network software products and services. We are primarily focusing our current research and development investments in cellular location-based and electronic map technology, including E9-1-1 technology. We actively support existing telecommunications standards and promote new telecommunications standards in order to expand the market for wireless data. We actively participate in wireless standards-setting organizations including the Open Mobile Alliance, and we are represented on the Board of Directors for the E9-1-1 Institute. In 1996, we co-founded the Intelligent Network Forum, an organization dedicated to expanding the role of intelligent networks in telecommunications. As part of our strategy to expand the role of short messaging, we co-founded the Short Message Peer-to-Peer Forum in 1999.

For the years ended December 31, 2008, 2007, and 2006, our research and development expense in continuing operations was $16.2 million, $13.1 million, and $12.6 million, respectively.

Certain of our government customers contract with us from time to time to conduct research on telecommunications software, equipment and systems.

Intellectual Property Rights

We rely on a combination of patent, copyright, trademark, service mark, and trade secret laws and restrictions to establish and protect certain proprietary rights in our products and services.

We currently hold more than 65 issued patents relating to wireless text messaging, inter-carrier messaging, number portability, GPS ephemeris data, emergency public safety data routing and electronic commerce. We have filed more than 210 additional patent applications for certain apparatus and processes we believe we have invented to enable key features of the location services, wireless text alerts, Short Message Service Center, mobile-originated data and E9-1-1 network software. There is no assurance that these patent applications will result in a patent being issued by the U.S. Patent and Trademark Office or other patent offices, nor is there any guarantee that any issued patent will be valid and enforceable. Additionally, foreign patent rights may or may not be available or pursued in any technology area for which U.S. patent applications have been filed.

We developed our Short Message Service Center software in 1996 under our development agreement with Alcatel Lucent. Under the development agreement, we share certain ownership rights in this software application with Alcatel Lucent. The scope of each party's ownership interest is subject to each party's various underlying ownership rights in intellectual property and also to confidential information contributed to the applications, and is subject to challenge by either party.

As a member of various industry standard-setting forums, we have agreed to license certain of our intellectual property to other members on fair and reasonable terms to the extent that the license is required to develop non-infringing products under the specifications promulgated by those forums.

Employees

As of December 31, 2008, we had 585 employees, of which 573 were full-time and 12 were part-time. We believe relations with our employees are good. None of our employees is represented by a union.

Geographical Information

During 2008, 2007, and 2006, total revenue generated from products and services of our continuing operations in the U.S. were $211.5 million, $138.6 million, and $117.6 million, respectively, and total revenue generated from products and services outside of the U.S. were $8.6 million, $5.6 million, and $7.3 million, respectively. As of December 31, 2008, 2007, and 2006, essentially all of the long-lived assets of our continuing operations were located in the U.S.

During 2007 and 2006, total revenue generated from products and services of our discontinued Enterprise division in the U.S. were $5.6 million and $22.1 million, respectively. All discontinued operations were divested in 2007.

We are subject to risks related to offering our products and services in foreign countries. See the information under the heading "Risk Factors — Because our product offerings are sold internationally, we are subject to risks of conducting business in foreign countries" included in Item 1A.

Item 1A. *Risk Factors*

You should consider carefully each of the following risks and all of the other information in this Annual Report on Form 10-K and the documents incorporated by reference herein. If any of the following risks and uncertainties develops into actual events, our business, financial condition or results of operations could be materially adversely affected.

Risks Related to Our Business

If wireless carriers do not continue to provide additional products and services to their subscribers, our business could be harmed.

If wireless carriers limit their product and service offerings or do not purchase additional products containing our applications, our business will be harmed. Wireless carriers face implementation and support challenges in introducing Internet-based services via wireless devices, which may slow the rate of adoption or implementation of our products and services. Historically, wireless carriers have been relatively slow to implement complex new services such as Internet-based services. Our future success depends upon a continued increase in the use of wireless devices to access the Internet and upon the continued development of wireless devices as a medium for the delivery of network-based content and services. We have no control over the pace at which wireless carriers implement these new services. The failure of wireless carriers to introduce and support services utilizing our products in a timely and effective manner could reduce sales of our products and services and have a material adverse effect on our business, financial position, results of operations or cash flows.

We may fail to support our anticipated growth in operations which could reduce demand for our services and materially adversely affect our revenue.

Our business strategy is based on the assumption that the market demand, the number of customers, the amount of information they want to receive and the number of products and services we offer will all increase. We must continue to develop and expand our systems and operations to accommodate this growth. The expansion and adaptation of our systems operations requires substantial financial, operational and management resources. Deployment of our Government systems has increased substantially and while we have increased our production capabilities to satisfy the increased demand, our ability to meet production schedules for increasing demand could adversely impact our product quality and reliability. Any failure on our part to develop and maintain our wireless data services and government system production lines as we experience rapid growth could significantly reduce demand for our services and materially adversely affect our revenue. Also, if we incorrectly predict the market areas that will grow significantly, we could expend significant resources that could have been expended on other areas that do show significant growth.

A significant portion of our contracts with the U.S. government are on a fixed price basis which could negatively impact the Company profitability.

A material portion of the Company's annual revenues are derived from fixed-price contracts. Due to their nature, fixed-price contracts inherently have more risk than flexibly priced contracts. Our operating margin is adversely affected when contract costs that cannot be billed to customers are incurred. While management uses its best judgment to estimate costs associated with fixed-price contracts, future events could result in either upward or downward adjustments to those estimates which could negatively impact our profitability. The increase in contract costs can occur if estimates to complete increase or if initial estimates used for calculating the contract cost were incorrect. The cost estimation process requires significant judgment and expertise. Reasons for cost growth may include unavailability and productivity of labor, the nature and complexity of the work to be performed, the effect of change orders, the availability of materials, interruptions in our supply chain, the effect of any delays in performance, availability and timing of funding from the customer, natural disasters, and the inability to recover any claims included in the estimates to complete. A significant change in cost estimates on one or more programs could have a material effect on the company's consolidated financial position or results of operations.

We are subject to procurement and other related laws and regulation which carry significant penalties for non-compliance.

As a supplier to the U.S. government, we must comply with numerous regulations, including those governing security and contracting practices. In addition, prime contracts with various agencies of the U.S. government and subcontracts with other prime contractors are subject to numerous laws and regulations.

Failure to comply with these procurement regulations and practices could result in fines being imposed against us or our suspension for a period of time from eligibility for bidding on, or for award of, new government contracts. If we are disqualified as a supplier to government agencies, we would lose most, if not all, of our U.S. government customers and revenues from sales of our products would decline significantly. Among the potential causes for disqualification are violations of various statutes, including those related to procurement integrity, export control, U.S. government security regulations, employment practices, protection of the environment, accuracy of records in the recording of costs, and foreign corruption. The government could investigate and make inquiries of our business practices and conduct audits of contract performance and cost accounting. Based on the results of such audits, the U.S. government could adjust our contract-related costs and fees. Depending on the results of these audits and investigations, the government could make claims against us, and if it were to prevail, certain incurred costs would not be recoverable by us.

Current levels of market volatility are unprecedented and adverse capital and credit market conditions may negatively impact us.

The capital and credit markets have continued to experience extreme volatility and disruption. Historically, we have occasionally accessed these markets to support certain business activities. In the future, we may not be able to obtain capital market financing or credit availability on similar terms, or at all, which could have a material adverse effect on our business, financial position, results of operations or cash flows.

Changes in the U.S. and global market conditions that are beyond our control may have a material adverse effect on us.

The U.S. and global economies are currently experiencing a period of substantial economic uncertainty with wide-ranging effects, including the current disruption in global financial markets. Possible effects of these economic events include those relating to U.S. government defense spending, business disruptions caused by suppliers or subcontractors, impairment of goodwill and other long-lived assets and reduced access to capital and credit markets. Although governments worldwide, including the U.S. government, have initiated sweeping economic plans, we are unable to predict the impact, severity, and duration of these economic events, which could have a material effect on our business, financial position, results of operations or cash flows.

We could incur substantial costs from product liability claims relating to our software.

Our agreements with customers may require us to indemnify customers for our own acts of negligence and non-performance. Product liability and other forms of insurance are expensive and may not be available in the future. We cannot be sure that we will be able to maintain or obtain insurance coverage at acceptable costs or in sufficient amounts or that our insurer will not disclaim coverage as to a future claim. A product liability or similar claim may have a material adverse effect on our business, financial position, results of operations or cash flows.

Our operating results could be adversely affected by any interruption of our data delivery services, system failure or production interruptions.

Our E9-1-1, hosted location-based services and satellite teleport services operations depend on our ability to maintain our computer and telecommunications equipment and systems in effective working order, and to protect our systems against damage from fire, natural disaster, power loss, telecommunications failure, sabotage, unauthorized access to our system or similar events. Although all of our mission-critical systems and equipment are designed with built-in redundancy and security, any unanticipated interruption or delay in our operations or breach of security could have a material adverse effect on our business, financial condition and results of operations.

Furthermore, any addition or expansion of our facilities to increase capacity could increase our exposure to natural or other disasters. Our property and business interruption insurance may not be adequate to compensate us for any losses that may occur in the event of a system failure or a breach of security. Furthermore, insurance may not be available to us at all or, if available, may not be available to us on commercially reasonable terms.

Because we rely on a few key customers, our revenue may decline if we fail to retain those customers.

The largest customers for our product and service offerings in terms of revenue generated have been the U.S. government, Verizon Wireless, AT&T Wireless, and Hutchison 3G. For the years ended December 31, 2008 and 2007, each of Verizon Wireless and the U.S. government accounted for 10% or more of our total revenue. For the year ended December 31, 2006 each of Verizon Wireless, AT&T Wireless (formerly known as Cingular Wireless), and the U.S. government accounted for 10% or more of our total revenue. We expect to generate a significant portion of our total revenue from these customers for the foreseeable future. For the year ended December 31, 2008, the largest customers for our Commercial Segment was Verizon Wireless and the largest customers for our Government Segment were various U.S. Government agencies.

Our growth depends on maintaining relationships with our major customers and on developing other customers and distribution channels. The loss of any of the customers discussed in this paragraph would have a material adverse impact on our business, financial position, results of operations or cash flows.

We derive a significant portion of our revenue from sales to various agencies of the U.S. Government which has special rights unlike other customers and exposes us to additional risks that could have a material adverse effect on us.

Sales to various agencies of the U.S. Government accounted for approximately 42% of our total revenue for the fiscal year ended December 31, 2008, all of which was attributable to our Government Segment. A majority of our backlog as of December 31, 2008 consisted of orders from the U.S. Government. Our ability to earn revenue from sales to the U.S. Government can be affected by numerous factors outside of our control including:

- *The U.S. Government may terminate the contracts it has with us.* All of the contracts we have with the U.S. Government are, by their terms, subject to termination by the U.S. Government either for its convenience or in the event of a default by us. In the event of termination of a contract by the U.S. Government, we may have little or no recourse.
- *Our contracts with the U.S. Government may be terminated due to Congress failing to appropriate funds.* Our U.S. Government contracts are conditioned upon the continuing availability of Congressional appropriations. Congress usually appropriates funds for a given program on a fiscal-year basis even though contract performance may take more than one year.
- *The U.S. Government may audit and review our costs and performance on their contracts, as well as our accounting and general practices.* The costs and prices under these contracts may be subject to adjustment based upon the results of any audits. Future audits that result in the increase in our costs may adversely affect our business, financial position, results of operations or cash flows

Any failure by Congress to appropriate funds to any program that we participate in could materially delay or terminate the program and could have a material adverse effect on our business, financial position, results of operations or cash flows.

Because we rely on key partners to expand our marketing and sales efforts, if we fail to maintain or expand our relationships with strategic partners and indirect distribution channels our license revenues could decline.

We have announced strategic partnerships with Motorola and Alcatel-Lucent, and are working on additional partnerships to provide supplemental channels for the marketing and sale of our software applications globally. Our growth depends on maintaining relationships with these partners and on developing other distribution channels. The loss of any of these partners would have a material adverse impact on our business, financial position, results of operations or cash flows.

Because our business may not generate sufficient cash to fund our operations, we may not be able to continue to grow our business if we are unable to obtain additional capital when needed.

We believe that our cash and cash equivalents, and our bank line of credit, coupled with the funds anticipated to be generated from operations will be sufficient to finance our operations for at least the next twelve months. However, unanticipated events could cause us to fall short of our capital requirements. In addition, such unanticipated events could cause us to violate our bank line of credit covenants causing the bank to foreclose on the line and/or opportunities may make it necessary for us to return to the public markets, or establish new credit facilities or raise capital in private transactions in order to meet our capital requirements. We cannot assure you that we will be able to raise additional capital in the future on terms acceptable to us, or at all.

Our line of credit and term loan agreement contains covenants requiring us to maintain a minimum adjusted quick ratio and a minimum liquidity ratio; as well as other restrictive covenants including, among others, restrictions on our ability to merge, acquire assets above prescribed thresholds, undertake actions outside the ordinary course of our business (including the incurrence of indebtedness), guarantee debt, distribute dividends, and repurchase our stock, and minimum tangible net worth. The agreement also contains a subjective covenant that requires (i) no material adverse change in the business, operations, or financial condition of our Company occur, or (ii) no material impairment of the prospect of repayment of any portion of the bank credit agreement; or (iii) no material impairment of value or priority of the lenders security interests in the collateral of the bank credit agreement. If our performance does not result in compliance with any of the restrictive covenants, or if our line of credit agreement lender seeks to exercise its rights under the subjective acceleration clause referred to above, we would seek to further modify our financing arrangements, but there can be no assurance that our debt holders would not exercise their rights and remedies under their agreements with us, including declaring all outstanding debt due and payable.

We are exposed to counterparty credit risk and there can be no assurances that we will manage or mitigate this risk effectively.

We are exposed to many different industries, counterparties, and partnership agreements, and regularly interact with counterparties in various industries.

The insolvency or other inability of a significant counterparty or partner, including a counterparty to the significant counterparty, to perform its obligations under an agreement or transaction, including, without limitation, as a result of the rejection of an agreement or transaction by a counterparty in bankruptcy proceedings, could have a material adverse effect on our business, financial position, results of operations or cash flows.

Our short-term investments are subject to market fluctuations which may affect our liquidity.

Although we have not experienced any losses on our cash, cash equivalents, and short-term investments, declines in the market values of these investments in the future could have an adverse impact on our financial condition and operating results. Historically, we have invested in AAA rated money market funds meeting certain criteria. These investments are subject to general credit, liquidity, market, and interest rate risks, which may be directly or indirectly impacted by the U.S. sub-prime mortgage defaults that have affected various sectors of the financial markets causing credit and liquidity issues. If an issuer defaults on its obligations, or its credit ratings are negatively affected by liquidity, losses or other factors, the value of our cash equivalents and short-term investments could decline and could have a material adverse effect on our business, financial position, results of operations or cash flows.

Our stock price, like that of many technology companies, has been and may continue to be volatile.

We expect that the market price of our Class A common stock will continue to be volatile. We are involved in a highly visible, rapidly changing industry and stock prices in our industry and similar industries have risen and fallen in response to a variety of factors, including:

- announcements of new wireless data communications technologies and new providers of wireless data communications;
- announcements of the issuance of new patents;
- acquisitions of, or strategic alliances among, providers of wireless data communications;
- changes in recommendations by securities analysts regarding the results or prospects of providers of wireless data communications;
- changes in investor perceptions of the acceptance or profitability of wireless data communications; and
- other global economic uncertainties.

Variations in quarterly operating results due to factors such as changes in demand for our products and changes in our mix of revenues and costs may cause our Class A common stock price to decline.

Our quarterly revenue and operating results are difficult to predict and are likely to fluctuate from quarter-to-quarter. For example, 2008 revenues of our Government Segment were significantly higher in the second half of the year than in the first half. In 2007, revenues were slightly higher in the second half of the year than in the first, whereas in 2006 revenues from our Government Segment were higher in the first half of the year than in the second half. In addition, we generally derive a significant portion of wireless carrier license revenue in our Commercial Segment from initial license fees. The initial license fees that we receive in a particular quarter may vary significantly. As these projects begin and end, quarterly results may vary. We therefore believe that quarter-to-quarter comparisons of our operating results may not be a good indication of our future performance, and you should not rely on them to predict our future performance or the future performance of our Class A common stock. Our quarterly revenues, expenses and operating results could vary significantly from quarter-to-quarter. If our operating results in future quarters fall below the expectations of market analysts and investors, the market price of our stock may fall.

Additional factors that have either caused our results to fluctuate in the past or that are likely to do so in the future include:

- changes in our relationships with wireless carriers, the U.S. Government or other customers;
- timing of introduction of new products and services;
- changes in pricing policies and product offerings by us or our competitors;
- changes in projected profitability of acquired assets that would require the write down of the value of the goodwill reflected on our balance sheet.
- costs associated with advertising, marketing and promotional efforts to acquire new customers;
- capital expenditures and other costs and expenses related to improving our business, expanding operations and adapting to new technologies and changes in consumer preferences; and
- our lengthy and unpredictable sales cycle.

Growing market acceptance of "open source" software could have a negative impact on us.

Growing market acceptance of open source software has presented both benefits and challenges to the commercial software industry in recent years. "Open source" software is made widely available by its authors and is licensed "as is" for a nominal fee or, in some cases, at no charge. For example, Linux is a free Unix-type operating system, and the source code for Linux is freely available.

We have incorporated some types of open source software into our products, allowing us to enhance certain solutions without incurring substantial additional research and development costs. Thus far, we have encountered no unanticipated material problems arising from our use of open source software. However, as the use of open source software becomes more widespread, certain open source technology could become competitive with our proprietary technology, which could cause sales of our products to decline or force us to reduce the fees we charge for our products, which could have a material adverse effect on our business, financial position, results of operations or cash flows.

Because our product offerings are sold internationally, we are subject to risks of conducting business in foreign countries.

Wireless carriers in Europe, Asia, Australia, Africa and Central and South America have purchased our products. We believe our revenue will be increasingly dependent on business in foreign countries, and we will be subject to the social, political and economic risks of conducting business in foreign countries, including:

- inability to adapt our products and services to local business practices, customs and mobile user preferences;
- costs of adapting our product and service offerings for foreign markets;
- inability to locate qualified local employees, partners and suppliers;
- reduced protection of intellectual property rights;
- the potential burdens of complying with a variety of U.S. and foreign laws, trade standards and regulatory requirements, including tax laws, the regulation of wireless communications and the Internet and uncertainty regarding liability for information retrieved and replicated in foreign countries;
- general geopolitical risks, such as political and economic instability and changes in diplomatic and trade relations; and
- unpredictable fluctuations in currency exchange rates.

Any of the foregoing risks could have a material adverse effect on our business, financial position, results of operations or cash flows by diverting time and money toward addressing them or by reducing or eliminating sales in such foreign countries.

Because several of our competitors have significantly greater resources than we do, we could lose customers and market share.

Our business is highly competitive. Several of our potential competitors are substantially larger than we are and have greater financial, technical and marketing resources than we do. In particular, larger competitors have certain advantages over us which could cause us to lose customers and impede our ability to attract new customers, including: larger bases of financial, technical, marketing, personnel and other resources; more established relationships with wireless carriers; more funds to deploy products and services; and the ability to lower prices of competitive products and services because they are selling larger volumes.

The widespread adoption of open industry standards such as the Secure User Plane for Location (SUPL) specifications may make it easier for new market entrants and existing competitors to introduce products that compete with our software products. Because our Commercial Segment is part of an emerging market, we cannot identify or predict which new competitors may enter the mobile location services industry in the future. With time and capital, it would be possible for competitors to replicate any of our products and service offerings or develop alternative products. Additionally, the wireless communications industry continues to experience significant consolidation which may make it more difficult for smaller companies like us to compete. Our competitors include application developers, telecommunications equipment vendors, location determination technology vendors and information technology consultants, and may include traditional Internet portals and Internet infrastructure software companies. We expect that we will compete primarily on the basis of price, time to market, functionality, quality and breadth of product and service offerings.

These competitors could include wireless network carriers, mobile and/or wireless software companies, wireless data services providers and secure portable communication and wireless systems integrators and database vendors. As discussed above, many of our potential competitors have significantly greater resources than we do. Furthermore, competitors may develop a different approach to marketing the services we provide in which subscribers may not be required to pay for the information provided by our services. Competition could reduce our market share or force us to lower prices to unprofitable levels.

Because we are not a small business under government size standards, we could lose business to small-business set-aside competitors.

Federal and state procurement laws require that certain purchases be set-aside for small business competitors, effectively giving a preference to those small businesses even if we have better products and better prices. We have outgrown the size standards set for the many of the categories used to purchase products of the nature that we sell. If a particular procurement is set-aside for only small business participants, we may lose customers and revenues and may not be able to replace those sales with purchases from other customers.

While we characterize a significant portion of our revenue as being "recurring" there is no guarantee that we will actually achieve this revenue.

A significant portion of our revenue is generated from long-term customer contracts that pay certain fees on a month-to-month basis. While we currently believe that these revenue streams will continue, renegotiation of the contract terms, early termination or non-renewal of material contracts could cause our recurring revenues to be lower than expected and any growth depends on maintaining relationships with these important customers and on developing other customers and distribution channels.

We cannot guarantee that our estimated contract backlog will result in actual revenue.

As of December 31, 2008, our estimated contract backlog totaled approximately $445.0 million, of which approximately $159.8 million was funded. There can be no assurance that our backlog will result in actual revenue in any particular period, or at all, or that any contract included in backlog will be profitable. There is a higher degree of risk in this regard with respect to unfunded backlog. The actual receipt and timing of any revenue is subject to various contingencies, many of which are beyond our control. The actual receipt of revenue on contracts included in backlog may never occur or may change because a program schedule could change, the program could be canceled, a contract could be reduced, modified or terminated early, or an option that we had assumed would be exercised not being exercised. Further, while many of our federal government contracts require performance over a period of years, Congress often appropriates funds for these contracts for only one year at a time. Consequently, our contracts typically are only partially funded at any point during their term, and all or some of the work intended to be performed under the contracts will remain unfunded pending subsequent Congressional appropriations and the obligation of additional funds to the contract by the procuring agency. Approximately 80% of our backlog consisted of orders from the Government Segment. Our estimates are based on our experience under such contracts and similar contracts. However, there can be no assurances that all, or any, of such estimated contract value will be recognized as revenue.

The loss of key personnel or any inability to attract and retain additional personnel could harm our business.

Our future success will depend in large part on our ability to hire and retain a sufficient number of qualified personnel, particularly in sales and marketing and research and development. If we are unable to do so, our business could be harmed. Our future success also depends upon the continued service of our executive officers and other key sales, engineering and technical staff. The loss of the services of our executive officers and other key personnel could harm our operations. We maintain key person life insurance on certain of our executive officers. We would be harmed if one or more of our officers or key employees decided to join a competitor or if we failed to attract qualified personnel. Our ability to attract qualified personnel may be adversely affected by a decline in the price of our Class A common stock. In the event of a decline in the price of our

Class A common stock, the retention value of stock options will decline and our employees may choose not to remain with us, which could have a material adverse effect on our business, financial position, results of operations or cash flows.

If our subcontractors and vendors fail to perform their contractual obligations, our performance and reputation as a prime contractor and our ability to obtain future business could suffer.

As a prime contractor, we often rely significantly upon other companies as subcontractors to perform work we are obligated to perform for our clients and vendors to deliver critical components. As we secure more work under our contract vehicles such as the WWSS agreement, we expect to require an increasing level of support from subcontractors and vendors that provide complementary and supplementary products and services to our offerings. Depending on labor market conditions, we may not be able to identify, hire and retain sufficient numbers of qualified employees to perform the task orders we expect to win. In such cases, we will need to rely on subcontracts with unrelated companies. Moreover, even in favorable labor market conditions, we anticipate entering into more subcontracts in the future as we expand our work under our contract vehicles. We are responsible for the work performed by our subcontractors, even though in some cases we have limited involvement in that work. If one or more of our subcontractors fail to satisfactorily perform the agreed-upon services on a timely basis or violate federal government contracting policies, laws or regulations, our ability to perform our obligations as a prime contractor or meet our clients' expectations may be compromised. In extreme cases, performance or other deficiencies on the part of our subcontractors could result in a client terminating our contract for default. A termination for default could expose us to liability, including liability for the agency's costs of re-procurement, could damage our reputation and could hurt our ability to compete for future contracts.

Our accounting policies and methods are fundamental to how we record and report our financial position and results of operations, and they require management to make estimates, judgments and assumptions about matters that are inherently uncertain.

Our accounting policies and methods are fundamental to how we record and report our financial position and results of operations. We have identified several accounting policies as being critical to the presentation of our financial position and results of operations because they require management to make particularly subjective or complex judgments about matters that are inherently uncertain and because of the likelihood that materially different amounts would be recorded under different conditions or using different assumptions. For example, the Company accounts for income taxes in accordance with SFAS No. 109, Accounting for Income Taxes ("SFAS 109"). Under SFAS 109, deferred tax assets and liabilities are computed based on the difference between the financial statement and income tax basis of assets and liabilities using the enacted marginal tax rate. SFAS 109 requires that the net deferred tax asset be reduced by a valuation allowance if, based on the weight of available evidence, it is more likely than not that some portion of all of the net deferred tax asset will not be realized. This process requires the Company's management to make assessments regarding the timing and probability of the ultimate tax impact. Actual income taxes could vary from these estimates due to future changes in income tax law, significant changes in the jurisdictions in which the Company operates, our inability to generate sufficient future taxable income or unpredicted results from the final determination of each year's liability by taxing authorities. These changes could have a significant impact on the Company's our business, financial position, results of operations or cash flows.

Industry Risks

Because the wireless data industry is a rapidly evolving market, our product and service offerings could become obsolete unless we respond effectively and on a timely basis to rapid technological changes.

The successful execution of our business strategy is contingent upon wireless network operators launching and maintaining mobile location services, our ability to create new network software products and adapt our existing network software products to rapidly changing technologies, industry standards and customer needs. As a result of the complexities inherent in our product offerings, new technologies may require long development and testing periods. Additionally, new products may not achieve market acceptance or our competitors could develop alternative technologies that gain broader market acceptance than our products. If we are unable to develop and introduce technologically advanced products that respond to evolving industry standards and customer needs, or if we are unable to complete the development and introduction of these products on a timely and cost effective basis, it could have a material adverse effect on our business, financial position, results of operations or cash flows.

New laws and regulations that impact our industry could increase costs or reduce opportunities to earn revenue. The wireless carriers that use our product and service offerings are subject to regulation by domestic, and in some cases, foreign, governmental and other agencies. Regulations that affect them could increase our costs or reduce our ability to sell our products and services. In addition, there are an increasing number of laws and regulations pertaining to wireless telephones and the Internet under consideration in the United States and elsewhere.

The applicability to the Internet of existing laws governing issues such as intellectual property ownership and infringement, copyright, trademark, trade secret, taxation, obscenity, libel, employment and personal privacy is uncertain and developing. Any new legislation or regulation, or the application or interpretation of existing laws, may have a material adverse effect on our business, results of operations and financial condition. Additionally, modifications to our business plans or operations to comply with changing regulations or certain actions taken by regulatory authorities might increase our costs of providing our product and service offerings and could have a material adverse effect on our business, financial position, results of operations or cash flows.

Concerns about personal privacy and commercial solicitation may limit the growth of mobile location services and reduce demand for our products and services.

In order for mobile location products and services to function properly, wireless carriers must locate their subscribers and store information on each subscriber's location. Although data regarding the location of the wireless user resides only on the wireless carrier's systems, users may not feel comfortable with the idea that the wireless carrier knows and can track their location. Carriers will need to obtain subscribers' permission to gather and use the subscribers' personal information, or they may not be able to provide customized mobile location services which those subscribers might otherwise desire. If subscribers view mobile location services as an annoyance or a threat to their privacy, that could reduce demand for our products and services and have a material adverse effect on our business, financial position, results of operations or cash flows.

Because many providers are not in compliance with current regulatory mandates and because our industry is undergoing rapid technological and regulatory change, our future performance is uncertain.

The Federal Communication Commission, or FCC, has mandated that certain location information be provided to operators when they receive an E9-1-1 call. Phase I of the FCC's 9-1-1 mandate required providers to be able to locate wireless E9-1-1 callers within their originating cell sector site and report their callback number by April 1998. Phase II of the FCC mandate required providers to be able to pinpoint the location of all E9-1-1 callers within 125 meters in 67% of all cases by October 1, 2001. Although both the Phase I and Phase II deadlines have passed, many providers are not currently in compliance with either phase of the FCC's mandate. Even so, we believe that many public safety jurisdictions are continuing to deploy Phase I technology and when available, we believe they will deploy Phase II technology.

Carriers' obligations to provide Phase I and Phase II services are subject to request by public safety organizations. Due to complex regulatory, funding and political issues many public safety organizations have not yet requested this service. As a result, wireless carriers and wireless users may never exhibit sufficient demand for our mobile location services. Technical failures, time delays or the significant costs associated with developing or installing improved location technology could slow down or stop the deployment of our mobile location products. If deployment of improved location technology is delayed, stopped or never occurs, market acceptance of our products and services may be adversely affected.

In addition, we will rely on third-party providers to manufacture and deploy devices that determine the precise geographic location of wireless users to comply with Phase II of the FCC mandate. The extent and timing of the deployment of our products and services is dependent both on public safety requests for such service and wireless carrier's ability to certify the accuracy of and deploy the precise location technology. Because we will rely on third-party location technology instead of developing the technology ourselves, we have little or no influence over its improvement. If the technology never becomes precise enough to satisfy wireless users' needs or the FCC's requirements, we may not be able to increase or sustain demand for our products and services, if at all.

Our E9-1-1 business is dependent on state and local governments and the regulatory environment for Voice over Internet Protocol (VoIP) services is developing.

Under the FCC's mandate, wireless carriers are required to provide E9-1-1 services only if state and local governments request the service. As part of a state or local government's decision to request E9-1-1, they have the authority to develop cost recovery mechanisms. However, cost recovery is no longer a condition to wireless carriers' obligation to deploy the service. If state and local governments do not widely request that E9-1-1 services be provided or we become subject to significant pressures from wireless carriers with respect to pricing of E9-1-1 services, our E9-1-1 business would be significantly harmed and future growth of our business would be significantly reduced.

The FCC has determined that VoIP services are not subject to the same regulatory scheme as traditional wireline and wireless telephone services. If the regulatory environment for VoIP services evolves in a manner other than the way we anticipate, our E9-1-1 business would be significantly harmed and future growth of our business would be significantly reduced. For example, many states provide statutory and regulatory immunity from liability for wireless and wireline E9-1-1 service providers but provide no express immunities for VoIP E9-1-1 service providers. Additionally, the regulatory scheme for wireless and wireline service providers require those carriers to allow service providers such as us to have access to certain databases that make the delivery of an E9-1-1 call possible. No such requirements exist for VoIP service providers so carriers could prevent us from continuing to provide VoIP E9-1-1 service by denying us access to the required databases.

Because the industries which we serve are currently in a cycle of consolidation, the number of customers may be reduced which could result in a loss of revenue for our business.

The telecommunications industry generally is currently undergoing a consolidation phase. Many of our customers, specifically wireless carrier customers of our Commercial Segment, have or may become the target of acquisitions. If the number of our customers is significantly reduced as a result of this consolidation trend, or if the resulting companies do not utilize our product offerings, our business, financial position, results of operations or cash flows could be materially adversely affected.

Technology Risks

Because our software may contain defects or errors, and our hardware products may incorporate defective components, our sales could decrease if these defects or errors adversely affect our reputation or delays shipments of our products.

The software products that we develop are complex and must meet the stringent technical requirements of our customers. Our hardware products are equally complex and integrate a wide variety of components from different vendors. We must quickly develop new products and product enhancements to keep pace with the rapidly changing software and telecommunications markets in which we operate. Products as complex as ours are likely to contain undetected errors or defects, especially when first introduced or when new versions are released. Our products may not be error or defect free after delivery to customers, which could damage our reputation, cause revenue losses, result in the rejection of our products or services, divert development resources and increase service and warranty costs, each of which could have a serious harmful effect on our business, financial position, results of operations or cash flows.

If we are unable to integrate our products with wireless service providers' systems we may lose sales to competitors.

Our products operate with wireless carriers' systems, various wireless devices and, in the case of our E9-1-1 offering, with mobile telephone switches and VoIP service provider systems. If we are unable to continue to design our software to operate with these systems and devices, we may lose sales to competitors. Mobile telephone switches and wireless devices can be manufactured according to many different standards and may have different variations within each standard. Combining our products with each type of switch, device or VoIP system requires a specialized interface and extensive testing. If as a result of technology enhancements or upgrades to carrier and VoIP provider systems our products can no longer operate with such systems, we may no longer be able to sell our products. Further, even if we successfully redesign our products to operate with these systems, we may not gain market acceptance before our competitors.

Failure to meet our contractual obligations could adversely affect our profitability and future prospects.

We design, develop and manufacture technologically advanced and innovative products and services applied by our customers in a variety of environments. Problems and delays in development or delivery as a result of issues with respect to design, technology, licensing and patent rights, labor, learning curve assumptions, or materials and components could prevent us from achieving contractual obligations. In addition, our products cannot be tested and proven in all situations and are otherwise subject to unforeseen problems. Examples of unforeseen problems which could negatively affect revenue and profitability include problems with quality, delivery of subcontractor components or services, and unplanned degradation of product performance.

Because our systems may be vulnerable to systems failures and security risks, we may incur significant costs to protect against the threat of these problems.

We provide for the delivery of information and content to and from wireless devices in a prompt and timely manner. Any systems failure that causes a disruption in our ability to facilitate the transmission of information to these wireless devices could result in delays in end users receiving this information and cause us to lose customers. Our systems could experience such failures as a result of unauthorized access by hackers, computer viruses, hardware or software failures, power or telecommunications failures and other accidental or intentional actions which could disrupt our systems. We may incur significant costs to prevent such systems disruptions.

Increasingly our products will be used to create or transmit secure information and data to and from wireless devices. For example, our software can be used to create private address lists and to provide the precise location of an individual. To protect private information like this from security breaches, we may incur significant costs. If a third party were able to misappropriate our proprietary information or disrupt our operations, we could be subject to claims, litigation or other potential liabilities that could materially adversely impact our business. Further, if an individual is unable to use our service to receive the precise location in a health or life-and-death situation, or if our service provides the wrong information, we could be subject to claims, litigation or other potential liabilities that could materially adversely impact our business.

The wireless data services provided by our Commercial Segment are dependent on real-time, continuous feeds from map and traffic data vendors and others. The ability of our subscribers to receive critical location and business information requires timely and uninterrupted connections with our wireless network carriers. Any disruption from our satellite feeds or backup landline feeds could result in delays in our subscribers' ability to receive information. We cannot be sure that our systems will operate appropriately if we experience hardware or software failure, intentional disruptions of service by third parties, an act of God or an act of war. A failure in our systems could cause delays in transmitting data, and as a result we may lose customers or face litigation that could involve material costs and distract management from operating our business.

If mobile equipment manufacturers do not overcome capacity, technology and equipment limitations, we may not be able to sell our products and services.

The wireless technology currently in use by most wireless carriers has limited bandwidth, which restricts network capacity to deliver bandwidth-intensive applications like data services to a large number of users. Because of capacity limitations, wireless users may not be able to connect to their network when they wish to, and the connection is likely to be slow, especially when receiving data transmissions. Data services also may be more expensive than users are willing to pay. To overcome these obstacles, wireless equipment manufacturers will need to develop new technology, standards, equipment and devices that are capable of providing higher bandwidth services at lower cost. We cannot be sure that manufacturers will be able to develop technology and equipment that reliably delivers large quantities of data at a reasonable price. If more capacity is not added, a sufficient market for our products and services is not likely to develop or be sustained and sales of our products and services would decline resulting in a material adverse effect on our business, financial position, results of operations or cash flows.

Because the market for most mobile content delivery and mobile location products is new, our future success is uncertain.

The market for mobile content delivery and mobile location products and services is new and its potential is uncertain. In order to be successful, we need wireless network operators to launch and maintain mobile location services utilizing our products, and need corporate enterprises and individuals to purchase and use our mobile content delivery and mobile location products and services. We cannot be sure that wireless carriers or enterprises will accept our products or that a sufficient number of wireless users will ultimately utilize our products.

If wireless handsets pose health and safety risks, we may be subject to new regulations and demand for our products and services may decrease.

Media reports have suggested that certain radio frequency emissions from wireless handsets may be linked to various health concerns, including cancer, and may interfere with various electronic medical devices, including hearing aids and pacemakers. Concerns over radio frequency emissions may have the effect of discouraging the use of wireless handsets, which would decrease demand for our services. In recent years, the FCC and foreign regulatory agencies have updated the guidelines and methods they use for evaluating radio frequency emissions from radio equipment, including wireless handsets. In addition, interest groups have requested that the FCC investigate claims that wireless technologies pose health concerns and cause interference with airbags, hearing aids and other medical devices. There also are some safety risks associated with the use of wireless handsets while driving. Concerns over these safety risks and the effect of any legislation that may be adopted in response to these risks could limit our ability to market and sell our products and services.

If we are unable to protect our intellectual property rights or are sued by third parties for infringing upon intellectual property rights, we may incur substantial costs.

Our success and competitive position depends in large part upon our ability to develop and maintain the proprietary aspects of our technology. We rely on a combination of patent, copyright, trademark, service mark, trade secret laws, confidentiality provisions and various other contractual provisions to protect our proprietary rights, but these legal means provide only limited protection. Although a number of patents have been issued to us and we have obtained a number of other patents as a result of our acquisitions, we cannot assure you that our issued patents will be upheld if challenged by another party. Additionally, with respect to any patent applications which we have filed, we cannot assure you that any patents will issue as a result of these applications. If we fail to protect our intellectual property, we may not receive any return on the resources expended to create the intellectual property or generate any competitive advantage based on it, and we may be exposed to expensive litigation or risk jeopardizing our competitive position. Similarly, third parties could claim that our future products or services infringe upon their intellectual property rights. Claims like these could require us to enter into costly royalty arrangements or cause us to lose the right to use critical technology.

Our ability to protect our intellectual property rights is also subject to the terms of any future government contracts. We cannot assure you that the federal government will not demand greater intellectual property rights or restrict our ability to disseminate intellectual property. We are also a member of standards-setting organizations and have agreed to license some of our intellectual property to other members on fair and reasonable terms to the extent that the license is required to develop non-infringing products.

Pursuing infringers of our patents and other intellectual property rights can be costly.

Pursuing infringers of our proprietary rights could result in significant litigation costs, and any failure to pursue infringers could result in our competitors utilizing our technology and offering similar products, potentially resulting in loss of a competitive advantage and decreased revenues. Despite our efforts to protect our proprietary rights, existing patent, copyright, trademark and trade secret laws afford only limited protection. In addition, the laws of some foreign countries do not protect our proprietary rights to the same extent as do the laws of the United States. Protecting our know-how is difficult especially after our employees or those of our third party contract service providers end their employment or engagement. Attempts may be made to copy or reverse-engineer aspects of our products or to obtain and use information that we regard as proprietary. Accordingly, we may not be able to prevent the misappropriation of our technology or prevent others from developing similar technology. Furthermore, policing the unauthorized use of our products is difficult and expensive. Litigation may be necessary in the future to enforce our intellectual property rights or to determine the validity and scope of the proprietary rights of others. The costs and diversion of resources could significantly harm our business. If we fail to protect our intellectual property, we may not receive any return on the resources expended to create the intellectual property or generate any competitive advantage based on it.

Third parties may claim we are infringing their intellectual property rights and we could be prevented from selling our products, or suffer significant litigation expense, even if these claims have no merit.

Our competitive position is driven in part by our intellectual property and other proprietary rights. Third parties, however, may claim that we, our products, operations or any products or technology we obtain from other parties are infringing their intellectual property rights, and we may be unaware of intellectual property rights of others that may cover some of our assets, technology and products. From time to time we receive letters from third parties that allege we are infringing their intellectual property and asking us to license such intellectual property. We review the merits of each such letter, none of which has resulted in litigation as of the date of this report. However, any litigation regarding patents, trademarks, copyrights or intellectual property rights, even those without merit, could be costly and time consuming, and divert our management and key personnel from operating our business. The complexity of the technology involved and inherent uncertainty and cost of intellectual property litigation increases our risks. If any third party has a meritorious or successful claim that we are infringing its intellectual property rights, we may be forced to change our products or enter into licensing arrangements with third parties, which may be costly or impractical. This also may require us to stop selling our products as currently engineered, which could harm our competitive position. We also may be subject to significant damages or injunctions that prevent the further development and sale of certain of our products or services and may result in a material loss of revenue.

The security measures we have implemented to secure information we collect and store may be breached, which could cause us to breach agreements with our partners and expose us to potential investigation and penalties by authorities and potential claims by persons whose information was disclosed.

We take reasonable steps to protect the security, integrity and confidentiality of the information we collect and store but there is no guarantee that inadvertent or unauthorized disclosure will not occur or that third parties will not gain unauthorized access despite our efforts. If such unauthorized disclosure or access does occur, we may be required to notify persons whose information was disclosed or accessed under existing and proposed laws. We also may be subject to claims of breach of contract for such disclosure, investigation and penalties by regulatory authorities and potential claims by persons whose information was disclosed.

Risks Related to Acquisitions

Our past and future acquisitions of companies or technologies could prove difficult to integrate, disrupt our business, dilute stockholder value or adversely affect operating results or the market price of our Class A common stock.

We have in the past acquired a number of businesses and technologies, and we may in the future acquire or make investments in other companies, services and technologies. Any acquisitions, strategic alliances or investments we may pursue in the future will have a continuing, significant impact on our business, financial condition and operating results. The value of the companies or assets that we acquire or invest in may be less than the amount we paid if there is a decline of their position in the respective markets they serve or a decline in general of the markets they serve. If we fail to properly evaluate and execute acquisitions and investments, our business and prospects may be seriously harmed. To successfully complete an acquisition, we must:

- properly evaluate the technology;
- accurately forecast the financial impact of the transaction, including accounting charges and transaction expenses;
- integrate and retain personnel;
- retain and cross-sell to acquired customers;
- combine potentially different corporate cultures; and
- effectively integrate products and services, and research and development, sales and marketing and support operations.

If we fail to do any of these, we may suffer losses, our management may be distracted from day-to-day operations and the market price of our Class A common stock may be materially adversely affected. In addition, if we consummate future acquisitions using our equity securities or convertible debt, existing stockholders may be diluted which could have a material adverse effect on the market price of our Class A common stock.

The companies and business units we have acquired or invested in or may acquire or invest in are subject to each of the business risks we describe in this section, and if they incur any of these risks the businesses may not be as valuable as the amount we paid. Further, we cannot guarantee that we will realize the benefits or strategic objectives we are seeking to obtain by acquiring or investing in these companies.

Risks Related to Our Capital Structure and Common Stock

A majority of our Class A common stock is beneficially owned by a small number of holders, and those holders could thereby transfer control of us to a third party without anyone else's approval or prevent a third party from acquiring us.

We have two classes of common stock: Class A common stock and Class B common stock. Holders of Class A common stock generally have the same rights as holders of Class B common stock, except that holders of Class A common stock have one vote per share while holders of Class B common stock have three votes per share. As of January 31, 2009, Maurice B. Tosé, our President, Chief Executive Officer and Chairman of the Board, beneficially owned 6,876,334 shares of our Class B common stock and 1,848,548 shares of our Class A common stock. Therefore, in the aggregate, Mr. Tosé beneficially owned shares representing approximately 38.01% of our total voting power, assuming no conversion or exercise of issued and outstanding convertible or exchangeable securities held by our other shareholders. Accordingly, on this basis, Mr. Tosé can exert significant influence over us through his ability to determine the outcome of elections of directors, amend our charter and by-laws and take other actions requiring stockholder action, including mergers, going private transactions and other extraordinary transactions. Mr. Tosé could, without seeking anyone else's approval, transfer voting control of us to a third party. Such a transfer could have a material adverse effect on our stock price, and our business, operating results and financial condition. Mr. Tosé is also able to prevent a change of control regardless of whether holders of Class A common stock might benefit financially from such a transaction.

Our governing corporate documents contain certain anti-takeover provisions that could prevent a change of control that may be favorable to shareholders.

We are a Maryland corporation. Anti-takeover provisions of Maryland law and provisions contained in our charter and by-laws could make it more difficult for a third party to acquire control of us, even if a change in control would be beneficial to shareholders. These provisions include the following:

- authorization of the board of directors to issue "blank check" preferred stock;
- prohibition of cumulative voting in the election of directors;
- our classified board of directors;
- limitation of the persons who may call special meetings of stockholders;
- prohibition on stockholders acting without a meeting other than through unanimous written consent;
- supermajority voting requirement on various charter and by-law provisions; and
- establishment of advance notice requirements for nominations for election to the board of directors or for proposing matters that can be acted on by stockholders at stockholder meetings.

These provisions could delay, deter or prevent a potential acquirer from attempting to obtain control of us, depriving shareholders of an opportunity to receive a premium for Class A common stock. These provisions could therefore materially adversely affect the market price of our Class A common stock.

Because this report contains forward-looking statements, it may not prove to be accurate.

This report, including the documents we incorporate by reference, contains forward-looking statements and information relating to our Company. These statements are based upon our current expectations and assumptions that are subject to a number of risks and uncertainties that would cause actual results to differ materially from those anticipated. We generally identify forward-looking statements using words like "believe," "intend," "expect," "may," "should," "plan," "project," "contemplate," "anticipate," or other similar statements. We base these statements on our beliefs as well as assumptions we made using information currently available to us. We do not undertake to update our forward-looking statements or risk factors to reflect future events or circumstances.

Statements in this report that are forward-looking include, but are not limited to, the following statements that

(i) we are well positioned to address the evolving integration needs of our clients through our expertise in messaging and location determination;

(ii) we are developing relationships with communication infrastructure providers and we intend to expand our domestic and international carrier base;

(iii) we plan to continue to develop and sell software and engineered systems which we will deliver through deployment in customer networks or through hosted and subscription business models and we believe that our software is positioned for early adoption by carriers;

(iv) wireless growth is expected to continue to increase in all regions around the world for the foreseeable future;

(v) both the number of users and messages per individual are projected to increase significantly;

(vi) we will continue to develop network software for wireless carriers that operate on all major types of networks;

(vii) we will continue to leverage our knowledge of complex call control technology to unlock valuable information and expand the range of capabilities that the technology can accomplish for our customers;

(viii) we will continue to invest in our underlying technology and to capitalize on our expertise to meet the growing demand for sophisticated wireless applications;

(ix) we intend to continue to selectively consider acquisitions of companies and technologies in order to increase the scale and scope of our operations, market presence, products, services and customer base;

(x) the Broadband Global Area Network upgrade of the Inmarsat satellite constellation expands our opportunity for SwiftLink sales volume;

(xi) we believe our expertise in the area of wireless E9-1-1, location and messaging services, and secure satellite communications can be leveraged into providing products and services to the Federal agencies;

(xii) we are continuing to enhance our deployable communication systems product line to take advantage of the evolving environment of satellite communications;

(xiii) we believe that our company enjoys a competitive advantage because of its secure teleport and integration capabilities along with deployable systems as a bundled offering;

(xiv) federal agencies, as well as state and local governments, are increasingly contracting with specialist teams for functions such as network management, and for long-term projects such as software development and systems integration;

(xv) we expect to continue generate significant portions of our total revenue from our largest customers;

(xvi) we expect to realize $116.0 million of backlog within the next twelve months;

(xvii) the bases on which we expect to continue to compete;

(xviii) we expect to require increasing levels of support from subcontractors and vendors and expand our work under contract vehicles;

(xix) we believe we have sufficient capital resources to meet our anticipated cash operating expenses, working capital and capital expenditure and debt services needs for the next twelve months;

(xx) that we believe our capitalized research and development expense will be recoverable from future gross profits generated by the related products;

(xxi) we believe our intellectual property assets are valuable and that we may realize revenue from patent infringement claims;

(xxii) we believe we should not incur an material liabilities from customer indemnification requests;

(xxiii) the WWSS procurement vehicle is expected to contribute to significant sales growth and that we expect to fulfill the potential values under WWSS orders;

(xxiv) expectations about the amount of future non-cash stock compensation;

(xxv) our assumptions and expectations related to income taxes and deferred tax assets;

(xxvi) we do not expect that the adoption of new accounting standards to have a material impact on the company's financial statements, and

(xxvii) statements about financial covenants related to our loan agreements.

This list should not be considered exhaustive.

Item 1B. *Unresolved Staff Comments*

None.

Item 2. *Properties*

Our principal executive office is located in Annapolis, Maryland in a 29,000 square foot facility under a lease expiring in March 2011. We have a second 17,000 square foot facility in Annapolis, Maryland under a lease expiring in April 2013. The Annapolis facilities are utilized for the executive and administrative offices, as well as portions of our Commercial and Government Segments. Other leased facilities include a 49,900 square foot facility in Seattle, Washington under a lease expiring in September 2010, an 11,000 square foot facility in

Oakland, California under a lease expiring August 2012. During 2008, we vacated a former site and moved our Tampa, Florida operations to 45,600 flex-space facility under a lease expiring in December 2014. We also lease a hosting facility in Phoenix, Arizona under a lease that expires in February 2010, which is utilized by our Commercial Segment.

In addition to the leased office space, we own a 7-acre teleport facility in Manassas, Virginia for teleport services for our Government Segment customers.

Item 3.*Legal Proceedings*

In November 2001, a shareholder class action lawsuit was filed against us, certain of our current officers and a director, and several investment banks that were the underwriters of our initial public offering (the "Underwriters"): Highstein v. TeleCommunication Systems, Inc., et al., United States District Court for the Southern District of New York, Civil Action No. 01-CV-9500. The plaintiffs seek an unspecified amount of damages. The lawsuit purports to be a class action suit filed on behalf of purchasers of our Class A Common Stock during the period August 8, 2000 through December 6, 2000. The plaintiffs allege that the Underwriters agreed to allocate our Class A Common Stock offered for sale in our initial public offering to certain purchasers in exchange for excessive and undisclosed commissions and agreements by those purchasers to make additional purchases of our Class A Common Stock in the aftermarket at pre-determined prices. The plaintiffs allege that all of the defendants violated Sections 11, 12 and 15 of the Securities Act, and that the underwriters violated Section 10(b) of the Exchange Act, and Rule 10b-5 promulgated thereunder. The claims against us of violation of Rule 10b-5 have been dismissed with the plaintiffs having the right to re-plead. On February 15, 2005, the District Court issued an Order preliminarily approving a settlement agreement among class plaintiffs, all issuer defendants and their insurers, provided that the parties agree to a modification narrowing the scope of the bar order set forth in the settlement agreement. The parties agreed to a modification narrowing the scope of the bar order, and on August 31, 2005, the court issued an order preliminarily approving the settlement. On December 5, 2006, the United States Court of Appeals for the Second Circuit overturned the District Court's certification of the class of plaintiffs who are pursuing the claims that would be settled in the settlement against the underwriter defendants. Plaintiffs filed a Petition for Rehearing and Rehearing En Banc with the Second Circuit on January 5, 2007 in response to the Second Circuit's decision. On April 6, 2007, the Second Circuit denied plaintiffs' rehearing petition, but clarified that the plaintiffs may seek to certify a more limited class in the District Court. On June 25, 2007, the District Court signed an Order terminating the settlement. On November 13, 2007, the issuer defendants in certain designated "focus cases" filed a motion to dismiss the second consolidated amended class action complaints that were filed in those cases. On March 26, 2008, the District Court issued an Opinion and Order denying, in large part, the motions to dismiss the amended complaints in the "focus cases." We intend to continue to defend the lawsuit until the matter is resolved. We have purchased Directors and Officers insurance policy which we believe should cover any potential liability that may result from these claims, but can provide no assurance that any or all of the costs of the litigation will ultimately be covered by the insurance. No reserve has been created for this matter. More than 300 other companies have been named in nearly identical lawsuits that have been filed by some of the same law firms that represent the plaintiffs in the lawsuit against us.

On July 12, 2006, we filed suit in the United States District Court for the Eastern District of Virginia against Mobile 365 (now Sybase 365, a subsidiary of Sybase Inc.) and WiderThan Americas for patent infringement related to U.S. patent No. 6,985,748, Inter-Carrier Short Messaging Service Providing Phone Number Only Experience ("the '748 patent"), issued to the Company. We resolved the matter with regard to WiderThan Americas, and, during the second quarter of 2007, we received a favorable jury decision that Sybase 365 infringed the claims of our patent. The jury awarded us a one-time monetary payment in excess of $10 million for past damages and a 12% royalty. The jury also found Sybase 365's infringement willful and upheld the validity of the patent. After the jury verdict, both parties filed post-trial motions. The court denied Sybase 365's post-trial motion for a new trial or a judgment in its favor, granted our motion for a permanent injunction prohibiting any further infringement by Sybase 365, but stayed the injunction pending the outcome of any appeal that may be filed, reduced the jury verdict damages award by $2.2 million and vacated the jury finding of willful infringement. We expect that Sybase 365 will appeal from the final judgment of the district court to U.S. Court of Appeals for the Federal Circuit. In the first quarter of 2008, Sybase 365 filed a request for reexamination of the '748 patent claiming that the patent is invalid. In the second quarter of 2008, the United States Patent and Trademark Office granted the request and began the requested reexamination of the '748 patent. There can be no assurances to what extent the matter will continue to be successful, if at all. Additionally, we could become subject to counterclaims or further challenges to the validity of the '748 patent. To date, the Company has not received or recorded any amounts related to this jury award.

Other than the items discussed immediately above, we are not currently subject to any other material legal proceedings. However, we may from time to time become a party to various legal proceedings arising in the ordinary course of our business.

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

None.

Part II

Item 5. *Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities*

Our Class A Common Stock has been traded on the NASDAQ Global Market under the symbol "TSYS" since our initial public offering on August 8, 2000. The following table sets forth, for the periods indicated, the high and low closing prices for our Class A Common Stock as reported on the NASDAQ Global Market:

	High	Low
2009		
First Quarter 2009 (through February 20, 2009)	$ 9.93	$ 7.01
2008		
First Quarter 2008	$ 3.98	$ 2.71
Second Quarter 2008	$ 5.47	$ 3.06
Third Quarter 2008	$ 8.75	$ 4.19
Fourth Quarter 2008	$ 8.91	$ 4.58
2007		
First Quarter 2007	$ 3.92	$ 2.99
Second Quarter 2007	$ 5.75	$ 3.86
Third Quarter 2007	$ 5.21	$ 3.45
Fourth Quarter 2007	$ 4.55	$ 3.02

As of February 20, 2009, there were approximately 263 holders of record of our Class A Common Stock, and there were 8 holders of record of our Class B Common Stock.

Dividend Policy

We have never declared or paid cash dividends on our common stock. We currently intend to retain any future earnings to fund the development, growth and operation of our business. Additionally, under the terms of our loan arrangements, our lender's prior written consent is required to pay cash dividends on our common stock. We do not currently anticipate paying any cash dividends on our common stock in the foreseeable future.

Change in Securities and Use of Proceeds

In March 2006, we issued (i) $10 million of secured notes due March 10, 2009, which bore cash interest at the rate of 14% per annum, and (ii) warrants to purchase an aggregate of 1.75 million shares of our Class A Common Stock at an exercise price of $2.40 per share. We received net cash proceeds of approximately $9.3 million from this transaction, which were used for general corporate purposes. In December 2008, the holders of 1.1 million warrants issued in 2006 exercised those warrants and 1.1 million shares were issued. The remaining 0.7 million warrants remain outstanding and expire March 2011.

The consummation of the note purchase agreement and the issuance of notes and warrants thereunder were conducted as a private placement made to accredited investors in a transaction exempt from the registration requirements of the Securities Act.

With the exception of the notes and warrants issued in March 2006, all of the other securities issued by us in connection with these transactions have been registered under the Securities Act.

Issuer Purchases of Equity Securities

None.

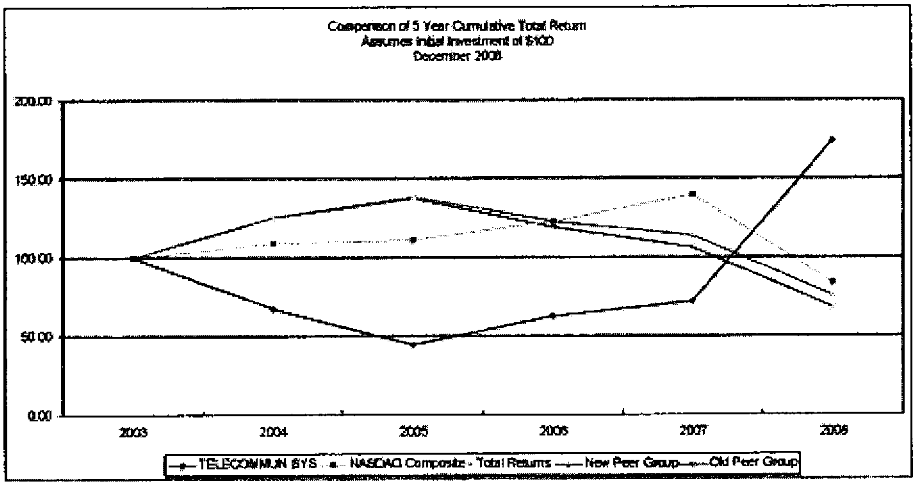
Stock Performance Graph

The following graph compares the cumulative total shareholder return on the Company's Class A Common Stock with the cumulative total return of the Nasdaq Global Market U.S. Index and a mobile data index prepared by the Company of the following relevant publicly traded companies in the commercial and government sectors in which we operate: Openwave Systems, Inc.; Comtech Telecommunications Corp.; Sybase, Inc.; Comverse Technology Inc.; Globecomm Systems Inc.; NCI Inc.; NeuStar, Inc.; Syniverse Holdings, Inc.; and ViaSat Inc. (the "New Peer Group")

The composition of the Mobile Data Index has been changed from last year (the "Old Peer Group") as follows: Comtech Telecommunications Corp. was added to the remaining companies to comprise the "New Peer Group" because its mobile communications systems and satellite services business lines are comparable to our Government Segment business.

The information provided is from January 1, 2002 through December 31, 2008.

This performance graph shall not be deemed "filed" for purposes of Section 18 of the Exchange Act, or incorporated by reference into any filing of the Company under the Securities Act or the Exchange Act, except as shall be expressly set forth by specific reference in such filing. The stock price performance shown on the graph below is not necessarily indicative of future price performance.



Item 6. *Selected Financial Data*

The table that follows presents portions of our consolidated financial statements. You should read the following selected financial data together with our audited Consolidated Financial Statements and related notes and with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the more complete financial information included elsewhere in this Form 10-K. We have derived the statement of operations data for the years ended December 31, 2008, 2007, and 2006 and the balance sheet data as of December 31, 2008 and 2007 from our consolidated financial statements which have been audited by Ernst & Young LLP, independent registered public accounting firm, and which are included in Item 15 of this Form 10-K. We have derived the statement of operations data for the years ended December 31, 2005 and 2004 and the balance sheet data as of December 31, 2006, 2005, and 2004, from our audited financial statements which are not included in this Form 10-K. The historical results presented below are not necessarily indicative of the results to be expected for any future fiscal year. See "Management's Discussion and Analysis of Financial Condition and Results of Operations." As a result of implementation of SFAS 123(R) in 2006, our non-cash stock compensation expense has been allocated to direct cost of revenue, research and development expense, sales and marketing expense, and general and administrative expense in our continuing operations as well as discontinued operations.

	Year Ended December 31,				
	2008	2007	2006	2005	2004
	(in millions, except share and per share data)				
Statement of Operations Data:					
Revenue Services	$ 101.4	$ 88.1	$ 88.4	$ 75.0	$ 60.2
Systems	118.8	56.1	36.6	27.2	36.7
Total revenue	220.2	144.2	124.9	102.2	96.9
Direct cost of services revenue	61.6	52.2	52.5	39.2	30.9
Direct cost of systems revenue	77.3	37.9	17.9	17.7	21.2
Total direct cost of revenue	138.9	90.1	70.4	56.9	52.1
Services gross profit	39.8	35.9	35.8	35.8	29.3
Systems gross profit	41.5	18.2	18.7	9.5	15.5
Total gross profit	81.3	54.1	54.5	45.2	44.8
Research and development expense	16.2	13.1	12.6	13.9	18.1
Sales and marketing expense	13.7	11.9	11.7	10.5	9.0
General and administrative expense	28.2	19.3	17.0	15.0	15.0
Depreciation and amortization of property and equipment	5.9	6.2	8.0	8.6	7.4
Amortization of goodwill and other intangible assets	0.1	0.1	0.1	0.1	—
Total operating costs and expenses	64.2	50.6	49.3	48.2	49.6
Gain on sale of patent	8.1	—	—	—	—
Income/(loss) from operations	25.2	3.5	5.2	(3.0)	(4.8)
Interest expense	(0.9)	(1.8)	(1.8)	(0.7)	(3.2)
Amortization of debt discount and debt issuance expenses, including $2,458 write-off in 2007	(0.2)	(3.2)	(1.4)	(0.5)	—
Debt conversion expense	—	—	—	—	(7.9)
Other (expense)/income, net	0.2	0.5	—	(0.1)	—
Income/(loss) from continuing operations before income taxes	24.3	(1.0)	2.0	(4.3)	(15.9)
Benefit from income taxes	33.3	—	—	—	—
Income/(loss) from continuing operations	57.6	(0.3)	(23.7)	(7.2)	(2.6)
Loss from discontinued operations	—	(0.3)	(23.7)	(7.2)	(2.6)
Net income/(loss)	$ 57.6	$ (1.3)	$ (21.7)	$ (11.5)	$ (18.5)
Income/(loss) from continuing operations per share	$ 1.34	$ (0.02)	$ 0.05	$ (0.11)	$ (0.48)
Loss from discontinued operations per share	—	(0.01)	(0.60)	(0.19)	(0.08)
Net income/(loss) per share — basic	$ 1.34	$ (0.03)	$ (0.55)	$ (0.30)	$ (0.56)
Income/(loss) from continuing operations per share	$ 1.23	$ (0.02)	$ 0.05	$ (0.11)	$ (0.48)
Loss from discontinued operations per share	—	(0.01)	(0.59)	(0.19)	(0.08)
Net income/(loss) per share — diluted	$ 1.23	$ (0.03)	$ (0.54)	$ (0.30)	$ (0.56)
	43,063	41,453	39,430	38,823	33,381

Basic shares used in computation (in thousands)					
Diluted shares used in computation (in thousands)	46,644	41,453	40,166	38,823	33,381

	As of December 31,				
	2008	2007	2006	2005	2004
			(in millions)		
Balance Sheet Data:					
Cash and cash equivalents	$ 39.0	$ 16.0	$ 10.4	$ 9.3	$ 18.3
Working capital	79.1	35.0	25.4	27.5	20.2
Total assets	182.0	82.1	83.6	90.6	102.4
Capital leases and long-term debt (including current portion)	11.8	16.1	17.6	16.5	18.4
Total liabilities	67.7	38.2	48.6	41.5	42.9
Total stockholders' equity	114.3	44.0	35.1	49.1	59.5

Item 7.*Management's Discussion and Analysis of Financial Condition and Results of Operations*

Critical Accounting Policies and Estimates

Management's Discussion and Analysis of Financial Condition and Results of Operations addresses our consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, management evaluates its estimates and judgments. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. We have identified our most critical accounting policies and estimates to be those related to the following:

Revenue Recognition. The Company records revenue from multiple element arrangements under the guidance governed by AcSEC Statement of Position (SOP) No. 97-2 "Software Revenue Recognition", as modified by SOP No. 98-9 "Software Revenue Recognition, With Respect to Certain Transactions", SEC Staff Accounting Bulletin SAB no. 104 "Revenue Recognition in Statements" and EITF Issue Number 00-21 "Revenue Arrangements with Multiple Deliveries." At the time of entering into each customer agreement or arrangement, each element is identified and the revenue, cost of revenue, and gross profit for each deliverable is recorded and presented separately as either systems or services. The sale of products and product related solutions to customers are classified as systems revenue within the Company's Statement of Operations. This typically is an integrated solution that may include licenses, hardware and labor to deliver the product and/or solution per the customer's specifications. Services revenue include the elements of the contract typically related to maintenance or other recurring services performed over an extended period. Each of these captions represents more than 10 percent of the Company's total revenue. There is no other category of revenue described in Rule 5-03 of Regulation S-X in which the Company is currently engaged, so that further sub captions are not necessary at this time. The Company considered Rule 5-03 of Regulation S-X as it relates to the labor portion of the systems revenue. The Company will continue to periodically assess the materiality of the labor portion of systems revenue and classify the amount as services if significant.

Under the provisions of SOP 97-2, if significant customization is not required, the Company recognizes revenue for all delivered elements of a software sale at the point when all four criteria of revenue recognition are met and, the Company has vendor-specific objective evidence (VSOE) of fair value for all identified undelivered elements. We sell communications systems incorporating our licensed software for enhanced services, including text messaging and location-based services to wireless carriers. These systems are designed to incorporate our licensed software. Systems revenues typically contain multiple elements, which may include the product license, installation, integration, and hardware. The total arrangement fee is allocated among each element based on vendor-specific objective evidence of the fair value of each of the elements. Fair value is generally determined based on the price charged when the element is sold separately. In the absence of evidence of fair value of a delivered element, revenue is allocated first to the undelivered elements based on fair value and the residual revenue to the delivered elements. The software licenses are generally perpetual licenses for a specified volume of usage, along with the purchase of annual maintenance at a specified rate. We recognize license fee revenue when each of the following has occurred: (1) evidence of an arrangement is in place; (2) we have delivered the software; (3) the fee is fixed or determinable; and (4) collection of the fee is probable. Software projects that require significant customization are accounted for under the percentage-of-completion method. We measure progress to completion using costs incurred compared to estimated total costs or labor costs incurred compared to estimated total labor costs for contracts that have a significant component of third-party materials costs. We recognize estimated losses under long-term contracts in their entirety upon discovery. If we did not accurately estimate total costs to complete a contract or do not manage our contracts within the planned budget, then future margins may be negatively affected or losses on existing contracts may need to be recognized. Software license fees billed and not recognized as revenue are included in deferred revenue.

The Company recognizes contract revenue as billable costs are incurred and for fixed-price product delivery contracts using the percentage-of-completion method or proportional performance method, measured by either total labor costs or total costs incurred compared to total estimated labor costs or total costs to be incurred in accordance with Statement of Position 81-1. We recognize estimated losses on contracts in their entirety upon discovery. If we did not accurately estimate total labor costs or total costs to complete a contract or do not manage our contracts within the planned budget, then our future margins may be negatively affected or losses on existing contracts may need to be recognized.

Acquired Intangible Assets. The acquired intangible assets are amortized over their useful lives of between five and nineteen years, based on the greater of the straight-line method or the revenue curve method. We evaluate acquired intangible assets when events or changes in circumstances indicate that the carrying values of such assets might not be recoverable. Our review of factors present and the resulting appropriate carrying value of our acquired intangible assets are subject to judgments and estimates by management. Future events such as a significant underperformance relative to historical or projected future operating results, significant changes in the manner of our use of the acquired assets, and significant negative industry or economic trends could cause us to conclude that impairment indicators exist and that our acquired intangible assets might be impaired. There have been no changes in the valuation of the Company's acquired intangible assets for the current period. The expense recognized in 2008, 2007, and 2006 relates to the intangible assets acquired with the 2004 acquisition of assets from Kivera Inc., including customer lists, customer contracts, trademarks, and patents.

Impairment of Goodwill. The Company performs an annual analysis of our goodwill for impairment in accordance with SFAS 142, "*Goodwill and other Intangible Assets*". The analysis of goodwill includes, among other factors, estimating future cash flows to be received from the assets. At December 31, 2008, goodwill was $1.8 million and we determined that the fair value of our goodwill exceeded the carrying value. Material differences in our assumptions and valuations in the future could result in a future impairment loss.

Stock Compensation Expense. Effective January 1, 2006, we adopted the fair value recognition provisions of SFAS 123(R), using the modified prospective transition method. Under the fair value recognition provisions of SFAS 123(R), we estimate the fair value of our employee stock awards at the date of grant using the Black-Scholes option pricing model, which requires the use of certain subjective assumptions. The most significant of these assumptions are our estimates of expected volatility of the market price of our stock and the expected term of the stock award. We have determined that historical volatility is the best predictor of expected volatility and the expected term of our awards was determined taking into consideration the vesting period of the award, the contractual term and our historical experience of employee stock option exercise behavior. We review our valuation assumptions at each grant date and, as a result, we could change our assumptions used to value employee stock-based awards granted in future periods. In addition, we are required to estimate the expected forfeiture rate and only recognize expense for those awards expected to vest. If our actual forfeiture rate were materially different from our estimate, the stock-based compensation expense would be different from what we have recorded in the current period. SFAS 123(R) requires that employee stock-based compensation costs be recognized over the vesting period of the award and we have elected the straight-line method as the basis for recording our expense.

Income Taxes. Income taxes are accounted for under the provisions of SFAS 109, "*Accounting for Income Taxes*". We use the asset and liability method of accounting for deferred income taxes. We assess the likelihood that our deferred tax assets will be recovered from future taxable income. Significant management judgment is required in determining any valuation allowance recorded against the net deferred tax assets. Our evaluation of the realizability of our deferred tax assets is inherently subjective and is based on our analysis and weighting of various positive and negative evidence available to us. This evaluation includes estimates and assumptions about a number of market, execution and economic variables. It is possible that actual results may differ from assumptions and require adjustments to allowances. On January 1, 2007, the Company adopted the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (FIN 48) which prescribes a minimum recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting interim periods, disclosure and transition. If a tax position does not meet the more-likely-than-not initial recognition threshold, no benefit is recorded in the financial statements.

Overview and Recent Developments

We operate two business segments: (i) our Commercial Segment, which consists principally of enhanced communication services to and from wireless phones, location application software, our E9-1-1 application and other hosted services for wireless carriers and Voice Over IP service providers, and (ii) our Government Segment, which includes the design, development and deployment of information processing and communication systems, mainly satellite-based, and related services to government agencies.

This Management's Discussion and Analysis of Financial Condition and Results of Operations provides information that our management believes to be necessary to achieve a clear understanding of our financial statements and results of operations.

Our management monitors and analyzes a number of performance indicators in order to manage our business and evaluate our financial and operating performance. Those indicators include:

- *Revenue and gross profit.* We derive revenue from the sales of systems and services including recurring monthly service and subscriber fees, maintenance fees, software licenses and related service fees for the design, development, and deployment of software and communication systems, and products and services derived from the delivery of information processing and communication systems to governmental agencies.
- *Gross profit represents revenue minus direct cost of revenue, including certain non-cash costs.* The major items comprising our cost of revenue are compensation and benefits, third-party hardware and software, amortization of software development costs, non-cash stock-based compensation, and overhead expenses. The costs of hardware and third-party software are primarily associated with the delivery of systems, and fluctuate from period to period as a result of the relative volume, mix of projects, level of service support required and the complexity of customized products and services delivered. Amortization of software development costs, including acquired technology, is associated with the recognition of systems revenue from our Commercial Segment.
- *Operating expenses.* Our operating expenses are primarily compensation and benefits, professional fees, facility costs, marketing and sales-related expenses, and travel costs as well as certain non-cash expenses such as non-cash stock compensation expense, depreciation and amortization of property and equipment, and amortization of acquired intangible assets.
- *Liquidity and cash flows.* The primary driver of our cash flows is the results of our operations. Important other sources of our liquidity are our leases secured for the purchase of equipment and potential borrowings under our credit lines.
- *Balance sheet.* We view cash, working capital, and accounts receivable balances and days revenues outstanding as important indicators of our financial health.

Results of Operations

Revenue and Cost of Revenue

The following discussion addresses the revenue and cost of revenue for the two segments of our business. For information regarding the results of the Enterprise assets, see *Discontinued Operations — Enterprise assets* below.

Commercial Segment:

($ in millions)	2008	2007	2008 vs. 2007 $	2008 vs. 2007 %	2006	2007 vs. 2006 $	2007 vs. 2006 %
Services revenue	$ 64.4	$ 58.8	$ 5.6	10%	$ 59.7	$ (0.9)	(2%)
Systems revenue	37.4	16.5	20.9	127%	17.2	(0.7)	(4%)
Total Commercial Segment revenue	101.8	75.3	26.5	35%	77.0	(1.7)	(2%)
Direct cost of services	32.4	29.4	3.0	10%	31.4	(2.0)	(6%)
Direct cost of systems	8.9	5.0	3.9	78%	5.2	(0.2)	(4%)
Total Commercial Segment cost of revenue	41.3	34.4	6.9	20%	36.6	(2.2)	(6%)
Services gross profit	32.0	29.4	2.6	9%	28.3	1.1	4%
Systems gross profit	28.5	11.5	17.0	148%	12.0	(0.5)	(4%)
Total Commercial Segment gross profit *(1)*	$ 60.5	$ 40.9	$ 19.6	48%	$ 40.3	$ 0.6	1%
Segment gross profit as a percent of revenue	*59%*	*54%*			*52%*		

(1) See discussion of segment reporting in Note 20 to the audited Consolidated Financial Statements presented elsewhere in this Annual Report on Form 10-K.

Commercial Services Revenue and Cost of Revenue:

Our hosted offerings include our E9-1-1 service for wireless and Voice over Internet Protocol (VoIP) E9-1-1 service providers, hosted Position Determining Entity (PDE) service, and hosted Location Based Service (LBS) applications. Revenue from these offerings primarily consists of monthly recurring service fees and is recognized in the month earned. E9-1-1, PDE, VoIP and hosted LBS service fees are priced based on units served during the period, such as the number of customer cell sites served, the number of connections to Public Service Answering Points (PSAPs), or the number of customer subscribers served. Subscriber service revenue is generated by client software applications for wireless subscribers such as Rand McNally® Traffic. Maintenance fees on our systems and software licenses are collected in advance and recognized ratably over the maintenance period. Unrecognized maintenance fees are included in deferred revenue. Custom software development, implementation and maintenance services may be provided under time and materials or fixed-fee contracts.

Our commercial services revenue increased $5.6 million or 10% in 2008 from 2007 due to growth in hosted service customer volume and new hosted service customers and increased maintenance fees due to higher cumulative system license sales. The 2% decrease in 2007 from 2006 was due to decreases in average fees received per unit under pricing arrangements with some wireless E9-1-1 customers, and the loss of a mid-tier carrier customer in the third quarter of 2006 offset by increased maintenance revenue on our installed software base.

The direct cost of our services revenue consists primarily of compensation and benefits, network access, data feed and circuit costs, and equipment and software maintenance. The direct cost of maintenance revenue consists primarily of compensation and benefits expense. For the year ended December 31, 2008, the direct cost of service revenue increased 10% over the same period in 2007 in direct relation to increase in revenues. For the year ended December 31, 2007, the direct cost of services revenue decreased 6% compared to 2006. During 2007, we incurred less labor and direct costs related to custom development efforts and deployment requirements of VoIP E9-1-1 infrastructure than in 2006. While we increased the number of cell sites, subscribers and public safety answering points (PSAPs) served, our overall circuit and data access costs were relatively consistent year to year. For 2008, the cost of circuit and other data access costs accounted for approximately 13% of total direct costs of commercial service revenues. The cost of circuit and other data access costs accounted for approximately 15% and 11% of the total direct costs of our commercial service revenues for 2007 and 2006 respectively.

Commercial services gross profit for the year ended December 31, 2008 was 9% higher than in 2007 on higher revenue with a comparable percentage increase in labor, fringe and contractor costs. Commercial services gross profit in 2007 was 4% higher than in 2006 based on improved operating efficiencies.

Commercial Systems Revenue and Cost of Revenue

We sell communications systems incorporating our licensed software for enhanced services, including text messaging and location-based services to wireless carriers. These systems are designed to incorporate our licensed software. We design our software to ensure that it is compliant with all applicable standards. Licensing fees for our carrier software are generally a function of its volume of usage in our customers' networks. As a carrier's subscriber base or usage increases, the carrier must purchase additional capacity under its license agreement and we receive additional revenue. We may also realize license revenue as a result of infringement claims that we make in enforcing our patents. In 2006, we reached a settlement on a patent infringement case and won a jury award of more than $10 million in another infringement case; no revenue has been recognized on the second case pending post trial motions, appeals, and potential settlement.

Commercial systems revenue in 2008 was 127% higher than in 2007 due to higher sales of licenses for text messaging capacity and customer hardware upgrades. Commercial systems revenue in 2007 was 4% lower than in 2006 due mainly to lower sales of text messaging licenses.

The direct cost of commercial systems consists primarily of compensation, benefits, purchased equipment, third-party software, travel expenses, and consulting fees as well as the amortization of both acquired and capitalized software development costs for all reported periods. The direct cost of the license component of systems is normally very low, and the gross profit very high since the software development efforts were expensed in prior periods. The direct cost of systems includes amortization of software development costs of $2.1 million, $1.5 million, and $1.3 million, respectively, in 2008, 2007, and 2006.

Our commercial systems gross profit was $28.5 million in 2008, a 148% or $17.0 million increase from 2007. Commercial systems gross profit was $11.5 million in 2007, or a 4% decrease from 2006. Systems gross margins are higher in periods when systems revenue includes a higher proportion of software licenses relative to third party system components and integration labor, as was the case in 2008 and 2006.

Government Segment:

($ in millions)	2008	2007	2008 vs. 2007 $	2008 vs. 2007 %	2006	2007 vs. 2006 $	2007 vs. 2006 %
Services revenue	$ 36.9	$ 29.3	$ 7.6	26%	$ 28.6	$ 0.7	2%
Systems revenue	81.4	39.6	41.8	106%	19.3	20.3	105%
Total Government Segment revenue	118.3	68.9	49.4	72%	48.0	20.9	44%
Direct cost of services	29.2	22.8	6.4	28%	21.1	1.7	8%
Direct cost of systems	68.3	32.9	35.4	108%	12.7	20.2	159%
Total Government Segment cost of revenue	97.5	55.7	41.8	75%	33.8	21.9	65%
Services gross profit	7.7	6.5	1.2	18%	7.5	(1.0)	(13%)
Systems gross profit	13.1	6.7	6.4	96%	6.7	—	NM
Total Government Segment gross profit (1)	$ 20.8	$ 13.2	$ 7.6	58%	$ 14.2	$ (1.0)	7%
Segment gross profit as a percent of revenue	*18%*	*19%*			*30%*		

(1) See discussion of segment reporting in Note 20 to the audited Consolidated Financial Statements presented elsewhere in this Annual Report on Form 10-K. (NM = Not meaningful)

For 2008, Government Segment revenue increased 72% reflecting increases in both services and systems revenue. Government Segment revenue in 2007 and 2006 increased 44% and 32%, respectively, reflecting increases in both services and systems revenue. During the third quarter of 2006, we were one of six vendors selected by the U.S. Army to provide secure satellite services and systems under a five year contract vehicle, with a possible maximum value of up to $5 billion for the six vendors. The WWSS contract vehicle is expected to continue to contribute significant government systems sales growth through 2011. The Company's Government Segment has been awarded participation as a prime or sub-contractor to provide similar satellite-based technology under several other contract vehicles. For the year ended December 31, 2008, the Company was awarded 6 new delivery orders and received incremental funding against two delivery orders initially issued in 2008 under the WWSS vehicle with a total contract value of $84.5 million, of which $61.6 million was fulfilled, resulting in 2008 revenue. The total potential value of all WWSS awards received to date is $366.7 million of which $124 million has been funded which we currently expect to fulfill over the next three years.

Government Services Revenue and Cost of Revenue:

Government services revenue increased to $36.9 million in 2008 from $29.3 million in 2007 and $28.6 million in 2006. These increases were generated by new and expanded-scope contracts resulting from increased sales emphasis on communications and information technology service work, increased revenue generated from satellite airtime services using our teleport facilities, and maintenance and field support associated with our systems sales. Continuing growth is expected from higher usage of our teleport -related services and continuing incremental additions of technical outsource service personnel. System maintenance fees are collected in advance and recognized ratably over the maintenance periods.

Direct cost of government service revenue consists of compensation, benefits and travel incurred in delivering these services, as well as satellite space segment purchased for resale to government customers. These costs increased as a result of the increased volume of service in all three years.

Our gross profit from government services increased to $7.7 million in 2008 from $6.5 million in 2007 and $7.5 million in 2006. The growth in 2008 was realized from professional services, teleport usage, and maintenance on the installed base of systems. The decline in gross profit in 2007 was due to the lower average margins as a result of tighter average pricing in 2007 due to competition for the contracts as they were renewed or newly won. Gross profit as a percentage of revenue decreased in all three years as a result of lower average pricing on our mix of government customer contracts.

Government Systems Revenue and Cost of Revenue:

We generate government systems revenue from the design, development, assembly and deployment of information processing and communication systems, primarily deployable satellite-based communication systems, and integration of those systems into our customer networks. These are largely variations on our SwiftLink® product line, which are lightweight, secure, deployable communication systems, sold to units of the U.S. Departments of State, Justice and Defense, and other government agencies. Government systems sales more than doubled to $81.4 million in 2008 from $39.6 million in 2007, which was more than double the $19.3 million in 2006. The increases over the last three years in systems revenues were primarily due to increases in sales volume from the fulfillment of task orders under the WWSS 5-year contract vehicle, for which TCS was one of six awardees in September 2006. In July 2008, TCS was named the sole awardee of a delivery order contract with a potential value of $246 million over the next several years, under the WWSS procurement vehicle.

The cost of our government systems revenue consists of purchased system components, compensation, benefits, travel, and the costs related to third-party contractors that we engage. These costs have increased over the three years presented as a direct result of the increase in volume. These equipment and third-party costs are variable for our various types of products, and margins may fluctuate between periods based on pricing and product mix.

Our government systems gross profit in 2008 increased 96% over 2007 primarily due to higher sales volume under the WWSS procurement vehicle. Government systems gross profit was the same at $6.7 million in 2007 and 2006. In 2007, the effect of lower margins was offset by an increase over 2006 volume.

Operating Expenses:

Research and Development Expense:

($ in millions)	2008	2007	2008 vs. 2007 $	2008 vs. 2007 %	2006	2007 vs. 2006 $	2007 vs. 2006 %
Research and development expense	$ 16.2	$ 13.1	$ 3.1	24%	$ 12.6	$ 0.5	4%
Percent of revenue	*7%*	*9%*			*10%*		

Our research and development expense consists of compensation, benefits, and a proportionate share of facilities and corporate overhead. The costs of developing software products are expensed prior to establishing technological feasibility. Technological feasibility is established for our software products when a detailed program design is completed. We incur research and development costs to enhance existing packaged software products as well as to create new software products including software hosted in our network operations center. These costs primarily include compensation and benefits as well as costs associated with using third-party laboratory and testing resources. We expense such costs as they are incurred unless technological feasibility has been reached and we believe that the capitalized costs will be recoverable.

The expenses we incur relate to software applications which are being marketed to new and existing customers on a global basis. Throughout 2008, 2007, and 2006, research and development was primarily focused on cellular and hosted location-based applications, including Voice over IP E9-1-1, enhancements to our hosted location-based service platform, and wireless location-based service applications. Management continually assesses our spending on research and development to ensure resources are focused on products that are expected to achieve the highest level of success. In 2008, 2007, and 2006, we capitalized $0.5 million, $1.5 million, and $1.8 million, respectively, of software development costs for certain software projects in accordance with the above policy. The capitalized costs relate to our wireless location-based software. These costs will be amortized on a product-by-product basis using the straight-line method over the products' estimated useful life, not longer than three years. Amortization is also computed using the ratio that current revenue for the product bears to the total of current and anticipated future revenue for that product (the revenue curve method). If this revenue curve method results in amortization greater than the amount computed using the straight-line method, amortization is recorded at that greater amount. Amortization of software development costs is recorded as a direct cost of revenue. We believe that these capitalized costs will be recoverable from future gross profits generated by these products.

Research and development expense increased 24% in 2008 from 2007, primarily since software developers spent less time on work that was subject to capitalized expenditure accounting (discussed above), increased Company personnel assigned to software development work, and higher variable compensation in 2008. Research and development expense increased 4% in 2007 from 2006. This increase is mainly due to more Company personnel assigned to software development work during 2007 than in 2006.

Our research and development expenditures have yielded more than 65 patents, primarily for wireless messaging and location technology, and more than 210 pending patent applications. We believe that the intellectual property represented by these patents is a valuable asset that will contribute positively to our results of operations in 2009 and beyond.

Sales and Marketing Expense:

($ in millions)	2008	2007	2008 vs. 2007 $	2008 vs. 2007 %	2006	2007 vs. 2006 $	2007 vs. 2006 %
Sales and marketing expense	$ 13.7	$ 11.9	$ 1.8	15%	$ 11.7	$ 0.2	2%
Percent of revenue	*6%*	*8%*			*9%*		

Our sales and marketing expense includes compensation and benefits, trade show expenses, travel costs, advertising and public relations costs as well as a proportionate share of facility-related costs which are expensed as incurred. Our marketing efforts also include speaking engagements, and attending and sponsoring industry conferences. We sell our software products and services through our direct sales force and through indirect channels. We have also historically leveraged our relationships with original equipment manufacturers to market our software products to wireless carrier customers. We sell our products and services to agencies and departments of the U.S. government primarily through direct sales professionals. Sales and marketing costs increased 15% and 2% in 2008 and 2007, respectively, primarily as a result of adding additional Government Segment sales personnel, increased public relations fees, and an increase of approximately $0.9 million in variable compensation charges. The increase in 2007 was partially offset by reductions in senior sales and marketing executive staff costs.

General and Administrative Expense:

($ in millions)	2008	2007	2008 vs. 2007 $	2008 vs. 2007 %	2006	2007 vs. 2006 $	2007 vs. 2006 %
General and administrative expense	$ 28.2	$ 19.3	$ 8.9	46%	$ 17.0	$ 2.3	14%
Percent of revenue	*13%*	*13%*			*14%*		

General and administrative expense consists primarily of costs associated with management, finance, human resources and internal information systems. These costs include compensation, benefits, professional fees, travel, and a proportionate share of rent, utilities and other facilities costs which are expensed as incurred. The increase in 2008 included a charge for vacating a leased facility in Tampa, Florida, earlier than its December 2009 expiration, and variable compensation of $8 million related to record revenue, operating profit, and net income for the year in accordance with formulas established for key employees at the beginning of the year. The 14% increase in 2007 over 2006 was primarily attributable to higher legal and advisory fees associated with intellectual property related activity.

Depreciation and Amortization of Property and Equipment:

($ in millions)	2008	2007	2008 vs. 2007 $	2008 vs. 2007 %	2006	2007 vs. 2006 $	2007 vs. 2006 %
Depreciation and amortization of property and equipment	$ 5.9	$ 6.2	$ (0.3)	(5%)	$ 8.0	$ (1.8)	(23%)
Average gross cost of property and equipment	$ 50.4	$ 50.3	$ 0.1	NM	$ 52.0	$ (1.7)	(3%)

Depreciation and amortization of property and equipment represents the period costs associated with our investment in information technology and telecommunications equipment, software, furniture and fixtures, and leasehold improvements. We compute depreciation and amortization using the straight-line method over the estimated useful lives of the assets. The estimated useful life of an asset generally ranges from five years for furniture, fixtures, and leasehold improvements to three to four years for most other types of assets including computers, software, telephone equipment and vehicles. In 2008 and 2007, our depreciable asset base has decreased as a result of assets purchased in previous years becoming fully depreciated.

Amortization of Acquired Intangible Assets:

($ in millions)	2008	2007	2008 vs. 2007 $	2008 vs. 2007 %	2006	2007 vs. 2006 $	2007 vs. 2006 %
Amortization of acquired intangible assets	$ 0.1	$ 0.1	$ —	NM	$ 0.1	$ —	NM

The acquired intangible assets associated with the Kivera Acquisition are being amortized over their useful lives of between five and nineteen years. The expense recognized in 2008, 2007, and 2006 relates to the intangible assets acquired in this acquisition, including customer lists, customer contracts, trademarks, and patents.

Interest Expense:

($ in millions)	2008	2007	2008 vs. 2007 $	2008 vs. 2007 %	2006	2007 vs. 2006 $	2007 vs. 2006 %
Interest expense incurred on notes payable and under our bank revolving credit agreement	$ 0.7	$ 1.6	$ (0.9)	(56%)	$ 1.5	$ 0.1	7%
Interest expense incurred on capital lease obligations	0.3	0.2	0.1	50%	0.3	(0.1)	(33%)
Amortization of deferred financing fees	0.2	0.3	(0.1)	(33%)	0.4	(0.1)	(25%)
Amortization of debt discount	—	0.5	(0.5)	(100%)	1.0	(0.5)	(50%)
Write-off of unamortized debt discount and debt issuance expenses	—	2.4	(2.4)	(100%)	—	2.4	100%
Less: capitalized interest	(0.1)	(0.1)	—	NM	(0.1)	—	NM
Total Interest and Financing Expense	$ 1.1	$ 4.9	$ (3.8)	(78%)	$ 3.1	$ 1.8	58%

Interest expense is incurred under notes payable, an equipment loan, a line of credit, and capital lease obligations. Interest on notes, is primarily at stated interest rates of between 0.25% above prime rate and 10.35% and line of credit borrowing is at the bank's prime rate, which was 3.25% as of December 31, 2008.

On June 25, 2007, we refinanced $10 million secured notes with a new five year term loan payable to our principal bank. The borrowing rate under the new term loan is the prime rate plus 0.25% per annum (3.5% at December 31, 2008) and the loan is repayable in equal monthly installments of $0.2 million plus interest. The funds were used primarily to retire the March 2006 secured notes. This refinancing resulted in the $2.4 million write-off of unamortized debt discount and debt issuance expenses in the second quarter of 2007. In March 2006, we issued $10 million of secured notes, with cash interest at the rate of 14% per annum, along with warrants to purchase an aggregate of 1.75 million shares of our Class A Common Stock at an exercise price of $2.40 per share (2006 Warrants).

In December 2006, we borrowed $5 million from Tatonka Capital under a 3 year note secured by the accounts receivable of one customer. Effective March 28, 2008, we paid this debt in full and modified the terms of the note to a line of credit. Under the line of credit agreement, the maximum indebtedness of the line is equal to the current maximum debt of $3.2 million ($1.7 million at December 31, 2008) less $0.2 million per month for the number of full months that have expired since the effective date. The maturity date of the line of credit is December 28, 2009. The borrowing rate is the London InterBank Offered Rate (LIBOR) plus 500 basis points. The Company has not borrowed against this Tatonka line.

Our bank line of credit expires in June 2010, and our maximum line of credit is $22 million. Borrowings at any time are limited to an amount based principally on accounts receivable levels as defined in the amended line of credit agreement. Our potential borrowing under the amended line of credit agreement is also reduced by the amount of letters of credit outstanding which totaled about $2.3 million at December 31, 2008. There were no borrowings under our bank line of credit during 2008.

Cash interest expense on notes payable was lower for the year ended December 31, 2008 due to the lower-cost refinancing in 2007 of higher priced March 2006 debt, and lower average bank borrowings. Interest on capital lease financing was about the same in both periods. Cash interest expense on notes payable was slightly higher for the year ended December 31, 2007 than in 2006 mainly due to the effect of the higher priced March 2006 debt while it was outstanding. The interest incurred on the March 2006 notes, partially offset by reduced average principal balances on our revolving credit and other notes payable, caused our total interest expense to be higher in 2006.

Deferred financing fees relate to the up-front expenditures at the time of contracting for notes payable and our revolving line of credit facility, which are being amortized over the term of the note or the life of the facility. The higher 2007 and 2006 amortization reflects fees to borrow the 2006 Notes.

The amortization of debt discount in 2007 and 2006 relates to the 2006 Warrants as well as adjustment to the terms of warrants issued in connection with 2004 financings. The value of the 2006 Warrants was estimated to be $2.9 million, determined using the Black-Scholes option-pricing model, which was recorded as a debt discount and additional paid-in capital in 2004. The value of the adjustments to the 2004 Warrants was estimated to be $0.6 million using the Black-Scholes option-pricing model, which was recorded as a debt discount and additional paid-in capital in the first quarter of 2006. The total debt discount at issuance was being amortized to interest expense over the three year life of the 2006 Notes, yielding an effective interest rate of 15.2%. The 2006 Notes were written off with the 2007 refinancing.

Our capital lease obligations include interest at various amounts depending on the lease arrangement. Our interest under capital leases fluctuates depending on the amount of capital lease obligations in each year, and the interest under those leases, has remained relatively constant since 2006. The interest cost of capital lease financings was about the same in the years ending December 31, 2008, 2007, and 2006.

Our interest and financing expense decreased in 2008 over 2007 primarily as a result of retiring our March 2006 and December 2006 borrowings. Interest and financing expense increased in 2007 over 2006 due mainly to the write-off of the amortization of debt discount and financing fees associated with the refinancing of our March 2006 debt.

Other Income, Net:

($ in millions)	2008	2007	2008 vs. 2007 $	2008 vs. 2007 %	2006	2007 vs. 2006 $	2007 vs. 2006 %
Foreign currency translation/ transaction (loss)/gain	$ 0.1	$ (0.1)	$ 0.2	200%	$ (0.1)	$ —	NM
Miscellaneous other (expense)/ income	0.1	0.6	(0.5)	(83%)	0.1	0.5	500%
Total other income, net	$ 0.2	$ 0.5	(0.3)	(60%)	$ —	0.5	100%

For the year ended December 31, 2008, Other income, net consisted primarily of $0.7 interest income earned on investment accounts, and $0.1 million net gain on foreign currency translation/transaction, which is dependent on fluctuations in currency exchange rates. We record the effects of foreign currency translation on our cash, receivables and deferred revenues that are stated in currencies other than our functional currency. The Company also recorded a 2008 loss of $0.8 million from the decline in the fair market value of certain securities considered to be other than temporary. The other components of other income, net, were about the same as in periods.

Income Taxes:

The Company accounts for income taxes in accordance with SFAS No. 109, Accounting for Income Taxes ("SFAS 109"). Under SFAS 109, deferred tax assets and liabilities are computed based on the difference between the financial statement and income tax basis of assets and liabilities using the enacted marginal tax rate. Upon the adoption of FIN 48 on January 1, 2007, the estimated value of the Company's uncertain tax positions was a liability of $2.7 million resulting from unrecognized net tax benefits which did not include interest and penalties. The Company recorded the estimated value of its uncertain tax position by reducing the value of certain tax attributes. The Company would classify any interest and penalties accrued on any unrecognized tax benefits as a component of the provision for income taxes. There were no interest or penalties recognized in the consolidated statement of income for year ended December 31, 2008 and the consolidated balance sheet at December 31, 2008. The Company does not currently anticipate that the total amounts of unrecognized tax benefits will significantly increase within the next 12 months. The Company files income tax returns in U.S. and state jurisdictions. As of December 31, 2008, open tax years in the federal and some state jurisdictions date back to 1999, due to the taxing authorities' ability to adjust operating loss carry forwards.

SFAS 109 requires that the net deferred tax asset be reduced by a valuation allowance if, based on the weight of available evidence, it is more likely than not that some portion of all of the net deferred tax asset will not be realized.

This process requires the Company's management to make assessments regarding the timing and probability of the ultimate tax impact. The Company records valuation allowances on deferred tax assets if determined it is more likely than not that the asset will not be realized. Additionally, the Company establishes reserves for uncertain tax positions based upon our judgment regarding potential future challenges to those positions. Actual income taxes could vary from these estimates due to future changes in income tax law, significant changes in the jurisdictions in which the Company operates, our inability to generate sufficient future taxable income or unpredicted results from the final determination of each year's liability by taxing authorities. These changes could have a significant impact on the Company's financial position.

Deferred tax assets consist primarily of net operating loss and tax credit carryforwards as well as deductible temporary differences. Prior to 2008, the Company provided a full tax valuation allowance for federal and state deferred tax assets based on management's evaluation that the Company's ability to realize such assets did not meet the criteria of "more likely than not". The Company has continuously evaluated additional facts representing positive and negative evidence in the determination of its ability to realize the deferred tax assets. In the year ended December 31, 2008, management has determined, as the result of cumulative income and anticipated future taxable income, that it is now more likely than not that these deferred tax assets will be realized in the future. Accordingly, the Company determined that it is appropriate to reverse the deferred tax asset valuation. This has resulted in a benefit to deferred tax expense of $33.3 million for the year 2008.

Discontinued Operations:

In 2007, the Company sold its Enterprise division operations, which had previously been included in our Commercial Segment. Accordingly, the assets, liabilities, and results of operations for the Enterprise assets have been classified as discontinued operations for all periods presented in the Consolidated Financial Statements included elsewhere in this Annual Report on Form 10-K in accordance with Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (Statement No. 144).

Effective January 1, 2007, the Company sold two of its three Enterprise units to strategic buyers for common stock in the acquiring publicly traded companies valued at approximately $1 million and earn-out arrangements. As at December 31, 2008, we wrote down the investments by $0.8 million. The Company does not expect to receive material payments from the earn-out arrangement. During May 2007, the last Enterprise unit was sold for $4 million in cash of which $0.2 million was in escrow and was released in June 2008, a $1 million 18-month note which was paid in full in November 2008, and $0.2 million in equity interest.

The following table presents income statement data for the Enterprise division, currently reported as discontinued operations. The 2005 results were previously reported as part of the results of our Commercial Segment.

			2008 vs. 2007			2007 vs. 2006	
($ in millions)	2008	2007	$	%	2006	$	%
Total revenue	$ —	$ 5.6	$ (5.6)	100%	$ 26.0	$ (20.4)	(78%)
Total gross profit	—	0.8	$ (0.8)	100%	4.5	$ (3.7)	(82%)
Loss from discontinued operations, including 2006 impairment charges of $15.5 million	$ —	$ (0.3)	$ 0.3	100%	$ (23.7)	$ 23.4	99%

Net Income/(loss):

			2008 vs. 2007			2007 vs. 2006	
($ in millions)	2008	2007	$	%	2006	$	%
Net income/(loss) from continuing operations	$ 57.6	$ (1.0)	$ 58.6	5,860%	$ 2.0	$ (3.0)	(150%)
Loss from discontinued operations	—	(0.3)	0.3	100%	(23.7)	23.4	99%
Net income/(loss)	$ 57.6	$ (1.3)	$ 58.9	4,531%	$ (21.7)	$ 20.4	94%

Net income/(loss) changes for each year are as a result of the discussions above.

Liquidity and Capital Resources

The following table summarizes our comparative statements of cash flow:

($ in millions)	2008	2007	2006
Net cash and cash equivalents provided by (used in):			
Net income/(loss)	$ 57.6	$ (1.3)	$ (21.7)
Less: loss from discontinued operations	—	(0.3)	(23.7)
Income/(loss) from continuing operations	57.6	(1.0)	2.0
Non-cash charges	12.8	15.5	13.9
Benefit from income taxes	(34.0)	—	—
Net changes in working capital	(10.4)	(5.4)	(2.9)
Operating activities of continuing operations	26.0	9.1	13.0
Operating activities of discontinued operations	—	(3.6)	(8.0)
Net operating activities	26.0	5.5	5.0
Investing activities for continuing operations:			
Purchases of property and equipment	(3.7)	(2.6)	(2.8)
Capitalized software development costs	(0.5)	(1.5)	(1.8)
Investing activities for continuing operations	(4.2)	(4.1)	(4.6)
Investing activities for discontinued operations	—	4.0	(1.4)
Net investing activities	(4.2)	(0.1)	(6.0)
Financing activities:			
Payments on debt and leases	(7.7)	(16.0)	(13.6)
Proceeds from/(finance fees related to) issuance of stock and debentures, net	—	—	(1.5)
Proceeds from borrowings	—	10.0	16.0
Proceeds from exercise of warrants	2.5	2.2	—
Proceeds from employee option exercises	6.4	4.0	0.7
Net financing activities from continuing operations	1.2	0.2	1.6
Effect of exchange rates from discontinued operations	—	—	0.3
Change in cash and cash equivalents from continuing operations	23.0	5.2	10.1
Change in cash and cash equivalents from discontinued operations	—	0.4	(9.1)
Net change in cash and cash equivalents	$ 23.0	$ 5.6	$ 1.0
Days revenue outstanding in accounts receivable including unbilled receivables	95	87	82

<u>Capital resources:</u> We have funded our operations, acquisitions, and capital expenditures primarily using cash generated by our operations, as well as the net proceeds from capital including:

- June 2007 bank term loan borrowing of $10 million to refinance March 2006 secured notes, at a lower coupon rate.
- March 2006 issuance of secured notes and warrants (described below) which generated net cash proceeds of approximately $9.3 million.
- Capital leases to fund fixed asset purchases.

<u>Sources and uses of cash:</u> The Company's cash and cash equivalents balance was approximately $39.0 million at December 31, 2008, a $23.0 million increase from $16.0 million at December 31, 2007.

Operations: Cash generated by continuing operations increased to $26.0 million in 2008 from $9.1 million in 2007 due mainly to higher earnings. The cash generated by continuing operations in 2007 decreased $9.1 million from $13.0 million in 2006 in due mainly to fluctuations in working capital. Discontinued operations used $3.6 million and $8.0 million in 2007 and 2006, respectively. The operations and cash flows of the discontinued operations have been eliminated and the Company has had no significant involvement in the operations since the disposal transaction.

Investing activities: Fixed asset additions in 2008, 2007, and 2006 were $3.7, $2.6, and $2.8 million, respectively. Investments made in the development of carrier software for resale which had reached the stage of development calling for capitalization decreased by approximately $1 million in 2008 to about $0.5 million, as more developer labor cost was expensed as research and development. The amounts capitalized in 2007 and 2006 were approximately $2.0 million each year. Discontinued operations generated $4 million from the sale of assets in 2007 and $1 million from collection of a note in 2008. Investments were made during 2006 in discontinued operations primarily for enhancements to the core software for resale by the mobile asset management unit.

Financing activities: We have a $22 million revolving credit line with our principal bank through June 2010 with borrowing was available at the bank's prime rate, which was 3.25% per annum at December 31, 2008. Borrowings at any time are limited based mainly on accounts receivable levels as defined in the line of credit agreement. Availability under the line of credit available is also reduced by the amount of letters of credit outstanding, which was $2.3 million at December 31, 2008. As of December 31, 2008, we had no borrowings outstanding under our bank line of credit and had approximately $19.3 million of unused borrowing availability under the line.

On December 28, 2006, we issued a $5 million note for a term of three years, secured by accounts receivable of one customer to Tatonka Capital. Effective March 28, 2008, we paid the term loan in full, and modified the terms of the note to a line of credit. Under the line of credit agreement, the maximum indebtedness of the line is equal to $1.7 million at December 31, 2008 less $0.2 million per month through December 28, 2009. The borrowing rate is London InterBank Offered Rate (LIBOR) plus 500 basis points. As of December 31, 2008, we had no borrowings outstanding and $1.7 million in unused borrowing availability under the line.

In June 2007, we refinanced $10 million of our March 2006 secured notes with a with a five year note payable to our principal bank. The borrowing rate under the new note was the bank's prime rate plus 0.25% per annum, (3.5% at December 31, 2008) and the note is repayable in equal monthly installments of $0.2 million plus interest.

In March 2006, we issued (i) $10 million of secured notes due March 10, 2009, with cash interest at 14% per annum, and (ii) warrants to purchase an aggregate of 1.75 million shares of our Class A Common Stock at an exercise price of $2.40 per share. Also, some warrants that we had previously issued in 2004 contained provisions which required an adjustment in both the warrant price and the number of warrants outstanding as a consequence of the issuance of 2006 Warrants. The resulting carrying value of the debt at issuance was $6.5 million, net of the original discount of $3.5 million which was amortized to interest expense over its three-year term using the effective interest method, yielding an effective interest rate of 15.2%. The remaining unamortized debt discount and deferred debt issuance expenses of $2.4 million were written off in the second quarter of 2007 as a result of early retirement of the March 2006 note. In December 2008, the holders of these warrants exercised their warrants and 1.1 million shares were issued for proceeds of $2.5 million. The remaining 0.7 million warrants remain outstanding and expire March 2011.

Our line of credit and term loan agreement contains covenants requiring us to maintain a minimum adjusted quick ratio and a minimum liquidity ratio; as well as other restrictive covenants including, among others, restrictions on our ability to merge, acquire assets above prescribed thresholds, undertake actions outside the ordinary course of our business (including the incurrence of indebtedness), guarantee debt, distribute dividends, and repurchase our stock, and minimum tangible net worth. The bank credit agreement also contains a subjective covenant that requires (i) no material adverse change in the business, operations, or financial condition of the Company to occur, or (ii) no material impairment of the prospect of repayment of any portion of the borrowings under the agreement; or (iii) no material impairment of value or priority of the lenders security interests in the collateral of the agreement. If our performance does not result in compliance with any of our restrictive covenants, we would seek to further modify our financing arrangements, but there can be no assurance that the bank would not exercise its rights and remedies under its agreement with us, including declaring all outstanding debt due and payable. As of December 31, 2008, we were in compliance with the covenants related to our line of credit and term loan agreement and we believe that the Company will continue to comply with these covenants.

We believe that we have sufficient capital resources with cash generated from operations as well as cash on hand to meet our anticipated cash operating expenses, working capital, and capital expenditure and debt service needs for the next twelve months. We have borrowing capacity available to us in the form of capital leases as well as a line of credit arrangement with our principal bank which expires in June 2010. We may also consider raising capital in the public markets as a means to meet our capital needs and to invest in our business. Although we may need to return to the capital markets, establish new credit facilities or raise capital in private transactions in order to meet our capital requirements, we can offer no assurances that we will be able to access these potential sources of funds on terms acceptable to us or at all.

Off-Balance Sheet Arrangements

We had standby letters of credit totaling approximately $2.3 million at year-end 2008 and $2.9 million at year-end 2007 in support of processing credit card payments from our customers, as collateral with a vendor, and security for office space.

Contractual Commitments

As of December 31, 2008, our most significant commitments (including interest) consisted of long-term debt, obligations under capital leases and non-cancelable operating leases. We lease certain furniture and computer equipment under capital leases. We lease office space and equipment under non-cancelable operating leases. As of December 31, 2008 our commitments consisted of the following:

($ in millions)	2009	2010-2011	2012-2013	Beyond	Total
Notes payable	$ 2.5	$ 4.6	$ 1.2	$ —	$ 8.3
Capital lease obligations	2.1	2.4	0.6	—	5.1
Operating leases, primarily for office space	3.4	4.3	1.3	0.6	9.6
Total contractual commitments	$ 8.0	$ 11.3	$ 3.1	$ 0.6	$ 23.0

Related Party Transactions

In February 2003, we entered into an agreement with Annapolis Partners LLC to explore the opportunity of relocating our Annapolis offices to a planned new real estate development. Our President and Chief Executive Officer own a controlling voting and economic interest in Annapolis Partners LLC and he also serves as a member. The financial and many other terms of the agreement have not yet been established. The lease is subject to several contingencies and rights of termination. For example, the agreement can be terminated at the sole discretion of our Board of Directors if the terms and conditions of the development are unacceptable to us, including without limitation the circumstances that market conditions make the agreement not favorable to us or the overall cost is not in the best interest to us or our shareholders, or any legal or regulatory restrictions apply. Our Board of Directors will evaluate this opportunity along with alternatives that are or may become available in the relevant time periods and there is no assurance that we will enter into a definitive lease at this new development site.

Item 7A. *Qualitative and Quantitative Disclosures about Market Risk*

Interest Rate Risk

We have limited exposure to financial market risks, including changes in interest rates. As discussed above under "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources," we have a $22 million line of credit. A hypothetical 100 basis point adverse movement (increase) in the prime rate would have increased our interest expense for the year ended December 31, 2008 by approximately $0.1 million, resulting in no significant impact on our consolidated financial position, results of operations or cash flows.

At December 31, 2008, we had cash and cash equivalents of $39.0 million. Cash and cash equivalents consisted of demand deposits and money market accounts that are interest rate sensitive. However, these investments have short maturities mitigating their sensitivity to interest rates. A hypothetical 100 basis point adverse movement (decrease) in interest rates would have increased our net loss for 2008 by approximately $0.1 million, resulting in no significant impact on our consolidated financial position, results of operations or cash flows. Substantially all of the Company's cash equivalents at December 31, 2008 are money market fund investments which are backstopped as to principal under a federal guarantee program in effect through April 2009.

Foreign Currency Risk

For the year ended December 31, 2008, we generated $8.6 million of revenue outside the U.S. A majority of our transactions generated outside the U.S. are denominated in U.S. dollars and a change in exchange rates would not have a material impact on our Consolidated Financial Statements. As of December 31, 2008, we did not have any billed or unbilled accounts receivable that would expose us to foreign currency exchange risk. During 2008, our average receivables and deferred revenue subject to foreign currency exchange risk were $0.1 million and $0.7 million, respectively. We recorded transaction income of approximately $0.1 million on foreign currency denominated receivables and deferred revenue for the year ended December 31, 2008.

Item 8. *Financial Statements and Supplementary Data*

The financial statements listed in Item 15 are included in this Annual Report on Form 10-K beginning on page F-1.

Item 9. *Changes In and Disagreements With Accountants on Accounting and Financial Disclosure*

None.

Item 9A. *Controls and Procedures*

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this Annual Report on Form 10-K, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures (as defined in Rule 13a-15(e) or 15d-15(e) of the Exchange Act) were effective to provide reasonable assurance that information we are required to disclose in reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the applicable rules and forms, and that it 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.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Exchange Act Rule 13a-15(f). Management, including our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that our internal control over financial reporting was effective as of December 31, 2008. Management reviewed the results of their assessment with our Audit Committee. The effectiveness of our internal control over financial reporting as of December 31, 2008 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report which is included in Item 9A of this Annual Report on Form 10-K.

Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal controls over financial reporting during the quarter ended December 31, 2008, that are materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
TeleCommunication Systems, Inc.

We have audited TeleCommunication Systems, Inc.'s internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). TeleCommunication Systems, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, TeleCommunication Systems, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of TeleCommunication Systems, Inc. and subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2008 of TeleCommunication Systems, Inc. and subsidiaries and our report dated March 2, 2009 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Baltimore, Maryland
March 2, 2009

Part III

Item 10.*Directors , Executive Officers, and Corporate Governance*

The information required by this Item 10 is incorporated herein by reference from the information captioned "Board of Directors" and "Security Ownership of Certain Beneficial Owners and Management" to be included in the Company's definitive proxy statement to be filed in connection with the 2009 Annual Meeting of Stockholders, to be held on June 11, 2009 (the "Proxy Statement"). The Company's Code of Ethics and Whistleblower Procedures may be found at http://www1.telecomsys.com/investor — info/corp — governance.cfm.

Item 11.*Executive Compensation*

The information required by this Item 11 is incorporated herein by reference from the information captioned "Board of Directors" and "Executive Compensation" to be included in the Proxy Statement.

Item 12.*Security Ownership of Certain Beneficial Owners and Management*

The information required by this Item 12 is incorporated herein by reference from the information captioned "Security Ownership of Certain Beneficial Owners and Management" to be included in the Proxy Statement.

Item 13.*Certain Relationships and Related Transactions and Director Independence*

The information required by this Item 13 is incorporated herein by reference from the information captioned "Certain Relationships and Related Transactions" and "General Information Concerning the Board of Directors" to be included in the Proxy Statement.

Item 14.*Principal Accountant Fees and Services*

The information required by this Item 14 is incorporated herein by reference from the information captioned "Principal Accountant Fees and Services" to be included in the Proxy Statement.

Part IV

Item 15. *Exhibits, Financial Statement Schedules*

(a)(1) Financial Statements

The financial statements listed in Item 15 are included in this Annual Report on Form 10-K beginning on page F-1.

(a)(2) Financial Statement Schedules

The financial statement schedule required by Item 15 is included in Exhibit 12 to this Annual Report on Form 10-K.

Exhibits

The exhibits are listed in the Exhibit Index immediately preceding the exhibits.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
TeleCommunication Systems, Inc.

We have audited the accompanying consolidated balance sheets of TeleCommunication Systems, Inc. and subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2008. Our audit also included the financial statement schedule listed in the Index at Item 15. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of TeleCommunication Systems, Inc. and subsidiaries at December 31, 2008 and 2007, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), TeleCommunication Systems, Inc.'s internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 2, 2009 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Baltimore, Maryland
March 2, 2009

TeleCommunication Systems, Inc.

Consolidated Balance Sheets
(amounts in thousands, except share data)

	December 31, 2008	December 31, 2007
Assets		
Current assets:		
Cash and cash equivalents	$ 38,977	$ 15,955
Accounts receivable, net of allowance of $285 in 2008 and $266 in 2007	61,827	20,424
Unbilled receivables	21,797	15,229
Inventory	2,715	5,373
Deferred income taxes	9,736	—
Other current assets	3,869	5,561
Total current assets	138,921	62,542
Property and equipment, net of accumulated depreciation and amortization of $41,268 in 2008 and $35,969 in 2007	12,391	11,209
Software development costs, net of accumulated amortization of $6,873 in 2008 and $4,783 in 2007	2,773	4,406
Acquired intangible assets, net of accumulated amortization of $656 in 2008 and $509 in 2007	562	709
Goodwill	1,813	1,813
Deferred income taxes	24,309	—
Other assets	1,190	1,445
Total assets	$ 181,959	$ 82,124
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 34,345	$ 12,459
Accrued payroll and related liabilities	17,243	4,915
Deferred revenue	4,349	4,685
Current portion of capital lease obligations and notes payable	3,837	5,444
Total current liabilities	59,774	27,503
Capital lease obligations and notes payable, less current portion	7,913	10,657
Stockholders' equity:		
Class A Common Stock; $0.01 par value:		
Authorized shares — 225,000,000; issued and outstanding shares of 38,527,234 in 2008 and 34,970,394 in 2007	385	349
Class B Common Stock; $0.01 par value:		
Authorized shares — 75,000,000; issued and outstanding shares of 6,876,334 in 2008 and 7,301,334 in 2007	69	74
Additional paid-in capital	240,559	227,987
Accumulated other comprehensive income/(loss)	12	(125)
Accumulated deficit	(126,753)	(184,321)
Total stockholders' equity	114,272	43,964
Total liabilities and stockholders' equity	$ 181,959	$ 82,124

See accompanying Notes to Consolidated Financial Statements.

TeleCommunication Systems, Inc.

Consolidated Statements of Operations
(amounts in thousands, except per share data)

	Year Ended December 31,		
	2008	2007	2006
Revenue			
Services	$ 101,359	$ 88,062	$ 88,380
Systems	118,783	56,106	36,556
Total revenue	220,142	144,168	124,936
Direct costs of revenue			
Direct cost of services	61,594	52,161	52,540
Direct cost of systems, including amortization of software development costs of $2,090, $1,522 and $1,273, respectively	77,291	37,906	17,883
Total direct cost of revenue	138,885	90,067	70,423
Services gross profit	39,765	35,901	35,840
Systems gross profit	41,492	18,200	18,673
Total gross profit	81,257	54,101	54,513
Operating costs and expenses			
Research and development expense	16,161	13,072	12,586
Sales and marketing expense	13,715	11,917	11,713
General and administrative expense	28,238	19,334	16,959
Depreciation and amortization of property and equipment	5,865	6,200	7,956
Amortization of acquired intangible assets	147	148	147
Total operating costs and expenses	64,126	50,671	49,360
Gain on sale of patent	8,060	—	—
Operating income/(loss)	25,191	3,430	5,153
Interest expense	(922)	(1,776)	(1,751)
Amortization of debt discount and debt issuance expenses, including write-off of $2,458 in 2007	(180)	(3,176)	(1,447)
Other income, net	222	508	22
Income/(loss) from continuing operations before income taxes	24,311	(1,014)	1,976
Benefit from income taxes	33,257	—	—
Income/(loss) from continuing operations	57,568	(1,014)	1,976
Loss from discontinued operations	—	(275)	(23,671)
Net income/(loss)	$ 57,568	$ (1,289)	$ (21,695)
Income/(loss) per share — basic:			
Income/(loss) per share from continuing operations	$ 1.34	$ (0.02)	$ 0.05
Loss per share from discontinued operations	—	(0.01)	(0.60)
Net income/(loss) per share — basic	$ 1.34	$ (0.03)	$ (0.55)
Income/(loss) per share — diluted:			
Income/(loss) per share from continuing operations	$ 1.23	$ (0.02)	$ 0.05
Loss per share from discontinued operations	—	(0.01)	(0.59)
Net income/(loss) per share-diluted	$ 1.23	$ (0.03)	$ (0.54)
Weighted average shares outstanding-basic	43,063	41,453	39,430
Weighted average shares outstanding-diluted	46,644	41,453	40,166

See accompanying Notes to Consolidated Financial Statements.

TeleCommunication Systems, Inc.

Consolidated Statements of Stockholders' Equity
(amounts in thousands, except share data)

	Class A Common Stock	Class B Common Stock	Deferred Compensation	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total
Balance at January 1, 2006	$ 314	$ 80	$ (231)	$ 210,275	$ (40)	$ (161,336)	$ 49,082
Elimination of deferred compensation upon adoption of SFAS No. 123(R)	—	—	231	(231)	—	—	—
Options exercised for the purchase of 209,632 shares of Class A Common Stock	2	—	—	343	—	—	345
Issuance of 212,194 shares of Class A Common Stock under Employee Stock Purchase Plan	2	—	—	388	—	—	390
Issuance of warrants to purchase 1,750,000 shares of Class A Common Stock	—	—	—	3,455	—	—	3,455
Surrender of 67,827 restricted shares of Class A Common Stock as payment for payroll tax withholdings	(1)	—	—	(187)	—	—	(188)
Conversion of 510,291 shares of Class B Common Stock to Class A Common Stock	5	(5)	—	—	—	—	—
Stock compensation expense for issuance of Class A Common Stock options for continuing operations	—	—	—	2,872	—	—	2,872
Stock compensation expense for issuance of Class A Common Stock options for discontinued operations	—	—	—	504	—	—	504
Vesting of employee stock options	—	—	—	244	—	—	244
Valuation adjustment to stock options issued to non-employees for service	—	—	—	76	—	—	76
Foreign currency translation adjustment	—	—	—	—	40	—	40
Net loss for 2006	—	—	—	—	—	(21,695)	(21,695)
Balance at December 31, 2006	$ 322	$ 76	$ —	$ 217,739	$ —	$ (183,032)	$ 35,105
Options exercised for the purchase of 1,347,301 shares of Class A Common Stock	14	—	—	3,461	—	—	3,475
Issuance of 173,833 shares of Class A Common Stock under Employee Stock Purchase Plan	2	—	—	541	—	—	543
Exercise of warrants to purchase 886,787 shares of Class A Common	9	—	—	2,208	—	—	2,217

Stock							
Surrender of 19,358 restricted shares of Class A Common Stock as payment for payroll tax withholdings	—	—	—	(57)	—	—	(57)
Conversion of 224,338 shares of Class B Common Stock to Class A Common Stock	2	(2)	—	—	—	—	—
Stock compensation expense for issuance of Class A Common Stock options for continuing operations	—	—	—	3,963	—	—	3,963
Stock compensation expense for issuance of Class A Common Stock options for discontinued operations	—	—	—	132	—	—	132
Unrealized loss on securities and other	—	—	—	—	(125)	—	(125)
Net loss for 2007	—	—	—	—	—	(1,289)	(1,289)
Balance at December 31, 2007	$ 349	$ 74	$ —	$ 227,987	$ (125)	$ (184,321)	$ 43,964

TeleCommunication Systems, Inc.

Consolidated Statements of Stockholders' Equity — (Continued)
(amounts in thousands, except share data)

	Class A Common Stock	Class B Common Stock	Deferred Compensation	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total
Options exercised for the purchase of 1,927,284 shares of Class A Common Stock	19	—	—	5,853	—	—	5,872
Issuance of 134,000 shares of Class A Common Stock under Employee Stock Purchase Plan	1	—	—	451	—	—	452
Exercise of warrants to purchase 1,050,000 shares of Class A Common Stock	11	—	—	2,510	—	—	2,521
Conversion of 425,000 shares of Class B Common Stock to Class A Common Stock	5	(5)	—	—	—	—	—
Stock compensation expense for issuance of Class A Common Stock options	—	—	—	3,758	—	—	3,758
Unrealized loss on securities and other	—	—	—	—	137	—	137
Net income for 2008	—	—	—	—	—	57,568	57,568
Balance at December 31, 2008	$ 385	$ 69	$ —	$ 240,559	$ 12	$ (126,753)	$ 114,272

See accompanying Notes to Consolidated Financial Statements.

TeleCommunication Systems, Inc.

Consolidated Statements of Cash Flows
(amounts in thousands)

	Year Ended December 31, 2008	2007	2006
Operating activities:			
Net income/(loss)	$ 57,568	$ (1,289)	$ (21,695)
Less: Loss from discontinued operations	—	(275)	(23,671)
Income/(loss) from continuing operations	57,568	(1,014)	1,976
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization of property and equipment	5,865	6,200	7,956
Amortization of acquired intangible assets	147	148	147
Deferred tax benefit	(34,045)	—	—
Non-cash stock compensation expense — employee	3,758	3,963	3,116
Non-cash stock compensation expense — non-employee	—	370	—
Amortization of software development costs	2,090	1,522	1,273
Amortization of debt discount	—	480	960
Amortization of deferred financing fees	181	313	487
Impairment of marketable securities	802	—	—
Write-off of unamortized debt discount and debt issuance fees	—	2,458	—
Other non-cash (income)/expenses	(40)	19	(17)
Changes in operating assets and liabilities:			
Accounts receivable, net	(41,403)	1,120	(658)
Unbilled receivables	(6,568)	(7,593)	(1,275)
Inventory	2,658	(80)	(2,094)
Other current assets	958	(1,870)	152
Other noncurrent assets	187	541	111
Accounts payable and accrued expenses	21,886	2,038	246
Accrued payroll and related liabilities	12,328	(748)	1,302
Deferred revenue	(336)	1,200	(638)
Net cash provided by operating activities of continuing operations	26,036	9,067	13,044
Net used in operating activities of discontinued operations	—	(3,598)	(8,037)
Total net cash provided by operating activities	26,036	5,469	5,007
Investing activities:			
Purchases of property and equipment	(3,703)	(2,577)	(2,760)
Capitalized software development costs	(461)	(1,525)	(1,849)
Net cash used in investing activities of continuing operations	(4,164)	(4,102)	(4,609)
Net cash provided by/(used) in investing activities of discontinued operations	—	4,000	(1,442)
Net cash used in investing activities	(4,164)	(102)	(6,051)
Financing activities:			
Proceeds from issuance of long-term debt	—	10,000	16,000
Payments on long-term debt and capital lease obligations	(7,695)	(15,996)	(5,589)
Proceeds from/(payments on) draws on revolving line of credit, net	—	—	(8,004)
Financing fees related to issuance of Class A Common Stock and Convertible subordinated debentures	—	—	(1,470)
Proceeds from exercise of warrants	2,521	2,208	—
Proceeds from exercise of employee stock options and sale of stock	6,324	4,018	731
Net cash provided by financing activities of continuing operations	1,150	230	1,668
Net cash provided by financing activities of discontinued operations	—	—	58
Net cash provided by financing activities	1,150	230	1,726
Effect of exchange rates on cash and cash equivalents of discontinued operations	—	—	357
Net increase in cash from continuing operations	23,022	5,195	10,103
Net increase/(decrease) in cash from discontinued operations	—	402	(9,064)
Net increase in cash	23,022	5,597	1,038
Cash and cash equivalents at the beginning of the year	15,955	10,358	9,320
Cash and cash equivalents at the end of the year	$ 38,977	$ 15,955	$ 10,358

See accompanying Notes to Consolidated Financial Statements.

TeleCommunication Systems, Inc.

Notes to Consolidated Financial Statements
(amounts in thousands, except share and per share data)

1. Significant Accounting Policies

Description of Business

TeleCommunication Systems, Inc. develops and applies highly reliable wireless data communications technology. We manage our business in two segments, Commercial and Government:

Commercial Segment. Our carrier software system products enable wireless carriers to deliver premium services including short text messages, location information, internet content, and other enhanced communication services to and from wireless phones. We provide enhanced 9-1-1 (E9-1-1) services, commercial location-based services, and inter-carrier text message distribution services on a hosted, or service bureau basis. As of December 31, 2008, we provide hosted services under contracts with more than 40 wireless carrier networks and Voice-over-Internet-Protocol (VoIP) service providers. We also earn subscriber revenue through wireless applications including our Rand McNally® Traffic application which is available via all major US wireless carriers. We earn carrier software-based systems revenue through the sale of licenses, deployment and customization fees and maintenance fees. Pricing is generally based on the volume of capacity purchased from us by the carrier. We also provide carrier technology on a hosted, i.e., service bureau basis; that is, customers use our software functionality through connections to and from our network operations centers, paying us monthly based on the number of subscribers, cell sites, or call center circuits, or message volume.

Government Segment. We provide communication systems integration, information technology services, and software solutions to the U.S. Department of Defense and other government customers. We design, assemble, sell and maintain satellite-based network communication systems, including our SwiftLink® deployable communication systems which incorporate high speed, encrypted, Internet Protocol technology. We also own and operate secure satellite teleport facilities, and resell access to satellite airtime (known as space segment).

Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the reported amounts and related disclosures. Actual results could differ from those estimates.

Principles of Consolidation. The accompanying financial statements include the accounts of our wholly owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

Cash and Cash Equivalents. Cash and cash equivalents include cash and highly liquid investments with a maturity of three months or less when purchased. Cash equivalents are reported at fair value, which approximates cost.

Allowances for Doubtful Accounts Receivable. Substantially all of our accounts receivable are trade receivables generated in the ordinary course of our business. We use estimates to determine the amount of the allowance for doubtful accounts necessary to reduce accounts receivable to their expected net realizable value. We estimate the amount of the required allowance by reviewing the status of significant past-due receivables and by establishing provisions for estimated losses by analyzing current and historical bad debt trends. Changes to our allowance for doubtful accounts are recorded as a component of general and administrative expenses in our accompanying Consolidated Statements of Operations. Our credit and collection policies and the financial strength of our customers are critical to us in maintaining a relatively small amount of write-offs of receivables. We generally do not require collateral from or enter netting agreements with our customers. Receivables that are ultimately deemed uncollectible are charged-off as a reduction of receivables and the allowance for doubtful accounts.

Inventory. We maintain inventory of component parts and finished product for our Government deployable communications systems. Inventory is stated at the lower of cost or market. Cost is based on the weighted average method. The cost basis for finished units includes manufacturing cost.

Investments in Marketable Securities and Note Receivable. The Company received a $1,000 note and some marketable securities as partial consideration from three small divestitures during 2007. The marketable securities, now valued at $78, are included in other current assets and are classified as available-for-sale in accordance with the provision of SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. These securities are carried at fair market value based on quoted market price. For the year ended December 31, 2007, the Company reported $152 net unrealized losses in stockholders' equity as a component of accumulated other comprehensive income. During 2008, the Company has determined that the losses in fair market value of marketable securities held were other-than-temporary and wrote down the value of these securities by approximately $802, which the write-down is included in Other income, net. Gains or losses on securities sold will be based on the specific identification method. The note receivable was reported in other current assets for 2007 and was collected in full in November of 2008, including interest at 8.25%.

Property and Equipment. Property and equipment is stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method based on the estimated useful lives of equipment, generally five years for furniture and fixtures and three to four years for computer equipment, software and vehicles. Our depreciable asset base includes equipment in our network operations centers related to our hosted service offerings, development costs for computer software for internal use, and company-wide computer hardware. Amortization of leasehold improvements is provided using the straight-line method over the lesser of the useful life of the asset or the remaining term of the lease. Assets held under capital leases are stated at the lesser of the present value of future minimum lease payments or the fair value of the property at the inception of the lease. The assets recorded under capital leases are amortized over the lesser of the lease term or the estimated useful life of the assets in a manner consistent with our depreciation policy for owned assets.

Goodwill. Goodwill represents the excess of cost over the fair value of assets of acquired businesses. Goodwill acquired in a purchase business combination is not amortized, but instead is evaluated annually for impairment using a discounted cash flow model in accordance with the provisions of Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*.

Software Development Costs. We capitalize software development costs after we establish technological feasibility, and amortize those costs over the estimated useful lives of the software beginning on the date when the software is available for general release. Acquired technology, representing the estimated value of the proprietary technology acquired, has also been recorded as capitalized software development costs.

Costs we incurred are capitalized when technological feasibility has been established. For new products, technological feasibility is established when an operative version of the computer software product is completed in the same software language as the product to be ultimately marketed, performs all the major functions planned for the product, and has successfully completed initial customer testing. Technological feasibility for enhancements to an existing product is established when a detail program design is completed. Costs that are capitalized include direct labor, related overhead and other direct costs. These costs are amortized on a product-by-product basis using the straight-line method over the product's estimated useful life, which has not been greater than three years. Amortization is also computed using the ratio that current revenue for the product bears to the total of current and anticipated future revenue for that product (the revenue curve method). If this revenue curve method results in amortization greater than the amount computed using the straight-line method, amortization is recorded at that greater amount. Our policies to determine when to capitalize software development costs and how much to amortize in a given period require us to make subjective estimates and judgments. If our software products do not achieve the level of market acceptance that we expect and our future revenue estimates for these products change, the amount of amortization that we record may increase compared to prior periods. The amortization of capitalized software development costs has been recorded as a cost of revenue.

Acquired technology is amortized over the product's estimated useful life based on the purchase price allocation and valuation procedures performed at the time of the acquisition. Amortization is calculated using the ratio of the estimated future cash flows generated in each period to the estimated total cash flows to be contributed from each product or the straight-line method, whichever is greater.

For 2008, 2007, and 2006 we capitalized $461, $1,525, and 1,849, respectively, of software development costs of continuing operations for certain software projects after the point of technological feasibility had been reached but before the products were available for general release. Accordingly, these costs have been capitalized and are being amortized over their estimated useful lives beginning when the products are available for general release. The capitalized costs relate to our location-based software.

We believe that these capitalized costs will be recoverable from future gross profits generated by these products.

The Company capitalizes all costs related to software developed or obtained for internal use when management commits to funding the project and the project completes the preliminary project stage. Capitalization of such costs ceases when the project is substantially complete and ready for its intended use.

Acquired Intangible Assets. Acquired intangible assets have useful lives of 5 to 19 years. We are amortizing these assets using the greater of the straight-line method or the revenue curve method.

Impairment of Long-Lived Assets. Long-lived assets, including intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or group of assets may not be fully recoverable.

If an impairment indicator is present, we evaluate recoverability by a comparison of the carrying amount of the assets to future undiscounted net cash flows that we expect to generate from these assets. If the assets are impaired, we recognize an impairment charge equal to the amount by which the carrying amount exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of carrying values or fair values, less estimated costs of disposal.

Other Comprehensive Income/Loss. Comprehensive income/loss includes changes in the equity of a business during a period from transactions and other events and circumstances from non-owner sources. Other comprehensive income/loss refers to revenue, expenses, gains and losses that under U.S. generally accepted accounting principles are included in comprehensive income, but excluded from net income. For operations outside the U.S. that prepare financial statements in currencies other than the U.S. dollar, results of operations and cash flows are translated at average exchange rates during the period, and assets and liabilities are translated at end-of-period exchange rates. Translation adjustments for our European subsidiary are included as a component of accumulated other comprehensive loss in stockholders' equity. Also included are any unrealized gains or losses on marketable securities that are classified as available-for-sale. Total comprehensive income/(loss) for each of the three years ended December 31, 2008, 2007, and 2006, was not materially different than consolidated net income/(loss).

Revenue Recognition. Revenue is generated from our two segments as described below.

Services Revenue. Revenue from hosted services consists of monthly recurring service fees and is recognized in the month earned. Revenue from subscriber service fees is recognized in the period earned. Maintenance fees are collected in advance and recognized ratably over the maintenance period, which is typically annual. Any unearned revenue, including unrecognized maintenance fees, is included in deferred revenue.

We also recognize services revenue from the design, development and deployment of information processing and communication systems primarily for government enterprises. These services are provided under time and materials contracts, cost plus fee contracts, or fixed price contracts. Revenue is recognized under time and materials contracts and cost plus fee contracts as billable costs are incurred. Fixed-price service contracts are accounted for using the proportional performance method. These contracts generally allow for monthly billing or billing upon achieving certain specified milestones. Any estimated losses on contracts are recognized in their entirety at the date that they become evident.

Systems Revenue. We design, develop, and deploy communications systems. These systems may include packaged software licenses. Systems typically contain multiple elements, which may include the product license, installation, integration, and hardware. The total arrangement fee is allocated among each element based on vendor-specific objective evidence of the fair value of each of the elements. Fair value is generally determined based on the price charged when the element is sold separately. In the absence of evidence of fair value of a delivered element, revenue is allocated first to the undelivered elements based on fair value and the residual revenue to the delivered elements. The software licenses are generally perpetual licenses for a specified number of users that allow for the purchase of annual maintenance at a specified rate. All fees are recognized as revenue in accordance with Statement of Position 97-2, Software Revenue Recognition (SOP 97-2) when four criteria are met. These four criteria are (i) evidence of an arrangement (ii) delivery has occurred, (iii) the fee is fixed or determinable and (iv) the fee is probable of collection. Software license fees billed and not recognized as revenue are included in deferred revenue. Systems containing software licenses include a 90-day warranty for defects. We have not incurred significant warranty costs on any software product to date, and no costs are currently accrued upon recording the related revenue.

Systems revenue is also derived from fees for the development, implementation and maintenance of custom applications. Fees from the development and implementation of custom applications are generally performed under time and materials and fixed fee contracts. Revenue is recognized under time and materials contracts and cost plus fee contracts as billable costs are incurred. Fixed-price product delivery contracts are accounted for using the percentage-of-completion or proportional performance method, measured either by total costs incurred as a percentage of total estimated costs at the completion of the contract, or direct labor costs incurred compared to estimated total direct labor costs for projects for which third-party hardware represents a significant portion of the total estimated costs. These contracts generally allow for monthly billing or billing upon achieving certain specified milestones. Any estimated losses under long-term contracts are recognized in their entirety at the date that they become evident. Revenue from hardware sales to our monthly subscriber customers is recognized as systems revenue.

Under our contracts with the U.S. government for both systems and services, contract costs, including the allocated indirect expenses, are subject to audit and adjustment by the Defense Contract Audit Agency. We record revenue under these contracts at estimated net realizable amounts.

Our accounting for revenues from systems and services contracts not accounted for under SOP 97-2 or the proportional performance of percentage of completion methods, follows the guidance of Emerging Issues Task Force 00-21 "Revenue Arrangements with Multiple Deliverables" (EITF 00-21) for determining of the number of units of accounting and the allocation of the total fair value among the multiple elements.

Deferral of Costs Incurred. We defer direct costs incurred in certain situations as dictated by authoritative accounting literature. In addition, if the revenue for a delivered item is not recognized because it is not separable from the arrangement, then we defer incremental costs related to that delivered but unrecognized element. Deferred costs are included in other current assets on the balance sheet.

Advertising Costs. Advertising costs are expensed as incurred. Advertising expense totaled $1, $34, and $29, for the years ended December 31, 2008, 2007, and 2006, respectively.

Capitalized Interest. Total interest incurred was $1,120, $5,026, and $3,253 for the years ended December 31, 2008, 2007, and 2006, respectively. Approximately $18, $74, and $55 of total interest incurred was capitalized as a component of software development costs during the year ended December 31, 2008, 2007, and 2006 respectively.

Stock-Based Compensation. We have two stock-based employee compensation plans, which are described more fully in Note 17.

Beginning January 1, 2006, the Financial Accounting Standards Board (FASB) Statement No. 123(R) ("Statement No. 123(R)") requires us to report all share based payments to employees, including grants of employee stock options in the income statement based on their fair value. We adopted Statement No. 123(R) effective January 1, 2006 using the modified prospective method.

Research and Development Expense. We incur research and development costs which are primarily comprised of compensation and travel expenses related to our engineers engaged in the development and enhancement of new and existing software products. All costs are expensed as incurred prior to reaching technological feasibility.

Income Taxes. Income tax amounts and balances are accounted for using the asset and liability method of accounting for income taxes as prescribed by SFAS 109. Under this method, deferred income tax assets and liabilities are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

In June 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (FIN 48) which prescribes a minimum recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting interim periods, disclosure and transition. If a tax position does not meet the more-likely-than-not initial recognition threshold, no benefit is recorded in the financial statements. Upon the adoption of FIN 48 on January 1, 2007, the estimated value of the Company's uncertain tax positions was a liability of $2.7 million resulting from unrecognized net tax benefits which did not include interest and penalties. The Company recorded the estimated value of its uncertain tax position by reducing the value of certain tax attributes. The Company would classify any interest and penalties accrued on any unrecognized tax benefits as a component of the provision for income taxes. There were no interest or penalties recognized in the consolidated statement of income for year ended December 31, 2008 and 2007 or the consolidated balance sheet at December 31, 2008 and 2007. The Company files income tax returns in U.S. and state jurisdictions. As of December 31, 2008, open tax years in the federal and some state jurisdictions date back to 1999, due to the taxing authorities' ability to adjust operating loss carry forwards.

Fair Value of Financial Instruments. The Company's major categories of financial assets and liabilities subject to fair value measurements include cash and cash equivalents and marketable securities that are held as available for sale. Both categories use observable inputs only and are measured using a market approach based on quoted prices, see Note 14.

Recent Accounting Pronouncements.

In September 2006, the FASB issued SFAS 157, "Fair Value Measurements," which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS 157 was effective for fiscal years beginning after November 15, 2007. In February 2008, the FASB decided to issue a final Staff Position to allow a one-year deferral of adoption of SFAS 157 for non-financial assets and non-financial liabilities that are recognized or disclosed at fair value in the financial statements on a non-recurring basis. The FASB also decided to amend SFAS 157 to exclude FASB Statement No. 13 and its related interpretive accounting pronouncements that address leasing transactions. The adoption of SFAS 157 for financial assets and liabilities in the first quarter of 2008 did not have an effect on the Company's results of operations and financial position. The Company is evaluating the impact of the non-financial asset and liability provisions of this standard and does not expect the adoption of those provisions to have a material impact on its financial statements. In October 2008, the FASB issued SFAS 157-3, "Determining The Fair Market Value of a Financial Asset When the Market for That Asset is not Active" ("SFAS 157-3), which clarifies the application of SFAS 157 in a market that is not active and provides an example to illustrate in determining fair market value in that market. The Company is evaluating the impact of SFAS 157-3 provisions of this standard and does not expect the adoption of those provisions to have a material impact on its financial statements.

In February 2007, the FASB issued SFAS 159, "Fair Value Option for Financial Assets and Liabilities." SFAS 159 allows companies to elect to measure certain assets and liabilities at fair value and is effective for fiscal years beginning after November 15, 2007. The Company did not elect the fair value measurement of SFAS 159.

In December 2007, the FASB issued SFAS 141(R), "Business Combinations." This standard establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquired and the goodwill acquired. This statement also establishes disclosure requirements which will enable users to evaluate the nature and financial effects of the business combination. SFAS 141(R) is effective for us for acquisitions made after December 31, 2008. The Company is evaluating the impact of this standard. The adoption of SFAS 141(R) may have a material impact on the Company's financial statements for acquisitions post-adoption.

In December 2007, the FASB issued SFAS 160, "Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51" (SFAS 160). SFAS 160 amends ARB No. 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It also amends certain of ARB No. 51's consolidation procedures for consistency with the requirements of SFAS 141(R). This statement is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The statement shall be applied prospectively as of the beginning of the fiscal year in which the statement is initially adopted. The adoption of SFAS 160 will not have a material impact on the Company's financial statements.

In March 2008, the FASB issued SFAS 161, "Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement 133" (SFAS 161). SFAS 161 amends and expands the disclosure requirements of SFAS 133 with the intent to provide users of financial statements with an enhanced understanding of: (i) How and why an entity uses derivative instruments; (ii) How derivative instruments and related hedged items are accounted for under SFAS 133 and its related interpretations and (iii) How derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. This statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The Company does not expect the adoption of SFAS 161 to have a material impact on its financial statements.

In May 2008, the FASB issued SFAS 162, "The Hierarchy of Generally Accepted Accounting Principles" (SFAS 162). SFAS 162 is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with GAAP. This statement shall be effective 60 days following the Securities and Exchange Commission's approval of the Public Company Accounting Oversight Board Auditing amendments to AU Section 411, "The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles". The Company is evaluating the impact of this standard and does not expect the adoption of SFAS 162 to have a material impact on the Company's financial statements.

2. Enterprise Assets-Discontinued Operations

In 2007, the Company sold its Enterprise division operations, which had previously been included in its Commercial Segment. The operations and cash flows of the business have been eliminated from those of continuing operations and the Company has no significant involvement in the operations since the disposal transactions. Accordingly, the assets, liabilities, and results of operations for the Enterprise assets have been classified as discontinued operations for all periods presented in the Consolidated Financial Statements in accordance with Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (Statement No. 144). Impairment charges of $15,500 to adjust the estimated carrying value of Enterprise long-lived assets and goodwill were recorded during 2006 based on information obtained during the process of offering the operating assets for sale and the declines in the Subscriber businesses being sold.

Effective January 1, 2007, the Company sold two of its three Enterprise units to strategic buyers for common stock in the acquiring publicly traded companies valued at approximately $1,000 and earn-out arrangements. During the year ended December 31, 2008, we wrote down the public securities to $78. The Company does not expect to receive material payments from the earn-out arrangement. During May 2007, the last Enterprise unit was sold for $4,000 in cash (of which $200 was released from escrow in June 2008), a $1,000 18-month note which was paid in full in November 2008, and $250 in equity interest.

3. Income/(loss) Per Common Share

Basic income/(loss) per common share is based upon the average number of shares of common stock outstanding during the period. Stock options to purchase approximately 2.6 million, 2.5 million and 6.5 million shares were excluded from the computation of diluted net income per share because their inclusion would have been anti-dilutive for the years ended 2008, 2007, and 2006, respectively. Because we incurred a loss from continuing operations in 2007 potentially dilutive securities were excluded from the computation because the result would be anti-dilutive. These potentially dilutive securities consist of stock options, restricted stock, and warrants as discussed in Notes 1 and 17.

(amounts in thousands, except share and per share data)

The following table summarizes the computations of basic and diluted earnings per share for the years ended December 31:

	2008	2007	2006
Income/(loss) from continuing operations	$ 57,568	$ (1,014)	$ 1,976
Loss from discontinued operations	—	(275)	(23,671)
Net loss	$ 57,568	$ (1,289)	$ (21,695)
Denominator for basic earnings per share — weighted-average common shares outstanding	43,063	41,453	39,430
Net effect of dilutive stock options based on treasury stock method	3,195	—	632
Net effect of dilutive warrants based on treasury stock method	386	—	104
Denominator for diluted earnings per share — weighted-average common shares outstanding and assumed conversions	46,664	41,543	40,166
Income/(loss) per share — basic:			
Income/(loss) per share from continuing operations	$ 1.34	$ (0.02)	$ 0.05
Loss per share from discontinued operations	—	(0.01)	(0.60)
Net income/(loss) per share — basic	$ 1.34	$ (0.03)	$ (0.55)
Income/(loss) per share — diluted:			
Income/(loss) per share from continuing operations	$ 1.23	$ (0.02)	$ 0.05
Loss per share from discontinued operations	—	(0.01)	(0.59)
Net income/(loss) per share diluted	$ 1.23	$ (0.03)	$ (0.54)

4. Supplemental Disclosure of Cash Flow Information

Property and equipment acquired under capital leases totaled $3,343, $1,979, and $1,725 during the years ended December 31, 2008, 2007, and 2006, respectively.

As partial consideration for our 2007 divestitures, we received publicly trade common stock in two of the acquiring companies valued at approximately $1,000 at the time of January 2007 closing on the transactions. During 2008, the Company returned a portion of the common stock of one of the acquiring companies in settlement of a divestiture post closing adjustment claim. We recorded a $140 expense as part of this settlement.

Interest paid totaled $922, $1,002, and $607 during the years ended December 31, 2008, 2007, and 2006, respectively.

Alternative minimum income taxes and estimated state income taxes paid totaled $559 during 2008. No income taxes were paid for 2007 and 2006.

5. Unbilled Receivables

Unbilled receivables consist of the excess of revenue earned in accordance with generally accepted accounting principles over the amounts billable at contract milestones. Substantially all unbilled receivables are expected to be billed and collected within twelve months.

(amounts in thousands, except share and per share data)

6. Inventory

Inventory consisted of the following at December 31:

	2008	2007
Component parts	$ 1,763	$ 2,670
Finished goods	952	2,703
Total inventory at year end	$ 2,715	$ 5,373

7. *Property and Equipment*

Property and equipment consisted of the following at December 31:

	2008	2007
Computer equipment	$ 28,456	$ 24,393
Computer software	18,408	16,360
Furniture and fixtures	2,520	2,558
Leasehold improvements	3,168	2,760
Land	1,000	1,000
Vehicles	107	107
Total property and equipment at cost at year end	53,659	47,178
Less: accumulated depreciation and amortization	(41,268)	(35,969)
Net property and equipment at year end	$ 12,391	$ 11,209

8. Acquired Intangible Assets and Capitalized Software Development Costs

Our acquired intangible assets and capitalized software development costs consisted of the following:

	December 31, 2008			December 31, 2007		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Acquired intangible assets:						
Customer Lists	$ 606	$ 521	$ 85	$ 606	$ 405	$ 201
Trademarks & Patents	612	135	477	612	104	508
Software development costs, including acquired technology	9,646	6,873	2,773	9,189	4,783	4,406
Total	$ 10,864	$ 7,529	$ 3,335	$ 10,407	$ 5,292	$ 5,115

Estimated future amortization expense:	
Year ending December 31, 2009	$ 1,845
Year ending December 31, 2010	$ 786
Year ending December 31, 2011	$ 227
Year ending December 31, 2012	$ 80
Year ending December 31, 2013	$ 80
Thereafter	$ 317
	$ 3,335

(amounts in thousands, except share and per share data)

We routinely update our estimates of the recoverability of the software products that have been capitalized. Management uses these estimates as the basis for evaluating the carrying values and remaining useful lives of the respective assets.

9. Accounts Payable and Accrued Expenses

Our accounts payable and accrued expenses consisted of the following at December 31:

	2008	2007
Accounts payable	$ 21,223	$ 5,848
Accrued expenses	13,122	6,611
Total accounts payable and accrued expenses at year end	$ 34,345	$ 12,459

Accrued expenses consist primarily of costs incurred for which we have not yet been invoiced, accrued sales taxes, and amounts due to our E9-1-1 customers that we have billed and collected from regulating agencies on their behalf under cost recovery arrangements.

10. Line of Credit

We have maintained a line of credit arrangement with our principal bank since 2003. In June 2007, we amended the agreement to extend our line of credit and decrease the cost of borrowing. Under the amended agreement, the availability of the line was extended to June 2010, and the borrowing rate decreased from prime plus 1.25% to the bank's prime rate which was 3.25% per annum at December 31, 2008. Our maximum borrowing availability remained the same at $22,000. Borrowings at any time are limited to an amount based principally on accounts receivable levels and a working capital ratio, each as defined in the amended line of credit agreement. The line of credit available is also reduced by the amounts of letters of credit outstanding which totaled $2,280 at December 31, 2008. As of December 31, 2008 and 2007 we had no borrowings outstanding under the line of credit and we had approximately $19,300 and $11,000, respectively, of unused borrowing availability under this line.

Our amended line of credit and term loan agreement contains covenants requiring us to maintain a minimum adjusted quick ratio and a minimum liquidity ratio as well as other restrictive covenants including, among others, restrictions on our ability to merge, acquire assets above prescribed thresholds, undertake actions outside the ordinary course of our business (including the incurrence of indebtedness), guarantee debt, distribute dividends, and repurchase our stock, and maintenance of a minimum tangible net worth. The agreement also contains a subjective covenant that requires (i) no material adverse change in the business, operations, or financial condition of the Company occur, or (ii) no material impairment of the prospect of repayment of any portion of the borrowings under the agreement; or (iii) no material impairment of value or priority of the lenders security interests in the collateral of the bank credit agreement. As of December 31, 2008, we were in compliance with the covenants related to our line of credit and we believe that the Company will continue to comply with its restrictive covenants. If our performance does not result in compliance with any of these restrictive covenants, we would seek to further modify our financing arrangements, but there can be no assurance that the bank would not exercise its rights and remedies under its agreement with us, including declaring all outstanding debt due and payable.

In December 2006, we borrowed $5,000 under 3-year notes secured by accounts receivable of one customer. Effective March 28, 2008, we prepaid this debt in full and modified the terms of the note to a line of credit. Under the line of credit agreement, the maximum indebtedness *of the line is equal to* $1,700 at December 31, 2008 less $150 per until the maturity date of December 28, 2009. The borrowing rate is the London InterBank Offered Rate (LIBOR) plus 500 basis points. As of December 31, 2008, the Company has not borrowed against this line.

TeleCommunication Systems, Inc.

Notes to Consolidated Financial Statements — (Continued)
(amounts in thousands, except share and per share data)

11. Long-Term Debt

Long-term debt consisted of the following at December 31:

	2008	2007
Note payable dated June 2007 due July 1, 2012 and bearing interest at prime rate plus 0.25% per annum. See further description	$ 7,167	$ 9,167
Note payable dated December 28, 2006, paid in full March 28, 2008 and modified to a line of credit (see Note 10 for further description)	—	3,501
Other, paid in full January 2008	—	1
Total long term debt	7,167	12,669
Less: current portion	(2,000)	(3,661)
Non current portion of long term debt	$ 5,167	$ 9,008

Aggregate maturities of long-term debt at December 31, 2008 are as follows:

2009	$ 2,000
2010	2,000
2011	2,000
2012	1,167
Total	$ 7,167

On June 25, 2007, we refinanced $10,000 of March 2006 secured notes with a five year bank term loan. The borrowing rate under the new term loan was the prime rate plus 0.25% per annum (3.5% at December 31, 2008) and payments are due in equal monthly installments of $167 plus interest. In March 2006, we issued (i) $10,000 of secured notes due March 10, 2009, with cash interest at 14% per annum, and (ii) warrants to purchase an aggregate of 1.75 million shares of our Class A Common Stock at an exercise price of $2.40 per share. In December 2008, the holders of 1.1 million of the warrants exercised those warrants and 1.1 million shares were issued. The remaining 0.7 million warrants remain outstanding and expire March 2011. The resulting carrying value of the debt at issuance was $6,500, net of the original discount of $3,500 which was being amortized to interest expense over its three-year term using the effective interest method, yielding an effective interest rate of 15.2%. The remaining unamortized debt discount and issuance expenses of $2,458 million were written off in the second quarter of 2007 as a result of early retirement of the March 2006 note.

12. Capital Leases

We lease certain equipment under capital leases. Property and equipment included the following amounts for capital leases at December 31:

	2008	2007
Computer equipment	$ 5,340	$ 5,685
Computer software	1,654	1,474
Furniture and fixtures	18	237
Leasehold improvements	25	6
Total equipment under capital lease at cost	7,037	7,402
Less: accumulated amortization	(2,090)	(3,824)
Net property and equipment under capital leases	$ 4,947	$ 3,578

Capital leases are collateralized by the leased assets. Our capital leases generally contain provisions whereby we can purchase the equipment at the end of the lease for a one dollar buyout or the current fair market value capped at 18.5% of the original purchase price. Amortization of leased assets is included in depreciation and amortization expense.

(amounts in thousands, except share and per share data)

Future minimum payments under capital lease obligations consisted of the following at December 31, 2008:

2009	$ 2,101
2010	1,363
2011	1,069
2012	567
Total minimum lease payments	5,100
Less: amounts representing interest	(517)
Present value of net minimum lease payments (including current portion of $1,837)	$ 4,583

13. Common Stock

Our Class A common stockholders are entitled to one vote for each share of stock held for all matters submitted to a vote of stockholders. Our Class B stockholders are entitled to three votes for each share owned.

14. Fair Value of Financial Instruments

In the first quarter of 2008, we adopted SFAS 157 "Fair Value Measurements" for financial assets and liabilities. This standard defines fair value, provides guidance for measuring fair value, and requires certain disclosures. This standard does not require any new fair value measurements, but rather applies to all other accounting pronouncements that require or permit fair value measurements. This standard does not apply measurements related to share-based payments, nor does it apply to measurements related to inventory.

SFAS 157 discusses valuation techniques, such as the market approach (comparable market prices), the income approach (present value of future income or cash flows), and the cost approach (cost to replace the service capacity of an asset or replacement cost). The statement utilizes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The following is a brief description of those three levels:

Level 1: Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.

Level 3: Observable inputs that reflect the reporting entity's own assumptions.

Our population of financial assets and liabilities subject to fair value measurements and the necessary disclosures are as follow:

	Fair Value as of 12/31/2008	Fair Value Measurements at 12/31/2008 Using Fair Value Hierarchy		
	Total	Level 1	Level 2	Level 3
Assets				
Cash and cash equivalents	$ 38,977	$ 38,977	$ —	$ —
Marketable securities available for sale	78	78	—	—
	$ 39,055	$ 39,055	$ —	$ —

(amounts in thousands, except share and per share data)

The fair values of marketable securities are based on quoted market prices from various stock exchanges.

15. Income Taxes

The Company accounts for income taxes under SFAS 109 using the asset and liability approach to accounting for income taxes. Deferred tax assets and liabilities are determined based upon differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. Net deferred tax assets are recorded when it is more likely than not that the tax benefits will be realized.

The provision for income taxes consisted of the following at December 31:

	2008
Current:	
Federal	$ 636
State	152
Total current	788
Deferred:	
Federal	(29,938)
State	(4,107)
Total deferred	(34,045)
Total benefit for income taxes from continuing operations	$ (33,257)

In previous years, the Company recorded a full valuation allowance against its deferred tax assets due to uncertainty surrounding the realization of the benefits of such assets; therefore, there was no tax provision in 2007 or 2006. For 2008, based on historical taxable income from continuing operations and projections for future taxable income, the Company determined that it is more likely than not that its deferred tax assets are expected to be realized, and reversed the valuation allowance. The reversal of the valuation allowance and other adjustments to the deferred tax assets resulted in the recognition of income tax benefits of $33,257 in 2008. The $33,257 benefit is comprised of a federal benefit of $29,302 and a state net benefit of $3,955.

TeleCommunication Systems, Inc.

Notes to Consolidated Financial Statements — (Continued)
(amounts in thousands, except share and per share data)

Significant components of our deferred tax assets and liabilities at December 31 were:

	2008	2007
Deferred tax assets:		
Net operating loss carryforwards	$ 26,746	$ 38,198
Research and development tax credit	294	15
Stock compensation expense	1,513	1,635
Depreciation and amortization	4,079	4,578
Reserves and accrued expenses	1,432	958
Alternative minimum tax credit	636	—
Deferred revenue	108	813
Other	373	62
Total deferred tax assets	35,181	46,259
Deferred tax liabilities:		
Capitalized software development costs	(1,132)	(1,202)
Other	(4)	(4)
Total deferred tax liabilities	(1,136)	(1,206)
Net deferred tax asset	$ 34,045	45,053
Valuation allowance for net deferred tax asset	—	(45,053)
Net deferred tax asset recognized in the consolidated balance sheets	$ 34,045	$ —

At December 31, 2008, we had U.S. federal net operating loss carryforwards for income tax purposes of approximately $81,643, which includes approximately $24,177 of remaining acquired net operating losses from the acquisition of Xypoint in 2001, and $9,361 from the excess tax benefits related to stock-based compensation deductions which will increase additional paid in capital once the benefit is realized, through a reduction of income taxes payable. The net operating loss carryforwards acquired in connection with the purchase of Xypoint in 2001 will begin to expire in 2018. The remaining net operating loss carryforwards will expire from 2019 through 2027.

The timing and manner in which we may utilize the net operating loss carryforwards and tax credits in future tax years will be limited by the amounts and timing of future taxable income and by the application of the ownership change rules under Section 382 of the Internal Revenue Code. Utilization of the Xypoint net operating losses are limited as a result of ownership changes occurring in 1997 and 2001. Additionally, the Company determined that they had an ownership change in December 2001, which imposes an annual limitation of the net operating losses created in 1999 to 2001. As of December 31, 2007, the Company reduced its deferred tax assets related to the portion of the research and development tax credits acquired from Xypoint that are limited under Section 382, which cannot be used before they expire.

The remaining U.S. federal net operating loss carryforwards may become subject to limitations under the Internal Revenue Code as well. We have state net operating loss carryforwards available which expire through 2027, utilization of which will be limited in a manner similar to the federal net operating loss carryforwards. At December 31, 2008, the Company had federal alternative minimum tax credit carry forwards of approximately $636, which are available to offset future regular federal taxes. Research and development credits of approximately $294 will begin to expire in 2011.

(amounts in thousands, except share and per share data)

The reconciliation of the reported income tax benefit to the amount that would result by applying the U.S. federal statutory rate of 34% to loss from continuing operations for the year ended December 31 is as follows:

	2008	2007	2006
Income tax (benefit) at statutory rate	$ 8,266	$ (364)	$ 653
Change in valuation allowances	(45,053)	(887)	(2,241)
Write-down of tax attributes	874	1,894	—
Non deductible items	1,612	255	55
Non deductible stock compensation expense	473	(705)	689
Research and development tax credit	(230)	(130)	(43)
Change in state apportionment tax rates on deferred assets/liabilities	(53)	(41)	807
State tax (benefit)	1,066	(8)	52
Other	(212)	(14)	28
Total	$ (33,257)	$ —	$ —

Upon the adoption of FIN 48, the estimated value of the Company's uncertain tax positions was a liability of $2,736 resulting from unrecognized net tax benefits which did not include interest and penalties. It is reasonably possible theses unrecognized deferred tax benefits will be recognized in the next twelve months through the tax provision. The Company does not currently anticipate that the total amounts of unrecognized tax benefits will significantly increase within the next 12 months. The Company recorded the estimated value of its uncertain tax positions by reducing the value of certain tax attributes.

The following table summarizes the activity related to the Company's unrecognized tax benefits (excluding interest, penalties and related tax carry forwards):

	Total
Balance at December 31, 2006	
Gross increases related to prior year tax positions	$ —
Gross decreases related to prior year tax positions	
Gross increases related to current year tax positions	2,736
Settlements/lapse in statute of limitation	—
Balance at December 31, 2007	$ 2,736
Gross increases related to prior year tax positions	—
Gross decreases related to prior year tax positions	—
Gross increases related to current year tax positions	—
Settlements/lapse in statute of limitation	—
Balance at December 31, 2008	$ 2,736

If the Company's positions are sustained by the taxing authority in favor of the Company, approximately, $2,736 (excluding interest and penalties) of uncertain tax position liabilities would favorably impact the Company's effective tax rate.

Upon the adoption of FIN 48, the Company's policy is to classify any interest and penalties accrued on any unrecognized tax benefits as a component of the provision for income taxes. There were no interest or penalties recognized in the consolidated statement of income for year ended December 31, 2008 and the consolidated balance sheet at December 31, 2008. The Company files income tax returns in U.S. and state jurisdictions. As of December 31, 2008, open tax years in the federal and some state jurisdictions date back to 1999, due to the taxing authorities' ability to adjust operating loss carry forwards.

16. Employee Benefit Plan

The Company maintains a 401(k) plan covering defined employees who meet established eligibility requirements. Under the provisions of the plan, the Company may contribute a discretionary match. The plan may also contribute a non-elective contribution determined by the Company. For 2008, the Company matched 35% of employee deferrals. The Company contribution was $798, $575, and $218 for the years ended December 31, 2008, 2007, and 2006 respectively.

17. Stock-based Compensation Plans

We maintain two stock-based compensation plans: a stock incentive plan, and an employee stock purchase plan.

Stock Incentive Plan. We maintain a stock incentive plan that is administered by our Compensation Committee of our Board of Directors. Options granted under the plan vest over periods ranging from one to five years and expire 10 years from the date of grant. Under the principal share-based compensation plans, the Company may grant certain employees, directors and consultants options to purchase common stock, stock appreciation rights and restricted stock units. Options are rights to purchase common stock of the Company at the fair market value on the date of the grant. Stock appreciation rights are equity settled share-based compensation arrangements whereby the number of shares that will ultimately be issued is based upon the appreciation of the Company's common stock and the number of awards granted to an individual. Restricted stock units are equity settled share-based compensation arrangements of a number of share of the Company's common stock. Restricted stock unit holders do not have voting rights until the restrictions lapse.

Beginning January 1, 2006, the Company adopted SFAS 123(R) using the modified prospective method. Consistent with the requirements of SFAS 123(R), we recognized compensation expense net of estimated forfeitures over the requisite service period, which is generally the vesting period of 5 years. The Company estimates the fair value of each stock option award on the date of grant using the Black-Scholes option-pricing model. Expected volatilities are based on historical volatility of the Company's stock. The Company estimates forfeitures based on historical experience and the expected term of the options granted are derived from historical data on employee exercises. The risk free interest rate is based on the U.S. Treasury yield curve in effect at the time of the grant. The Company has not paid and does not anticipate paying dividends in the near future.

A summary of our stock option activity and related information consisted of the following for the years ended December 31 (all share amounts in thousands):

	2008		2007		2006	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of year	11,144	$ 3.69	11,622	$ 3.62	9,793	$ 3.86
Granted	3,056	3.57	2,537	3.69	2,908	2.42
Exercised	(1,927)	3.04	(1,347)	2.58	(199)	1.75
Forfeited	(597)	3.58	(1,668)	4.07	(880)	3.26
Outstanding, end of year	11,676	$ 3.77	11,144	$ 3.69	11,622	$ 3.62
Exercisable, at end of year	6,308	$ 4.12	6,515	$ 4.14	6,823	$ 4.33
Vested and expected to vest, at end of year	9,992	$ 3.84	7,510	$ 3.69	8,179	$ 3.62
Estimated weighted-average grant-date fair value of options granted during the year	$ 2.07		$ 3.69		$ 2.42	
Weighted-average remaining contractual life of options outstanding at end of year	6.5 years		6.6 years		7.0 years	

	Number of Options	Weighted Average Fair Value	Number of Options	Weighted Average Fair Value	Number of Options	Weighted Average Fair Value
Non-vested, beginning of year	4,692	$ 2.29	4,799	$ 2.05	3,972	$ 2.33
Forfeited	(525)	$ 2.16	(1,088)	$ 2.37	(731)	$ 2.03
Vested	1,792	$ 2.21	1,579	$ 2.13	1,350	$ 2.41
Exercisable, at year end	6,308	$ 3.56	6,515	$ 3.73	6,823	$ 4.01
Non-vested, at end of year	5,368	$ 2.21	4,692	$ 2.29	4,799	$ 2.05

Exercise prices for options outstanding at December 31, 2008 ranged from $0.29 to $26.05 as follows (all share amounts in thousands):

Exercise Prices	Options Outstanding	Weighted-Average Exercise Prices of Options Outstanding	Weighted-Average Remaining Contractual Life of Options Outstanding (years)	Options Exercisable	Weighted-Average Exercise Prices of Options Exercisable
$0.29 — $2.61	2,917	$ 2.40	6.56	1,963	$ 2.40
$2.61 — $5.21	6,515	$ 3.34	6.99	2,365	$ 3.30
$5.21 — $7.82	2,214	$ 6.74	5.19	1,950	$ 6.74
$7.82 — $26.05	30	$ 11.07	4.01	30	$ 11.07
Total end of year	11,676			6,308	

As of December 31, 2008, the aggregate intrinsic value of options exercisable was $56,348. As of December 31, 2008, we estimate that we will recognize $3,385 in expense for outstanding, unvested options over their weighted average remaining vesting period of 3.9 years.

In calculating the fair value of our stock options using Black-Scholes for the years ended December 31, 2008, 2007, and 2006, respectively, our assumptions were as follows:

	For The Years Ended December 31,		
	2008	2007	2006
Expected life (in years)	5.5	5.5	5.5
Risk-free interest rate(%)	2.65%-3.33%	4.24%-4.90%	4.56%
Volatility(%)	60%-67%	68.1%-83%	78%
Dividend yield(%)	0%	0%	0%

For the years ended December 31, 2008, 2007, and 2006, the Company granted a total of 20,556, 89,600, and 22,025 of restricted shares of Class A Common Stock to directors and certain key executives. The restrictions expired at the end of one year for directors and expire in annual increments over three years for executives conditional on continued employment. The fair value of the restricted stock on the date of issuance is recognized as non-cash stock compensation expense over the period over which the restrictions expire. We recognized $105, $328, and $244 of non-cash stock compensation expense related to these grants for the years ended December 31, 2008, 2007, and 2006, respectively. We expect to record future stock compensation expense of $50 as a result of these restricted stock grants that will be recognized over the remaining vesting periods.

Employee Stock Purchase Plan. We have an employee stock purchase plan (the Plan) that gives all employees an opportunity to purchase shares of our Class A Common Stock. The Plan allows for the purchase of 1,384,932 shares of our Class A Common Stock at a discount of 15% of the fair market value. The discount of 15% is calculated based on the average daily share price on either the first or the last day of each quarterly enrollment period, whichever date is more favorable to the employee. Option periods are three months in duration. As of December 31, 2008, 1,092,821 shares of Class A Common Stock have been issued under the Plan. Compensation expense relating to the Employee Stock Purchase Plan is not material.

As of December 31, 2008, our total shares of Class A Common Stock reserved for future issuance is comprised of:

	(in thousands)
Stock incentive plan	4,524
Warrants (see Note 11)	700
Employee stock purchase plan	292
Total shares restricted for future use	5,516

As of December 31, 2008, the composition of non-cash stock compensation expense was as follows:

	2008	2007	2006
Direct costs of revenue	$ 2,494	$ 2,080	$ 1,509
Research and development expense	822	867	558
Sales and marketing expense	272	628	326
General and administrative expense	170	758	723
Total non-cash stock compensation expense	$ 3,758	$ 4,333	$ 3,116

(amounts in thousands, except share and per share data)

18. Operating Leases

We lease certain office space and equipment under non-cancelable operating leases that expire on various dates through 2015. Future minimum payments under non-cancelable operating leases with initial terms of one year or more consisted of the following at December 31, 2008:

2009	$ 3,423
2010-2011	4,295
2012-2013	1,260
Beyond	575
	$ 9,553

Our leases include our offices in Annapolis, Maryland under a lease expiring in March 2011, a second facility in Annapolis under a lease expiring in April 2013, a facility in Seattle, Washington under a lease expiring in September 2010, a facility in Oakland, California under a lease expiring August 2012, and we relocated our production facility in Tampa, Florida under a lease expiring in December 2014. The Annapolis facilities are utilized for executive and administrative offices, as well as portions of our Commercial and Government Segments. The Seattle and Oakland facilities are utilized by our Commercial Segment and the Tampa facility is utilized by our Government Segment. Future payments on all of our leases are estimated based on future payments including the minimum future rent escalations, if any, stipulated in the respective agreements.

Rent expense for continuing operations was $4,079, $3,823, and $3,603 for the years ended December 31, 2008, 2007, and 2006, respectively.

19. Concentrations of Credit Risk and Major Customers

Financial instruments that potentially subject us to significant concentrations of credit risk consist primarily of accounts receivable and unbilled receivables. Those customers that comprised 10% or more of our revenues, accounts receivable, and unbilled receivables from continuing operations are summarized in the following tables.

		% of Total Revenues For the Year Ended December 31,		
Customer	Segment	2008	2007	2006
U.S. Government	Government	42%	37%	25%
Customer A	Commercial	22%	20%	20%

	As of December 31, 2008		As of December 31, 2007	
Customer	Accounts Receivable	Unbilled Receivables	Accounts Receivable	Unbilled Receivables
U.S. Government	54%	73%	40%	66%
Customer A	22%	<10%	<10%	<10%
Customer B	<10%	10%	11%	<10%

As of December 31, 2008, our total exposure to credit risk was $69,532 based on the amount due to us by the above customers. As of December 31, 2007, our exposure to such risks was $23,689. We did not experience significant losses from amounts due to us by any customers for the year ended December 31, 2007.

20. Business and Geographic Segment Information

Our two reporting segments are the Commercial Segment and the Government Segment.

(amounts in thousands, except share and per share data)

Our Commercial Segment products and services enable wireless carriers to deliver short text messages, location information, internet content, and other enhanced communication services to and from wireless phones. Our Commercial Segment also provides E9-1-1 services, commercial location-based services, inter-carrier text message distribution services, and carrier technology on a hosted, or service bureau, basis. We also earn subscriber revenue through wireless applications including our Rand McNally® Traffic application.

Our Government Segment designs, assembles, sells and maintains data network communication systems, including our SwiftLink® deployable communication systems. We also own and operate secure satellite teleport facilities, resell access to satellite airtime (known as space segment), and provide communication systems integration, information technology services, and software systems and services to the U.S. Department of Defense and other government customers.

Management evaluates segment performance based on gross profit. We do not maintain information regarding segment assets. Accordingly, asset information by reportable segment is not presented.

For the years ended December 31, 2008, 2007, and 2006, respectively, our revenues include approximately $8,598, $5,551, and $7,349 of revenues generated from customers outside of the United States.

The following table sets forth results for our reportable segments as of December 31, 2008. All revenues reported below are from external customers. A reconciliation of segment gross profit to net loss for the respective periods is also included below:

	Year Ended December 31,								
	2008			2007			2006		
	Comm.	Gvmt	Total	Comm.	Gvmt	Total	Comm.	Gvmt	Total
Revenue									
Services	$ 64,441	$ 36,918	$ 101,359	$ 58,793	$ 29,269	$ 88,062	$ 59,741	$ 28,639	$ 88,380
Systems	37,429	81,354	118,783	16,521	39,585	56,106	17,219	19,337	36,556
Total revenue	101,870	118,272	220,142	75,314	68,854	144,168	76,960	47,976	124,936
Direct costs of revenue									
Direct cost of services	32,402	29,192	61,594	29,346	22,815	52,161	31,409	21,131	52,540
Direct cost of systems	8,993	68,298	77,291	5,024	32,882	37,906	5,211	12,672	17,883
Total Direct Costs	41,395	97,490	138,885	34,370	55,697	90,067	36,620	33,803	70,423
Gross profit									
Services gross profit	32,039	7,726	39,765	29,447	6,454	35,901	28,332	7,508	35,840
Systems gross profit	28,436	13,056	41,492	11,497	6,703	18,200	12,008	6,665	18,673
Total Gross Profit	$ 60,475	$ 20,782	$ 81,257	$ 40,944	$ 13,157	$ 54,101	$ 40,340	$ 14,173	$ 54,513

(amounts in thousands, except share and per share data)

	2008	2007	2006
Total segment gross profit	$ 81,257	$ 54,101	$ 54,513
Research and development expense	(16,161)	(13,072)	(12,586)
Sales and marketing expense	(13,715)	(11,917)	(11,713)
General and administrative expense	(28,238)	(19,334)	(16,959)
Depreciation and amortization of property and equipment	(5,865)	(6,200)	(7,956)
Amortization of acquired intangible assets	(147)	(148)	(147)
Interest expense	(922)	(1,776)	(1,751)
Amortization of debt discount and debt issuance expenses, including $2,458 write-off in June 2007	(180)	(3,176)	(1,447)
Gain on sale of patent	8,060	—	—
Benefit for income taxes	33,257	—	—
Other income, net	222	508	22
Income/(loss) from continuing operations	57,568	(1,014)	1,976
Loss from discontinued operations	—	(275)	(23,671)
Net income/(loss)	$ 57,568	$ (1,289)	$ (21,695)

21. Quarterly Financial Information (Unaudited)

The following is a summary of the quarterly results of operations for the years ended December 31, 2008 and 2007. The quarterly information has not been audited, but in our opinion, includes all normal recurring adjustments, which are, in the opinion of the Management, necessary for fair statement of the results of the interim periods.

	2008 Three Months Ended (unaudited)			
	March 31	June 30	September 30	December 31
Revenue	$ 40,413	$ 43,911	$ 56,531	$ 79,287
Gross profit	$ 19,564	$ 19,212	$ 17,457	$ 25,024
Income from continuing operations	$ 4,618	$ 11,965	$ 2,757	$ 38,228
Loss from discontinued operations	—	—	—	—
Net income	$ 4,618	$ 11,965	$ 2,757	$ 38,228
Earnings per share — basic from continuing operations	$ 0.11	$ 0.28	$ 0.06	$ 0.87
Loss per share — basic from discontinued operations	$ —	$ —	$ —	$ —
Net income per share — basic	$ 0.11	$ 0.28	$ 0.06	$ 0.87
Earnings per share — diluted from continuing operations	$ 0.11	$ 0.26	$ 0.06	$ 0.78
Loss per share — diluted from discontinued operations	$ —	$ —	$ —	$ —
Net income per share — diluted	$ 0.11	$ 0.26	$ 0.06	$ 0.78

(amounts in thousands, except share and per share data)

	2007			
	Three Months Ended (unaudited)			
	March 31	June 30	September 30	December 31
Revenue	$ 34,119	$ 35,336	$ 37,635	$ 37,078
Gross profit	$ 14,295	$ 10,681	$ 14,138	$ 14,987
Income/(loss) from continuing operations	$ 767	$ (5,993)	$ 1,716	$ 2,498
Income/(loss) from discontinued operations	(124)	(145)	54	(61)
Net income/(loss)	$ 643	$ (6,138)	$ 1,770	$ 2,437
Earnings/(loss) per share — basic from continuing operations	$ 0.02	$ (0.15)	$ 0.04	$ 0.06
Loss per share — basic from discontinued operations	$ (0.00)	$ (0.00)	$ 0.00	$ (0.00)
Net income/(loss) per share — basic	$ 0.02	$ (0.15)	$ 0.04	$ 0.06
Earnings/(loss) per share — diluted from continuing operations	$ 0.02	$ (0.15)	$ 0.04	$ 0.06
Net income/(loss) per share — diluted from discontinued operations	$ (0.00)	$ (0.00)	$ 0.00	$ (0.00)
Net income/(loss) per share — diluted	$ 0.02	$ (0.15)	$ 0.04	$ 0.06

22. Commitments and Contingencies

The Company has been notified that some customers may seek indemnification under its contractual arrangements with those customers for costs associated with defending lawsuits alleging infringement of certain patents through the use of our products and services in combination with the use of products and services of multiple other vendors. The Company will continue to negotiate with these customers in good faith because the Company believes its technology does not infringe on the cited patents and due to specific clauses within the customer contractual arrangements that may or may not give rise to an indemnification obligation. Although the Company cannot currently predict the outcome of these matters, we do not expect the resolutions will have a material effect on our consolidated results of operations, financial position or cash flows.

In November 2001, a shareholder class action lawsuit was filed against us, certain of our current officers and a director, and several investment banks that were the underwriters of our initial public offering (the "Underwriters"): Highstein v. TeleCommunication Systems, Inc., et al., United States District Court for the Southern District of New York, Civil Action No. 01-CV-9500. The plaintiffs seek an unspecified amount of damages. The lawsuit purports to be a class action suit filed on behalf of purchasers of our Class A Common Stock during the period August 8, 2000 through December 6, 2000. The plaintiffs allege that the Underwriters agreed to allocate our Class A Common Stock offered for sale in our initial public offering to certain purchasers in exchange for excessive and undisclosed commissions and agreements by those purchasers to make additional purchases of our Class A Common Stock in the aftermarket at pre-determined prices. The plaintiffs allege that all of the defendants violated Sections 11, 12 and 15 of the Securities Act, and that the underwriters violated Section 10(b) of the Exchange Act, and Rule 10b-5 promulgated thereunder. The claims against us of violation of Rule 10b-5 have been dismissed with the plaintiffs having the right to re-plead. On February 15, 2005, the District Court issued an Order preliminarily approving a settlement agreement among class plaintiffs, all issuer defendants and their insurers, provided that the parties agree to a modification narrowing the scope of the bar order set forth in the settlement agreement. The parties agreed to a modification narrowing the scope of the bar order, and on August 31, 2005, the court issued an order preliminarily approving the settlement. On December 5, 2006, the United States Court of Appeals for the Second Circuit overturned the District Court's certification of the class of plaintiffs who are pursuing the claims that would be settled in the settlement against the underwriter defendants. Plaintiffs filed a Petition for Rehearing and Rehearing En Banc with the Second Circuit on January 5, 2007 in response to the Second Circuit's decision. On April 6, 2007, the Second Circuit denied plaintiffs' rehearing petition, but clarified that the plaintiffs may seek to certify a more limited class in the District Court. On June 25, 2007, the District Court signed an Order terminating the settlement. On November 13, 2007, the issuer defendants in certain designated "focus cases" filed a motion to dismiss the second consolidated amended class action complaints that were filed in those cases. On March 26, 2008, the District Court issued an Opinion and Order denying, in large part, the motions to dismiss the amended complaints in the "focus cases." We intend to continue to defend the lawsuit until the matter is resolved. We have purchased Directors and Officers insurance policy which we believe should cover any potential liability that may result from these claims, but can provide no assurance that any or all of the costs of the litigation will ultimately be covered by the insurance. No reserve has been created for this matter. More than 300 other companies have been named in nearly identical lawsuits that have been filed by some of the same law firms that represent the plaintiffs in the lawsuit against us.

On July 12, 2006, we filed suit in the United States District Court for the Eastern District of Virginia against Mobile 365 (now Sybase 365, a subsidiary of Sybase Inc.) and WiderThan Americas for patent infringement related to U.S. patent No. 6,985,748, Inter-Carrier Short Messaging Service Providing Phone Number Only Experience ("the '748 patent"), issued to the Company. We resolved the matter with regard to WiderThan Americas, and, during the second quarter of 2007, we received a favorable jury decision that Sybase 365 infringed the claims of our patent. The jury awarded us a one-time monetary payment in excess of $10 million for past damages and a 12% royalty. The jury also found Sybase 365's infringement willful and upheld the validity of the patent. After the jury verdict, both parties filed post-trial motions. The court denied Sybase 365's post-trial motion for a new trial or a judgment in its favor, granted our motion for a permanent injunction prohibiting any further infringement by Sybase 365, but stayed the injunction pending the outcome of any appeal that may be filed, reduced the jury verdict damages award by $2.2 million and vacated the jury finding of willful infringement. We expect that Sybase 365 will appeal from the final judgment of the district court to U.S. Court of Appeals for the Federal Circuit. In the first quarter of 2008, Sybase 365 filed a request for reexamination of the '748 patent claiming that the patent is invalid. In the second quarter of 2008, the United States Patent and Trademark Office granted the request and began the requested reexamination of the '748 patent. There can be no assurances to what extent the matter will continue to be successful, if at all. Additionally, we could become subject to counterclaims or further challenges to the validity of the '748 patent. To date, the Company has not received or recorded any amounts related to this jury award.

Other than the items discussed immediately above, we are not currently subject to any other material legal proceedings. However, we may from time to time become a party to various legal proceedings arising in the ordinary course of our business.

23. Related Party Transactions

In February 2003, we entered into an agreement with Annapolis Partners LLC to explore the opportunity of relocating our Annapolis offices to a planned new real estate development. Our President and Chief Executive Officer owns a controlling voting and economic interest in Annapolis Partners LLC and he also serves as a member. The financial and many other terms of the agreement have not yet been established. The lease is subject to several contingencies and rights of termination. For example, the agreement can be terminated at the sole discretion of our Board of Directors if the terms and conditions of the development are unacceptable to us, including without limitation the circumstances that market conditions make the agreement not favorable to us or the overall cost is not in the best interest to us or our shareholders, or any legal or regulatory restrictions apply. Our Board of Directors will evaluate this opportunity along with alternatives that are or may become available in the relevant time periods and there is no assurance that we will enter into a definitive agreement at this new development site.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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. TeleCommunication Systems, Inc.

By: /s/ MAURICE B. TOSé
Maurice B. Tosé
Chief Executive Officer, President and Chairman of the Board

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated. The undersigned hereby constitute and appoint Maurice B. Tosé, Thomas M. Brandt, Jr. and Bruce A. White, and each of them, their true and lawful agents and attorneys-in-fact with full power and authority in said agents and attorneys-in-fact, and in any one or more of them, to sign for the undersigned and in their respective names as directors and officers of TeleCommunication Systems, any amendment or supplement hereto. The undersigned hereby confirm all acts taken by such agents and attorneys-in-fact, and any one or more of them, as herein authorized

Name	Title	Date
/s/ MAURICE B. TOSé Maurice B. Tosé	Chief Executive Officer, President and Chairman of the Board (Principal Executive Officer)	March 3, 2009
/s/ THOMAS M. BRANDT, JR. Thomas M. Brandt, Jr.	Chief Financial Officer and Senior Vice President (Principal Financial Officer) and Director	March 3, 2009
/s/ JAMES M. BETHMANN James M. Bethmann	Director	March 3, 2009
/s/ CLYDE A. HEINTZELMAN Clyde A. Heintzelman	Director	March 3, 2009
/s/ JAN C. HULY Jan C. Huly	Director	March 3, 2009
/s/ RICHARD A. KOZAK Richard A. Kozak	Director	March 3, 2009
Weldon H. Latham	Director	March 3, 2009
/s/ BYRON F. MARCHANT Byron F. Marchant	Director	March 3, 2009
/s/ RICHARD A. YOUNG Richard A. Young	Executive Vice President, Chief Operating Officer and Director	March 3, 2009

EXHIBIT INDEX

Exhibit Numbers	Description
4.1	Amended and Restated Articles of Incorporation. (Incorporated by reference to the company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004)
4.2	Second Amended and Restated Bylaws. (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004)
4.3	Form of Class A Common Stock certificate. (Incorporated by reference to the Company's Registration Statement on Form S-1 (No. 333-35522))
4.5	Warrants to Purchase Common Stock issued pursuant to the Securities Purchase Agreement for each of the investors party to the Securities Purchase Agreement dated January 13, 2004. (Incorporated by reference to the Company's Current Report on Form 8-K filed on January 23, 2004)
4.6	Note Purchase Agreement dated March 13, 2006 by and among the Company and the Purchasers named therein (Incorporated by reference to the Company's Annual Report on Form 10-K, as amended, for the year ended December 31, 2005)
4.7	Warrants to Purchase Common Stock issued pursuant to the Note Purchase Agreement dated March 13, 2006 to each of the Purchasers named therein (Incorporated by reference to the Company's Annual Report on Form 10-K, as amended, for the year ended December 31, 2005)
4.8	Notes issued pursuant to the Note Purchase Agreement dated March 13, 2006 to each of the Purchasers named therein (Incorporated by reference to the Company's Annual Report on Form 10-K, as amended, for the year ended December 31, 2005)
4.9	Registration Rights Agreement dated March 13, 2006 by and among the Company and the Investors named therein (Incorporated by reference to the Company's Annual Report on Form 10-K, as amended, for the year ended December 31, 2005)
4.10	Intellectual Property Security Agreement dated March 13, 2006 by and among the Company, Bonanza Master Fund Ltd., as Agent, and the Secured Parties named therein (Incorporated by reference to the Company's Annual Report on Form 10-K, as amended, for the year ended December 31, 2005)
4.11	Subordination Agreement dated March 13, 2006 by and among the Company, Silicon Valley Bank, and the Purchasers named therein (Incorporated by reference to the Company's Annual Report on Form 10-K, as amended, for the year ended December 31, 2005)
10.1	West Garrett Office Building Full service Lease Agreement dated October 1, 1997 by and between the Company and West Garrett Joint Venture. (Incorporated by reference to the Company's Registration Statement on Form S-1 (No. 333-35522))
10.2†	Form of Indemnification Agreement. (Incorporated by reference to the Company's Registration Statement on Form S-1 (No. 333-35522))
10.3†	Fourth Amended and Restated 1997 Stock Incentive Plan. (Incorporated by reference to Appendix A to the Company's definitive proxy statement for its 2004 Annual Meeting of stockholders as filed with the SEC on June 17, 2004 (No. 000-30821))
10.4†	First Amended and Restated Employee Stock Purchase Plan. (Incorporated by reference to the Company's Registration Statement on Form S-8 (No. 333-136072))
10.5†	Optionee Agreement dated October 1, 1997 by and between the Company and Richard A. Young. (Incorporated by reference to the Company's Registration Statement on Form S-1 (No. 333-35522))
10.6†	Optionee Agreement dated July 29, 1998 by and between the Company and Richard A. Young. (Incorporated by reference to the Company's Registration Statement on Form S-1 (No. 333-35522))
10.7†	Optionee Agreement dated October 1, 1997 by and between the Company and Thomas M. Brandt, Jr. (Incorporated by reference to the Company's Registration Statement on Form S-1 (No. 333-35522))
10.8†	Optionee Agreement dated July 29, 1998 by and between the Company and Thomas M. Brandt, Jr. (Incorporated by reference to the Company's Registration Statement on Form S-1 (No. 333-35522))
10.9†	Optionee Agreement dated April 1, 1999 by and between the Company and Thomas M. Brandt, Jr. (Incorporated by reference to the Company's Registration Statement on Form S-1 (No. 333-35522))
10.10†	401(k) and Profit Sharing Plan of the Company dated January 1, 1999. (Incorporated by reference to the Company's Registration Statement on Form S-4 (No. 333-51656))

Exhibit Numbers	Description
10.11†	Employment Agreement dated February 1, 2001 by and between the Company and Richard A. Young. (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001)
10.12†	Employment Agreement dated February 1, 2001 by and between the Company and Thomas M. Brandt. (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001)
10.13†	Employment Agreement dated February 1, 2001 by and between the Company and Drew A. Morin. (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001)
10.14†	Employment Agreement dated February 1, 2001 by and between the Company and Timothy J. Lorello. (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001)
10.15‡	Services Integration Agreement dated January 31, 2002 by and between the Company and Hutchison 3G. (Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2001)
10.16	Deed of Lease by and between Annapolis Partner, LLC and the Company. (Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2002)
10.17†	Restricted stock award certificate to Mr. Thomas M. Brandt, Jr. (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003)
10.18†	Restricted stock award certificate to Mr. Thomas M. Brandt, Jr. (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003)
10.19†	Restricted stock award certificate to Mr. Clyde A. Heintzelman. (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003)
10.20†	Restricted stock award certificate to Mr. Richard A. Kozak. (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003)
10.21†	Restricted stock award certificate to Mr. Weldon H. Latham. (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003)
10.22†	Restricted stock award certificate to Mr. Timothy J. Lorello. (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003)
10.23†	Restricted stock award certificate to Mr. Timothy J. Lorello. (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003)
10.24†	Restricted stock award certificate to Mr. Bryon F. Marchant. (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003)
10.25†	Restricted stock award certificate to Mr. Drew A. Morin. (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003)
10.26†	Restricted stock award certificate to Mr. Drew A. Morin. (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003)
10.27†	Restricted stock award certificate to Mr. Maurice B. Tosé. (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003)
10.28†	Restricted stock award certificate to Mr. Maurice B. Tosé. (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003)
10.29†	Restricted stock award certificate to Mr. Kevin M. Webb. (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003)
10.30†	Restricted stock award certificate to Mr. Kevin M. Webb. (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003)
10.31†	Restricted stock award certificate to Mr. Richard A. Young. (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003)
10.32†	Restricted stock award certificate to Mr. Richard A. Young. (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003)

Exhibit Numbers	Description
10.33	Registration Rights Agreement dated as of December 18, 2003 by and among the Company and the investors party to the 2003 SPA. (Incorporated by reference to Exhibit 10 to the Company's Current Report on Form 8-K dated December 18, 2003)
10.34	Trademark License Agreement by and among Aether, TSYS and the Company dated as of January 13, 2004. (Incorporated by reference to the Company's Current Report on Form 8-K filed on January 23, 2004)
10.35	Registration Rights Agreement by and between the Company and Aether dated as of January 13, 2004. (Incorporated by reference to the Company's Current Report on Form 8-K filed on January 23, 2004)
10.36	Amended and Restated Loan and Security Agreement by and between the Company and Silicon Valley Bank. (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004)
10.37†	Restricted stock award certificate to Mr. Clyde A. Heintzelman (Incorporated by reference to the Company's Annual Report on Form 10-K, as amended, for the year ended December 31, 2005)
10.38†	Restricted stock award certificate to Mr. Richard A. Kozak (Incorporated by reference to the Company's Annual Report on Form 10-K, as amended, for the year ended December 31, 2005)
10.39†	Restricted stock award certificate to Mr. Weldon F. Latham (Incorporated by reference to the Company's Annual Report on Form 10-K, as amended, for the year ended December 31, 2005)
10.40†	Restricted stock award certificate to Mr. Byron F. Marchant (Incorporated by reference to the Company's Annual Report on Form 10-K, as amended, for the year ended December 31, 2005)
10.46	Second Amended and Restated Loan and Security Agreement by and between the Company and Silicon Valley Bank (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2005)
10.47†	Form of Incentive Stock Option Agreement
10.48†	Form of Non-Qualified Stock Option Agreement
10.49†	Form of Restricted Stock Grant Agreement
12.1	Supplemental Financial Statement Schedule II
21.1	Subsidiaries of the Registrant
23.1	Consent of Ernst & Young LLP
23.2	Consent of James Cowper
31.1	Certification of CEO required by the Securities and Exchange Commission Rule 13a-14(a) or 15d-14(a)
31.2	Certification of CEO required by the Securities and Exchange Commission Rule 13a-14(a) or 15d-14(a)
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
99.01	Report of Independent Auditors- James Cowper

† Management contract, compensatory plans or arrangement required to be filed as an exhibit pursuant to Item 15(a)(3) of Form 10-K.

‡ Confidential treatment has been for certain portions of this Exhibit pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended, which portions have been omitted and filed separately with the Securities and Exchange Commission.

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in Registration Statements on Form S-8 (Nos. 333-144742, 333-136072, 333-118610, 333-107466, 333-66676, 333-51656, and 333-48026) pertaining to various stock incentive and option plans and in Registration Statements on Form S-3 (Nos. 333-133018, 333-119431, 333-112759, and 333-104305) pertaining to various stock offerings of TeleCommunication Systems, Inc. of our reports dated March 2, 2009, with respect to the consolidated financial statements and schedule of Telecommunication Systems, Inc. and the effectiveness of internal control over financial reporting of Telecommunication Systems, Inc. included in this Annual Report (Form 10-K) of TeleCommunication Systems, Inc. for the year ended December 31, 2008.

/s/ Ernst & Young LLP

Baltimore, Maryland
March 2, 2009

Exhibit 31.1

TCS TeleCommunication Systems
Enabling Convergent Technologies®

CERTIFICATIONS

I, Maurice B. Tosé, certify that:

a) I have reviewed this annual report on Form 10-K of TeleCommunication Systems, Inc.;

b) Based on my knowledge, this annual 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;

c) 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;

d) The registrant's other certifying officers 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 that has materially affected or is reasonably likely to materially affect the registrant's internal control over financial reporting; and

e) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   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 controls over financial reporting.

/s/ Maurice B. Tosé
Maurice B. Tosé
Chairman, CEO and President

Exhibit 31.2

TCS TeleCommunication Systems
Enabling Convergent Technologies®

CERTIFICATIONS

I, Thomas M. Brandt, Jr, certify that:

a) I have reviewed this annual report on Form 10-K of TeleCommunication Systems, Inc.;

b) Based on my knowledge, this annual 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;

c) 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;

d) The registrant's other certifying officers 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 that has materially affected or is reasonably likely to materially affect the registrant's internal control over financial reporting; and

e) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   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 controls over financial reporting.

/s/ Thomas M. Brandt, Jr.
Thomas M. Brandt, Jr.
Sr. Vice President & CFO

Exhibit 32.1

TCS TeleCommunication Systems

Enabling Convergent Technologies®

Certification of Principal Executive Officer
Pursuant to 18 U.S.C. 1350
(Section 906 of the Sarbanes-Oxley Act of 2002)

I, Maurice B. Tosé, President and Chief Executive Officer (principal executive officer) of TeleCommunication Systems, Inc. (the "Registrant"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

(1) The Annual Report on Form 10-K of the Company for the period ended December 31, 2008 (the "Report") fully complies with the requirements of Section 13(a) of the Securities Act of 1934 (15 U.S.C. 78m); and

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

/s/ Maurice B. Tosé
Maurice B. Tosé
Date: March 3, 2009

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

TCS TeleCommunication Systems

Enabling Convergent Technologies®

Certification of Principal Financial Officer
Pursuant to 18 U.S.C. 1350
(Section 906 of the Sarbanes-Oxley Act of 2002)

I, Thomas M. Brandt, Jr., Chief Financial Officer (principal financial officer) of TeleCommunication Systems, Inc. (the "Registrant"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

(1) The Annual Report on Form 10-K of the Company for the period ended December 31, 2008 (the "Report") fully complies with the requirements of Section 13(a) of the Securities Act of 1934 (15 U.S.C. 78m); and

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

/s/ Thomas M. Brandt, Jr.
Thomas M. Brandt, Jr.
Date: March 3, 2009

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

FORM 10-K

TELECOMMUNICATION SYSTEMS INC /FA/ - TSYS

Filed: March 05, 2008 (period: December 31, 2007)

Annual report which provides a comprehensive overview of the company for the past year

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the year ended December 31, 2007

OR

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

Commission File No. 0-30821

TELECOMMUNICATION SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

Maryland	**52-1526369**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
275 West Street, Annapolis, MD	**21401**
(Address of principal executive offices)	(Zip Code)

(410) 263-7616
Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: None.

Securities registered pursuant to Section 12(g) of the Act: Class A Common Stock, Par Value $0.01 per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act: Yes ☐ No ☑

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act: Yes ☐ No ☑

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

Large accelerated filer ☐	Accelerated filer ☑	Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in rule 12b-2 of the Act): Yes ☐ No ☑

As of June 30, 2007, the aggregate market value of the Class A Common Stock held by non-affiliates, as reported on the NASDAQ Global Market, was approximately $166,917,421.*

As of January 31, 2008 there were 34,962,487 shares of Class A Common Stock and 7,301,334 shares of Class B Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Document	**Part of 10-K into which incorporated**
Portions of the registrant's Proxy Statement for the Annual Meeting of Stockholders	Part III

* Excludes 1,437,292 shares of Class A Common Stock and 7,425,672 shares of Class B Common Stock deemed to be held by stockholders whose ownership exceeds ten percent of the shares outstanding at June 30, 2007. Exclusion of shares held by any person should not be construed to indicate that such person possesses the power, direct or indirect, to direct or cause the direction of the management or policies of the registrant, or that such person is controlled by or under common control with the registrant.

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Cautionary Note Concerning Factors That May Affect Future Results

This document contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Forward-looking statements are statements other than historical information or statements of current condition. We generally identify forward-looking statements by the use of terms such as "believe", "intend", "expect", "may", "should", "plan", "project", "contemplate", "anticipate", or other similar statements. Examples of forward looking statements in this Annual Report on Form 10-K include, but are not limited to statements that

(i) we are well positioned to address the evolving integration needs of our clients through our expertise in messaging and location determination;,

(ii) we are developing relationships with communication infrastructure providers and we intend to expand our domestic and international carrier base,

(iii) we plan to continue to develop and sell software and engineered systems which we will deliver through deployment in customer networks or through hosted and subscription business models and we believe that our software is positioned for early adoption by carriers,

(iv) wireless growth is expected to continue to increase in all regions around the world for the foreseeable future,

(v) both the number of users and messages per *individual are projected to increase significantly,*

(vi) we will continue to develop network software for wireless carriers that operate on all major types of networks;

(vii) we will continue to leverage our knowledge of complex call control technology to unlock valuable information and expand the range of capabilities that the technology can accomplish for our customers,

(viii) we will continue to invest in our underlying technology and to capitalize on our expertise to meet the growing demand for sophisticated wireless applications,

(ix) we intend to continue to selectively pursue acquisitions of companies and technologies in order to increase the scale and scope of our operations, market presence, products, services and customer base,

(x) the Broadband Global Area Network upgrade of the Inmarsat satellite constellation expands our opportunity for SwiftLink sales volume;

(xi) we believe our expertise in wireless E9-1-1, location and messaging services, and secure satellite communications can be leveraged into the Federal agencies;

(xii) we are continuing to enhance our deployable communication systems product line to take advantage of the evolving environment of satellite communications;

(xiii) we believe that our company enjoys a competitive advantage because of its secure teleport and integration capabilities along with deployable systems as a bundled offering;

(xiv) federal agencies, as well as state and local governments, are increasingly contracting with specialist teams for functions such as network management, and for long-term projects such as software development and systems integration,

(xv) we expect to realize $84.6 million of backlog within the next twelve months;

(xvi) the bases on which we expect to continue to compete;

(xvii) we believe we have *sufficient capital resources* to meet our anticipated cash operating expenses, working capital and capital expenditure and debt services needs for the next twelve months,

(xviii) that we believe our capitalized research and development expense will be recoverable from future gross profits generated by the related products,

(xix) we believe our intellectual property assets are valuable and may realized revenue from patent infringement claims;

(xx) the WWSS contract is expected to contribute to significant sales growth,

(xxi) expectations about the amount of future non-cash stock compensation, and

(xxii) statements about financial covenants related to our loan agreements.

Other such statements include without limitation risks and uncertainties relating to our financial results and our ability to (i) reach recurring annual profitability as early as anticipated or at all, (ii) continue to rely on our customers and other third parties to provide additional products and services that create a demand for our products and services, (iii) conduct our business in foreign countries, (iv) adapt and integrate new technologies into our products, (v) develop software without any errors or defects, (vi) protect our intellectual property rights, (vii) implement our business strategy, (viii) realize backlog, and (ix) achieve continued revenue growth in the foreseeable future in certain of our business lines. This list should not be considered exhaustive.

These forward-looking statements relate to our plans, objectives and expectations for future operations. We base these statements on our beliefs as well as assumptions made using information currently available to us. In light of the risks and uncertainties inherent in all projected operational matters, the inclusion of forward-looking statements in this document should not be regarded as a representation by us or any other person that our objectives or plans will be achieved or that any of our operating expectations will be realized. Revenues, results of operations, and other matters are difficult to forecast and could differ materially from those projected in the forward-looking statements contained in this Annual Report on Form 10-K as a result of factors discussed in "Management's Discussion and Analysis of Financial Conditions and Results of Operations", the matters discussed in "Risk Factors Affecting Our Business and Future Results", which are included in Item 1A, and those factors discussed elsewhere in this Annual Report on Form 10-K including, changes in economic conditions, technology and the market in general, and our ability to adapt our products and services to these changes. We undertake no obligation to release publicly the results of any future revisions we make to forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. We caution you not to put undue reliance on these forward-looking statements.

Item 1. Business

Overview

TeleCommunication Systems, Inc. develops and applies highly reliable wireless data communications technology, with emphasis on text messaging, location-based services including enhanced 9-1-1 (E9-1-1) for wireless carriers and Voice over Internet Protocol (VoIP) service providers, and secure satellite-based communication solutions for government customers.

We are a Maryland corporation founded in 1987 with our headquarters located at 275 West Street, Annapolis, Maryland 21401. Our Web address is www.telecomsys.com. The information contained on our Web site does not constitute part of this Annual Report on Form 10-K. All of our filings with the Securities and Exchange Commission are available through a link on our website. The terms "TCS", "we", "us" and "our" as used in this Annual Report on Form 10-K refer to TeleCommunication Systems, Inc. and its subsidiaries as a combined entity, except where it is made clear that such terms mean only TeleCommunication Systems, Inc.

Our business is conducted through two operating segments, Commercial (52% of 2007 revenue) and Government (48% of 2007 revenue). See discussion of segment reporting in Note 20 to the audited Consolidated Financial Statements presented elsewhere in this Annual Report on Form 10-K for additional segment information.

Commercial Segment: Our carrier software system products enable wireless carriers to deliver short text messages, location information, internet content, and other enhanced communication services to and from wireless phones. We provide E9-1-1 services, commercial location-based services, and inter-carrier text message distribution services on a hosted, or service bureau basis, that is, customers use our software functionality through connections to and from our network operations centers, paying us monthly fees based on the number of subscribers, cell sites, call center circuits, or message volume. As of December 31, 2007, we provide hosted services under contracts with wireless carrier networks, as well as VoIP service providers. We also earn subscriber revenue through wireless applications including our Rand McNally® Traffic application which is available via all major U.S. wireless carriers. We earn carrier software-based systems revenue through the sale of licenses, deployment and customization fees and maintenance fees. Pricing is generally based on the volume of capacity purchased from us by the carrier. As of December 31, 2007, we had deployed 98 of our software systems in use by wireless carrier networks around the world, including those of Verizon Wireless, Telefonica and its affiliate Vivo, Alltel, and Hutchison Whampoa's "3" brand third generation networks. We also provide carrier technology on a hosted or service bureau basis.

Government Segment: Since our founding in 1987 we have provided communication systems integration, information technology services, and software solutions to the U.S. Department of Defense and other government customers. We also own and operate secure satellite teleport facilities, and resell access to satellite airtime (known as space segment.) We design, furnish, install and operate wireless and data network communication systems, including our SwiftLink® deployable communication systems which incorporate high speed, satellite, and internet protocol technology. More than 1,000 of our SwiftLink® deployable communication systems are in use for security, defense, and law enforcement around the world. We believe that our ability to provide teleport, deployable device, and integration capability from a single source is uniquely compelling.

We currently have more than 50 patents, primarily for wireless messaging and location technology, and approximately 190 patent applications pending. We employ approximately 500 people.

SwiftLink®, Xypoint®, Enabling Convergent Technologies®, and Wireless Internet Gateway™ are trademarks or service marks of TeleCommunication Systems, Inc. or our subsidiaries. This Annual Report on Form 10-K also contains trademarks, trade names and services marks of other companies that are the property of their respective owners.

I. Commercial Segment:

We provide software, related systems, hosted services, maintenance and related services to wireless carriers, Voice Over IP service providers, and users of electronic map and related location-based technology, based on our portfolio of patented intellectual property.

A. Commercial Product and Service Offerings

1. Commercial services. We own and lease network operation centers that host software for which customers make recurring monthly usage payments. Our hosted offerings include wireless and Voice over IP E9-1-1, and commercial location-based applications. Through wireless carriers, we sell subscriptions to services using our client software applications such as navigation, traffic, and points of interest, sometimes in collaboration with owners of brand names such as Rand McNally®.

a. Hosted Location-Based Services, including E9-1-1. Our E9-1-1 service bureau works with wireless carriers and local emergency services in compliance with the Federal Communication Commission requirements. When a wireless subscriber covered by this service makes a 9-1-1 call from his or her wireless phone, the software (1) identifies the call as an emergency call, (2) accesses the handset's location information from the wireless network (either imprecise or precise), (3) routes the call to the appropriate public safety jurisdiction, (4) translates the information into a user friendly format, and (5) transmits the data to the local emergency service call center. Our E9-1-1 service operates on a platform that resides at our network operations center in Seattle, Washington with data center redundancy in Phoenix, Arizona. As of December 31, 2007, we are under contract to provide E9-1-1 services to wireless carriers, including Verizon and AT&T Wireless. We are also under contract to provide E9-1-1 service to 13 Voice over IP service providers, including Vonage and Level 3.

b. Customer subscriptions to application-based services such as Navigation, Traffic and Points-of-Interest. TCS' strategy is to have a suite of location-based applications that carrier subscribers may select and for which they pay recurring monthly fees. TCS has launched its real-time traffic application downloadable mobile applications that deliver easy access to maps, directions and directory listings for the entire

United States, and its navigation applications on multiple networks. Variations of all applications are sold under the Rand McNally® brand as well as carrier or other brands.

c. Software and system maintenance. For our installed base of systems in use by customers (see system descriptions below), we provide ongoing operational support, including administration of system components, system optimization and configuration management. Maintenance services include tracking customer support issues, trouble shooting, and developing and installing maintenance releases. We typically provide maintenance services for an annual fee paid in advance, which is priced based on the cumulative license fees we have billed for the systems being supported.

d. Location-based technical service projects. We provide telematic location database maintenance services for DENSO Corporation of Japan, (a global supplier to the automotive industry) through the compilation of geographic information databases used in DENSO's in-vehicle navigation systems that are in products including Toyota, Lexus, Land Rover and Lincoln brands.

2. Commercial Licensed Software-based Systems: We design and develop software products for wireless carrier and enterprise networks that enable the delivery of secure and personalized content, services, and transactions to wireless devices. We design our software using industry standards for easy implementation, customization, and interoperability with other network components. Most of our commercial software is now designed and delivered together with third-party software and related hardware, which is integrated into new and existing networks by our engineers. Our commercial software-based system offerings include:

a. Xypoint® Location Platform (XLP) and Applications for Location-based Services: Our Xypoint® Location Platform system interacts with the wireless network to extract location information (the "X/Y" coordinates) of the user's device. In order to determine a user's location with sufficient precision for public safety compliance and for commercial location-based applications, our technology interacts with network triangulation software which some carriers have added to cell towers and switches in the network; it can also work with networks that have incorporated Assisted GPS systems that use Global Positioning System (GPS) chips in user handsets. We have been a leader in developing the location platform standard called Secure User Plane for Location (SUPL) and incorporated the technology in our product. Our platform also provides privacy controls so that the wireless device user controls access to the user's location information. The "X/Y" information extracted from networks by our XLP is used by application software including E9-1-1, driving directions, identification of locations near the end user (such as gas stations, restaurants, or hotels), and locating other network subscribers near the user's current position.

b. Short Message Service Center and Wireless Intelligent Gateway. Our Short Message Service Center software enables users to send and receive text or data messages to and from wireless devices. The Wireless Intelligent Gateway is a portal for two-way data communication between users of wireless networks and the Internet. The Gateway allows users to customize the services they receive on wireless devices by setting up a user profile through a single Internet-based procedure. Wireless carriers can access these user profiles and usage data to gain a better understanding of customer behavior. The Wireless Messaging Gateway allows additional wireless applications to be added as desired, as well as personalization, instant messaging and spam-blocking capabilities that can be independently customized by the end-user. It can interoperate with our location-based service platform and applications.

B. Commercial Market Opportunities and Strategy

We plan to continue to develop and sell software and engineered systems which we will deliver through deployment in customer networks or through hosted and subscription business models. Our development investment is focused on the delivery of Internet content, proprietary third-party content, short messages, location information, corporate network data and other enhanced data-communication services to and from wireless devices. The following trends are driving demand for our products and services:

Growth in Wireless and Voice over Internet Protocol (VoIP) Subscribers. The use of wireless communications has increased significantly in recent years, driven by expanded wireless network coverage, upgraded high-speed digital wireless networks, more affordable wireless communications service plans, and higher quality and less expensive wireless devices. Likewise, VoIP service offers cost advantages over traditional wireline service. Wireless growth is expected to continue to increase in all regions around the world for the foreseeable future. Driving this growth is the replacement of landline connections with wireless connections. Some households are now using cellular phones exclusively. This is especially true for young adults, but also true in developing countries where wireless may often be the only means of communications.

The FCC's E9-1-1 Mandates. We are one of the two leading providers of E9-1-1 service to wireless and VoIP service providers in the U.S. The ability to call for help or communicate with family members in need is the primary reason many people cite for having a wireless phone. A key to enhancing personal safety through a cell phone is the availability of E9-1-1 wireless capabilities. In 1996, the Federal Communications Commission (FCC) mandated the adoption of E9-1-1 technology by wireless carriers. In June 2005, the FCC ordered providers of interconnected VoIP service to provide E9-1-1 services to all of their customers as a standard feature of the service, rather than as an optional enhancement. The FCC requires wireless carriers to issue quarterly reports as to their progress and compliance with FCC-mandated deployment schedules. We are under long-term contracts, usually three to five years, with 41 wireless and 13 VoIP service providers, including all of the four largest wireless carriers in the United States.

Cellular Network Improvements to Third Generation Capabilities. Mobile operators are deploying high-speed data networks based on third generation technologies that, in many cases, equal or surpass data rates that are typically available for residential wireline users. The deployments of these high-speed wireless data networks have made it possible for individuals and enterprises to "wireless-enable" many services that previously required a wireline connection, such as connecting to the Internet and accessing corporate data outside the office. Our company's location-based technology and applications incorporating map graphics take advantage of these network enhancements.

Improving Wireless Device Functionality. Manufacturers continue to increase the functionality of mobile devices including phones and personal digital assistants through higher resolution, color screens, and increased computing capability for sophisticated applications. These devices enable the user to take advantage of the high-speed data networks for Internet and data usage. Broad adoption of location-based services (LBS) has required, among other things, handsets incorporating components for interoperation with Global Positioning System satellites and with LBS network components that we have developed and provide.

Growing Use of Commercial Location-Based Wireless Services (LBS). A driver of wireless communications growth is the delivery of timely, highly specialized, interactive and location-specific information. Technology incorporated in a growing number of networks and handsets now enables determination of the handset's location with sufficient precision to allow useful applications beyond public safety's E9-1-1. Wireless users benefit from the ability to receive highly customized location-specific information in response to their queries or via targeted opt-in content delivered to the wireless device. Enterprises benefit from wireless location technology by utilizing routing and tracking applications for their mobile field forces. Our software provides wireless location solutions to mobile operators today through our Xypoint® Location Platform (XLP.) This technology is being used, via interconnection with XLP systems hosted in our company's network operations, by Sprint in the U.S. and Iusacell in Mexico. Our XLP in-network system customers include Alltel, Hutchison Whampoa's "3"tm networks, and Telefonica's Vivo network in Brazil.

Growing Use of Short Messaging, E-mail and Internet Applications. E-mail and short messaging services (SMS) are increasingly important means of communication, with both the number of users and messages per individual are projected to increase significantly. Mobile operators in the United States are experiencing rapid SMS traffic growth, according to statistics from mobile operators. The Internet and internal corporate data networks, or intranets, have emerged as global communications channels that allow users to share information and conduct business transactions electronically. We provide solutions for mobile operators to receive and route e-mail and SMS messages through our Short Message Service Center and Wireless Messaging Gateway systems.

The key elements of our commercial strategy are to:

- **Focus our Software and Integration Resources on Evolving Carrier Network Capabilities.** Mobile operators and the federal government increasingly seek integrated solutions that can harness both messaging capabilities of networks and location information of end-users. We are well positioned to address the evolving integration needs of our commercial and government clients through our demonstrated expertise in both messaging and location determination. Mobile operators have made large capital expenditure investments in infrastructure for wireless data and location determination technologies. While originally envisioned as separate technologies, messaging and location determination technologies can be integrated to provide value-added services and applications for the operators' end-users.

- **Expand Our Sales and Marketing Relationships.** We are developing relationships with communication infrastructure providers in order to expand our sales channels for our carrier software products and services. We have historically leveraged our strategic relationships with original equipment manufacturers to market our Commercial Segment products to wireless carriers worldwide. We are adding partnerships for our location technologies.

- **Grow Our Wireless Carrier and Voice Over IP Customer Base.** We now serve or are under contract with 61 wireless carrier networks in 16 countries, and with 13 VoIP service providers. We intend to expand our domestic and international carrier base by capitalizing on our relationships with original equipment manufacturers and establish new distribution partnerships and by expanding our own sales and marketing initiatives. We will continue to develop network software for wireless carriers that operate on all major types of networks.

- **Leverage Our Expertise in Accessing Information Stored Inside Wireless Networks.** We will continue to leverage our knowledge of complex call control technology, including Signaling System 7 and Internet Protocol standards, to unlock valuable information such as user location, device on/off status, and billing and transaction records that reside inside wireless networks and are difficult to retrieve and utilize. Using this information, we intend to expand the range of capabilities that wireless data technology can accomplish for our customers.

- **Develop and Enhance Our Technology.** We will continue to invest in our underlying technology and to capitalize on our expertise to meet the growing demand for sophisticated wireless applications. As of January 1, 2008, our staff included approximately 260 personnel with technical expertise in wireless network, client software development, hosted wireless operations, satellite-based communication technology and integrated network solutions. We also have research and development relationships with wireless handset manufacturers, wireless carriers, and content and electronic commerce providers. Our Xypoint® platform architecture efficiently integrates our presence, location, call control and messaging technology, resulting in reduced costs, increased reliability, more efficient deployments, compatibility with our existing products and a migration path to third-generation services.

- **Pursue Select Acquisitions.** We intend to continue to selectively pursue acquisitions of companies and technologies in order to increase the scale and scope of our operations, market presence, products, services and customer base.

II. Government Segment:

We provide secure, deployable communication systems, and engineering and technical services, with emphasis on satellite-based communication technology, to agencies of the U.S. Departments of Defense, State, Justice, Homeland Security, as well as the City of Baltimore and other government customers.

A. Government Products and Services

1. Government Services. We enter into fee-for-service contracts under which revenue is generated based on contract labor billing rates or based on fixed fees for deliverables. These services, typically under multi-year contracts or contract vehicles, include:

a. Network Operation and Telecom Expense Management Support. We design, install, and operate networks that integrate computing and communications, including systems that provide communications via both satellite and terrestrial links. We can provide complete network installation services from cabling infrastructure to complex communications system components. We also provide ongoing network operation and management support services including telecom expense management under multi-year contracts with government customers.

b. Custom Software. We develop custom software applications to support specific customer requirements. We have historically tailored enhancements of our software products for wireless carrier customers and developed custom applications for government agencies.

c. Secure Satellite Teleport Data Landing and Transmission Services. We own and operate high-speed satellite communications teleports in Baltimore, Maryland and Manassas, Virginia that are connected to the public switched telephone network. These facilities provide transport services for Internet Protocol (IP)-based media content consisting of Voice over IP (VoIP), Internet, video and messaging data using *Very Small Aperture Terminal* (VSAT) satellite technology as part of our communication solutions for our customers. For some customers we purchase space segment and resell it to customers using our facilities.

d. Maintenance Services. We offer basic and extended maintenance services related to our SwiftLink® products and customized deployable communication systems.

2. Government Systems. We have designed and produced SwiftLink®, a lightweight, satellite-based secure communication system, which can be immediately deployed in remote areas where other means of reliable communications may not be available. SwiftLink® provides secure voice, video and data communications for up to eight people and a single person can deploy the system in less than ten minutes, creating critical communication channels from any location around the world. Uses include: emergency response, news reporting, public safety, drilling and mining operations, field surveys and other activities that require remote capabilities for video and data transmission. Integration work which typically accompanies customer purchases of our secure deployable systems is reported together with the system sales revenue. The Broadband Global Area Network upgrade of the Inmarsat satellite constellation, which enables lower cost internet protocol traffic with broader band capability, expands our opportunity for SwiftLink® sales volume.

B. Government Market Opportunities and Strategy

Growing Use of Secure Wireless Communications and Location Technology for Defense, Intelligence and Homeland Security. Wireless communications and location technology are key initiatives within the federal government for both security and supply-chain management. As was dramatically illustrated during 2005 by Hurricane Katrina, wireless communications in emergencies are of paramount importance, as emergency personnel need to be able to communicate and share information across agencies and departments where wireline systems may be unavailable. We believe that our expertise in the areas of wireless E9-1-1, location and messaging services, and secure satellite communications can be leveraged to provide the needed wireless infrastructure for the U.S. Departments of Homeland Security and Defense and we are currently pursuing opportunities to provide such products and services. Our SwiftLink® deployable communication systems are also increasingly used by military and other government agencies around the globe for communications in times of emergencies. SwiftLink® is designed to provide secure voice and data communications through encrypted satellite links.

Government Outsourcing of Network and Telecom Technical Functions. Federal agencies, as well as state and local governments, are increasingly contracting with specialist teams for functions such as network management, and for long-term projects such as software development and systems integration. Since the founding of our Company, we have built relationships with federal agencies, including the Special Operations

Command and the FBI, as well as the State of Maryland and the City of Baltimore. Since early 2004, we have made it a management priority to aggressively expand our base of long-term service contract engagements. We have added experienced sales personnel and enhanced our relationships with systems integrators and specialist vendors such as SAP America, Inc. to expand our penetration of the government service market.

Expanded Need for Secure, Interoperable Deployable Communication Solutions. During 2005, disaster response efforts in the U.S. Gulf Coast area by the Department of Homeland Security's Federal Emergency Management Agency illustrated the need for enhanced communication capabilities in such circumstances. Military responders in New Orleans used our SwiftLink® systems to coordinate deployable resources. We are continuing to enhance our deployable communication systems product line to take advantage of the evolving environment, including the benefits of Very Small Aperture Terminal (VSAT) satellite communications architectures where desirable, and the Inmarsat Broadband Global Area Network enhancements to its satellite services.

Secure Teleport and Integration Capabilities along with Deployable Systems as a Bundled Offering. Government customers can benefit from single-sourcing secure communications solutions which include a secure U.S. landing site for backhaul traffic as well as network engineering expertise and secure remote terminals. We believe that our company enjoys a competitive advantage, because it can offer all of these elements from a single vendor.

Application of Commercially Proven Technology to Government Solutions. Government customers increasingly are using commercial carrier networks. Procurement officers have expressed a preference for solutions that incorporate proven commercial technology, rather than reliance on government research and development funding. Our company's portfolio of software, patented intellectual property, and teams of wireless and encryption specialists positions us to tap into this opportunity.

Customers

Commercial Segment. Our commercial customers include wireless telecommunications carriers in the United States and foreign countries, either directly or through our channel partners. We provide licensed software-based systems, and hosted service bureau offerings in our Commercial Segment to carriers around the world. Our wireless carrier customers include Verizon Wireless (20% of total 2007 revenue from continuing operations), AT&T Wireless, Sprint, and the Hutchison Whampoa third generation "3" brand networks. Customers for our Voice Over IP E9-1-1 services include Vonage and Level 3. Our sales efforts target wireless and Voice over IP service providers around the world.

Government Segment. Our major Government Segment customers include units of the U.S. Departments of Defense, Justice, Homeland Security, and State, the General Services Administration, the City of Baltimore, and Northrop Grumman. In the aggregate, U.S. federal government entities accounted for 37% of total 2007 revenue from continuing operations.

Backlog

As of December 31, 2007 and 2006, we had unfilled orders, or funded contract and total backlog, as follows:

	December 31,		2007 vs. 2006	
($ in millions)	**2007**	**2006**	**$**	**%**
Commercial Segment	$ 93.9	$ 42.8	$ 51.1	119%
Government Segment	36.7	18.5	18.2	98%
Total funded contract backlog	$ 130.6	$ 61.3	$ 69.3	113%
Commercial Segment	$ 103.4	$ 42.8	$ 60.6	142%
Government Segment	128.8	40.9	87.9	215%
Total backlog of orders and commitments, including customer options	$ 232.2	$ 83.7	$ 148.5	177%
Expected to be realized within next 12 months	$ 84.6	$ 51.3	$ 33.3	65%

Funded contract backlog represents contracts for which fiscal year funding has been appropriated by our customers (mainly federal agencies), and for our hosted services is computed by multiplying the most recent month's recurring revenue times the remaining months under existing long-term agreements, which we believe is the best available information for anticipating revenue under those agreements. Total backlog, as is typically measured by government contractors, includes orders covering optional periods of service and/or deliverables, but for which budgetary funding may not yet have been approved. Company backlog at any given time may be affected by a number of factors, including the availability of funding, contracts being renewed or new contracts being signed before existing contracts are completed. Some of our backlog could be canceled for causes such as late delivery, poor performance and other factors. Accordingly, a comparison of backlog from period to period is not necessarily meaningful and may not be indicative of eventual actual revenue.

Sales and Marketing

We sell our products and services through our direct sales force and through indirect channels. Our direct sales force consists of approximately 20 professionals in the U.S. and Europe. We have also historically leveraged our relationships with original equipment manufacturers (OEMs) to market our commercial systems to wireless carrier customers. These indirect sales relationships include Alcatel Lucent, Nortel, Motorola and Qualcomm. During the indirect sales process, as well as during installation and maintenance, we have extensive direct contact with prospective carrier customers.

We are pre-qualified as an approved vendor for some government contracts, and some of our products and services are available to government customers via the General Services Administration's Information Technology Schedule 70, and the Worldwide Satellite Services (WWSS) and the Space and Naval Warfare Foreign Military Sales (SPAWAR FMS) contract vehicles. We collaborate in sales efforts under various arrangements with integrators including General Dynamics and SAP America, Inc. Our marketing efforts also include advertising, public relations, speaking engagements and attending and sponsoring industry conferences.

Competition

The markets for our products and services are competitive. The adoption of industry standards may make it easier for new market entrants to compete with us. We expect that we will continue to compete primarily on the basis of the functionality, breadth, time to market, ease of integration, price, and quality of our products and services, as well as our market experience and reputation. The market and competitive conditions are continually developing. Our software products compete with many similar products provided by other companies. It is difficult to present a meaningful comparison between our competitors and us because there is a large variation in revenue generated by different customers, different products and services, as well as the different combinations of products and services offered by our competitors. We cannot, therefore, quantify our relative competitive position.

Our current and potential competitors include:

- **Commercial Segment.** West Corporation's Intrado subsidiary; Ericsson; Openwave; Acision, Huawei Technologies, Comverse Technology Inc.
- **Government Segment.** Computer Sciences Corporation; Electronic Data Systems Corporation; Northrop Grumman; DataPath; Tactical Communications, a division of Sierra Nevada Corporation; Globecomm Systems, Inc.

Many of our existing and potential competitors have substantially greater financial, technical, marketing and distribution resources than we do. Many of these companies have greater name recognition and more established relationships with their target customers. Furthermore, these competitors may be able to adopt more aggressive pricing policies and offer customers more attractive terms than we can. With time and capital, it would be possible for our competitors to replicate our products and services.

We partner with vendors of precise location technology. Certain of our partners may attempt to compete with our operating platform by developing their own transmission platform or by purchasing another mobile location platform. The markets for commercial location and other mobile wireless applications for carriers and enterprises are relatively new and continually developing. The convergence of wireless technologies and the Internet is creating many initiatives to bring data and transaction capabilities to wireless devices. There is a wide array of potential competitors in this market, including providers of competing location management platforms, competing e-mail products, competing enterprise mobility platforms and other competing applications for wireless devices.

Research and Development

Our success depends on a number of factors, which include, among other items, our ability to identify and respond to emerging technological trends in our target markets, to develop and maintain competitive products, to enhance our existing products by adding features and functionality that differentiate the products from those of our competitors, and to bring products to market on a timely basis and at competitive prices. As of January 1, 2008, our overall staff included approximately 260 professionals with technical expertise in wireless network, client software development and satellite-based communication technology. Since 1996, we have made substantial investments in wireless technology research and development, most of which has been devoted to the development of carrier and enterprise network software products and services. We are primarily focusing our current research and development investments in cellular location-based technology, including E9-1-1 technology. We actively support existing telecommunications standards and promote new telecommunications standards in order to expand the market for wireless data. We actively participate in wireless standards-setting organizations including the Open Mobile Alliance, and we are represented on the Board of Directors for the E9-1-1 Institute. In 1996, we co-founded the Intelligent Network Forum, an organization dedicated to expanding the role of intelligent networks in telecommunications. As part of our strategy to expand the role of short messaging, we co-founded the Short Message Peer-to-Peer Forum in 1999. For the years ended December 31, 2007, 2006, and 2005, our research and development expense in continuing operations was $13.1 million, $12.6 million, and $13.9 million, respectively.

Certain of our government customers contract with us from time to time to conduct research on telecommunications software, equipment and systems.

Intellectual Property Rights

We rely on a combination of patent, copyright, trademark, service mark, and trade secret laws and restrictions to establish and protect certain proprietary rights in our products and services.

We currently hold more than 50 issued patents relating to wireless text messaging, inter-carrier messaging, number portability, and GPS ephemeris data, emergency public safety data routing and electronic commerce. We have filed approximately 190 additional patent applications for certain apparatus and processes we believe we have invented to enable key features of the location services, wireless text alerts, Short Message Service Center, mobile-originated data and E9-1-1 network software. There is no assurance that these patent applications will result in a patent being issued by the U.S. Patent and Trademark Office or other patent offices, nor is there any guarantee that any issued patent will be valid and enforceable. Additionally, foreign patent rights may or may not be available or pursued in any technology area for which U.S. patent applications have been filed.

Under our development agreement with Alcatel Lucent, we developed our Short Message Service Center software in 1996. Under the development agreement, we share ownership rights in this software application with Alcatel Lucent. The scope of each party's ownership interest is subject to each party's various underlying ownership rights in intellectual property and also to confidential information contributed to the applications, and is subject to challenge by either party.

As a member of various industry standard-setting forums, we have agreed to license certain of our intellectual property to other members on fair and reasonable terms to the extent that the license is required to develop non-infringing products under the specifications promulgated by those forums.

Employees

As of December 31, 2007, we had 500 employees, of which 491 were full-time and 9 were part-time. We believe relations with our employees are good. None of our employees is represented by a union.

Geographical Information

During 2007, 2006, and 2005, total revenue generated from products and services of our continuing operations in the U.S. were $138.6 million, $117.6 million, and $95.3 million, respectively, and total revenue generated from products and services outside of the U.S. from our continuing operations were $5.6 million, $7.3 million, and $6.9 million, respectively. As of December 31, 2007, 2006, and 2005, essentially all of the long-lived assets of our continuing operations were located in the U.S.

During 2007, 2006, and 2005, total revenue generated from products and services of our discontinued Enterprise division in the U.S. were $5.6 million, $22.1 million, and $23.1 million, respectively.

We are subject to risks related to offering our products and services in foreign countries. See the information under the heading "Risk Factors — Because our product offerings are sold internationally, we are subject to risks of conducting business in foreign countries" included in Item 1A.

Item 1A. *Risk Factors*

You should consider carefully each of the following risks and all of the other information in this Annual Report on Form 10-K and the documents incorporated by reference herein. If any of the following risks and uncertainties develops into actual events, our business, financial condition or results of operations could be materially adversely affected.

Risks Related to Our Business

Our stock price, like that of many technology companies, has been and may continue to be volatile.

We expect that the market price of our Class A common stock will continue to be volatile. We are involved in a highly visible, rapidly changing industry and stock prices in our industry and similar industries have risen and fallen in response to a variety of factors, including:

- announcements of new wireless data communications technologies and new providers of wireless data communications;
- announcements of the issuance of new patents
- acquisitions of, or strategic alliances among, providers of wireless data communications;
- changes in recommendations by securities analysts regarding the results or prospects of providers of wireless data communications;
- changes in investor perceptions of the acceptance or profitability of wireless data communications; and
- other global economic uncertainties.

If wireless carriers do not continue to provide additional products and services to their subscribers, our business could be harmed.

If wireless carriers limit their product and service offerings or do not purchase additional products containing our applications, our business will be harmed. Wireless carriers face implementation and support challenges in introducing Internet-based services via wireless devices, which may slow the rate of adoption or implementation of our products and services. Historically, wireless carriers have been relatively slow to implement complex new services such as Internet-based services. Our future success depends upon a continued increase in the use of wireless devices to access the Internet and upon the continued development of wireless devices as a medium for the delivery of network-based content and services. We have no control over the pace at which wireless carriers implement these new services. The failure of wireless carriers to introduce and support services utilizing our products in a timely and effective manner could reduce sales of our products and services and seriously harm our business.

We may fail to support our anticipated growth in operations which could reduce demand for our services and materially adversely affect our revenue.

Our business strategy is based on the assumption that the market demand, the number of customers, the amount of information they want to receive and the number of services we offer will all increase. We must continue to develop and expand our systems and operations to accommodate this growth. The expansion and adaptation of our systems operations requires substantial financial, operational and management resources. Due to the limited deployment of our services to date, the ability of our systems and operations to connect and manage a substantially larger number of customers while maintaining superior performance is unknown. Any failure on our part to develop and maintain our wireless data services as we experience rapid growth could significantly reduce demand for our services and materially adversely affect our revenue. Also, if we incorrectly predict the market areas that will grow significantly, we could expend significant resources that could have been expended on other areas that do show significant growth.

We could incur substantial costs from product liability claims relating to our software.

Our agreements with customers may require us to indemnify customers for our own acts of negligence and non-performance. Product liability and other forms of insurance are expensive and may not be available in the future. We cannot be sure that we will be able to maintain or obtain insurance coverage at acceptable costs or in sufficient amounts or that our insurer will not disclaim coverage as to a future claim. A product liability or similar claim may adversely affect our business, operating results or financial condition.

Our operating results could be adversely affected by any interruption of our data delivery services or system failure.

Our E9-1-1, hosted location-based services and mobile asset delivery operations depend on our ability to maintain our computer and telecommunications equipment and systems in effective working order, and to protect our systems against damage from fire, natural disaster, power loss, telecommunications failure, sabotage, unauthorized access to our system or similar events. Although all of our mission-critical systems and equipment are designed with built-in redundancy and security, any unanticipated interruption or delay in our operations or breach of security could have a material adverse effect on our business, financial condition and results of operations. Furthermore, any addition or expansion of our facilities to increase capacity could increase our exposure to natural or other disasters. Our property and business interruption insurance may not be adequate to compensate us for any losses that may occur in the event of a system failure or a breach of security. Furthermore, insurance may not be available to us at all or, if available, may not be available to us on commercially reasonable terms.

Because we rely on a few key customers, our revenue may decline if we fail to retain those customers.

To date, the largest customers for our product and service offerings in terms of revenue generated have been AT&T Wireless, Sprint, Hutchison 3G, Verizon Wireless, and the U.S. government. For the fiscal year ended December 31, 2007, each of Verizon Wireless and the U.S. government accounted for 10% or more of our total revenue. For the years ended December 31, 2006 and 2005, each of Verizon Wireless, AT&T Wireless (formerly known as Cingular Wireless), and the U.S. government accounted for 10% or more of our total revenue. We expect to generate a significant portion of our total revenue from these customers for the foreseeable future. For the year ended December 31, 2007, the largest customers for our Commercial Segment were Verizon Wireless and AT&T Wireless, and the largest customers for our Government Segment were various U.S. government agencies.

Our growth depends on maintaining relationships with our major customers and on developing other customers and distribution channels. The loss of any of the customers discussed in this paragraph would have a material adverse impact on our business.

Because we rely on key partners to expand our marketing and sales efforts, if we fail to maintain or expand our relationships with strategic partners and indirect distribution channels our license revenues could decline.

We have announced strategic partnerships with Motorola and Alcatel-Lucent, and are working on additional partnerships to provide supplemental channels for the marketing and sale of our software applications. Our growth depends on maintaining relationships with these partners and on developing other distribution channels. The loss of any of these partners would have a material adverse impact on our business.

Because our business may not generate sufficient cash to fund operations, we may not be able to continue to grow our business if we are unable to obtain additional capital when needed.

We believe that our cash and cash equivalents, and our bank line of credit, coupled with the funds anticipated to be generated from operations will be sufficient to finance our operations for at least the next twelve months. Although we currently believe that we have sufficient capital resources to meet our anticipated working capital and capital expenditures requirements beyond the next twelve months, unanticipated events could cause us to fall short of our capital requirements. In addition, such unanticipated events could cause us to violate our bank line of credit covenants causing the bank to foreclose on the line and/or opportunities may make it necessary for us to return to the public markets, or establish new credit facilities or raise capital in private transactions in order to meet our capital requirements. We cannot assure you that we will be able to raise additional capital in the future on terms acceptable to us, or at all.

Our line of credit and term loan agreement contains covenants requiring us to maintain a minimum adjusted quick ratio and a minimum liquidity ratio; as well as other restrictive covenants including, among others, restrictions on our ability to merge, acquire assets above prescribed thresholds, undertake actions outside the ordinary course of our business (including the incurrence of indebtedness), guarantee debt, distribute dividends, and repurchase our stock, and minimum tangible net worth. The agreement also contains a subjective covenant that requires (i) no material adverse change in the business, operations, or financial condition of our Company occur, or (ii) no material impairment of the prospect of repayment of any portion of the bank credit agreement; or (iii) no material impairment of value or priority of the lenders security interests in the collateral of the bank credit agreement. We believe that we will continue to comply with our restrictive covenants under our debt agreements. If our performance does not result in compliance with any of the restrictive covenants, or if our line of credit agreement lender seeks to exercise its rights under the subjective acceleration clause referred to above, we would seek to further modify our financing arrangements, but there can be no assurance that our debt holders would not exercise their rights and remedies under their agreements with us, including declaring all outstanding debt due and payable.

Our short-term investments are subject to market fluctuations which may affect our liquidity.

Although we have not experienced any losses on our cash, cash equivalents, and short-term investments, declines in the market values of these investments in the future could have an adverse impact on our financial condition and operating results. Historically, we have invested in AAA rated money market funds meeting certain criteria. These investments are subject to general credit, liquidity, market, and interest rate risks, which may be directly or indirectly impacted by the U.S. sub-prime mortgage defaults that have affected various sectors of the financial markets causing credit and liquidity issues. If an issuer defaults on its obligations, or its credit ratings are negatively affected by liquidity, losses or other factors, the value of our cash equivalents and short-term investments could decline and could have an adverse impact on our liquidity and financial condition.

Variations in quarterly operating results due to factors such as changes in demand for our products and changes in our mix of revenues and costs may cause our Class A common stock price to decline.

Our quarterly revenue and operating results are difficult to predict and are likely to fluctuate from quarter-to-quarter. For example, 2007 revenues of our Government Segment were higher in the second half of the year than in the first half, whereas its 2006 revenues were higher in the first half of the year than in the second. In 2005, revenues from our Government Segment were significantly higher in the second half of the year than in the first half. In addition, we generally derive a significant portion of wireless carrier license revenue in our

Commercial Segment from initial license fees. The initial license fees that we receive in a particular quarter may vary significantly. As these projects begin and end, quarterly results may vary. We therefore believe that quarter-to-quarter comparisons of our operating results may not be a good indication of our future performance, and you should not rely on them to predict our future performance or the future performance of our Class A common stock. Our quarterly revenues, expenses and operating results could vary significantly from quarter-to-quarter. If our operating results in future quarters fall below the expectations of market analysts and investors, the market price of our stock may fall.

Additional factors that have either caused our results to fluctuate in the past or that are likely to do so in the future include:

- changes in our relationships with wireless carriers, the U.S. government or other customers;
- timing of introduction of new products and services;
- changes in pricing policies and product offerings by us or our competitors;
- changes in projected profitability of acquired assets that would require the write down of the value of the goodwill reflected on our balance sheet.
- costs associated with advertising, marketing and promotional efforts to acquire new customers;
- capital expenditures and other costs and expenses related to improving our business, expanding operations and adapting to new technologies and changes in consumer preferences; and
- our lengthy and unpredictable sales cycle.

Growing market acceptance of "open source" software could cause a decline in our revenues and operating margins.

Growing market acceptance of open source software has presented both benefits and challenges to the commercial software industry in recent years. "Open source" software is made widely available by its authors and is licensed "as is" for a nominal fee or, in some cases, at no charge. For example, Linux is a free Unix-type operating system, and the source code for Linux is freely available.

We have incorporated some types of open source software into our products, allowing us to enhance certain solutions without incurring substantial additional research and development costs. Thus far, we have encountered no unanticipated material problems arising from our use of open source software. However, as the use of open source software becomes more widespread, certain open source technology could become competitive with our proprietary technology, which could cause sales of our products to decline or force us to reduce the fees we charge for our products, which could have a material adverse impact on our revenues and operating margins.

Because our product offerings are sold internationally, we are subject to risks of conducting business in foreign countries.

Wireless carriers in Europe, Asia, Australia, Africa and Central and South America have purchased our products. We believe our revenue will be increasingly dependent on business in foreign countries, and we will be subject to the social, political and economic risks of conducting business in foreign countries, including:

- inability to adapt our products and services to local business practices, customs and mobile user preferences;
- costs of adapting our product and service offerings for foreign markets;
- inability to locate qualified local employees, partners and suppliers;
- reduced protection of intellectual property rights;

- the potential burdens of complying with a variety of U.S. and foreign laws, trade standards and regulatory requirements, including the regulation of wireless communications and the Internet and uncertainty regarding liability for information retrieved and replicated in foreign countries;
- general geopolitical risks, such as political and economic instability and changes in diplomatic and trade relations; and
- unpredictable fluctuations in currency exchange rates.

Any of the foregoing risks could have a material adverse effect on our business by diverting time and money toward addressing them or by reducing or eliminating sales in such foreign countries.

We derive a significant portion of our revenue from sales to various agencies of the U.S. government which has special rights unlike other customers and exposes us to additional risks that could have a material adverse effect on our business, financial condition and operating results.

Sales to various agencies of the U.S. government accounted for approximately 37% of our total revenue for the fiscal year ended December 31, 2007, all of which was attributable to our Government Segment. Our ability to earn revenue from sales to the U.S. government can be affected by numerous factors outside of our control including:

- *The U.S. government may terminate the contracts it has with us.* All of the contracts we have with the U.S. government are, by their terms, subject to termination by the U.S. government either for its convenience or in the event of a default by us. In the event of termination of a contract by the U.S. government, we may have little or no recourse.
- *Our contracts with the U.S. government may be terminated due to Congress failing to appropriate funds.* Our U.S. government contracts are conditioned upon the continuing availability of Congressional appropriations. Congress usually appropriates funds for a given program on a fiscal-year basis even though contract performance may take more than one year. Any failure by Congress to appropriate funds to any program that we participate in could materially delay or terminate the program and have a material adverse effect on our business.
- *We are subject to procurement and other related laws and regulations which carry significant penalties for non-compliance.* We are subject to extensive and complex U.S. government procurement laws and regulations. Failure to comply with these laws and regulations and with laws governing the export of controlled products and commodities, and any significant violations of any other federal law, could subject us to potential contract termination, civil and criminal penalties, and under certain circumstances, suspension and debarment from future U.S. government contracts.

Additionally, the U.S. government may audit and review our costs and performance on their contracts, as well as our accounting and general practices. The costs and prices under these contracts may be subject to adjustment based upon the results of any audits. Future audits may harm our business.

Because several of our competitors have significantly greater resources than we do, we could lose customers and market share.

Our business is highly competitive. Several of our competitors are substantially larger than we are and have greater financial, technical and marketing resources than we do. In particular, larger competitors have certain advantages over us which could cause us to lose customers and impede our ability to attract new customers, including: larger bases of financial, technical, marketing, personnel and other resources; more established relationships with wireless carriers; more funds to deploy products and services; and the ability to lower prices of competitive products and services because they are selling larger volumes.

The widespread adoption of open industry standards such as the Secure User Plane for Location (SUPL) specifications may make it easier for new market entrants and existing competitors to introduce products that compete with our software products. Because our Commercial Segment is part of an emerging market, we cannot identify or predict which new competitors may enter the mobile location services industry in the future.

With time and capital, it would be possible for competitors to replicate any of our products and service offerings or develop alternative products. Additionally, the wireless communications industry continues to experience significant consolidation which may make it more difficult for smaller companies, like us, us to compete. Our competitors include application developers, telecommunications equipment vendors, location determination technology vendors and information technology consultants, and may include traditional Internet portals and Internet infrastructure software companies. We expect that we will compete primarily on the basis of price, time to market, functionality, quality and breadth of product and service offerings.

These competitors could include wireless network carriers, mobile and/or wireless software companies, wireless data services providers and wireless systems integrators and database vendors. As discussed above, many of our potential competitors have significantly greater resources than we do. Furthermore, competitors may develop a different approach to marketing the services we provide in which subscribers may not be required to pay for the information provided by our services. Competition could reduce our market share or force us to lower prices to unprofitable levels.

While we characterize a significant portion of our revenue as being "recurring" there is no guarantee that we will actually achieve this revenue.

A significant portion of our revenue is generated from long-term customer contracts that pay certain fees on a month-to-month basis. While we currently believe that these revenue streams will continue, renegotiation of the contract terms, early termination or non-renewal of material contracts could cause our recurring revenues to be lower than expected and any growth depends on maintaining relationships with these important customers and on developing other customers and distribution channels.

We cannot guarantee that our estimated contract backlog will result in actual revenue.

As of December 31, 2007, our estimated contract backlog totaled approximately $232.2 million, of which approximately $130.6 million was funded. There can be no assurance that our backlog will result in actual revenue in any particular period, or at all, or that any contract included in backlog will be profitable. There is a higher degree of risk in this regard with respect to unfunded backlog. The actual receipt and timing of any revenue is subject to various contingencies, many of which are beyond our control. The actual receipt of revenue on contracts included in backlog may never occur or may change because a program schedule could change, the program could be canceled, a contract could be reduced, modified or terminated early, or an option that we had assumed would be exercised not being exercised. Further, while many of our federal government contracts require performance over a period of years, Congress often appropriates funds for these contracts for only one year at a time. Consequently, our contracts typically are only partially funded at any point during their term, and all or some of the work intended to be performed under the contracts will remain unfunded pending subsequent Congressional appropriations and the obligation of additional funds to the contract by the procuring agency. Our estimates are based on our experience under such contracts and similar contracts. However, there can be no assurances that all, or any, of such estimated contract value will be recognized as revenue.

The loss of key personnel or any inability to attract and retain additional personnel could harm our business.

Our future success will depend in large part on our ability to hire and retain a sufficient number of qualified personnel, particularly in sales and marketing and research and development. If we are unable to do so, our business could be harmed. Our future success also depends upon the continued service of our executive officers and other key sales, engineering and technical staff. The loss of the services of our executive officers and other key personnel could harm our operations. We maintain key person life insurance on certain of our executive officers. We would be harmed if one or more of our officers or key employees decided to join a competitor or if we failed to attract qualified personnel. Our ability to attract qualified personnel may be adversely affected by a decline in the price of our Class A common stock. In the event of a decline in the price of our Class A common stock, the retention value of stock options will decline and our employees may choose not to remain with us, which could harm our business.

If our subcontractors fail to perform their contractual obligations, our performance and reputation as a prime contractor and our ability to obtain future business could suffer.

As a prime contractor, we often rely significantly upon other companies as subcontractors to perform work we are obligated to perform for our clients. As we secure more work under our contract vehicles such as the WWSS agreement, we expect to require an increasing level of support from subcontractors that provide complementary and supplementary products and services to our offerings. Depending on labor market conditions, we may not be able to identify, hire and retain sufficient numbers of qualified employees to perform the task orders we expect to win. In such cases, we will need to rely on subcontracts with unrelated companies. Moreover, even in favorable labor market conditions, we anticipate entering into more subcontracts in the future as we expand our work under our contract vehicles. We are responsible for the work performed by our subcontractors, even though in some cases we have limited involvement in that work. If one or more of our subcontractors fail to satisfactorily perform the agreed-upon services on a timely basis or violate federal government contracting policies, laws or regulations, our ability to perform our obligations as a prime contractor or meet our clients' expectations may be compromised. In extreme cases, performance or other deficiencies on the part of our subcontractors could result in a client terminating our contract for default. A termination for default could expose us to liability, including liability for the agency's costs of re-procurement, could damage our reputation and could hurt our ability to compete for future contracts.

Risks Related to Acquisitions

Our past and future acquisitions of companies or technologies could prove difficult to integrate, disrupt our business, dilute stockholder value or adversely affect operating results or the market price of our Class A common stock.

We have in the past acquired a number of businesses and technologies, and we may in the future acquire or make investments in other companies, services and technologies. Any acquisitions, strategic alliances or investments we may pursue in the future will have a continuing, significant impact on our business, financial condition and operating results. The value of the companies or assets that we acquire or invest in may be less than the amount we paid if there is a decline of their position in the respective markets they serve or a decline in general of the markets they serve. If we fail to properly evaluate and execute acquisitions and investments, our business and prospects may be seriously harmed. To successfully complete an acquisition, we must:

- properly evaluate the technology;
- accurately forecast the financial impact of the transaction, including accounting charges and transaction expenses;
- integrate and retain personnel;
- retain and cross-sell to acquired customers;
- combine potentially different corporate cultures; and
- effectively integrate products and services, and research and development, sales and marketing and support operations.

If we fail to do any of these, we may suffer losses, our management may be distracted from day-to-day operations and the market price of our Class A common stock may be materially adversely affected. In addition, if we consummate future acquisitions using our equity securities or convertible debt, existing stockholders may be diluted which could have a material adverse effect on the market price of our Class A common stock.

In addition, the companies and business units we have acquired or invested in or may acquire or invest in are subject to each of the business risks we describe in this section, and if they incur any of these risks the businesses may not be as valuable as the amount we paid. Further, we cannot guarantee that we will realize the benefits or strategic objectives we are seeking to obtain by acquiring or investing in these companies.

Industry Risks

Because the wireless data industry is a rapidly evolving market, our product and service offerings could become obsolete unless we respond effectively and on a timely basis to rapid technological changes.

The successful execution of our business strategy is contingent upon wireless network operators launching and maintaining mobile location services, our ability to create new network software products and adapt our existing network software products to rapidly changing technologies, industry standards and customer needs. As a result of the complexities inherent in our product offerings, new technologies may require long development and testing periods. Additionally, new products may not achieve market acceptance or our competitors could develop alternative technologies that gain broader market acceptance than our products. If we are unable to develop and introduce technologically advanced products that respond to evolving industry standards and customer needs, or if we are unable to complete the development and introduction of these products on a timely and cost effective basis, our business will suffer.

New laws and regulations that impact our industry could increase costs or reduce opportunities to earn revenue. The wireless carriers that use our product and service offerings are subject to regulation by domestic, and in some cases, foreign, governmental and other agencies. Regulations that affect them could increase our costs or reduce our ability to sell our products and services. In addition, there are an increasing number of laws and regulations pertaining to wireless telephones and the Internet under consideration in the United States and elsewhere.

The applicability to the Internet of existing laws governing issues such as intellectual property ownership and infringement, copyright, trademark, trade secret, taxation, obscenity, libel, employment and personal privacy is uncertain and developing. Any new legislation or regulation, or the application or interpretation of existing laws, may have a material adverse effect on our business, results of operations and financial condition. Additionally, modifications to our business plans or operations to comply with changing regulations or certain actions taken by regulatory authorities might increase our costs of providing our product and service offerings and materially adversely affect our financial condition.

Concerns about personal privacy and commercial solicitation may limit the growth of mobile location services and reduce demand for our products and services.

In order for mobile location products and services to function properly, wireless carriers must locate their subscribers and store information on each subscriber's location. Although data regarding the location of the wireless user resides only on the wireless carrier's systems, users may not feel comfortable with the idea that the wireless carrier knows and can track their location. Carriers will need to obtain subscribers' permission to gather and use the subscribers' personal information, or they may not be able to provide customized mobile location services which those subscribers might otherwise desire. If subscribers view mobile location services as an annoyance or a threat to their privacy, that could reduce demand for our products and services and have an adverse effect on prospective sales.

Because many providers are not in compliance with current regulatory mandates and because our industry is undergoing rapid technological and regulatory change, our future performance is uncertain.

The Federal Communication Commission, or FCC, has mandated that certain location information be provided to operators when they receive an E9-1-1 call. Phase I of the FCC's 9-1-1 mandate required providers to be able to locate wireless E9-1-1 callers within their originating cell sector site and report their callback number by April 1998. Phase II of the FCC mandate required providers to be able to pinpoint the location of all E9-1-1 callers within 125 meters in 67% of all cases by October 1, 2001. Although both the Phase I and Phase II deadlines have passed, many providers are not currently in compliance with either phase of the FCC's mandate. Even so, we believe that many public safety jurisdictions are continuing to deploy Phase I technology and when available, we believe they will deploy Phase II technology.

Carriers' obligations to provide Phase I and Phase II services are subject to request by public safety organizations. Due to complex regulatory, funding and political issues many public safety organizations have not yet requested this service. As a result, wireless carriers and wireless users may never exhibit sufficient demand for our mobile location services. Technical failures, time delays or the significant costs associated with developing or installing improved location technology could slow down or stop the deployment of our mobile location products. If deployment of improved location technology is delayed, stopped or never occurs, market acceptance of our products and services may be adversely affected.

In addition, we will rely on third-party providers to manufacture and deploy devices that determine the precise geographic location of wireless users to comply with Phase II of the FCC mandate. The extent and timing of the deployment of our products and services is dependent both on public safety requests for such service and wireless carrier's ability to certify the accuracy of and deploy the precise location technology. Because we will rely on third-party location technology instead of developing the technology ourselves, we have little or no influence over its improvement. If the technology never becomes precise enough to satisfy wireless users' needs or the FCC's requirements, we may not be able to increase or sustain demand for our products and services, if at all.

Our E9-1-1 business is dependent on state and local governments and the regulatory environment for Voice over Internet Protocol (VoIP) services is developing.

Under the FCC's mandate, wireless carriers are required to provide E9-1-1 services only if state and local governments request the service. As part of a state or local government's decision to request E9-1-1, they have the authority to develop cost recovery mechanisms. However, cost recovery is no longer a condition to wireless carriers' obligation to deploy the service. If state and local governments do not widely request that E9-1-1 services be provided or we become subject to significant pressures from wireless carriers with respect to pricing of E9-1-1 services, our E9-1-1 business would be significantly harmed and future growth of our business would be significantly reduced.

The FCC has determined that VoIP services are not subject to the same regulatory scheme as traditional wireline and wireless telephone services. If the regulatory environment for VoIP services evolves in a manner other than the way we anticipate, our E9-1-1 business would be significantly harmed and future growth of our business would be significantly reduced. For example, many states provide statutory and regulatory immunity from liability for wireless and wireline E9-1-1 service providers but provide no express immunities for VoIP E9-1-1 service providers. Additionally, the regulatory scheme for wireless and wireline service providers require those carriers to allow service providers such as us to have access to certain databases that make the delivery of an E9-1-1 call possible. No such requirements exist for VoIP service providers so carriers could prevent us from continuing to provide VoIP E9-1-1 service by denying us access to the required databases.

Because the industries which we serve are currently in a cycle of consolidation, the number of customers may be reduced which could result in a loss of revenue for our business.

The telecommunications industry generally is currently undergoing a consolidation phase. Many of our customers, specifically wireless carrier customers of our Commercial Segment, have or may become the target of acquisitions. If the number of our customers is significantly reduced as a result of this consolidation trend, or if the resulting companies do not utilize our product offerings, our financial condition and results of operations could be materially adversely affected.

Technology Risks

Because our software may contain defects or errors, our sales could decrease if these defects or errors adversely affect our reputation or delays shipments of our software.

The software products that we develop are complex and must meet the stringent technical requirements of our customers. We must quickly develop new products and product enhancements to keep pace with the rapidly changing software and telecommunications markets in which we operate. Software as complex as ours is likely to contain undetected errors or defects, especially when first introduced or when new versions are released.

Our software may not be error or defect free after delivery to customers, which could damage our reputation, cause revenue losses, result in the rejection of our software or services, divert development resources and increase service and warranty costs, each of which could have a serious harmful effect on us.

If we are unable to integrate our products with wireless service providers' systems we may lose sales to competitors.

Our products operate with wireless carriers' systems, various wireless devices and, in the case of our E9-1-1 offering, with mobile telephone switches and VoIP service provider systems. If we are unable to continue to design our software to operate with these systems and devices, we may lose sales to competitors. Mobile telephone switches and wireless devices can be manufactured according to many different standards and may have different variations within each standard. Combining our products with each type of switch, device or VoIP system requires a specialized interface and extensive testing. If, as a result of technology enhancements or upgrades to carrier and VoIP provider systems, our products can no longer operate with such systems, we may no longer be able to sell our products. Further, even if we successfully redesign our products to operate with these systems, we may not gain market acceptance before our competitors.

Because our systems may be vulnerable to systems failures and security risks, we may incur significant costs to protect against the threat of these problems.

We provide for the delivery of information and content to and from wireless devices in a prompt and timely manner. Any systems failure that causes a disruption in our ability to facilitate the transmission of information to these wireless devices could result in delays in end users receiving this information and cause us to lose customers. Our systems could experience such failures as a result of unauthorized access by hackers, computer viruses, hardware or software failures, power or telecommunications failures and other accidental or intentional actions which could disrupt our systems. We may incur significant costs to prevent such systems disruptions.

Increasingly our products will be used to create or transmit secure information and data to and from wireless devices. For example, our software can be used to create private address lists and to provide the precise location of an individual. To protect private information like this from security breaches, we may incur significant costs. If a third party were able to misappropriate our proprietary information or disrupt our operations, we could be subject to claims, litigation or other potential liabilities that could materially adversely impact our business. Further, if an individual is unable to use our service to receive the precise location in a health or life-and-death situation, or if our service provides the wrong information, we could be subject to claims, litigation or other potential liabilities that could materially adversely impact our business.

The wireless data services provided by our Commercial Segment are dependent on real-time, continuous feeds from map and traffic data vendors and others. The ability of our subscribers to receive critical location and business information requires timely and uninterrupted connections with our wireless network carriers. Any disruption from our satellite feeds or backup landline feeds could result in delays in our subscribers' ability to receive information. We cannot be sure that our systems will operate appropriately if we experience a hardware or software failure, intentional disruptions of service by third parties, an act of God or an act of war. A failure in our systems could cause delays in transmitting data, and as a result we may lose customers or face litigation that could involve material costs and distract management from operating our business.

If mobile equipment manufacturers do not overcome capacity, technology and equipment limitations, we may not be able to sell our products and services.

The wireless technology currently in use by most wireless carriers has limited bandwidth, which restricts network capacity to deliver bandwidth-intensive applications like data services to a large number of users. Because of capacity limitations, wireless users may not be able to connect to their network when they wish to, and the connection is likely to be slow, especially when receiving data transmissions. Data services also may be more expensive than users are willing to pay. To overcome these obstacles, wireless equipment manufacturers will need to develop new technology, standards, equipment and devices that are capable of providing higher bandwidth services at lower cost. We cannot be sure that manufacturers will be able to develop technology and equipment that reliably delivers large quantities of data at a reasonable price. If more capacity is not added, a sufficient market for our products and services is not likely to develop or be sustained and sales of our products and services would decline and our business would suffer.

Because the market for most mobile content delivery and mobile location products is new, our future success is uncertain.

The market for mobile content delivery and mobile location products and services is new and its potential is uncertain. In order to be successful, we need wireless network operators to launch and maintain mobile location services utilizing our products, and need corporate enterprises and individuals to purchase and use our mobile content delivery and mobile location products and services. We cannot be sure that wireless carriers or enterprises will accept our products or that a sufficient number of wireless users will ultimately utilize our products.

If wireless handsets pose health and safety risks, we may be subject to new regulations and demand for our products and services may decrease.

Media reports have suggested that certain radio frequency emissions from wireless handsets may be linked to various health concerns, including cancer, and may interfere with various electronic medical devices, including hearing aids and pacemakers. Concerns over radio frequency emissions may have the effect of discouraging the use of wireless handsets, which would decrease demand for our services. In recent years, the FCC and foreign regulatory agencies have updated the guidelines and methods they use for evaluating radio frequency emissions from radio equipment, including wireless handsets. In addition, interest groups have requested that the FCC investigate claims that wireless technologies pose health concerns and cause interference with airbags, hearing aids and other medical devices. There also are some safety risks associated with the use of wireless handsets while driving. Concerns over these safety risks and the effect of any legislation that may be adopted in response to these risks could limit our ability to market and sell our products and services.

If we are unable to protect our intellectual property rights or are sued by third parties for infringing upon intellectual property rights, we may incur substantial costs.

Our success and competitive position depends in large part upon our ability to develop and maintain the proprietary aspects of our technology. We rely on a combination of patent, copyright, trademark, service mark, trade secret laws, confidentiality provisions and various other contractual provisions to protect our proprietary rights, but these legal means provide only limited protection. Although a number of patents have been issued to us and we have obtained a number of other patents as a result of our acquisitions, we cannot assure you that our issued patents will be upheld if challenged by another party. Additionally, with respect to any patent applications which we have filed, we cannot assure you that any patents will issue as a result of these applications. If we fail to protect our intellectual property, we may not receive any return on the resources expended to create the intellectual property or generate any competitive advantage based on it, and we may be exposed to expensive litigation or risk jeopardizing our competitive position. Similarly, third parties could claim that our future products or services infringe upon their intellectual property rights. Claims like these could require us to enter into costly royalty arrangements or cause us to lose the right to use critical technology.

Our ability to protect our intellectual property rights is also subject to the terms of any future government contracts. We cannot assure you that the federal government will not demand greater intellectual property rights or restrict our ability to disseminate intellectual property. We are also a member of standards-setting organizations and have agreed to license some of our intellectual property to other members on fair and reasonable terms to the extent that the license is required to develop non-infringing products.

Pursuing infringers of our Patents and other intellectual property rights can be costly.

Pursuing infringers of our proprietary rights could result in significant litigation costs, and any failure to pursue infringers could result in our competitors utilizing our technology and offering similar products, potentially resulting in loss of a competitive advantage and decreased revenues. Despite our efforts to protect our proprietary rights, existing patent, copyright, trademark and trade secret laws afford only limited protection. In addition, the laws of some foreign countries do not protect our proprietary rights to the same extent as do the laws of the United States. Protecting our know how is difficult especially after our employees or those of our third party contract service providers end their employment or engagement. Attempts may be made to copy or reverse-engineer aspects of our products or to obtain and use information that we regard as proprietary. Accordingly, we may not be able to prevent the misappropriation of our technology or prevent others from developing similar technology. Furthermore, policing the unauthorized use of our products is difficult and expensive. Litigation may be necessary in the future to enforce our intellectual property rights or to determine the validity and scope of the proprietary rights of others. The costs and diversion of resources could significantly harm our business. If we fail to protect our intellectual property, we may not receive any return on the resources expended to create the intellectual property or generate any competitive advantage based on it.

Third parties may claim we are infringing their intellectual property rights, and we could be prevented from selling our products, or suffer significant litigation expense, even if these claims have no merit.

Our competitive position is driven in part by our intellectual property and other proprietary rights. Third parties, however, may claim that we, our products, operations or any products or technology we obtain from other parties are infringing their intellectual property rights, and we may be unaware of intellectual property rights of others that may cover some of our assets, technology and products. From time to time we receive letters from third parties that allege we are infringing their intellectual property and asking us to license such intellectual property. We review the merits of each such letter, none of which has resulted in litigation as of the date of this report. However, any litigation regarding patents, trademarks, copyrights or intellectual property rights, even those without merit, could be costly and time consuming, and divert our management and key personnel from operating our business. The complexity of the technology involved and inherent uncertainty and cost of intellectual property litigation increases our risks. If any third party has a meritorious or successful claim that we are infringing its intellectual property rights, we may be forced to change our products or enter into licensing arrangements with third parties, which may be costly or impractical. This also may require us to stop selling our products as currently engineered, which could harm our competitive position. We also may be subject to significant damages or injunctions that prevent the further development and sale of certain of our products or services and may result in a material loss of revenue.

The security measures we have implemented to secure information we collect and store may be breached, which could cause us to breach agreements with our partners and expose us to potential investigation and penalties by authorities and potential claims by persons whose information was disclosed.

We take reasonable steps to protect the security, integrity and confidentiality of the information we collect and store but there is no guarantee that inadvertent or unauthorized disclosure will not occur or that third parties will not gain unauthorized access despite our efforts. If such unauthorized disclosure or access does occur, we may be required to notify persons whose information was disclosed or accessed under existing and proposed laws. We also may be subject to claims of breach of contract for such disclosure, investigation and penalties by regulatory authorities and potential claims by persons whose information was disclosed.

Risks Related to Our Capital Structure and Common Stock

A majority of our Class A common stock is beneficially owned by a small number of holders, and those holders could thereby transfer control of us to a third party without anyone else's approval or prevent a third party from acquiring us.

We have two classes of common stock: Class A common stock and Class B common stock. Holders of Class A common stock generally have the same rights as holders of Class B common stock, except that holders of Class A common stock have one vote per share while holders of Class B common stock have three votes per share. As of January 31, 2008, Maurice B. Tosé, our President, Chief Executive Officer and Chairman of the Board, beneficially owned 7,301,334 shares of our Class B common stock and 1,529,601 shares of our Class A common stock. Therefore, in the aggregate, Mr. Tosé beneficially owned shares representing approximately 41.21% of our total voting power, assuming no conversion or exercise of issued and outstanding convertible or exchangeable securities held by our other shareholders. Accordingly, on this basis, Mr. Tosé controls us through his ability to determine the outcome of elections of directors, amend our charter and by-laws and take other actions requiring stockholder action, including mergers, going private transactions and other extraordinary transactions. Mr. Tosé could, without seeking anyone else's approval, transfer voting control of us to a third party. Such a transfer could have a material adverse effect on our stock price, and our business, operating results and financial condition. Mr. Tosé is also able to prevent a change of control regardless of whether holders of Class A common stock might benefit financially from such a transaction.

Our governing corporate documents contain certain anti-takeover provisions that could prevent a change of control that may be favorable to shareholders.

We are a Maryland corporation. Anti-takeover provisions of Maryland law and provisions contained in our charter and by-laws could make it more difficult for a third party to acquire control of us, even if a change in control would be beneficial to shareholders. These provisions include the following:

- authorization of the board of directors to issue "blank check" preferred stock;
- prohibition of cumulative voting in the election of directors;
- our classified board of directors;
- limitation of the persons who may call special meetings of stockholders; and
- prohibition on stockholders acting without a meeting other than through unanimous written consent;
- supermajority voting requirement on various charter and by-law provisions;
- establishment of advance notice requirements for nominations for election to the board of directors or for proposing matters that can be acted on by stockholders at stockholder meetings.

These provisions could delay, deter or prevent a potential acquirer from attempting to obtain control of us, depriving shareholders of an opportunity to receive a premium for Class A common stock. These provisions could therefore materially adversely affect the market price of our Class A common stock.

Because this report contains forward-looking statements, it may not prove to be accurate.

This report, including the documents we incorporate by reference, contains forward-looking statements and information relating to our company. These statements are based upon TCS' current expectations and assumptions that are subject to a number of risks and uncertainties that would cause actual results to differ materially from those anticipated. We generally identify forward-looking statements using words like "believe," "intend," "expect," "may," "should," "plan," "project," "contemplate," "anticipate," or other similar statements. We base these statements on our beliefs as well as assumptions we made using information currently available to us. We do not undertake to update our forward-looking statements or risk factors to reflect future events or circumstances.

Statements in this report that are forward-looking include, but are not limited to, the following statements that

(i) we are well positioned to address the evolving integration needs of our clients through our expertise in messaging and location determination;,

(ii) we are developing relationships with communication infrastructure providers and we intend to expand our domestic and international carrier base,

(iii) we plan to continue to develop and sell software and engineered systems which we will deliver through deployment in customer networks or through hosted and subscription business models and we believe that our software is positioned for early adoption by carriers,

(iv) wireless growth is expected to continue to increase in all regions around the world for the foreseeable future,

(v) both the number of users and messages per individual are projected to increase significantly,

(vi) we will continue to develop network software for wireless carriers that operate on all major types of networks;

(vii) we will continue to leverage our knowledge of complex call control technology to unlock valuable information and expand the range of capabilities that the technology can accomplish for our customers,

(viii) we will continue to invest in our underlying technology and to capitalize on our expertise to meet the growing demand for sophisticated wireless applications,

(ix) we intend to continue to selectively pursue acquisitions of companies and technologies in order to increase the scale and scope of our operations, market presence, products, services and customer base,

(x) the Broadband Global Area Network upgrade of the Inmarsat satellite constellation expands our opportunity for SwiftLink sales volume;

(xi) we believe our expertise in wireless E9-1-1, location and messaging services, and secure satellite communications can be leveraged into the Federal agencies;

(xii) we are continuing to enhance our deployable communication systems product line to take advantage of the evolving environment of satellite communications;

(xiii) we believe that our company enjoys a competitive advantage because of its secure teleport and integration capabilities along with deployable systems as a bundled offering;

(xiv) federal agencies, as well as state and local governments, are increasingly contracting with specialist teams for functions such as network management, and for long-term projects such as software development and systems integration,

(xv) we expect to realize $84.6 million of backlog within the next twelve months;

(xvi) the bases on which we expect to continue to compete;

(xvii) we believe we have sufficient capital resources to meet our anticipated cash operating expenses, working capital and capital expenditure and debt services needs for the next twelve months,

(xviii) that we believe our capitalized research and development expense will be recoverable from future gross profits generated by the related products,

(xix) we believe our intellectual property assets are valuable and may realized revenue from patent infringement claims;

(xx) the WWSS contract is expected to contribute to significant sales growth,

(xxi) expectations about the amount of future non-cash stock compensation, and

(xxii) statements about financial covenants related to our loan agreements.

This list should not be considered exhaustive.

Item 1B*Unresolved Staff Comments*

None.

Item 2*Properties*

Our principal executive office is located in Annapolis, Maryland in a 27,000 square foot facility under a lease expiring in March 2008. We have a second 26,000 square foot facility in Annapolis, Maryland under a lease expiring in April 2008. We are currently negotiating extension of our lease terms. The Annapolis facilities are utilized for the executive and administrative offices, as well as portions of our Commercial and Government Segments. Other leased facilities include a 47,500 square foot facility in Seattle, Washington under a lease expiring in September 2010, an 11,000 square foot facility in Oakland, California under a lease expiring August 2012, and a 32,000 flex-space facility in Tampa, Florida under a lease expiring in December 2015. We also lease a hosting facility in Phoenix, Arizona under a lease that expires in February 2010, which is utilized by our Commercial Segment.

In addition to the leased office space, we own a 7-acre teleport facility in Manassas, Virginia, and lease space in Baltimore, Maryland for teleport services for our Government Segment customers.

Item 3*Legal Proceedings*

In November 2001, a shareholder class action lawsuit was filed against us, certain of our current officers and a director, and several investment banks that were the underwriters of our initial public offering (the "Underwriters"): *Highstein v. Telecommunication Systems, Inc., et al.*, United States District Court for the Southern District of New York, Civil Action No. 01-CV-9500. The plaintiffs seek an unspecified amount of damages. The lawsuit purports to be a class action suit filed on behalf of purchasers of our Class A Common Stock during the period August 8, 2000 through December 6, 2000. The plaintiffs allege that the Underwriters agreed to allocate our Class A Common Stock offered for sale in our initial public offering to certain purchasers in exchange for excessive and undisclosed commissions and agreements by those purchasers to make additional purchases of our Class A Common Stock in the aftermarket at pre-determined prices. The plaintiffs allege that all of the defendants violated Sections 11, 12 and 15 of the Securities Act, and that the underwriters violated Section 10(b) of the Exchange Act, and Rule 10b-5 promulgated thereunder. The claims against us of violation of Rule 10b-5 have been dismissed with the plaintiffs having the right to re-plead. On February 15, 2005, the District Court issued an Order preliminarily approving a settlement agreement among class plaintiffs, all issuer defendants and their insurers, provided that the parties agree to a modification narrowing the scope of the bar order set forth in the settlement agreement. The parties agreed to a modification narrowing the scope of the bar order, and on August 31, 2005, the court issued an order preliminarily approving the settlement. On December 5, 2006, the United States Court of Appeals for the Second Circuit overturned the District Court's certification of the class of plaintiffs who are pursuing the claims that would be settled in the settlement against the underwriter defendants. Plaintiffs filed a Petition for Rehearing and Rehearing *En Banc* with the Second Circuit on January 5, 2007 in response to the Second Circuit's decision, and have informed the District Court that they would like to be heard by the District Court as to whether the settlement may still be approved even if the decision of the Court of Appeals is not reversed. The District Court indicated that it would defer consideration of final approval of the settlement pending plaintiffs' request for further appellate review. We intend to continue to defend the lawsuit until the settlement has received final approval or the matter is resolved otherwise. More than 300 other companies have been named in nearly identical lawsuits that have been filed by some of the same law firms that represent the plaintiffs in the lawsuit against us, and we believe that the majority of those companies will participate in the same settlement if approved.

On July 12, 2006, we filed suit in the US District Court for the Eastern District of Virginia against Mobile 365 (now Sybase 365, a subsidiary of Sybase Inc.) and WiderThan Americas for patent infringement related to U.S. patent No. 6,985,748, Inter-Carrier Short Messaging Service Providing Phone Number Only Experience, issued to the Company. We resolved the matter with regard to WiderThan Americas, and during the second quarter of 2007 we received a favorable jury decision that Sybase 365 infringed the claims of our patent. The jury awarded us a one-time monetary payment in excess of $10 million for past damages and a 12% royalty. The jury also found Sybase 365's infringement willful and upheld the validity of the patent. The jury's findings remain subject to post trial motions. After the judge rules on the post trial motions, either side may appeal to the US Court of Appeals for the Federal Circuit. There can be no assurances to what extent the matter will continue to be successful, if at all. Additionally, we could be subject to counter claims.

In October 2006, two former shareholders of Xypoint Corporation sued the former officers and directors of that corporation for breach of fiduciary duty and violation of certain Washington state securities and consumer protection acts when they approved, and recommended that shareholders approve, the merger of Xypoint into TeleCommunication Systems, Inc. The plaintiffs request unspecified damages. The merger agreement from 2001 provided that we would indemnify the officers and directors of Xypoint for a period of six years after the merger (ending January 2007) for their actions in approving the merger. In December 2006, the complaint was amended to include TCS and Windward Acquisition Corporation (our acquisition subsidiary), an extinguished corporation, as defendant. On May 7, 2007, the Honorable Jeffrey M. Ramsdell of the King County Superior Court (Washington)

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entered an order dismissing the complaint, with prejudice. On October 19, 2007, the plaintiffs filed an appeal of the dismissal order with the Washington Court of Appeals. The briefing on plaintiff's appeal is completed, but no date has been set for the appeal hearing. We intend to continue to defend the lawsuit vigorously. We have purchased Directors and Officers insurance policies to cover claims against the former officers and directors of Xypoint and us, and believe that one or more of those insurance policies may cover some or all of the costs of this lawsuit. On January 4, 2008, we filed suit in the King County Superior Court (Washington) against Great American Insurance Company for the costs we have incurred in defending the suit and any potential settlement or judgment. There can be no assurances that the outcome will be favorable to us or that the insurance policies will be sufficient to cover the costs incurred or any settlement or judgment that may result.

Other than the items discussed immediately above, we are not currently subject to any other material legal proceedings. However, we may from time to time become a party to various legal proceedings arising in the ordinary course of our business.

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

None.

Part II

Item 5 *Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities*

Our Class A Common Stock has been traded on the NASDAQ Global Market under the symbol "TSYS" since our initial public offering on August 8, 2000. The following table sets forth, for the periods indicated, the high and low closing prices for our Class A Common Stock as reported on the NASDAQ Global Market:

	High	Low
2008		
First Quarter 2008 (through February 25, 2008)	$ 3.94	$ 3.09
2007		
First Quarter 2007	$ 3.92	$ 2.99
Second Quarter 2007	$ 5.75	$ 3.86
Third Quarter 2007	$ 5.21	$ 3.45
Fourth Quarter 2007	$ 4.55	$ 3.02
2006		
First Quarter 2006	$ 2.56	$ 2.00
Second Quarter 2006	$ 3.26	$ 2.23
Third Quarter 2006	$ 2.83	$ 2.03
Fourth Quarter 2006	$ 3.58	$ 2.66

As of February 5, 2008, there were approximately 295 holders of record of our Class A Common Stock, and there were 8 holders of record of our Class B Common Stock.

Dividend Policy

We have never declared or paid cash dividends on our common stock. We currently intend to retain any future earnings to fund the development, growth and operation of our business. Additionally, under the terms of our loan arrangements, our lender's prior written consent is required to pay cash dividends on our common stock. We do not currently anticipate paying any cash dividends on our common stock in the foreseeable future.

Change in Securities and Use of Proceeds

On January 13, 2004, we closed on $21 million of financing with two accredited institutional investors, which included a subordinated convertible debenture with stated principal of $15 million, bearing interest at a stated rate of 3% per annum and due in lump sum on January 13, 2009 (the "Debenture"), 1,364,288 newly issued shares of Class A Common Stock and warrants to purchase 341,072 shares of Class A Common Stock at a strike price of $6.50 expiring in January 2007. The proceeds were used for acquisition of an Enterprise division from Aether Systems, Inc. ("Enterprise Acquisition") The Debenture provided for an original conversion price of $5.38 per share, subject to adjustment. The Debenture was converted into shares of Class A Commons Stock in December 2004. The warrants issued in the January 2004 financing described above contained provisions requiring an adjustment in both the warrant price and the number of warrants outstanding as a consequence of the issuance of the new warrants in March 2006. Consequently, the warrants from 2004 were adjusted to a purchase price of $2.50 per share and the total number of January 2004 warrants outstanding was adjusted to 886,787. In January 2007, the holders of the warrants issued in 2004 exercised those warrants and 886,787 shares were issued.

On March 10, 2006, pursuant to a note purchase agreement dated the same date, we issued and sold to two institutional lenders (i) $10 million in aggregate principal amount of secured notes due March 10, 2009, which bore cash interest at the rate of 14% per annum, or non-cash interest, in the form of additional notes, at the rate of 16% per annum, at our option, and (ii) warrants to purchase an aggregate of 1.75 million shares of our Class A Common Stock at an exercise price of $2.40 per share. We received net cash proceeds of approximately $9.3 million from this transaction, which were used for general corporate purposes.

The consummation of the note purchase agreement and the issuance of notes and warrants thereunder were conducted as a private placement made to accredited investors in a transaction exempt from the registration requirements of the Securities Act.

On June 25, 2007, we refinanced the $10 million of secured notes with a five year bank term loan. The borrowing rate under the new term loan is the prime rate plus 0.25% per annum (7.5% at December 31, 2007) and the loan is repayable in equal monthly installments of $0.2 million plus interest. The funds were used primarily to retire the March 2006 secured notes.

With the exception of the notes and warrants issued in March 2006, all of the other securities issued by us in connection with these transactions have been registered under the Securities Act.

Issuer Purchases of Equity Securities

None.

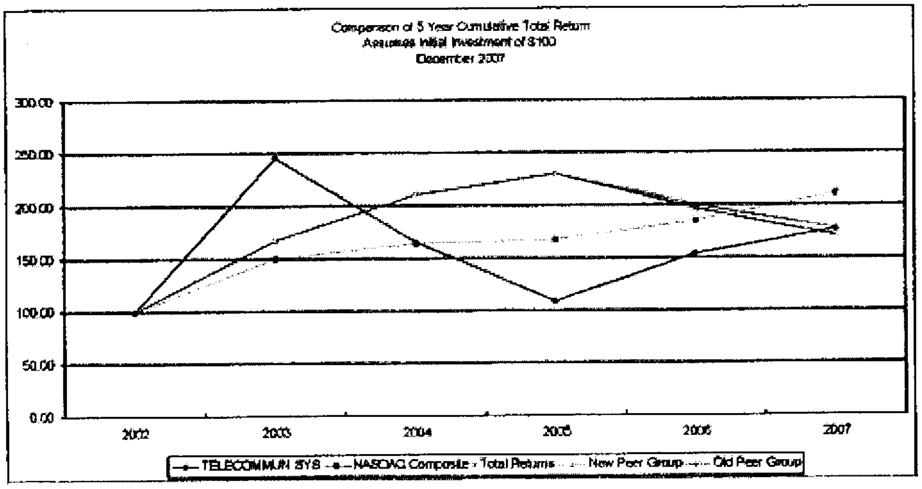
Stock Performance Graph

The following graph compares the cumulative total shareholder return on the Company's Class A Common Stock with the cumulative total return of the Nasdaq Global Market U.S. Index and a mobile data index prepared by the company of the following relevant publicly traded companies in the commercial and government sectors in which we operate: Openwave Systems, Inc.; Sybase, Inc.; Comverse Technology Inc.; Globecomm Systems Inc.; NCI Inc.; NeuStar, Inc.; Syniverse Holdings, Inc.; and ViaSat Inc. (the "New Peer Group")

The composition of the Mobile Data Index has been changed from last year (the "Old Peer Group") as follows: Infospace, Inc. sold it's mobile services business to Motricity, Inc., in 2007; and Mapinfo Corp. was purchased by Pitney Bowes in 2007. Both companies were removed from the index. ViaSat Inc. was added to the remaining companies to comprise the "New Peer Group" because its satellite services business is comparable to our Government Segment business.

The information provided is from January 1, 2001 through December 31, 2007. The graph for the "Old Peer Group" may not be meaningful because there is no 2007 data available for companies which are no longer publicly traded and the data for the remaining companies in the "Old Peer Group" therefore may not be comparably balanced for 2007 when compared to prior years.

This performance graph shall not be deemed "filed" for purposes of Section 18 of the Exchange Act, or incorporated by reference into any filing of the Company under the Securities Act or the Exchange Act, except as shall be expressly set forth by specific reference in such filing. The stock price performance shown on the graph below is not necessarily indicative of future price performance.



Item 6*Selected Financial Data*

The table that follows presents portions of our consolidated financial statements. You should read the following selected financial data together with our audited Consolidated Financial Statements and related notes and with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the more complete financial information included elsewhere in this Form 10-K. We have derived the statement of operations data for the years ended December 31, 2007, 2006, and 2005 and the balance sheet data as of December 31, 2007 and 2006 from our consolidated financial statements which have been audited by Ernst & Young LLP, independent registered public accounting firm, and which are included in Item 15 of this Form 10-K. We have derived the statement of operations data for the years ended December 31, 2004 and 2003 and the balance sheet data as of December 31, 2005, 2004, and 2003, from our audited financial statements which are not included in this Form 10-K. The historical results presented below are not necessarily indicative of the results to be expected for any future fiscal year. See "Management's Discussion and Analysis of Financial Condition and Results of Operations." As a result of implementation of SFAS 123(R), our non-cash stock compensation expense has been allocated to direct cost of revenue, research and development expense, sales and marketing expense, and general and administrative expense in our continuing operations as well as discontinued operations as detailed in Note 2 to the audited Consolidated Financial Statements presented elsewhere in this Annual Report on Form 10-K.

	Year Ended December 31,				
	2007	2006	2005	2004	2003
	(in millions, except share and per share data)				
Statement of Operations Data:					
Revenue					
Services	$ 88.1	$ 88.4	$ 75.0	$ 60.2	$ 51.6
Systems	56.1	36.6	27.2	36.7	40.5
Total revenue	144.2	124.9	102.2	96.9	92.1
Direct cost of services revenue	52.2	52.5	39.2	30.9	28.0
Direct cost of systems revenue	37.9	17.9	17.7	21.2	32.3
Total direct cost of revenue	90.1	70.4	56.9	52.1	60.2
Services gross profit	35.9	35.8	35.8	29.3	23.6
Systems gross profit	18.2	18.7	9.5	15.5	8.2
Total gross profit	54.1	54.5	45.2	44.8	31.8
Research and development expense	13.1	12.6	13.9	18.1	17.2
Sales and marketing expense	11.9	11.7	10.5	9.0	9.1
General and administrative expense	19.3	17.0	15.0	15.0	12.3
Depreciation and amortization of property and equipment	6.2	8.0	8.6	7.4	6.6
Amortization of goodwill and other intangible assets	0.1	0.1	0.1	—	0.5
Total operating costs and expenses	50.6	49.3	48.2	49.6	45.7
Income (loss) from operations	3.5	5.2	(3.0)	(4.8)	(13.9)
Interest expense	(1.8)	(1.8)	(0.7)	(3.2)	(1.1)
Amortization of debt discount and debt issuance expenses, including $2,458 write-off in 2007	(3.2)	(1.4)	(0.5)	—	—
Debt conversion expense	—	—	—	(7.9)	—
Other (expense)/income, net	0.5	—	(0.1)	—	1.5
Income (loss) from continuing operations	(1.0)	2.0	(4.3)	(15.9)	(13.5)
Loss from discontinued operations	(0.3)	(23.7)	(7.2)	(2.6)	—
Net loss	$ (1.3)	$ (21.7)	$ (11.5)	$ (18.5)	$ (13.5)
Income (loss) from continuing operations per share	$ (0.02)	$ 0.05	$ (0.11)	$ (0.48)	$ (0.45)
Loss from discontinued operations per share	(0.01)	(0.60)	(0.19)	(0.08)	—
Net loss per share — basic	$ (0.03)	$ (0.55)	$ (0.30)	$ (0.56)	$ (0.45)
Income (loss) from continuing operations per share	$ (0.02)	$ 0.05	$ (0.11)	$ (0.48)	$ (0.45)
Loss from discontinued operations per share	(0.01)	(0.59)	(0.19)	(0.08)	—
Net loss per share — diluted	$ (0.03)	$ (0.54)	$ (0.30)	$ (0.56)	$ (0.45)
Basic shares used in computation (in thousands)	41,453	39,430	38,823	33,381	29,796
Diluted shares used in computation (in thousands)	41,453	40,166	38,823	33,381	29,796

	As of December 31,				
	2007	2006	2005	2004	2003
			(in millions)		
Balance Sheet Data:					
Cash and cash equivalents	$ 16.0	$ 10.4	$ 9.3	$ 18.3	$ 18.9
Working capital	35.0	25.4	27.5	20.2	28.5
Total assets	82.1	83.6	90.6	102.4	65.3
Capital leases and long-term debt (including current portion)	16.1	17.6	16.5	18.4	14.6
Total liabilities	38.2	48.6	41.5	42.9	28.4
Total stockholders' equity	44.0	35.1	49.1	59.5	36.9

Item 7*Management's Discussion and Analysis of Financial Condition and Results of Operations*

Critical Accounting Policies and Estimates

Management's Discussion and Analysis of Financial Condition and Results of Operations addresses our consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, management evaluates its estimates and judgments. Our most significant estimates relate to accounting for our percentage-of-completion and proportional performance contracts, accounts receivable reserves, inventory value, evaluating goodwill for impairment, the realizability and remaining useful lives of long-lived assets, and contingent liabilities. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We identified our most critical accounting policies to be those related to revenue recognition for our contracts with multiple elements, revenue recognition for our contracts accounted for using the percentage-of-completion and proportional performance methods, capitalized software development costs, acquired intangible assets, goodwill impairment, stock compensation expense, and income taxes. We describe these accounting policies in relevant sections of this discussion and analysis. This discussion and analysis should be read in conjunction with our consolidated financial statements and related notes included elsewhere in this report.

Overview and Recent Developments

We operate two business segments: (i) our Commercial Segment, which consists principally of enhanced communication services to and from wireless phones, location application software, our E9-1-1 application and other hosted services for wireless carriers and Voice Over IP service providers, and (ii) our Government Segment, which includes the design, development and deployment of information processing and communication systems and related services to government agencies.

During 2005 and 2004, we operated three business units comprising an Enterprise division which was part of our Commercial Segment. As of December 31, 2005, as a result of management's strategic decision to focus on our carrier and government markets, we committed to a plan to sell the Enterprise division. Two of the units were subscriber businesses, which sold BlackBerry® services and provided real-time financial market data to wireless device users under annual subscriber contracts in the U.S. and Europe, and a wireless data solutions for mobile asset management business. The two subscriber business units were sold effective January 1, 2007 to two different buyers, as more fully described in Note 2 — Enterprise Assets-Discontinued Operations to the Consolidated Financial Statements presented elsewhere in this Annual Report on Form 10-K. The third unit was sold in May 2007. Accordingly, the assets, liabilities, and results of operations for the Enterprise assets have been classified as discontinued operations for all periods presented in the Consolidated Financial Statements included elsewhere in this Annual Report on Form 10-K.

This Management's Discussion and Analysis of Financial Condition and Results of Operations provides information that our management believes to be necessary to achieve a clear understanding of our financial statements and results of operations.

Our management monitors and analyzes a number of performance indicators in order to manage our business and evaluate our financial and operating performance. Those indicators include:

- *Revenue and gross profit.* We derive revenue from the sales of systems and services including recurring monthly service and subscriber fees, software licenses and related service fees for the design, development, and deployment of software and communication systems, and products and services derived from the delivery of information processing and communication systems to governmental agencies.
- *Gross profit represents revenue minus direct cost of revenue, including certain non-cash expenses.* The major items comprising our cost of revenue are compensation and benefits, third-party hardware and software, amortization of software development costs, non-cash stock-based compensation, and overhead expenses. The costs of hardware and third-party software are primarily associated with the delivery of systems, and fluctuate from period to period as a result of the relative volume, mix of projects, level of service support required and the complexity of customized products and services delivered. Amortization of software development costs, including acquired technology, is associated with the recognition of systems revenue from our Commercial Segment.
- *Operating expenses.* Our operating expenses are primarily compensation and benefits, professional fees, facility costs, marketing and sales-related expenses, and travel costs as well as certain non-cash expenses such as non-cash stock compensation expense, depreciation and amortization of property and equipment, and amortization of acquired intangible assets.
- *Liquidity and cash flows.* The primary driver of our cash flows is the results of our operations. Important other sources of our liquidity have been cash raised from our 2007 debt refinancing as described below under "Liquidity and Capital Resources", borrowings under our bank credit agreement, and lease financings secured for the purchase of equipment.
- *Balance sheet.* We view cash, working capital, and accounts receivable balances and days revenues outstanding as important indicators of our financial health.

Results of Operations

Revenue and Cost of Revenue

The following discussion addresses the revenue and cost of revenue for the two segments of our business. For information regarding the results of the Enterprise assets, see *Discontinued Operations — Enterprise assets* below.

Commercial Segment:

($ in millions)	2007	2006	2007 vs. 2006 $	2007 vs. 2006 %	2005	2006 vs. 2005 $	2006 vs. 2005 %
Services revenue	$ 58.8	$ 59.7	$ (0.9)	(2)%	$ 54.2	$ 5.5	10%
Systems revenue	16.5	17.2	(0.7)	(4)%	11.7	5.5	47%
Total Commercial Segment revenue	75.3	77.0	(1.7)	(2)%	65.9	11.1	17%
Direct cost of services	29.4	31.4	(2.0)	(6)%	25.9	5.5	21%
Direct cost of systems	5.0	5.2	(0.2)	(4)%	5.7	(0.5)	(9)%
Total Commercial Segment cost of revenue	34.4	36.6	(2.2)	(6)%	31.6	5.0	16%
Services gross profit	29.4	28.3	1.1	4%	28.3	—	NM
Systems gross profit	11.5	12.0	(0.5)	(4)%	6.0	6.0	100%
Total Commercial Segment gross profit*	$ 40.9	$ 40.3	$ 0.6	1%	$ 34.3	$ 6.0	18%
Segment gross profit as a percent of revenue	54%	52%			52%		

* *See discussion of segment reporting in Note 20 to the audited Consolidated Financial Statements presented elsewhere in this Annual Report on Form 10-K. (NM = Not meaningful)*

Commercial Services Revenue and Cost of Revenue:

Our hosted offerings include our E9-1-1 service for wireless and Voice Over IP service providers, hosted Position Determining Entity (PDE) service, and hosted Location Based Service (LBS) applications. Revenue from these offerings primarily consists of monthly recurring service fees and is recognized in the month earned. E9-1-1, PDE, VoIP and hosted LBS service fees are priced based on units served during the period, such as the number of customer cell sites served, the number of connections to Public Service Answering Points (PSAPs), or the number of customer subscribers served. In 2006, we expedited deployment of connections to PSAPs for VoIP and E9-1-1 service, and continued to increase the number of carriers and carrier billable units served. In addition, we increased revenue from our VoIP E9-1-1 and hosted LBS recurring services primarily due to new service contracts signed in mid-2005. These increases were partially offset by decreases in the average fee received per unit under pricing arrangements with some customers and the loss of a mid-tier wireless carrier customer during the third quarter of 2006. Subscriber service revenue is generated by client software applications for wireless subscribers such as Rand McNally® Traffic. Maintenance fees on our systems and software licenses are collected in advance and recognized ratably over the maintenance period. Unrecognized maintenance fees are included in deferred revenue. Custom software development, implementation and maintenance services may be provided under time and materials or fixed-fee contracts.

Overall, commercial services revenue decreased 2% in 2007 from 2006, as the effect of decreases in average fees received per unit under pricing arrangements with some wireless E9-1-1 customers, and the loss of a mid-tier carrier customer in the third quarter of 2006 offset increased maintenance revenue on our installed software base. The 10% increase in 2006 over 2005 was due to increases in maintenance revenue from our installed base of commercial systems, along with an increase in revenue from E9-1-1 services to Voice over IP service providers, which more than offset a small decrease in revenue from E9-1-1 services to wireless carrier customers.

The direct cost of our services revenue consists primarily of network access, data feed and circuit costs, compensation and benefits, equipment and software maintenance. The direct cost of maintenance revenue consists primarily of compensation and benefits expense. For the year ended December 31, 2007, the direct cost of services revenue decreased 6%. During 2007, we incurred less labor and direct costs related to custom development efforts and deployment requirements of VoIP E9-1-1 infrastructure. For the year ended December 31, 2006, the direct cost of services revenue increased 21%, principally because we increased labor and direct costs related to custom development efforts responding to customer requests and deployment requirements for VoIP. While we increased the number of cell sites, subscribers and public safety answering points (PSAPs) served, our overall circuit and data access costs were relatively consistent year to year. For 2007, the cost of circuit and other data access costs accounted for approximately 15% of total direct costs of hosted, subscriber, and maintenance revenues. The cost of circuit and other data access costs accounted for approximately 11% and 13% of the total direct costs of our commercial hosted, subscriber, and maintenance revenues for 2006 and 2005 respectively. Also, $1.1 million, $0.8 million, and nil of non-cash stock compensation cost is included in the direct cost of commercial services revenue in 2007, 2006, and 2005 respectively.

Commercial services gross profit in 2007 was 4% higher than 2006 based on improved operating efficiencies. Commercial services gross profit in 2006 was about equal to that in 2005 ($28.3 million), as a slightly lower average margin offset the effect of 10% higher revenue.

Commercial Systems Revenue and Cost of Revenue

We sell communications systems for enhanced services, including messaging and location-based services, to wireless carriers. These systems are designed to incorporate our licensed software. We design our software to ensure that it is compliant with all applicable standards, including the GSM/UMTS standards for location-based wireless services that were established in 2005 and, as such, we believe our software is positioned for early adoption by carriers.

Licensing fees for our carrier software are generally a function of its volume of usage in our customer's networks. As a carrier's subscriber base or usage increases, the carrier must purchase additional capacity under its license agreement and we receive additional revenue. Systems revenues typically contain multiple elements, which may include the product license, installation, integration, and hardware. The total arrangement fee is allocated among each element based on vendor-specific objective evidence of the relative fair value of each of the elements. Fair value is generally determined based on the price charged when the element is sold separately. In the absence of evidence of fair value of a delivered element, revenue is allocated first to the undelivered elements based on fair value and the residual revenue to the delivered elements. The software licenses are generally perpetual licenses for a specified volume of usage, along with the purchase of annual maintenance at a specified rate. We recognize license fee revenue when each of the following has occurred: (1) evidence of an arrangement is in place; (2) we have delivered the software; (3) the fee is fixed or determinable; and (4) collection of the fee is probable. Software projects that require significant customization are accounted for under the percentage-of-completion method. We measure progress to completion using costs incurred compared to estimated total costs or labor costs incurred compared to estimated total labor costs for contracts that have a significant component of third-party materials costs. We recognize estimated losses under long-term contracts in their entirety upon discovery. If we did not accurately estimate total costs to complete a contract or do not manage our contracts within the planned budget, then future margins may be negatively affected or losses on existing contracts may need to be recognized. Software license fees billed and not recognized as revenue are included in deferred revenue. We may also realize license revenue as a result of infringement claims that we make in enforcing our patents. In 2006, we reached a settlement on a patent infringement case and won a jury award of more than $10 million in another infringement case; no revenue has been recognized on the second case pending post trial motions, appeals, and potential settlement.

Systems revenue in 2007 was 4% lower than in 2006 due mainly to lower sales of text messaging capacity. Systems revenue in 2006 was 47% higher than in 2005, mainly as a result of higher messaging and location system license sales. The direct cost of commercial systems consists primarily of compensation, benefits, purchased equipment, third-party software, travel expenses, and consulting fees as well as the amortization of both acquired and capitalized software development costs for all reported periods. The direct cost of the license component of systems is normally very low, and the gross profit very high since the software development efforts were expensed or capitalized in prior periods. The direct costs of systems includes amortization of software development costs of $1.5 million, $1.3 million, and $0.8 million, respectively, in 2007, 2006, and 2005.

Our commercial systems gross profit was $11.5 million in 2007, a 4% or $0.5 million decrease from 2006. Commercial systems gross profit was $12.0 million in 2006, more than double the $6.0 million in 2005. Systems gross margins are higher in periods when systems revenue includes a higher proportion of software licenses relative to third party system components and integration labor, as was the case in 2006. The lower revenue and related gross profit in 2005 was due to later than expected implementation of location-based service technology by wireless carriers.

Government Segment:

($ in millions)	2007	2006	2007 vs. 2006 $	2007 vs. 2006 %	2005	2006 vs. 2005 $	2006 vs. 2005 %
Services revenue	$ 29.3	$ 28.6	$ 0.7	2%	$ 20.8	$ 7.8	38%
Systems revenue	39.6	19.3	20.3	105%	15.5	3.8	25%
Total Government Segment revenue	68.9	48.0	20.9	44%	36.3	11.7	32%
Direct cost of services	22.8	21.1	1.7	8%	13.4	7.7	58%
Direct cost of systems	32.9	12.7	20.2	159%	12.0	0.7	6%
Total Government Segment cost of revenue	55.7	33.8	21.9	65%	25.4	8.4	33%
Services gross profit	6.5	7.5	(1.0)	(13)%	7.4	0.1	1%
Systems gross profit	6.7	6.7	—	NM	3.5	3.2	91%
Total Government Segment gross profit*	$ 13.2	$ 14.2	$ (1.0)	7%	$ 10.9	$ 3.3	30%
Segment gross profit as a percent of revenue	*19%*	*30%*			*30%*		

* *See discussion of segment reporting in Note 20 to the audited Consolidated Financial Statements presented elsewhere in this Annual Report on Form 10-K.*

We provide government products and services under long-term contracts. We recognize contract revenue as billable costs are incurred and for fixed-price product delivery contracts using the percentage-of-completion method or proportional performance method, measured by either total labor costs or total costs incurred compared to total estimated labor costs or total costs to be incurred. We recognize estimated losses on contracts in their entirety upon discovery. If we did not accurately estimate total labor costs or total costs to complete a contract or do not manage our contracts within the planned budget, then our future margins may be negatively affected or losses on existing contracts may need to be recognized. Under our contracts with the U.S. government, contract costs, including the allocated indirect expenses, are subject to audit and adjustment by the Defense Contract Audit Agency (DCAA). Since the company's inception, no significant adjustment has resulted from a DCAA audit. We record revenue under these contracts at estimated net realizable amounts.

For 2007, Government Segment revenue increased 44% reflecting increases in both services and systems revenue. For 2006, Government Segment revenue increased 32% reflecting increases in both services and systems revenue. During the third quarter of 2006, we were one of six vendors selected by the U.S. Army to provide secure satellite services and systems under a five year contract vehicle, with a possible maximum value of up to $5 billion for the six vendors. This new *Worldwide Satellite Services* contract vehicle is expected to contribute to significant government systems sales growth over the next five years. The company's Government Segment has been awarded participation as a prime or sub-contractor to provide similar satellite-based technology under several other contract vehicles. For the year ended December 31, 2007, the company was awarded 10 contracts under the WWSS vehicle with a total contract value of $107.5 million, of which $28.3 million was fulfilled resulting in 2007 revenue. The total backlog for this vehicle was $79.2 million of which $10.9 million was funded.

Government Services Revenue and Cost of Revenue:

Government services revenue primarily consists of communications engineering, program management, help desk outsource, network design and management for government agencies. Our Government Segment also operates teleport facilities for data connectivity via satellite. Most such services are delivered under time and materials contracts.

Government services revenue increased to $29.3 million in 2007 from $28.6 million in 2006 and $20.8 million in 2005. These increases in 2007 and 2006 were generated by new and expanded-scope contracts resulting from increased sales emphasis on communications and information technology service work, and increased revenue generated from satellite airtime services using our teleport facilities and in some cases associated with our systems sales. Continuing growth is expected from higher usage of our teleport related services and continuing incremental additions of technical outsource service personnel. Also, we offer basic and extended maintenance contracts on our systems. These maintenance fees are collected in advance and recognized ratably over the maintenance periods.

Direct cost of government service revenue consists of compensation, benefits and travel incurred in delivering these services, and these costs increased as a result of the increased services volume in 2007 and 2006. Also, as a result of the implementation of SFAS 123(R), $0.7 million in 2007, $0.5 million in 2006, and nil in 2005 of non-cash stock compensation cost is included in the direct cost of revenue.

Our gross profit from government services decreased to $6.5 million 2007, from $7.5 million in 2006, and $7.4 million in 2005. Despite higher revenue, gross profit declined due to the lower average margins as a result of tighter average pricing in 2007, and due to competition for the contracts as they were renewed or newly won. During 2005, our government services contract mix included some work with unusually favorable pricing, and similar contracts were not part of the revenue mix in 2006 and 2007.

Government Systems Revenue and Cost of Revenue:

We generate government systems revenue from the design, development, assembly and deployment of information processing and communication systems, primarily deployable communications systems, which are largely variations on our SwiftLink® product line, and integration of those systems into customer networks. Swiftlink® systems are secure, deployable communications systems, sold mainly to units of the U.S. Departments of Defense, State, and Justice, as well as to other agencies. We recognize contract revenue as billable costs are incurred, and for fixed-price product delivery contracts using the percentage-of-completion method or proportional performance method, measured by either total labor costs, total costs incurred or units shipped compared to total estimated labor costs, costs incurred, or units as appropriate under the contract. We recognize estimated losses on contracts in their entirety upon discovery.

Government systems sales increased to $39.6 million in 2007 from $19.3 million in 2006 and $15.5 million in 2005. The 2006 and 2007 variations in systems revenues were primarily due to increases in the volume of unit sales of our SwiftLink® and deployable communications systems resulting from competitive wins, largely under the World Wide Satellite Systems Army procurement vehicle.

The cost of our government systems revenue consists of compensation, benefits, travel, satellite "space segment" and airtime, costs related to purchased equipment components, and the costs of third-party contractors that we engage. These equipment and third-party costs are variable for our various types of products, and margins may fluctuate between periods based on the respective product mixes.

Our government systems gross profit was the same at $6.7 million in 2007 and 2006 and increased from $3.5 million in 2005 primarily due to higher volume. In 2007, the effect of lower margins was offset by an increase over 2006 volume.

Operating Expenses:

Research and Development Expense:

($ In millions)	2007	2006	2007 vs. 2006 $	2007 vs. 2006 %	2005	2006 vs. 2005 $	2006 vs. 2005 %
Research and development expense	$ 13.1	$ 12.6	$ 0.5	4%	$ 13.9	$ (1.3)	(9)%
Percent of revenue	*9%*	*10%*			*14%*		

Our research and development expense consists of compensation, benefits, travel costs, and a proportionate share of facilities and corporate overhead. The costs of developing software products are expensed prior to establishing technological feasibility. Technological feasibility is established for our software products when a detailed program design is completed. We incur research and development costs to enhance existing packaged software products as well as to create new software products including software hosted in our network operations center. These costs primarily include compensation and benefits as well as costs associated with using third-party laboratory and testing resources. We expense such costs as they are incurred unless technological feasibility has been reached and we believe that the capitalized costs will be recoverable.

The expenses we incur relate to software applications which are being marketed to new and existing customers on a global basis. Throughout 2007 and 2006, research and development was primarily focused on cellular and hosted location-based applications, including Voice over IP E9-1-1, enhancements to our hosted location-based applications and enhancements to our hosted location-based service platform and to our wireless text messaging software. Management continually assesses our spending on research and development to ensure resources are focused on products that are expected to achieve the highest level of success. In 2007, we capitalized $1.5 million of software development costs for certain software projects in accordance with the above policy. The capitalized costs relate to our software for wireless location-based services. These costs are being amortized on a product-by-product basis using the straight-line method over the products, estimated useful life, not longer than three years. Amortization is also computed using the ratio that current revenue for the product bears to the total of current and anticipated future revenue for that product (the revenue curve method). If this revenue curve method results in amortization greater than the amount computed using the straight-line method, amortization is recorded at that greater amount. Amortization of software development costs is recorded as a direct cost of revenue. We believe that these capitalized costs will be recoverable from future gross profits generated by these products. Prior to the second quarter of 2005, our estimates did not sufficiently demonstrate future realizability of our software development costs expended on such products; and accordingly, all such costs were expensed as incurred.

Research and development expense increased 4% in 2007 from 2006. This increase is mainly due to more company personnel assigned to software development work during 2007 than in 2006. The 9% decrease in research and development costs in 2006 as compared to 2005 is mainly due to fewer company personnel assigned to software development work. Also, due to the implementation of SFAS 123(R), we included $0.9 million, $0.6 million, and nil of non-cash stock compensation costs in research and development costs in 2007, 2006, and 2005 respectively.

Our research and development expenditures have yielded more than 50 patents, primarily for wireless messaging and location technology, and approximately 190 pending patent applications. We believe that the intellectual property represented by these patents is a valuable asset that will contribute positively to our results of operations in 2008 and beyond.

Sales and Marketing Expense:

($ In millions)	2007	2006	2007 vs. 2006 $	2007 vs. 2006 %	2005	2006 vs. 2005 $	2006 vs. 2005 %
Sales and marketing expense	$ 11.9	$ 11.7	$ 0.2	2%	$ 10.5	$ 1.2	11%
Percent of revenue	*8%*	*9%*			*10%*		

Our sales and marketing expense includes compensation and benefits, trade show expenses, travel costs, advertising and public relations costs as well as a proportionate share of facility-related costs which are expensed as incurred. Our marketing efforts also include speaking engagements, and attending and sponsoring industry conferences. We sell our software products and services through our direct sales force and through indirect channels. We also leverage our relationships with original equipment manufacturers to market our software products to wireless carrier customers. We sell our products and services to agencies and departments of the U.S. government primarily through direct sales professionals. Sales and marketing costs increased 2% and 11% in 2007 and 2006 respectively, primarily as a result of adding additional Government Segment sales personnel, and increased public relations fees. This was offset by reductions in senior sales and marketing executive staff costs.

General and Administrative Expense:

($ in millions)	2007	2006	2007 vs. 2006 $	2007 vs. 2006 %	2005	2006 vs. 2005 $	2006 vs. 2005 %
General and administrative expense	$ 19.3	$ 17.0	$ 2.3	14%	$ 15.0	$ 2.0	13%
Percent of revenue	*13%*	*14%*			*15%*		

General and administrative expense consists primarily of costs associated with management, finance, human resources and internal information systems. These costs include compensation, benefits, professional fees, travel, and a proportionate share of rent, utilities and other facilities costs which are expensed as incurred. The increases in both 2007 and 2006 were primarily attributable to higher legal and advisory fees associated with intellectual property related activity. G&A expense included $0.8, $0.7, and $0.7 million of non-cash stock compensation 2007, 2006, and 2005, respectively.

Depreciation and Amortization of Property and Equipment:

($ in millions)	2007	2006	2007 vs. 2006 $	2007 vs. 2006 %	2005	2006 vs. 2005 $	2006 vs. 2005 %
Depreciation and amortization of property and equipment	$ 6.2	$ 8.0	$ (1.8)	(23)%	$ 8.6	$ (0.6)	7%
Average gross cost of property and equipment	$ 50.3	$ 52.0	$ (1.7)	(3)%	$ 47.4	$ 4.6	10%

Depreciation and amortization of property and equipment represents the period costs associated with our investment in information technology and telecommunications equipment, software, furniture and fixtures, and leasehold improvements. We compute depreciation and amortization using the straight-line method over the estimated useful lives of the assets. The estimated useful life of an asset generally ranges from five years for furniture, fixtures, and leasehold improvements to three years for most other types of assets including computers, software, telephone equipment and vehicles. Our depreciable asset base has decreased as a result of assets purchased in previous years becoming fully depreciated. In the second quarter of 2006, a review of experience with equipment and software used in our service bureau operations, led us to adjust their average asset lives from three years to four years on a prospective basis. Depreciation expense in 2006 was $0.4 million less than it would have been if the shorter lives had been used.

Amortization of Acquired Intangible Assets:

($ in millions)	2007	2006	2007 vs. 2006 $	2007 vs. 2006 %	2005	2006 vs. 2005 $	2006 vs. 2005 %
Amortization of acquired intangible assets	$ 0.1	$ 0.1	$ —	NM	$ 0.2	$ (0.1)	(50%)

The acquired intangible assets associated with the Kivera Acquisition are being amortized over their useful lives of between three and nineteen years. The expense recognized in 2007, 2006, and 2005 relates to the intangible assets acquired in this acquisition, including customer lists, customer contracts, trademarks, and patents.

Interest Expense:

($ In millions)	2007	2006	2007 vs 2006 $	2007 vs 2006 %	2005	2006 vs. 2005 $	2006 vs. 2005 %
Interest expense incurred on notes payable and under our bank revolving credit agreement	$ 1.6	$ 1.5	$ 0.1	7%	$ 0.5	$ 1.0	200%
Interest expense incurred on capital lease obligations	0.2	0.3	(0.1)	(33)%	0.3	—	NM
Amortization of deferred financing fees	0.3	0.4	(0.1)	(25)%	0.5	(0.1)	(20)%
Amortization of debt discount	0.5	1.0	(0.5)	(50)%	—	1.0	100%
Write-off of unamortized debt discount and debt issuance expenses	2.4	—	2.4	100%	—	—	NM
Less: capitalized interest	(0.1)	(0.1)	—	NM	(0.1)	—	NM
Total Interest and Financing Expense	$ 4.9	$ 3.1	$ 1.8	58%	$ 1.2	$ 1.9	158%

Interest expense is incurred under notes payable, an equipment loan, a line of credit, and capital lease obligations. Interest on notes, is primarily at stated interest rates of between 7.75% and 10.35% and line of credit borrowing is at the bank's prime rate, which was 7.25% as of December 31, 2007.

On June 25, 2007, we refinanced the $10 million secured notes with a new five year term loan payable to our principal bank. The borrowing rate under the new term loan is the prime rate plus 0.25% per annum (7.5% at December 31, 2007) and the loan is repayable in equal monthly installments of $0.2 million plus interest. The funds were used primarily to retire the March 2006 secured notes. This refinancing resulted in the $2.4 million write-off of unamortized debt discount and debt issuance expenses in the second quarter of 2007.

In March 2006, we issued $10 million of secured notes, with cash interest at the rate of 14% per annum, along with warrants to purchase an aggregate of 1.75 million shares of our Class A Common Stock at an exercise price of $2.40 per share (2006 Warrants). In December 2006, we borrowed $5 million under 3 year notes secured by accounts receivable of one customer.

Our bank line of credit expires in June 2010, and our maximum line of credit is $22 million, subject to borrowing base limitations and working capital metrics. There were no borrowings outstanding under our line of credit at December 31, 2007.

Cash interest expense on notes payable was slightly higher for the year ended December 31, 2007 than in 2006 mainly due to the effect of the higher priced March 2006 debt while it was outstanding. The interest incurred on the March 2006 notes, partially offset by reduced average principal balances on our revolving credit and other notes payable, has caused our total interest expense to be higher in 2006 than it was in 2005.

Deferred financing fees relate to the up-front expenditures at the time of contracting for notes payable and our revolving line of credit facility, which are being amortized over the term of the note or the life of the facility.

The amortization of debt discount relates to the 2006 Warrants as well as adjustment to the terms of warrants issued in connection with 2004 financings. The value of the 2006 Warrants was estimated to be $2.9 million, determined using the Black-Scholes option-pricing model, which was recorded as a debt discount and additional paid-in capital in 2004. The value of the adjustments to the 2004 Warrants was estimated to be $0.6 million using the Black-Scholes option-pricing model, which was recorded as a debt discount and additional paid-in capital in the first quarter of 2006. The total debt discount at issuance was being amortized to interest expense over the three year life of the 2006 Notes, yielding an effective interest rate of 15.2%. Amortization expense in 2006 includes $1.0 million associated with the March 2006 notes. There was no comparable expense in 2005.

Our capital lease obligations include interest at various amounts depending on the lease arrangement. Our interest under capital leases fluctuates depending on the amount of capital lease obligations in each year, and the interest under those leases, has remained relatively constant since 2006. The interest cost of capital lease financings was about the same in the years ending December 31, 2007, 2006, and 2005.

Deferred financing fees relate to the up-front payment of fees to secure our notes payable and our revolving line of credit facility. All other deferred financing fees are being amortized over the terms of the notes or, in the case of the amended line of credit, the life of the facility, which now expires in June 30, 2010.

Our interest and financing expense increased in 2007 over 2006 due mainly to the write-off of the amortization of debt discount and financing fees associated with the refinancing of our March 2006 debt. Our interest and financing expense increased in 2006 over 2005 due mainly to the issuance of the 14% March 2006 notes and 2006 Warrants.

Other (Expense)/Income, Net:

($ in millions)	2007	2006	2007 vs. 2006 $	2007 vs. 2006 %	2005	2006 vs. 2005 $	2006 vs. 2005 %
Foreign currency translation/ transaction (loss)/gain	$ (0.1)	$ (0.1)	$ —	NM	$ (0.2)	$ (0.1)	50%
Miscellaneous other (expense)/ income	0.6	0.1	0.5	500%	0.1	—	NM
Total other (expense)/income, net	$ 0.5	$ —	0.5	100%	$ (0.1)	0.1	100%

Other (expense)/income, net consists of interest earned on investment accounts and foreign currency translation/transaction gain or loss. We record the effects of foreign currency translation on our cash receivables and deferred revenues that are stated in currencies other than our functional currency.

Income Taxes:

Because we have incurred net losses since 1999, no provision for federal or state income taxes has been made for the years ended December 31, 2007, 2006 and 2005. As a result of uncertainties regarding the realizability of the related assets, we have recorded a full valuation allowance for our deferred tax assets in our audited Consolidated Financial Statements appearing elsewhere in this Annual Report on Form 10-K. Our net operating loss carryforwards from acquired businesses will begin to expire in 2011 and the net operating loss carryforwards from our operations will expire from 2019 through 2026.

Discontinued Operations:

In 2007, the Company sold its Enterprise division operations, which had previously been included in our Commercial Segment. The operations and cash flows of the business have been eliminated from those of continuing operations and the Company has no significant involvement in the operations since the disposal transactions. Accordingly, the assets, liabilities, and results of operations for the Enterprise assets have been classified as discontinued operations for all periods presented in the Consolidated Financial Statements included elsewhere in this Annual Report on Form 10-K in accordance with Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (Statement No. 144).

Effective January 1, 2007, the Company sold two of its three Enterprise units to strategic buyers for common stock in the acquiring publicly traded companies and earn-out arrangements. The Mobile Finance unit, including its U.S. and European operations, was sold to Stockgroup Information Systems, Inc. for 1.5 million shares of common stock. Assets of the Mobile Office unit, doing business as mobeo®, were acquired by MobilePro Corporation for 9 million shares of common stock. During May 2007, the last Enterprise unit was sold to TPA Acquisition Corporation for $4 million in cash of which $0.2 million is in escrow, a $1 million 18-month note, and $0.2 million in equity interest of this privately held company.

The following table presents income statement data for the Enterprise division, currently reported as discontinued operations. The 2005 results were previously reported as part of the results of our Commercial Segment.

($ in millions)	2007	2006	2007 vs. 2006 $	2007 vs. 2006 %	2005	2006 vs. 2005 $	2006 vs. 2005 %
Total revenue	$ 5.6	$ 26.0	$ (20.4)	(78)%	$ 28.1	(2.1)	(7)%
Total gross profit	0.8	4.5	$ (3.7)	(82)%	6.0	(1.5)	25%
Loss from discontinued operations, including 2006 impairment charges of $15.5 million	$ (0.3)	$ (23.7)	$ 23.4	99%	$ (7.2)	(16.5)	229%

($ in millions)	2006	2005	2006 vs. 2005 $	2006 vs. 2005 %
Services revenue	$ 15.3	$ 22.5	$ (7.2)	(32)%
Systems revenue	10.7	5.6	5.1	91%
Total Enterprise revenue	26.0	28.1	(2.1)	(7)%
Direct cost of services	12.0	15.7	(3.7)	(24)%
Direct cost of systems	9.5	6.3	3.2	51%
Total Enterprise cost of revenue	21.5	22.1	(0.6)	(3)%
Services gross profit	3.3	6.9	(3.6)	52%
Systems gross profit	1.2	(0.8)	2.0	250%
Total Enterprise gross profit	4.5	6.0	(1.5)	25%
Research and development, sales, marketing, and general and administrative expenses	12.6	9.9	3.0	30%
Depreciation and amortization	(0.0)	3.3	(3.3)	(100)%
Write-down of goodwill and other long-lived assets	(15.5)	—	—	NM
Loss from discontinued operations	$ (23.7)	$ (7.2)	(16.5)	229%

Lower volume and resulting lower gross profit in 2006 from Enterprise operations resulted from losses of subscribers to next generation networks from data-only and pager networks, and new subscriptions to our offerings were fewer than churn from our old technology network offerings. Enterprise systems revenue and gross profit grew in 2006 due to larger project volume. We sustained development spending to preserve the then pending business sale, and incurred other expenses in 2006 in connection with European staffing reductions. In accordance with the relevant accounting literature, we ceased depreciation and amortization of the long-lived enterprise assets when they became classified as discontinued operations in 2005. In 2006, we recorded an impairment charge of $15.5 million to write-down the value of goodwill and other long lived assets to its estimated fair value.

Net Loss:

($ in millions)	2007	2006	2007 vs. 2006 $	2007 vs. 2006 %	2005	2006 vs. 2005 $	2006 vs. 2005 %
Net income (loss) from continuing operations	$ (1.0)	$ 2.0	$ (3.0)	(150)%	$ (4.3)	$ 6.3	(146)%
Loss from discontinued operations	(0.3)	(23.7)	23.4	99%	(7.2)	(16.5)	229%
Net loss	$ (1.3)	$ (21.7)	$ 20.4	94%	$ (11.5)	$ (10.2)	88%

Net loss changes for each year are as a result of the discussions above.

Liquidity and Capital Resources

The following table summarizes our comparative statements of cash flow:

($ in millions)	2007	2006	2005
Net cash and cash equivalents provided by (used in):			
Net loss	$ (1.3)	$ (21.7)	$ (11.5)
Less: loss from discontinued operations	(0.3)	(23.7)	(7.1)
Income (loss) from continuing operations	(1.0)	2.0	(4.4)
Non-cash charges	15.5	13.9	11.3
Net changes in working capital	(5.4)	(2.9)	1.1
Operating activities of continuing operations	9.1	13.0	8.0
Operating activities of discontinued operations	(3.6)	(8.0)	(3.2)
Net operating activities	5.5	5.0	4.8
Investing activities for continuing operations:			
Purchases of property and equipment	(2.6)	(2.8)	(4.6)
Capitalized software development costs	(1.5)	(1.8)	(2.0)
Investing activities for continuing operations	(4.1)	(4.6)	(6.6)
Investing activities for discontinued operations	4.0	(1.4)	(2.1)
Net investing activities	(0.1)	(6.0)	(8.7)
Financing activities:			
Payments on debt and leases	(16.0)	(13.6)	(7.4)
Proceeds from/(finance fees related to) issuance of stock and debentures, net	—	(1.5)	(0.1)
Proceeds from borrowings	10.0	16.0	2.0
Proceeds from exercise of warrants	2.2	—	—
Proceeds from employee option exercises	4.0	0.7	0.7
Net financing activities from continuing operations	0.2	1.6	(4.9)
Effect of exchange rates from discontinued operations	—	0.3	(0.1)
Change in cash and cash equivalents from continuing operations	5.2	10.1	(3.5)
Change in cash and cash equivalents from discontinued operations	0.4	(9.1)	(5.4)
Net change in cash and cash equivalents	$ 5.6	$ 1.0	$ (8.9)
Days revenues outstanding in accounts receivable including unbilled receivables	87	82	91

Capital resources: We have funded our operations, acquisitions, and capital expenditures primarily using cash generated by our operations, as well as the net proceeds from investor capital including:

- June 2007 bank term loan borrowing of $10 million to refinance March 2006 secured notes, at lower coupon rate.
- March 2006 issuance of secured notes and warrants (described below) which generated net cash proceeds of approximately $9.3 million.
- December 2006 issuance of a $5 million note for a term of three years secured by accounts receivable of a customer.
- Capital leases to fund fixed asset purchases.

Sources and uses of cash: The company's cash and cash equivalents balance was approximately $16 million at December 31, 2007, a $5.6 million increase from $10.4 million at December 31, 2006.

Operations: Cash generated by continuing operations decreased to $9.1 million in 2007 from $13.0 million in 2006 and increased from $8.0 million in 2005 due to fluctuations in working capital. Discontinued operations used $3.6 million, $8.0 million, and $3.2 million in 2007, 2006 and 2005, respectively. The operations and cash flows of the discontinued operations have been eliminated from those of continuing operations and the Company has no significant involvement in the operations since the disposal transaction.

Investing activities: Fixed asset additions in 2007, 2006, and 2005 were $2.6, $2.8, and $4.6 million respectively. Also, investments were made in development of carrier software for resale which had reached the stage of development calling for capitalization, in the amounts approximately $2.0 million each year. Discontinued operations generated $4 million from the sale of assets in 2007. Investments were made during 2005 and 2006 in discontinued operations primarily for enhancements to the core software for resale by the mobile asset management unit.

Financing activities: On June 25, 2007, we refinanced $10 million of secured notes with a five year bank term loan. The borrowing rate under the new term loan was prime plus 0.25% per annum (7.5% at December 31, 2007) and the loan is repayable in equal monthly installments of $0.2 million plus interest. The funds were used primarily to retire the March 2006 secured notes. In March 2006, we issued (i) $10 million of secured notes due March 10, 2009, with cash interest at 14% per annum, and (ii) warrants to purchase an aggregate of 1.75 million shares of our Class A Common Stock at an exercise price of $2.40 per share. Also, some warrants that we had previously issued in 2004 contained provisions which required an adjustment in both the warrant price and the number of warrants outstanding as a consequence of the issuance of 2006 Warrants. The resulting carrying value of the debt at issuance was $6.5 million, net of the original discount of $3.5 million which was amortized to interest expense over its three-year term using the effective interest method, yielding an effective interest rate of 15.2%. The remaining unamortized debt discount and deferred debt issuance expenses of $2.4 million were written off in the second quarter of 2007 as a result of early retirement of the March 2006 note.

We have a $22 million revolving credit line with our principal bank through June 2010. Upon amendment of our agreement with the bank in the second quarter of 2007, the borrowing rate was reduced to the bank's prime rate, which was 7.25% per annum at December 31, 2007. Borrowings at any time are limited based mainly on accounts receivable levels and a working capital ratio, each as defined in the amended line of credit agreement. The line of credit available is also reduced by the amount of letters of credit outstanding, which was $2.9 million at December 31, 2007. As of December 31, 2007, we had no borrowings outstanding under our bank line of credit and had approximately $11 million of unused borrowing availability under the line.

Our line of credit and term loan agreement contains covenants requiring us to maintain a minimum adjusted quick ratio and a minimum liquidity ratio; as well as other restrictive covenants including, among others, restrictions on our ability to merge, acquire assets above prescribed thresholds, undertake actions outside the ordinary course of our business (including the incurrence of indebtedness), guarantee debt, distribute dividends, and repurchase our stock, and minimum tangible net worth. The bank credit agreement also contains a subjective covenant that requires (i) no material adverse change in the business, operations, or financial condition of our Company occur, or (ii) no material impairment of the prospect of repayment of any portion of the bank credit agreement; or (iii) no material impairment of value or priority of the lenders security interests in the collateral of the bank credit agreement. If our performance does not result in compliance with any of our restrictive covenants, we would seek to further modify our financing arrangements, but there can be no assurance that the bank would not exercise its rights and remedies under its agreement with us, including declaring all outstanding debt due and payable. As of December 31, 2007, we were in compliance with the covenants related to our line of credit and term loan agreement and we believe that the Company will continue to comply with these covenants.

On December 28, 2006, we issued a $5 million note for a term of three years, with cash interest at 10.35% per annum, secured by accounts receivable of one customer to an institutional lender. Scheduled payments for term debt, leases, and net reduction of our revolver borrowings totaled $16.0 million during 2007.

During 2005, we made $6 million of scheduled payments under term debt and capital lease obligations while making a small net increase in borrowings under our line of credit.

Off-Balance Sheet Arrangements

We had standby letters of credit totaling approximately $2.9 million at year-end 2007 and $3.8 million at year-end 2006 in support of processing credit card payments from our customers, as collateral with a vendor, and security for office space.

Contractual Commitments

As of December 31, 2007, our most significant commitments (including interest) consisted of long-term debt, obligations under capital leases and non-cancelable operating leases. We lease certain furniture and computer equipment under capital leases. We lease office space and equipment under non-cancelable operating leases. As of December 31, 2007 our commitments consisted of the following:

($ in millions)	2008	2009-2010	2011-2012	Beyond	Total
Notes payable	$ 4.7	$ 6.8	$ 3.4	$ —	$ 14.9
Capital lease obligations	2.0	1.6	0.2	—	3.8
Operating leases, primarily for office space	3.4	4.3	1.6	0.9	10.2
Total contractual commitments	$ 10.1	$ 12.7	$ 5.2	$ 0.9	$ 28.9

Related Party Transactions

In February 2003, we entered into an agreement with Annapolis Partners LLC to explore the opportunity of relocating our Annapolis offices to a planned new real estate development. Our President and Chief Executive Officer own a controlling voting and economic interest in Annapolis Partners LLC and he also serves as a member. The financial and many other terms of the agreement have not yet been established. The lease is subject to several contingencies and rights of termination. For example, the agreement can be terminated at the sole discretion of our Board of Directors if the terms and conditions of the development are unacceptable to us, including without limitation the circumstances that market conditions make the agreement not favorable to us or the overall cost is not in the best interest to us or our shareholders, or any legal or regulatory restrictions apply. Our Board of Directors will evaluate this opportunity along with alternatives that are or may become available in the relevant time periods and there is no assurance that we will enter into a definitive lease at this new development site.

Item 7A *Qualitative and Quantitative Disclosures about Market Risk*

Interest Rate Risk

We have limited exposure to financial market risks, including changes in interest rates. As discussed above under "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources," we have a $22 million line of credit. A hypothetical 100 basis point adverse movement (increase) in the prime rate would have increased our interest expense for the year ended December 31, 2007 by approximately $0.1 million, resulting in no significant impact on our consolidated financial position, results of operations or cash flows.

At December 31, 2007, we had cash and cash equivalents of $16.0 million. Cash and cash equivalents consisted of demand deposits and money market accounts that are interest rate sensitive. However, these investments have short maturities mitigating their sensitivity to interest rates. A hypothetical 100 basis point adverse movement (decrease) in interest rates would have increased our net loss for 2007 by approximately $0.1 million, resulting in no significant impact on our consolidated financial position, results of operations or cash flows.

Foreign Currency Risk

For the year ended December 31, 2007, we generated $5.6 million of revenue outside the U.S. A majority of our transactions generated outside the U.S. are denominated in U.S. dollars and a change in exchange rates would not have a material impact on our Consolidated Financial Statements. As of December 31, 2007, we had approximately $0.1 million in unbilled receivables that are denominated in foreign currencies and would be exposed to foreign currency exchange risk. As of December 31, 2007, we did not have billed accounts receivable that would expose us to foreign currency exchange risk. During 2007, our average receivables and deferred revenue subject to foreign currency exchange risk were $0.1 million and $0.6 million, respectively. We recorded transaction losses of less than $0.1 million on foreign currency denominated receivables and deferred revenue for the year ended December 31, 2007.

Item 8*Financial Statements and Supplementary Data*

The financial statements listed in Item 15 are included in this Annual Report on Form 10-K beginning on page F-1.

Item 9*Changes In and Disagreements With Accountants on Accounting and Financial Disclosure*

None.

Item 9A*Controls and Procedures*

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this Annual Report on Form 10-K, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures (as defined in Rule 13a-15(e) or 15d-15(e) of the Exchange Act) were effective to provide reasonable assurance that information we are required to disclose in reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the applicable rules and forms, and that it 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.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Exchange Act Rule 13a-15(f). Management, including our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control -Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that our internal control over financial reporting was effective as of December 31, 2007. Management reviewed the results of their assessment with our Audit Committee. The effectiveness of our internal control over financial reporting as of December 31, 2007 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report which is included in Item 8 of this Annual Report on Form 10-K.

Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal controls over financial reporting during the quarter ended December 31, 2007, that are materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
TeleCommunication Systems, Inc.

We have audited TeleCommunication Systems Inc.'s internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). TeleCommunication Systems Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, TeleCommunication Systems Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of TeleCommunication Systems, Inc. and subsidiaries as of December 31, 2007 and 2006, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2007 of TeleCommunication Systems, Inc. and subsidiaries and our report dated February 29, 2008 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Baltimore, Maryland
February 29, 2008

Part III

Item 10*Directors , Executive Officers, and Corporate Governance*

The information required by this Item 10 is incorporated herein by reference from the information captioned "Board of Directors" and "Security Ownership of Certain Beneficial Owners and Management" to be included in the Company's definitive proxy statement to be filed in connection with the 2008 Annual Meeting of Stockholders, to be held on June 12, 2008 (the "Proxy Statement"). The Company's Code of Ethics and Whistleblower Procedures may be found at http://www1.telecomsys.com/investorinfo/corpgovernance.cfm.

Item 11*Executive Compensation*

The information required by this Item 11 is incorporated herein by reference from the information captioned "Board of Directors" and "Executive Compensation" to be included in the Proxy Statement.

Item 12*Security Ownership of Certain Beneficial Owners and Management*

The information required by this Item 12 is incorporated herein by reference from the information captioned "Security Ownership of Certain Beneficial Owners and Management" to be included in the Proxy Statement.

Item 13*Certain Relationships and Related Transactions and Director Independence*

The information required by this Item 13 is incorporated herein by reference from the information captioned "Certain Relationships and Related Transactions" and "General Information Concerning the Board of Directors" to be included in the Proxy Statement.

Item 14*Principal Accountant Fees and Services*

The information required by this Item 14 is incorporated herein by reference from the information captioned "Principal Accountant Fees and Services" to be included in the Proxy Statement.

Part IV

Item 15*Exhibits, Financial Statement Schedules*

(a)(1) Financial Statements

The financial statements listed in Item 15 are included in this Annual Report on Form 10-K beginning on page F-1.

(a)(2) Financial Statement Schedules

The financial statement schedule required by Item 15 is included in Exhibit 12 to this Annual Report on Form 10-K.

Exhibits

The exhibits are listed in the Exhibit Index immediately preceding the exhibits.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
TeleCommunication Systems, Inc.

We have audited the accompanying consolidated balance sheets of TeleCommunication Systems, Inc. and subsidiaries as of December 31, 2007 and 2006, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2007. Our audit also included the financial statement schedule listed in the Index at Item 15. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. For the year ended December 31, 2005, we did not audit the financial statements of TeleCommunication Systems (Holdings) Ltd., a wholly-owned subsidiary, which statements reflect a net loss, which represents 25 percent of the consolidated loss from discontinued operations for the year ended December 31, 2005. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for TeleCommunication Systems (Holdings) Ltd., is based solely on the report of the other auditors.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of TeleCommunication Systems, Inc. and subsidiaries at December 31, 2007 and 2006, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2007, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, on January 1, 2006, the Company changed its method of accounting for stock-based compensation in accordance with guidance provided in Statement of Financial Accounting Standards No. 123(R), "Share-Based Payment."

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), TeleCommunication Systems, Inc.'s internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 29, 2008 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Baltimore, Maryland
February 29, 2008

TeleCommunication Systems, Inc.

Consolidated Balance Sheets
(amounts in thousands, except share data)

	December 31, 2007	December 31, 2006
Assets		
Current assets:		
Cash and cash equivalents	$ 15,955	$ 10,358
Accounts receivable, net of allowance of $266 in 2007 and $290 in 2006	20,424	21,544
Unbilled receivables	15,229	7,636
Inventory	5,373	5,293
Other current assets	5,561	2,818
Current assets of discontinued operations	—	13,596
Total current assets	62,542	61,245
Property and equipment, net of accumulated depreciation and amortization of $35,969 in 2007 and $40,594 in 2006	11,209	12,853
Software development costs, net of accumulated amortization of $4,783 in 2007 and $3,262 in 2006	4,406	4,402
Acquired intangible assets, net of accumulated amortization of $509 in 2007 and $362 in 2006	709	856
Goodwill	1,813	1,813
Other assets	1,445	2,526
Total assets	$ 82,124	$ 83,695
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 12,459	$ 10,421
Accrued payroll and related liabilities	4,915	5,663
Deferred revenue	4,685	3,485
Current portion of capital lease obligations and notes payable	5,444	4,900
Current liabilities of discontinued operations	—	11,400
Total current liabilities	27,503	35,869
Capital lease obligations and notes payable, less current portion	10,657	12,721
Stockholders' equity:		
Class A Common Stock; $0.01 par value:		
Authorized shares — 225,000,000; issued and outstanding shares of 34,970,394 in 2007 and 32,267,893 in 2006	349	322
Class B Common Stock; $0.01 par value:		
Authorized shares — 75,000,000; issued and outstanding shares of 7,301,334 in 2007 and 7,525,672 in 2006	74	76
Additional paid-in capital	227,987	217,739
Accumulated other comprehensive loss	(125)	—
Accumulated deficit	(184,321)	(183,032)
Total stockholders' equity	43,964	35,105
Total liabilities and stockholders' equity	$ 82,124	$ 83,695

See accompanying Notes to Consolidated Financial Statements.

TeleCommunication Systems, Inc.

Consolidated Statements of Operations
(amounts in thousands, except per share data)

	Year ended December 31, 2007	2006	2005
Revenue			
Services	$ 88,062	$ 88,380	$ 74,972
Systems	56,106	36,556	27,181
Total revenue	144,168	124,936	102,153
Direct costs of revenue			
Direct cost of services	52,161	52,540	39,230
Direct cost of systems, including amortization of software development costs of $1,522, $1,273 and $786, respectively	37,906	17,883	17,719
Total direct cost of revenue	90,067	70,423	56,949
Services gross profit	35,901	35,840	35,742
Systems gross profit	18,200	18,673	9,462
Total gross profit	54,101	54,513	45,204
Operating costs and expenses			
Research and development expense	13,072	12,586	13,863
Sales and marketing expense	11,917	11,713	10,535
General and administrative expense	19,334	16,959	15,044
Depreciation and amortization of property and equipment	6,200	7,956	8,625
Amortization of acquired intangible assets	148	147	177
Total operating costs and expenses	50,671	49,360	48,244
Operating Income (Loss)	3,430	5,153	(3,040)
Interest expense	(1,776)	(1,751)	(702)
Amortization of debt discount and debt issuance expenses, including write-off of $2,458 in 2007	(3,176)	(1,447)	(470)
Other (expense)/income, net	508	22	(104)
Income (Loss) from continuing operations	(1,014)	1,976	(4,316)
Loss from discontinued operations	(275)	(23,671)	(7,151)
Net loss	$ (1,289)	$ (21,695)	$ (11,467)
Income (Loss) per share — basic:			
Income (Loss) per share from continuing operations	$ (0.02)	$ 0.05	$ (0.11)
Loss per share from discontinued operations	(0.01)	(0.60)	(0.19)
Net loss per share — basic	$ (0.03)	$ (0.55)	$ (0.30)
Income (Loss) per share — diluted:			
Income (Loss) per share from continuing operations	$ (0.02)	$ 0.05	$ (0.11)
Loss per share from discontinued operations	(0.01)	(0.59)	(0.19)
Net loss per share-diluted	$ (0.03)	$ (0.54)	$ (0.30)
Weighted average shares outstanding-basic	41,453	39,430	38,823
Weighted average shares outstanding-diluted	41,453	40,166	38,823

See accompanying Notes to Consolidated Financial Statements.

TeleCommunication Systems, Inc.

Consolidated Statements of Stockholders' Equity
(amounts in thousands, except share data)

	Class A Common Stock	Class B Common Stock	Deferred Compensation	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total
Balance at January 1, 2005	$ 306	$ 84	$ (787)	$ 209,776	$ (6)	$ (149,869)	$ 59,506
Options exercised for the purchase of 290,980 shares of Class A Common Stock	3	—	—	310	—	—	313
Issuance of 176,851 shares of Class A Common Stock under Employee Stock Purchase Plan	2	—	—	380	—	—	382
Issuance of 14,816 restricted shares of Class A Common Stock to directors and key executives	—	—	(41)	41	—	—	—
Issuance costs related to 2,500,000 shares of Class A Common Stock in connection with a private financing	—	—	—	(81)	—	—	(81)
Surrender of 100,564 restricted shares of Class A Common Stock as payment for payroll tax withholdings	(1)	—	—	(249)	—	—	(250)
Conversion of 373,038 shares of Class B Common Stock to Class A Common Stock	4	(4)	—	—	—	—	—
Stock compensation expense for issuance of Class A Common Stock options at below fair market value	—	—	—	123	—	—	123
Amortization of deferred compensation expense	—	—	597	—	—	—	597
Valuation adjustment to stock options issued to non-employees for service	—	—	—	(27)	—	—	(27)
Foreign currency translation adjustment	—	—	—	—	(34)	—	(34)
Net loss for 2005	—	—	—	—	—	(11,467)	(11,467)
Balance at December 31, 2005	$ 314	$ 80	$ (231)	$ 210,275	$ (40)	$ (161,336)	$ 49,062
Elimination of deferred compensation upon adoption of SFAS No. 123(R)	—	—	231	(231)	—	—	—
Options exercised for the purchase of 209,632 shares of Class A Common Stock	2	—	—	343	—	—	345
Issuance of 212,194 shares of Class A Common Stock under Employee Stock Purchase Plan	2	—	—	388	—	—	390
Issuance of warrants to purchase 1,750,000 shares of Class A	—	—	—	3,455	—	—	3,455

Common Stock							
Surrender of 67,827 restricted shares of Class A Common Stock as payment for payroll tax withholdings	(1)	—	—	(187)	—	—	(188)
Conversion of 510,291 shares of Class B Common Stock to Class A Common Stock	5	(5)	—	—	—	—	—
Stock compensation expense for issuance of Class A Common Stock options for continuing operations	—	—	—	2,872	—	—	2,872
Stock compensation expense for issuance of Class A Common Stock options for discontinued operations	—	—	—	504	—	—	504
Vesting of employee stock options	—	—	—	244	—	—	244
Valuation adjustment to stock options issued to non-employees for service	—	—	—	76	—	—	76
Foreign currency translation adjustment	—	—	—	—	40	—	40
Net loss for 2006	—	—	—	—	—	(21,695)	(21,695)
Balance at December 31, 2006	$ 322	$ 76	$ —	$ 217,739	$ —	$ (183,032)	$ 35,105

TeleCommunication Systems, Inc.

Consolidated Statements of Stockholders' Equity — (Continued)
(amounts in thousands, except share data)

	Class A Common Stock	Class B Common Stock	Deferred Compensation	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total
Options exercised for the purchase of 1,347,301 shares of Class A Common Stock	14	—	—	3,461	—	—	3,475
Issuance of 173,833 shares of Class A Common Stock under Employee Stock Purchase Plan	2	—	—	541	—	—	543
Exercise of warrants to purchase 886,787 shares of Class A Common Stock	9	—	—	2,208	—	—	2,217
Surrender of 19,358 restricted shares of Class A Common Stock as payment for payroll tax withholdings	—	—	—	(57)	—	—	(57)
Conversion of 224,938 shares of Class B Common Stock to Class A Common Stock	2	(2)	—	—	—	—	—
Stock compensation expense for issuance of Class A Common Stock options for continuing operations	—	—	—	3,963	—	—	3,963
Stock compensation expense for issuance of Class A Common Stock options for discontinued operations	—	—	—	132	—	—	132
Unrealized loss on securities and other	—	—	—	—	(125)	—	(125)
Net loss for 2007	—	—	—	—	—	(1,289)	(1,289)
Balance at December 31, 2007	$ 349	$ 74	$ —	$ 227,987	$ (125)	$ (184,321)	$ 43,964

See accompanying Notes to Consolidated Financial Statements.

TeleCommunication Systems, Inc.

Consolidated Statements of Cash Flows
(amounts in thousands)

	Year ended December 31, 2007	2006	2005
Operating activities:			
Net loss	$ (1,289)	$ (21,695)	$ (11,467)
Less: Loss from discontinued operations	(275)	(23,671)	(7,151)
Income (Loss) from continuing operations	(1,014)	1,976	(4,316)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization of property and equipment	6,200	7,956	8,625
Amortization of acquired intangible assets	148	147	177
Non-cash stock compensation expense — employee	3,963	3,116	720
Non-cash stock compensation expense — non-employee	370	—	—
Amortization of software development costs	1,522	1,273	786
Amortization of debt discount	480	960	—
Amortization of deferred financing fees included in interest expense	313	487	470
Write-off of unamortized debt discount and deferred finance fees	2,458	—	—
Other non-cash (income)/expenses	19	(17)	485
Changes in operating assets and liabilities:			
Accounts receivable, net	1,120	(658)	(2,639)
Unbilled receivables	(7,593)	(1,275)	3,524
Inventory	(80)	(2,094)	(635)
Other current assets	(1,870)	152	(1,140)
Other noncurrent assets	541	111	(439)
Accounts payable and accrued expenses	2,038	246	1,423
Accrued payroll and related liabilities	(748)	1,302	195
Deferred revenue	1,200	(638)	758
Net cash provided by operating activities of continuing operations	9,067	13,044	7,994
Net used in operating activities of discontinued operations	(3,598)	(8,037)	(3,240)
Total net cash provided by operating activities	5,469	5,007	4,754
Investing activities:			
Purchases of property and equipment	(2,577)	(2,760)	(4,636)
Capitalized software development costs	(1,525)	(1,849)	(1,960)
Net cash used in investing activities of continuing operations	(4,102)	(4,609)	(6,596)
Net cash provided by/(used) in investing activities of discontinued operations	4,000	(1,442)	(2,117)
Net cash used in investing activities	(102)	(6,051)	(8,713)
Financing activities:			
Proceeds from issuance of long-term debt	10,000	16,000	2,000
Payments on long-term debt and capital lease obligations	(15,996)	(5,589)	(10,451)
Proceeds from/(payments on) draws on revolving line of credit, net	—	(8,004)	3,004
Financing fees related to issuance of Class A Common Stock and Convertible subordinated debentures	—	(1,470)	(81)
Proceeds from exercise of warrants	2,208	—	—
Proceeds from exercise of employee stock options and sale of stock	4,018	731	696
Net cash (used in)/provided by financing activities of continuing operations	230	1,668	(4,832)
Net cash provided by financing activities of discontinued operations	—	58	—
Net cash (used in)/provided by financing activities	230	1,726	(4,832)
Effect of exchange rates on cash and cash equivalents of discontinued operations	—	357	(140)
Net increase/(decrease) in cash from continuing operations	5,195	10,103	(3,434)
Net increase /(decrease) in cash from discontinued operations	402	(9,064)	(5,497)
Net increase/(decrease) in cash	5,597	1,038	(8,931)
Cash and cash equivalents at the beginning of the year	10,358	9,320	18,251
Cash and cash equivalents at the end of the year	$ 15,955	$ 10,358	$ 9,320

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements
(amounts in thousands, except share and per share data)

1. Significant Accounting Policies

Description of Business

TeleCommunication Systems, Inc. develops and applies highly reliable wireless data communications technology. We manage our business in two segments, Commercial and Government:

Commercial Segment. Our carrier software system products enable wireless carriers to deliver premium services including short text messages, location information, internet content, and other enhanced communication services to and from wireless phones. We provide enhanced 9-1-1 (E9-1-1) services, commercial location-based services, and inter-carrier text message distribution services on a hosted, or service bureau basis. As of December 31, 2007, we provide hosted services under contracts with more than 30 wireless carrier networks and Voice-over-Internet-Protocol (VoIP) service providers. We also earn subscriber revenue through wireless applications including our Rand McNally® Traffic application which is available via all major US wireless carriers. We earn carrier software-based systems revenue through the sale of licenses, deployment and customization fees and maintenance fees. Pricing is generally based on the volume of capacity purchased from us by the carrier. We also provide carrier technology on a hosted, i.e., service bureau basis; that is, customers use our software functionality through connections to and from our network operations centers, paying us monthly based on the number of subscribers, cell sites, or call center circuits, or message volume.

Government Segment. We design, assemble, sell and maintain satellite-based network communication systems, including our SwiftLink® deployable communication systems which incorporate high speed, encrypted, Internet Protocol technology. We also own and operate secure satellite teleport facilities, and resell access to satellite airtime (known as space segment).

Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the reported amounts and related disclosures. Actual results could differ from those estimates.

Principles of Consolidation. The accompanying financial statements include the accounts of our wholly owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

Cash and Cash Equivalents. Cash and cash equivalents include cash and highly liquid investments with a maturity of three months or less when purchased. Cash equivalents are reported at fair value, which approximates cost.

Allowances for Doubtful Accounts Receivable. Substantially all of our accounts receivable are trade receivables generated in the ordinary course of our business. We use estimates to determine the amount of the allowance for doubtful accounts necessary to reduce accounts receivable to their expected net realizable value. We estimate the amount of the required allowance by reviewing the status of significant past-due receivables and by establishing provisions for estimated losses by analyzing current and historical bad debt trends. Changes to our allowance for doubtful accounts are recorded as a component of general and administrative expenses in our accompanying Consolidated Statements of Operations. Our credit and collection policies and the financial strength of our customers are critical to us in maintaining a relatively small amount of write-offs of receivables. We generally do not require collateral from or enter netting agreements with our customers. Receivables that are ultimately deemed uncollectible are charged-off as a reduction of receivables and the allowance for doubtful accounts.

Inventory. We maintain inventory of component parts and finished product for our Government deployable communications systems. Inventory is stated at the lower of cost or market. Cost is based on the weighted average method. The cost basis for finished units includes manufacturing cost.

Investments in Marketable Securities and Note Receivable. The Company holds approximately $0.9 million of marketable securities and a $1.0 million note receivable which were obtained as partial consideration from three small divestitures during 2007. The marketable securities and note receivable are included in other current assets and marketable securities are classified as available-for-sale in accordance with the provision of SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. These securities are carried at fair market value based on quoted market price with net unrealized losses of $0.1 million reported in stockholders' equity as a component of accumulated other comprehensive income. The Company considers the loss on one of the securities to be temporary because of restructuring in process at the issuing company and the Company has the ability and the intent to hold the investments for a reasonable period of time. If the Company determines that a decline in fair value of one or both of the marketable securities is other than temporary, a realized loss would be recognized in earnings. Gains or losses on securities sold will be based on the specific identification method. The note receivable bears simple interest at 8.25% over an 18-month term and is due in November of 2008.

Property and Equipment. Property and equipment is stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method based on the estimated useful lives of equipment, generally five years for furniture and fixtures and three years for computer equipment, software and vehicles. Our depreciable asset base includes equipment in our network operations centers related to our hosted service offerings, development costs for computer software for internal use, and company-wide computer hardware. In the second quarter of 2006, a review of experience with equipment and software used in our service bureau operations led us to adjust their average asset lives from three years to four years on a prospective basis. Depreciation expense in 2006 was $0.4 million less than it would have been if the shorter lives had been used. Amortization of leasehold improvements is provided using the straight-line method over the lesser of the useful life of the asset or the remaining term of the lease. Assets held under capital leases are stated at the lesser of the present value of future minimum lease payments or the fair value of the property at the inception of the lease. The assets recorded under capital leases are amortized over the lesser of the lease term or the estimated useful life of the assets in a manner consistent with our depreciation policy for owned assets.

Goodwill. Goodwill represents the excess of cost over the fair value of assets of acquired businesses. Goodwill acquired in a purchase business combination is not amortized, but instead is evaluated at least annually for impairment using a discounted cash flow model in accordance with the provisions of Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*.

Software Development Costs. We capitalize software development costs after we establish technological feasibility, and amortize those costs over the estimated useful lives of the software beginning on the date when the software is first installed and used. Acquired technology, representing the estimated value of the proprietary technology acquired, has also been recorded as capitalized software development costs.

Costs we incurred are capitalized when technological feasibility has been established. For new products, technological feasibility is established when an operative version of the computer software product is completed in the same software language as the product to be ultimately marketed, performs all the major functions planned for the product, and has successfully completed initial customer testing. Technological feasibility for enhancements to an existing product is established when a detail program design is completed. Costs that are capitalized include direct labor, related overhead and other direct costs. These costs are amortized on a product-by-product basis using the straight-line method over the product's estimated useful life, which has not been greater than three years. Amortization is also computed using the ratio that current revenue for the product bears to the total of current and anticipated future revenue for that product (the revenue curve method). If this revenue curve method results in amortization greater than the amount computed using the straight-line method, amortization is recorded at that greater amount. Our policies to determine when to capitalize software development costs and how much to amortize in a given period require us to make subjective estimates and judgments. If our software products do not achieve the level of market acceptance that we expect and our future revenue estimates for these products change, the amount of amortization that we record may increase compared to prior periods. The amortization of capitalized software development costs has been recorded as a cost of revenue.

Acquired technology is amortized over the product's estimated useful life based on the purchase price allocation and valuation procedures performed at the time of the acquisition. Amortization is calculated using the ratio of the estimated future cash flows generated in each period to the estimated total cash flows to be contributed from each product or the straight-line method, whichever is greater.

For 2007, 2006, and 2005, we capitalized $1,525, $1,849, and 1,960, respectively, of software development costs of continuing operations for certain software projects after the point of technological feasibility had been reached but before the products were available for general release. Accordingly, these costs have been capitalized and are being amortized over their estimated useful lives beginning when the products are available for general release. The capitalized costs relate to our location-based software, which is part of our continuing operations.

We believe that these capitalized costs will be recoverable from future gross profits generated by these products.

Acquired Intangible Assets. Acquired intangible assets have useful lives of 5 to 19 years. We are amortizing these assets using the greater of the straight-line method or the revenue curve method.

Impairment of Long-Lived Assets. Long-lived assets, including intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or group of assets may not be fully recoverable.

If an impairment indicator is present, we evaluate recoverability by a comparison of the carrying amount of the assets to future undiscounted net cash flows that we expect to generate from these assets. If the assets are impaired, we recognize an impairment charge equal to the amount by which the carrying amount exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of carrying values or fair values, less estimated costs of disposal.

Other Comprehensive Income/Loss. Comprehensive income/loss includes changes in the equity of a business during a period from transactions and other events and circumstances from non-owner sources. Other comprehensive income/loss refers to revenue, expenses, gains and losses that under U.S. generally accepted accounting principles are included in comprehensive income, but excluded from net income. For operations outside the U.S. that prepare financial statements in currencies other than the U.S. dollar, results of operations and cash flows are translated at average exchange rates during the period, and assets and liabilities are translated at end-of-period exchange rates. Translation adjustments for our European subsidiary are included as a component of accumulated other comprehensive loss in stockholders' equity. Also included are any unrealized gains or losses on marketable securities that are classified as available-for-sale. Total comprehensive loss for the three years ended December 31, 2007 was not materially different than consolidated net loss.

Revenue Recognition. Revenue is generated from our two segments as described below.

Services Revenue. Revenue from hosted services consists of monthly recurring service fees and is recognized in the month earned. Revenue from subscriber service fees is recognized in the period earned. Maintenance fees are collected in advance and recognized ratably over the maintenance period, which is typically annual. Any unearned revenue, including unrecognized maintenance fees, is included in deferred revenue.

We also recognize services revenue from the design, development and deployment of information processing and communication systems primarily for government enterprises. These services are provided under time and materials contracts, cost plus fee contracts, or fixed price contracts. Revenue is recognized under time and materials contracts and cost plus fee contracts as billable costs are incurred. Fixed-price service contracts are accounted for using the proportional performance method. These contracts generally allow for monthly billing or billing upon achieving certain specified milestones. Any estimated losses on contracts are recognized in their entirety at the date that they become evident.

Systems Revenue. We design, develop, and deploy communications systems. These systems may include packaged software licenses. Systems typically contain multiple elements, which may include the product license, installation, integration, and hardware. The total arrangement fee is allocated among each element based on vendor-specific objective evidence of the relative fair value of each of the elements. Fair value is generally determined based on the price charged when the element is sold separately. In the absence of evidence of fair value of a delivered element, revenue is allocated first to the undelivered elements based on fair value and the residual revenue to the delivered elements. The software licenses are generally perpetual licenses for a specified number of users that allow for the purchase of annual maintenance at a specified rate. All fees are recognized as revenue when four criteria are met. These four criteria are (i) evidence of an arrangement (ii) delivery has occurred, (iii) the fee is fixed or determinable and (iv) the fee is probable of collection. Software license fees billed and not recognized as revenue are included in deferred revenue. Systems containing software licenses include a 90-day warranty for defects. We have not incurred significant warranty costs on any software product to date, and no costs are currently accrued upon recording the related revenue.

Systems revenue is also derived from fees for the development, implementation and maintenance of custom applications. Fees from the development and implementation of custom applications are generally performed under time and materials and fixed fee contracts. Revenue is recognized under time and materials contracts and cost plus fee contracts as billable costs are incurred. Fixed-price product delivery contracts are accounted for using the percentage-of-completion or proportional performance method, measured either by total costs incurred as a percentage of total estimated costs at the completion of the contract, or direct labor costs incurred compared to estimated total direct labor costs for projects for which third-party hardware represents a significant portion of the total estimated costs. These contracts generally allow for monthly billing or billing upon achieving certain specified milestones. Any estimated losses under long-term contracts are recognized in their entirety at the date that they become evident. Revenue from hardware sales to our monthly subscriber customers is recognized as systems revenue.

Under our contracts with the U.S. government for both systems and services, contract costs, including the allocated indirect expenses, are subject to audit and adjustment by the Defense Contract Audit Agency. We record revenue under these contracts at estimated net realizable amounts.

Our accounting for revenues from systems and services contracts follows the guidance of Emerging Issues Task Force 00-21 "Revenue Arrangements with Multiple Deliverables" (EITF 00-21) for determining of the number of units of accounting and the allocation of the total fair value among the multiple elements.

Deferral of Costs Incurred. We defer costs incurred in certain situations as dictated by authoritative accounting literature. In addition, if the revenue for a delivered item is not recognized because it is not separable from the arrangement, then we defer incremental costs related to that delivered but unrecognized element.

Advertising Costs. Advertising costs are expensed as incurred. Advertising expense totaled $34, $29, and $120, for the years ended December 31, 2007, 2006, and 2005, respectively.

Capitalized Interest. Total interest incurred was $5,026, $3,253, and $1,312 for the years ended December 31, 2007, 2006, and 2005, respectively. Approximately $74, $55, and $140 of total interest incurred was capitalized as a component of software development costs and construction in progress during the year ended December 31, 2007, 2006, and 2005 respectively.

Stock-Based Compensation. We have two stock-based employee compensation plans, which are described more fully in Note 17.

(amounts in thousands, except share and per share data)

Beginning January 1, 2006, the Financial Accounting Standards Board (FASB) Statement No. 123(R) ("Statement No. 123(R)") requires us to report all share based payments to employees, including grants of employee stock options in the income statement based on their fair value. We adopted Statement No. 123(R) effective January 1, 2006 using the modified prospective method. Had we adopted Statement No. 123(R) in prior periods, the impact of that standard would have approximated the impact of Statement No. 123 as described in the disclosure of pro forma net loss and loss per share below.

On October 28, 2005, our Board of Directors adopted resolutions to accelerate the vesting of certain outstanding, unvested "out-of-the-money" stock options. The accelerated vesting provisions applied to all qualifying options with an exercise price of $6.00 or greater and as a result, options to purchase 1,455,000 shares of our stock became fully exercisable as of that date. The primary purpose of the accelerated vesting was to eliminate future compensation expense the Company would otherwise recognize in its statement of operations with respect to these options upon the adoption of Statement No. 123(R), which we adopted on January 1, 2006 as discussed above. Statement No. 123(R) requires that compensation expense associated with stock options be recognized in the statement of operations rather than as a pro forma footnote disclosure in our consolidated financial statements. The acceleration of the vesting of these options eliminated the future non-cash stock compensation expense associated with these outstanding options. We estimated that the related future compensation expense to be recorded under Statement No. 123(R) that was eliminated as a result of the acceleration of vesting these options was approximately $1,200.

Prior to 2006 we recorded compensation expense for all stock-based compensation plans using the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, *(Accounting for Stock Issued to Employees)* ("APB No. 25") and related interpretations. Under APB No. 25, compensation expense is recorded pro-rata over the vesting period to the extent that the fair value of the underlying stock on the date of grant exceeds the exercise or acquisition price of the stock or stock-based award. The related compensation constitutes portions of our direct cost of revenue, research and development expense, sales and marketing expense, and general and administrative expense as detailed in the table presented with our Consolidated Statements of Operations.

We have also granted restricted stock to directors and certain key executives. The restrictions expired at the end of one year for directors and expire in annual increments over three years for executives and are based on continued employment. The fair value of the restricted stock on the date of issuance is recognized as non-cash stock compensation expense over the period over which the restrictions expire.

The following table illustrates the effect on net loss and loss per common share if we had applied the fair value recognition provisions of FASB Statement 123(R), to stock-based employee compensation, for the years ended December 31, 2005.

	2005
Net loss attributable to common stockholders, as reported	$ (11,467)
Add: Stock-based employee compensation expense included in reported net loss	720
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards	(4,898)
Pro forma net loss attributable to common stockholders	$ (15,646)
Loss per share — basic and diluted:	
As reported	$ (0.30)
Pro forma	$ (0.40)

Research and Development Expense. We incur research and development costs which are primarily comprised of compensation and travel expenses related to our engineers engaged in the development and enhancement of new and existing software products. All costs are expensed as incurred prior to reaching technological feasibility.

Income Taxes. Income tax amounts and balances are accounted for using the liability method of accounting for income taxes and deferred income tax assets and liabilities are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Recent Accounting Pronouncements.

In September 2006, the FASB issued SFAS 157, "Fair Value Measurements," which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. In February 2008, the FASB decided to issue a final Staff Position to allow a one-year deferral of adoption of SFAS 157 for non-financial assets and non-financial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. The FASB also decided to amend SFAS 157 to exclude FASB Statement No. 13 and its related interpretive accounting pronouncements that address leasing transactions. The Company is evaluating the impact of this standard and does not expect the adoption of SFAS 157 to have a material impact on its financial statements.

In June 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (FIN 48) which prescribes a minimum recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. If a tax position does not meet the more-likely-than-not initial recognition threshold, no benefit is recorded in the financial statements. The Company adopted FIN 48 on January 1, 2007 for which there was no cumulative effect of applying the provisions of this interpretation. The Company classifies interest and penalties accrued on any unrecognized tax benefits as a component of the provision for income taxes. There were no interest or penalties recognized in the consolidated statement of income for year ended December 31, 2007 and the consolidated balance sheet at December 31, 2007. The Company does not currently anticipate that the total amounts of unrecognized tax benefits will significantly increase within the next 12 months. The Company files income tax returns in U.S. and state jurisdictions. The Company is no longer subject to U.S. federal, state, and local tax examinations in major tax jurisdictions for periods before 2003.

In February 2007, the FASB issued SFAS 159, "Fair Value Option for Financial Assets and Liabilities." SFAS 159 allows companies to elect to measure certain assets and liabilities at fair value and is effective for fiscal years beginning after November 15, 2007. The Company does not expect the adoption of SFAS 159 to have a material impact on its financial statements.

In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations." This standard establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any non-controlling interest in the acquired and the goodwill acquired. This statement also establishes disclosure requirements which will enable users to evaluate the nature and financial effects of the business combination. SFAS No. 141(R) is effective for us for acquisitions made after November 30, 2009. The Company is evaluating the impact of this standard and does not expect the adoption of SFAS 141(R) to have a material impact on its financial statements.

2. Enterprise Assets-Discontinued Operations

As of December 31, 2005, we committed to a plan to sell our Enterprise division operations, which had previously been included in our Commercial Segment. Accordingly, the assets, liabilities, results of operations, and cash flows for the Enterprise assets have been classified as discontinued operations for all periods presented in the Consolidated Financial Statements in accordance with Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (Statement No. 144). As a result of the classification of these assets as discontinued operations, we had continued to perform quarterly reviews of the associated goodwill and other long lived assets for impairment. During 2006, we recorded an impairment charge of $15,500 in our loss from discontinued operations which is included on the Consolidated Statement of Operations. They continued to be a part of our business until sold during the first half of 2007. The operations and cash flows of the businesses have been eliminated from those of continuing operations and the Company has no significant involvement in the operations since the disposal transactions.

(amounts in thousands, except share and per share data)

Effective January 1, 2007, the Company sold two of its three Enterprise units to strategic buyers for common stock in the acquiring publicly traded companies valued at approximately $1,000 and earn-out arrangements. The Company does not currently expect to receive material payments from the earn-out arrangements. During May 2007, the last Enterprise unit was sold to TPA Acquisition Corporation for $4,000 in cash ($200 remains in escrow), a $1,000 note receivable bearing interest at 8.25% over 18-months, and $250 in equity interest.

Enterprise assets and liabilities classified as discontinued operations in the accompanying Consolidated December 31, 2006 balance were as follows:

	December 31, 2006
Assets:	
Current assets	$ 8,739
Long-lived assets and goodwill	4,816
Other long term assets	41
Assets of discontinued operations	13,596
Liabilities:	
Accounts payable and accrued liabilities	9,036
Deferred revenue and other liabilities	2,364
Liabilities of discontinued operations	11,400
Net assets of discontinued operations	$ 2,196

Impairment charges of $15,500 to adjust the estimated carrying value of Enterprise long-lived assets and goodwill were recorded during 2006 based on information obtained during the process of offering the operating assets for sales and the declines in the Subscriber businesses being sold. Summarized results of operations for the Enterprise assets included in the accompanying Consolidated Statement of Operations are as follows:

	2007	2006	2005
Revenue	$ 5,569	$ 26,020	$ 28,127
Gross profit	$ 833	$ 4,469	$ 6,025
Loss from discontinued operations	$ (275)	$ (23,671)	$ (7,151)

During 2007, 2006, and 2005 total revenues generated from Enterprise systems and services in the U.S. were $5,569, $22,020 and $23,127, respectively, and the total revenues generated from products and services of our Enterprise division outside of the U.S. were $4,000 and $5,000, respectively for 2006 and 2005. The Enterprise division did not have any customers that constituted a significant portion of our consolidated net revenues. As of December 31, 2006 our Enterprise division had approximately $1,800 of assets located outside the U.S.

Leases for European offices have been assigned to the buyer of one of the subscriber units sold effective January 1, 2007. We incurred rent expense related to these facilities of $1,318 in 2006 and $900 in 2005.

(amounts in thousands, except share and per share data)

3. Loss Per Common Share

Basic loss per common share is based upon the average number of shares of common stock outstanding during the period. Because we incurred a loss from continuing operations in 2007 and 2005 potentially dilutive securities were excluded from the computation because the result would be anti-dilutive. These potentially dilutive securities consist of stock options, restricted stock, and warrants as discussed in Notes 1 and 17.

The following table summarizes the computations of basic and diluted earnings per share for the years ended December 31:

	2007	2006	2005
Income (Loss) from continuing operations	$ (1,014)	$ 1,976	$ (4,316)
Loss from discontinued operations	(275)	(23,671)	(7,151)
Net loss	$ (1,289)	$ (21,695)	$ (11,467)
Denominator for basic earnings per share — weighted-average common shares outstanding	41,453	39,430	38,823
Net effect of dilutive stock options based on treasury stock method	—	632	—
Net effect of dilutive warrants based on treasury stock method	—	104	—
Denominator for diluted earnings per share — weighted-average common shares outstanding and assumed conversions	41,543	40,166	38,823
Income (Loss) per share — basic:			
Income (Loss) per share from continuing operations	$ (0.02)	$ 0.05	$ (0.11)
Loss per share from discontinued operations	(0.01)	(0.60)	(0.19)
Net loss per share — basic	$ (0.03)	$ (0.55)	$ (0.30)
Income (Loss) per share — diluted:			
Income (Loss) per share from continuing operations	$ (0.02)	$ 0.05	$ (0.11)
Loss per share from discontinued operations	(0.01)	(0.59)	(0.19)
Net loss per share-diluted	$ (0.03)	$ (0.54)	$ (0.30)

4. Supplemental Disclosure of Cash Flow Information

Property and equipment acquired under capital leases totaled $1,979, $1,725, and $3,761 during the years ended December 31, 2007, 2006, and 2005, respectively.

As partial consideration for our 2007 divestitures, we received publicly trade common stock in two of the acquiring companies valued at approximately $1,000 at the time of January 2007 closing on the transactions.

Interest paid totaled $1,002, $607, and $843 during the years ended December 31, 2007, 2006, and 2005, respectively.

5. Unbilled Receivables

Unbilled receivables consist of the excess of revenue earned in accordance with generally accepted accounting principles over the amounts billable at contract milestones. Substantially all unbilled receivables are expected to be billed and collected within twelve months.

(amounts in thousands, except share and per share data)

6. Inventory

Inventory consisted of the following at December 31:

	2007	2006
Component parts	$ 2,670	$ 2,942
Finished goods	2,703	2,351
Total inventory at year end	$ 5,373	$ 5,293

7. Property and Equipment

Property and equipment consisted of the following at December 31:

	2007	2006
Computer equipment	$ 24,393	$ 31,320
Computer software	16,360	16,370
Furniture and fixtures	2,558	2,159
Leasehold improvements	2,760	2,491
Land	1,000	1,000
Vehicles	107	107
Total property and equipment at cost at year end	47,178	53,447
Less: accumulated depreciation and amortization	(35,969)	(40,594)
Net property and equipment at year end	$ 11,209	$ 12,853

8. Acquired Intangible Assets and Capitalized Software Development Costs

Our acquired intangible assets and capitalized software development costs consisted of the following:

	December 31, 2007			December 31, 2006		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Acquired intangible assets:						
Customer Lists	$ 606	$ 405	$ 201	$ 606	$ 290	$ 316
Trademarks & Patents	612	104	508	612	72	540
Software development costs, including acquired technology	9,189	4,783	4,406	7,664	3,262	4,402
Total	$ 10,407	$ 5,292	$ 5,115	$ 8,882	$ 3,624	$ 5,258

Estimated future amortization expense:	
Year ending December 31, 2008	$ 2,103
Year ending December 31, 2009	$ 1,509
Year ending December 31, 2010	$ 452
Year ending December 31, 2011	$ 452
Year ending December 31, 2012	$ 251
Thereafter	$ 348

(amounts in thousands, except share and per share data)

We routinely update our estimates of the recoverability of the software products that have been capitalized. Management uses these estimates as the basis for evaluating the carrying values and remaining useful lives of the respective assets.

9. Accounts Payable and Accrued Expenses

Our accounts payable and accrued expenses consist of:

	December 31, 2007	December 31, 2006
Accounts payable	$ 5,848	$ 4,388
Accrued expenses	6,611	6,033
Total accounts payable and accrued expenses at year end	$ 12,459	$ 10,421

Accrued expenses consist primarily of costs incurred for which we have not yet been invoiced, accrued sales taxes, and amounts due to our E9-1-1 customers that we have billed and collected from regulating agencies on their behalf under cost recovery arrangements.

10. Line of Credit

We have maintained a line of credit arrangement with our principal bank since 2003. In June 2007, we amended the agreement to extend our line of credit and decrease the cost of borrowing. Under the amended agreement, the availability of the line was extended to June 2010, and the borrowing rate decreased from prime plus 1.25% to the bank's prime rate which was 7.25% per annum at December 31, 2007. Our maximum borrowing availability remained the same at $22,000. Borrowings at any time are limited to an amount based principally on accounts receivable levels and a working capital ratio, each as defined in the amended line of credit agreement. The line of credit available is also reduced by the amounts of letters of credit outstanding which totaled $2,921 at December 31, 2007.

Our amended line of credit and term loan agreement contains covenants requiring us to maintain a minimum adjusted quick ratio and a minimum liquidity ratio as well as other restrictive covenants including, among others, restrictions on our ability to merge, acquire assets above prescribed thresholds, undertake actions outside the ordinary course of our business (including the incurrence of indebtedness), guarantee debt, distribute dividends, and repurchase our stock, and maintenance of a minimum tangible net worth. The agreement also contains a subjective covenant that requires (i) no material adverse change in the business, operations, or financial condition of our Company occur, or (ii) no material impairment of the prospect of repayment of any portion of the borrowings; or (iii) no material impairment of value or priority of the lenders security interests in the collateral of the bank credit agreement.

As of December 31, 2007, we were in compliance with the covenants related to our line of credit. We believe that the Company will continue to comply with its restrictive covenants. If our performance does not result in compliance with any of our restrictive covenants, we would seek to further modify our financing arrangements, but there can be no assurance that the bank would not exercise its rights and remedies under its agreement with us, including declaring all outstanding debt due and payable.

As of December 31, 2007 and 2006 we had no borrowings outstanding under the line of credit and we had approximately $11,000 and $9,000, respectively, of unused borrowing availability under this line.

(amounts in thousands, except share and per share data)

11. Long-Term Debt

Long-term debt consists of the following at December 31:

	2007	2006
Note payable dated June 2007 due July 1, 2012 and bearing interest at prime rate plus 0.25% per annum. See further description	$ 9,167	—
Note payable dated March 10, 2006 refinanced June 2007	—	$ 7,504
Note payable dated December 28, 2006, due December 28, 2009, and bearing interest at 10.35% per annum. The note requires monthly installments of principal and interest of $162 through December 28, 2009. This note is secured by accounts receivable of $590 at December 31, 2007	3,501	5,000
Note payable dated April 17, 2006, paid in full April 17, 2007,	—	657
Other	1	5
Total long term debt	12,669	13,166
Less: current portion	(3,661)	(2,160)
Non current portion of long term debt	$ 9,008	$ 11,006

Aggregate maturities of long-term debt at December 31, 2007 are as follows:

2008	$ 3,661
2009	3,841
2010	2,000
2011	2,000
2012	1,167
Total	$ 12,669

On June 25, 2007, we refinanced $10,000 of March 2006 secured notes with a five year bank term loan. The borrowing rate under the new term loan was the prime rate plus 0.25% per annum (7.5% at December 31, 2007) and payments are due in equal monthly installments of $167 plus interest. In March 2006, we issued (i) $10,000 of secured notes due March 10, 2009, with cash interest at 14% per annum, and (ii) warrants to purchase an aggregate of 1.75 million shares of our Class A Common Stock at an exercise price of $2.40 per share expiring March 10, 2009. The resulting carrying value of the debt at issuance was $6,500, net of the original discount of $3,500 which was being amortized to interest expense over its three-year term using the effective interest method, yielding an effective interest rate of 15.2%. The remaining unamortized debt discount and issuance expenses of $2.4 million were written off in the second quarter of 2007 as a result of early retirement of the March 2006 note.

(amounts in thousands, except share and per share data)

12. Capital Leases

We lease certain equipment under capital leases. Property and equipment included the following amounts for capital leases at December 31:

	2007	2006
Computer equipment	$ 5,685	$ 9,925
Computer software	1,474	2,072
Furniture and fixtures	237	237
Leasehold improvements	6	46
Total equipment under capital lease at cost	7,402	12,280
Less: accumulated amortization	(3,824)	(7,268)
Net property and equipment under capital leases	$ 3,578	$ 5,012

Capital leases are collateralized by the leased assets. Our capital leases generally contain provisions whereby we can purchase the equipment at the end of the lease for the current fair market value, capped at 18.5% of the original purchase price. Amortization of leased assets is included in depreciation and amortization expense.

Future minimum payments under capital lease obligations consisted of the following at December 31, 2007:

2008	$ 1,972
2009	1,151
2010	412
2011	117
2012	108
Total minimum lease payments	3,760
Less: amounts representing interest	(328)
Present value of net minimum lease payments (including current portion of $1,783)	$ 3,432

13. Common Stock

Our Class A common stockholders are entitled to one vote for each share of stock held for all matters submitted to a vote of stockholders. Our Class B stockholders are entitled to three votes for each share owned.

14. Fair Value of Financial Instruments

The fair values of our cash and cash equivalents, marketable securities, and long-term debt approximate their respective carrying values as of December 31, 2007 and 2006. The carrying amounts of cash and cash equivalents, note receivable, accounts receivable and accounts payable approximate fair value because of the short maturity of these instruments.

15. Income Taxes

During the years ended December 31, 2007, and 2006, respectively, we did not record either a current or deferred tax provision due to our current loss position and uncertainty regarding the realization of our net deferred tax assets.

(amounts in thousands, except share and per share data)

Significant components of our deferred tax assets and liabilities at December 31 were:

	2007	2006
Deferred tax assets:		
Net operating loss carryforward	$ 39,564	$ 40,174
Net deferred tax assets from discontinued operations	3,656	6,289
Research and development tax credit	2,330	2,753
Stock compensation expense	1,526	231
Depreciation and amortization	1,035	1,123
Reserves and accrued expenses	958	1,047
Deferred revenue	813	396
Charitable contributions	62	92
Total deferred tax assets	49,944	52,105
Deferred tax liabilities:		
Capitalized software development costs	(1,202)	(775)
Other	(4)	(6)
Total deferred tax liabilities	(1,206)	(781)
Net deferred tax asset	48,738	51,324
Valuation allowance for net deferred tax asset	(48,738)	(51,324)
Net deferred tax asset recognized in the consolidated balance sheets	$ —	$ —

At December 31, 2007, we had U.S. federal net operating loss carryforwards for income tax purposes of approximately $107 million, which includes $31.2 million, acquired upon the acquisition of Xypoint in 2001. The net operating loss carryforwards acquired in connection with the purchase of Xypoint Corporation in 2001 will begin to expire in 2011. The remaining net operating loss carryforwards will expire from 2019 through 2026.

The timing and manner in which we may utilize the net operating loss carryforwards in future tax years will be limited by the amounts and timing of future taxable income and by the application of the ownership change rules under Section 382 of the Internal Revenue Code. Utilization of the Xypoint net operating losses are limited as a result of ownership changes. As of December 31, 2007, the product of the remaining Xypoint net operating loss carrryforward period in comparison to the annual limitation amount, results in excess acquired tax attributes which will expire prior to utilization. Therefore, our deferred tax assets as of December 31, 2007 were reduced for the portion of the Xypoint net operating loss totaling, $3,566, as well as a portion of the research and development tax credit totaling $557, which cannot be used before they expire.

The remaining U.S. federal net operating loss carryforwards may become subject to limitations under the Internal Revenue Code as well. We have state net operating loss carryforwards available which expire through 2026, utilization of which will be limited in a manner similar to the federal net operating loss carryforwards. At December 31, 2007, $5 million of our deferred deductions related to stock options exercises. To the extent that carryforwards, when realized, relate to stock option deductions, the resulting benefits will be credited to stockholders' equity. We have established a full valuation allowance with respect to these federal and state loss carryforwards and other net deferred tax assets due to uncertainties surrounding their realization.

(amounts in thousands, except share and per share data)

The reconciliation of the reported income tax benefit to the amount that would result by applying the U.S. federal statutory rate of 34% to loss from continuing operations for the year ended December 31 is as follows:

	2007	2006	2005
Income tax (benefit) at statutory rate	$ (364)	$ 653	$ (1,467)
Expired Xypoint tax attributes as described above	1,894	—	—
Non deductible items	255	55	48
Change in valuation allowances	(887)	(2,241)	2,161
Non deductible stock compensation expense	(705)	689	—
Research and development tax credit	(130)	(43)	(70)
Change in state apportionment tax rates on deferred assets/liabilities	(41)	807	(537)
State tax (benefit)	(8)	52	(135)
Other	(14)	28	—
Total	$ —	$ —	$ —

16. Employee Benefit Plan

The Company maintains a 401(k) plan covering defined employees who meet established eligibility requirements. Under the provisions of plan, the Company may contribute a discretionary match. The plan may also contribute a non-elective contribution determined by the Company. For 2007, the Company matched 35% of employee deferrals. The Company contribution was $0.6 million, $0.2 million and $0.1 million for the years ended December 31, 2007, 2006, and 2005 respectively.

17. Stock-based Compensation Plans

We maintain two stock-based compensation plans: a stock incentive plan, and an employee stock purchase plan.

Stock Incentive Plan. We maintain a stock incentive plan that is administered by our Compensation Committee of our Board of Directors. Options granted under the plan vest over periods ranging from one to five years and expire 10 years from the date of grant. Under the principal share-based compensation plans, the Company may grant certain employees, directors and consultants options to purchase common stock, stock appreciation rights and restricted stock units. Options are rights to purchase common stock of the Company at the fair market value on the date of the grant. Stock appreciation rights are equity settled share-based compensation arrangements whereby the number of shares that will ultimately be issued is based upon the appreciation of the Company's common stock and the number of awards granted to an individual. Restricted stock units are equity settled share-based compensation arrangements of a number of share of the Company's common stock. Restricted stock unit holders do not have voting rights until the restrictions lapse. A summary of our stock option activity and related information consists of the following for the years ended December 31 (all share amounts in thousands):

	2007		2006		2005	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of year	11,622	$ 3.62	9,793	$ 3.86	8,650	$ 4.25
Granted	2,537	3.69	2,908	2.42	2,786	2.55
Exercised	(1,347)	2.58	(199)	1.75	(291)	1.08
Forfeited	(1,668)	4.07	(880)	3.26	(1,352)	4.30
Outstanding, end of year	11,144	$ 3.69	11,622	$ 3.62	9,793	$ 3.86
Exercisable, at end of year	6,515	$ 4.14	6,823	$ 4.33	5,997	$ 4.55
Vested and expected to vest, at end of year	7,510	$ 3.69	8,179	$ 3.62	7,002	$ 3.86
Estimated weighted-average grant-date fair value of options granted during the year	$ 3.69		$ 2.42		$ 2.06	
Weighted-average remaining contractual life of options outstanding at end of year	6.6 years		7.0 years		7.3 years	

Exercise prices for options outstanding at December 31, 2007 ranged from $0.01 to $26.05 as follows (all share amounts in thousands):

Exercise Prices	Options Outstanding	Weighted-Average Exercise Prices of Options Outstanding	Weighted-Average Remaining Contractual Life of Options Outstanding (years)	Options Exercisable	Weighted-Average Exercise Prices of Options Exercisable
$0.01 – $2.61	4,071	$ 2.31	7.07	1,983	$ 2.21
$2.61 – $5.21	4,848	$ 3.42	6.67	2,307	$ 3.23
$5.21 – $7.82	2,195	$ 6.75	5.58	2,195	$ 6.75
$7.82 – $26.05	30	$ 11.07	5.01	30	$ 11.07
Total end of year	11,144			6,515	

In calculating the fair value of our stock options using Black-Scholes for the years ended December 31, 2007, 2006, and 2005, respectively, our assumptions were as follows:

	For the Years Ended December 31,		
	2007	2006	2005
Expected life (in years)	5.5	5.5	5.5
Risk-free interest rate(%)	4.24% - 4.90%	4.56%	4.25%
Volatility(%)	68.1% - 83%	78%	105%
Dividend yield(%)	0%	0%	0%

Prior to our initial public offering in 2000, we granted incentive stock options to employees and directors to purchase 885,983 shares of Class A Common Stock. The options were granted at an exercise price less than the estimated market value of Class A Common Stock at the date of grant. Net loss, as reported, includes $123 of non-cash stock compensation expense related to these grants for the year-ended December 31, 2005. These options had fully vested as of December 31, 2005, and accordingly we will not recognize any future expense related to these options.

For the years ended December 31, 2007, 2006, and 2005, the Company granted a total of 89,600, 22,025, and 14,816 of restricted shares of Class A Common Stock to directors and certain key executives. The restrictions expired at the end of one year for directors and expire in annual increments over three years for executives conditional on continued employment. The fair value of the restricted stock on the date of issuance is recognized as non-cash stock compensation expense over the period over which the restrictions expire. We recognized $328, $244, and $597 of non-cash stock compensation expense related to these grants for the years ended December 31, 2007, 2006, and 2005, respectively. We expect to record future stock compensation expense of $55 as a result of these restricted stock grants that will be recognized over the remaining vesting periods.

Employee Stock Purchase Plan. We have an employee stock purchase plan (the Plan) that gives all employees an opportunity to purchase shares of our Class A Common Stock. The Plan allows for the purchase of 1,384,932 shares of our Class A Common Stock at a discount of 15% of the fair market value. The discount of 15% is calculated based on the average daily share price on either the first or the last day of each quarterly enrollment period, whichever date is more favorable to the employee. Option periods are three months in duration. As of December 31, 2007, 958,821 shares of Class A Common Stock have been issued under the Plan. Compensation expense relating to the Employee Stock Purchase Plan is not material.

As of December 31, 2007, our total shares of Class A Common Stock reserved for future issuance is comprised of:

	(in thousands)
Stock incentive plan	7,002
Warrants (see Note 11)	1,750
Employee stock purchase plan	426
Total shares restricted for future use	9,178

(amounts in thousands, except share and per share data)

Composition of non-cash stock compensation expense was as follows:

Direct costs of revenue	$ 2,080	$ 1,509	$ 16
Research and development expense	867	558	11
Sales and marketing expense	628	326	18
General and administrative expense	758	723	675
Total non-cash stock compensation expense	$ 4,333	$ 3,116	$ 720

18. Operating Leases

We lease certain office space and equipment under non-cancelable operating leases that expire on various dates through 2015. Future minimum payments under non-cancelable operating leases with initial terms of one year or more consisted of the following at December 31, 2007:

2008	$ 3,428
2009 - 2010	4,369
2011 - 2012	1,593
Beyond	891
	$ 10,278

Our leases include our offices in Annapolis, Maryland under a lease expiring in March 2008, a second facility in Annapolis under a lease expiring in April 2008, a facility in Seattle, Washington under a lease expiring in September 2010, a facility in Oakland, California under a lease expiring August 2009, and a facility in Tampa, Florida under a lease expiring in December 2009 and a production facility in Tampa, Florida under a lease expiring in December 2015. The Annapolis facilities are utilized for executive and administrative offices, as well as portions of our Commercial and Government Segments. We are currently negotiating extension of our lease terms for our Annapolis facilities. The Seattle and Oakland facilities are utilized by our Commercial Segment and the Tampa facility is utilized by our Government Segment. Future payments on all of our leases are estimated based on future payments including the minimum future rent escalations, if any, stipulated in the respective agreements.

Rent expense for continuing operations was $3,823, $3,603, and $3,480 for the years ended December 31, 2007, 2006, and 2005, respectively.

19. Concentrations of Credit Risk and Major Customers

Financial instruments that potentially subject us to significant concentrations of credit risk consist primarily of accounts receivable and unbilled receivables. Those customers that comprised 10% or more of our revenues, accounts receivable, and unbilled receivables from continuing operations are summarized in the following tables.

		% of Total Revenues For the Year Ended December 31,		
Customer	**Segment**	**2007**	**2006**	**2005**
U.S. Government	Government	37%	25%	17%
Customer A	Commercial	20%	20%	17%

(amounts in thousands, except share and per share data)

	As of December 31, 2007		As of December 31, 2006	
Customer	Accounts Receivable	Unbilled Receivables	Accounts Receivable	Unbilled Receivables
U.S. Government	40%	66%	24%	36%
Customer A	<10%	<10%	<10%	<10%
Customer B	11%	<10%	11%	<10%

As of December 31, 2007, our total exposure to credit risk was $23,689 based on the amount due to us by the above customers. As of December 31, 2006 and 2005, our exposure to such risks was $12,645 and $15,598 respectively. We did not experience significant losses from amounts due to us by any customers for the year ended December 31, 2007.

20. Business and Geographic Segment Information

Our two reporting segments are the Commercial Segment and the Government Segment.

Our Commercial Segment products and services enable wireless carriers to deliver short text messages, location information, internet content, and other enhanced communication services to and from wireless phones. Our Commercial Segment also provides E9-1-1 services, commercial location-based services, inter-carrier text message distribution services, and carrier technology on a hosted, or service bureau, basis. We also earn subscriber revenue through wireless applications including our Rand McNally® Traffic application.

Our Government Segment designs, assembles, sells and maintains data network communication systems, including our SwiftLink® deployable communication systems. We also own and operate secure satellite teleport facilities, resell access to satellite airtime (known as space segment), and provide communication systems integration, information technology services, and software systems and services to the U.S. Department of Defense and other government customers.

Management evaluates segment performance based on gross profit. We do not maintain information regarding segment assets. Accordingly, asset information by reportable segment is not presented.

For the years ended December 31, 2007, 2006, and 2005, respectively, our revenues include approximately $5,551, $7,349, and $6,874 of revenues generated from customers outside of the United States.

(amounts in thousands, except share and per share data)

The following table sets forth results for our reportable segments as of December 31, 2007. All revenues reported below are from external customers. A reconciliation of segment gross profit to net loss for the respective periods is also included below:

	Year ended December 31,								
	2007			2006			2005		
	Comm.	Gvmt	Total	Comm.	Gvmt	Total	Comm.	Gvmt	Total
Revenue									
Services	$ 58,793	$ 29,269	$ 88,062	$ 59,741	$ 28,639	$ 88,380	$ 54,198	$ 20,774	$ 74,972
Systems	16,521	39,585	56,106	17,219	19,337	36,556	11,668	15,513	27,181
Total revenue	75,314	68,854	144,168	76,960	47,976	124,936	65,866	36,287	102,153
Direct costs of revenue									
Direct cost of services	29,346	22,815	52,161	31,409	21,131	52,540	25,885	13,345	39,230
Direct cost of systems	5,024	32,882	37,906	5,211	12,672	17,883	5,710	12,009	17,719
Total Direct Costs	34,370	55,697	90,067	36,620	33,803	70,423	31,595	25,354	56,949
Gross profit									
Services gross profit	29,447	6,454	35,901	28,332	7,508	35,840	28,313	7,429	35,742
Systems gross profit	11,497	6,703	18,200	12,008	6,665	18,673	5,958	3,504	9,462
Total Gross Profit	$ 40,944	$ 13,157	$ 54,101	$ 40,340	$ 14,173	$ 54,513	$ 34,271	$ 10,933	$ 45,204

	2007	2006	2005
Total segment gross profit	$ 54,101	$ 54,513	$ 45,204
Research and development expense	(13,072)	(12,586)	(13,863)
Sales and marketing expense	(11,917)	(11,713)	(10,535)
General and administrative expense	(19,334)	(16,959)	(15,044)
Depreciation and amortization of property and equipment	(6,200)	(7,956)	(8,625)
Amortization of acquired intangible assets	(148)	(147)	(177)
Interest expense	(1,776)	(1,751)	(702)
Amortization of debt discount and debt issuance expenses, including $2,458 write-off in 2007	(3,176)	(1,447)	(470)
Other income/(expense), net	508	22	(104)
Income (Loss) from continuing operations	(1,014)	1,976	(4,316)
Loss from discontinued operations	(275)	(23,671)	(7,151)
Net loss	$ (1,289)	$ (21,695)	$ (11,467)

TeleCommunication Systems, Inc.

Notes to Consolidated Financial Statements — (Continued)
(amounts in thousands, except share and per share data)

21. Quarterly Financial Information (Unaudited)

The following is a summary of the quarterly results of operations for the years ended December 31, 2007 and 2006. The quarterly information has not been audited, but in our opinion, includes all normal recurring adjustments, which are, in the opinion of the Management, necessary for fair statement of the results of the interim periods.

	2007 Three Months Ended (unaudited)			
	March 31	June 30	September 30	December 31
Revenue	$ 34,119	$ 35,336	$ 37,635	$ 37,078
Gross profit	$ 14,295	$ 10,681	$ 14,138	$ 14,987
Income (loss) from continuing operations	$ 767	$ (5,993)	$ 1,716	$ 2,498
Income (loss) from discontinued operations	(124)	(145)	54	(61)
Net income (loss)	$ 643	$ (6,138)	$ 1,770	$ 2,437
Earnings per share — basic from continuing operations	$ 0.02	$ (0.15)	$ 0.04	$ 0.06
Loss per share — basic from discontinued operations	$ (0.00)	$ (0.00)	$ 0.00	$ (0.00)
Net loss per share — basic	$ 0.02	$ (0.15)	$ 0.04	$ 0.06
Earnings per share — diluted from continuing operations	$ 0.02	$ (0.15)	$ 0.04	$ 0.06
Income (loss) per share — diluted from discontinued operations	$ (0.00)	$ (0.00)	$ 0.00	$ (0.00)
Net income (loss) per share — diluted	$ 0.02	$ (0.15)	$ 0.04	$ 0.06

	2006 Three Months Ended (unaudited)			
	March 31	June 30	September 30	December 31
Revenue	$ 31,686	$ 31,943	$ 31,810	$ 30,496
Gross profit	$ 13,562	$ 14,240	$ 13,574	$ 13,136
Income from continuing operations	$ 342	$ 759	$ 761	$ 111
Loss from discontinued operations	(2,054)	(2,314)	(14,510)	(4,793)
Net loss	$ (1,712)	$ (1,555)	$ (13,749)	$ (4,682)
Earnings per share — basic from continuing operations	$ 0.01	$ 0.02	$ 0.02	$ 0.00
Loss per share — basic from discontinued operations	$ (0.05)	$ (0.06)	$ (0.37)	$ (0.12)
Net loss per share — basic	$ (0.04)	$ (0.04)	$ (0.35)	$ (0.12)
Earnings per share — diluted from continuing operations	$ 0.01	$ 0.02	$ 0.02	$ 0.00
Loss per share — diluted from discontinued operations	$ (0.05)	$ (0.06)	$ (0.37)	$ (0.11)
Net loss per share — diluted	$ (0.04)	$ (0.04)	$ (0.35)	$ (0.11)

22. Commitments and Contingencies

In October 2006, two former shareholders of Xypoint Corporation sued the former officers and directors of that corporation for breach of fiduciary duty and violation of certain Washington state securities and consumer protection acts when they approved, and recommended that shareholders approve the merger of Xypoint into TeleCommunication Systems, Inc. The plaintiffs requested unspecified damages. The merger agreement from 2001 provided that we would indemnify the officers and directors of Xypoint for a period of six years after the merger (ending January 2007) for their actions in approving the merger. In December 2006, the complaint was amended to include TCS as a defendant, as the successor-in-interest to Xypoint Corporation and Windward Acquisition Corporation (our acquisition subsidiary), both extinguished corporations. On May 7, 2007, the Honorable Jeffrey M. Ramsdell of the King County Superior Court (Washington) entered an order dismissing the complaint, with prejudice. On October 19, 2007, the plaintiffs filed an appeal of the dismissal order with the Washington Court of Appeals. We have purchased Directors and Officers insurance policies to cover claims against the former officers and directors of Xypoint and us, and believe that one or both of those insurance policies may cover some or all of the costs of this lawsuit. We intend to continue to defend the appeal vigorously. Although we believe a material loss is remote, we can make no assurances that the outcome will be favorable to us or that the insurance policies will be sufficient to cover the costs incurred or any judgment amounts that may result.

On July 12, 2006, we filed suit in the US District Court for the Eastern District of Virginia against Mobile 365 (now Sybase 365, a subsidiary of Sybase Inc.) and WiderThan Americas for patent infringement related to U.S. patent No. 6,985,748, Inter-Carrier Short Messaging Service Providing Phone Number Only Experience, issued to the Company. We resolved the matter with regard to WiderThan Americas, and during the second quarter of 2007 we received a favorable jury decision that Sybase 365 infringed the claims of our patent. The jury awarded us a one-time monetary payment in excess of $10 million for past damages and a 12% royalty. The jury also found Sybase 365's infringement willful and upheld the validity of the patent. The jury's findings remain subject to post trial motions. After the judge rules on the post trial motions, either side may appeal to the US Court of Appeals for the Federal Circuit. There can be no assurances to what extent the matter will continue to be successful, if at all. Additionally, we could be subject to counter claims.

In November 2001, a shareholder class action lawsuit was filed against us, certain of our current officers and a director, and several investment banks that were the underwriters of our initial public offering (the "Underwriters"): *Highstein v. Telecommunication Systems, Inc., et al.*, United States District Court for the Southern District of New York, Civil Action No. 01-CV-9500. The plaintiffs seek an unspecified amount of damages. The lawsuit purports to be a class action suit filed on behalf of purchasers of our common stock during the period August 8, 2000 through December 6, 2000. The plaintiffs allege that the Underwriters agreed to allocate common stock offered for sale in our initial public offering to certain purchasers in exchange for excessive and undisclosed commissions and agreements by those purchasers to make additional purchases of common stock in the aftermarket at pre-determined prices. The plaintiffs allege that all of the defendants violated Sections 11, 12 and 15 of the Securities Act, and that the underwriters violated Section 10(b) of the Securities Exchange Act, and Rule 10b-5 promulgated thereunder. The claims against us of violation of Rule 10b-5 have been dismissed with the plaintiffs having the right to re-plead. We will continue to defend the lawsuit vigorously. On February 15, 2005, the District Court issued an Order preliminarily approving a settlement agreement among class plaintiffs, all issuer defendants and their insurers, provided that the parties agree to a modification narrowing the scope of the bar order set forth in the settlement agreement. The parties agreed to a modification narrowing the scope of the bar order, and on August 31, 2005, the court issued an order preliminarily approving the settlement. On December 5, 2006, the United States Court of Appeals for the Second Circuit overturned the District Court's certification of the class of plaintiffs who are pursuing the claims that would be settled in the settlement against the underwriter defendants. Plaintiffs filed a Petition for Rehearing and Rehearing *En Banc* with the Second Circuit on January 5, 2007 in response to the Second Circuit's decision, and have informed the

District Court that they would like to be heard by the District Court as to whether the settlement may still be approved even if the decision of the Court of Appeals is not reversed. The District Court indicated that it would defer consideration of final approval of the settlement pending plaintiffs' request for further appellate review. We intend to continue to defend the lawsuit until the settlement has received final approval or the matter is resolved otherwise. More than 300 other companies have been named in nearly identical lawsuits that have been filed by some of the same law firms that represent the plaintiffs in the lawsuit against us, and we believe that the majority of those companies will participate in the same settlement if approved.

We are subject to certain litigation, claims and assessments which occur in the normal course of business. Based on consultation with our legal counsel, management is of the opinion that such matters, when resolved, will not have a material impact on our consolidated results of operations, financial position or cash flows.

23. Related Party Transactions

In February 2003, we entered into an agreement with Annapolis Partners LLC to explore the opportunity of relocating our Annapolis offices to a planned new real estate development. Our President and Chief Executive Officer owns a controlling voting and economic interest in Annapolis Partners LLC and he also serves as a member. The financial and many other terms of the agreement have not yet been established. The lease is subject to several contingencies and rights of termination. For example, the agreement can be terminated at the sole discretion of our Board of Directors if the terms and conditions of the development are unacceptable to us, including without limitation the circumstances that market conditions make the agreement not favorable to us or the overall cost is not in the best interest to us or our shareholders, or any legal or regulatory restrictions apply. Our Board of Directors will evaluate this opportunity along with alternatives that are or may become available in the relevant time periods and there is no assurance that we will enter into a definitive agreement at this new development site.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

TeleCommunication Systems, Inc.

By: /s/ Maurice B. Tosé
Maurice B. Tosé
Chief Executive Officer, President and Chairman of the Board

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated. The undersigned hereby constitute and appoint Maurice B. Tosé, Thomas M. Brandt, Jr. and Bruce A. White, and each of them, their true and lawful agents and attorneys-in-fact with full power and authority in said agents and attorneys-in-fact, and in any one or more of them, to sign for the undersigned and in their respective names as directors and officers of TeleCommunication Systems, any amendment or supplement hereto. The undersigned hereby confirm all acts taken by such agents and attorneys-in-fact, and any one or more of them, as herein authorized

Name	Title	Date
/s/ Maurice B. Tosé Maurice B. Tosé	Chief Executive Officer, President and Chairman of the Board (Principal Executive Officer)	March 5, 2008
/s/ Thomas M. Brandt, Jr. Thomas M. Brandt, Jr.	Chief Financial Officer and Senior Vice President (Principal Financial Officer)	March 5, 2008
/s/ James M. Bethmann James M. Bethmann	Director	March 5, 2008
/s/ Clyde A. Heintzelman Clyde A. Heintzelman	Director	March 5, 2008
/s/ Richard A. Kozak Richard A. Kozak	Director	March 5, 2008
/s/ Weldon H. Latham Weldon H. Latham	Director	March 5, 2008
/s/ Byron F. Marchant Byron F. Marchant	Director	March 5, 2008

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EXHIBIT INDEX

Exhibit Numbers	Description
4.1	Amended and Restated Articles of Incorporation. (Incorporated by reference to the company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004)
4.2	Second Amended and Restated Bylaws. (Incorporated by reference to the company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004)
4.3	Form of Class A Common Stock certificate. (Incorporated by reference to the company's Registration Statement on Form S-1 (No. 333-35522))
4.5	Warrants to Purchase Common Stock issued pursuant to the Securities Purchase Agreement for each of the investors party to the Securities Purchase Agreement dated January 13, 2004. (Incorporated by reference to the company's Current Report on Form 8-K filed on January 23, 2004)
4.6	Note Purchase Agreement dated March 13, 2006 by and among the company and the Purchasers named therein (Incorporated by reference to the company's Annual Report on Form 10-K, as amended, for the year ended December 31, 2005)
4.7	Warrants to Purchase Common Stock issued pursuant to the Note Purchase Agreement dated March 13, 2006 to each of the Purchasers named therein (Incorporated by reference to the company's Annual Report on Form 10-K, as amended, for the year ended December 31, 2005)
4.8	Notes issued pursuant to the Note Purchase Agreement dated March 13, 2006 to each of the Purchasers named therein (Incorporated by reference to the company's Annual Report on Form 10-K, as amended, for the year ended December 31, 2005)
4.9	Registration Rights Agreement dated March 13, 2006 by and among the company and the Investors named therein (Incorporated by reference to the company's Annual Report on Form 10-K, as amended, for the year ended December 31, 2005)
4.10	Intellectual Property Security Agreement dated March 13, 2006 by and among the company, Bonanza Master Fund Ltd., as Agent, and the Secured Parties named therein (Incorporated by reference to the company's Annual Report on Form 10-K, as amended, for the year ended December 31, 2005)
4.11	Subordination Agreement dated March 13, 2006 by and among the company, Silicon Valley Bank, and the Purchasers named therein (Incorporated by reference to the company's Annual Report on Form 10-K, as amended, for the year ended December 31, 2005)
10.1	West Garrett Office Building Full service Lease Agreement dated October 1, 1997 by and between the company and West Garrett Joint Venture. (Incorporated by reference to the company's Registration Statement on Form S-1 (No. 333-35522))
10.2†	Form of Indemnification Agreement. (Incorporated by reference to the company's Registration Statement on Form S-1 (No. 333-35522))
10.3†	Fourth Amended and Restated 1997 Stock Incentive Plan. (Incorporated by reference to Appendix A to the company's definitive proxy statement for its 2004 Annual Meeting of stockholders as filed with the SEC on June 17, 2004 (No. 000-30821))
10.4†	First Amended and Restated Employee Stock Purchase Plan. (Incorporated by reference to the company's Registration Statement on Form S-8 (No. 333-136072))
10.5†	Optionee Agreement dated October 1, 1997 by and between the company and Richard A. Young. (Incorporated by reference to the company's Registration Statement on Form S-1 (No. 333-35522))
10.6†	Optionee Agreement dated July 29, 1998 by and between the company and Richard A. Young. (Incorporated by reference to the company's Registration Statement on Form S-1 (No. 333-35522))
10.7†	Optionee Agreement dated October 1, 1997 by and between the company and Thomas M. Brandt, Jr. (Incorporated by reference to the company's Registration Statement on Form S-1 (No. 333-35522))
10.8†	Optionee Agreement dated July 29, 1998 by and between the company and Thomas M. Brandt, Jr. (Incorporated by reference to the company's Registration Statement on Form S-1 (No. 333-35522))
10.9†	Optionee Agreement dated April 1, 1999 by and between the company and Thomas M. Brandt, Jr. (Incorporated by reference to the company's Registration Statement on Form S-1 (No. 333-35522))
10.10†	401(k) and Profit Sharing Plan of the company dated January 1, 1999. (Incorporated by reference to the company's Registration Statement on Form S-4 (No. 333-51656))

Exhibit Numbers	Description
10.11†	Employment Agreement dated February 1, 2001 by and between the company and Richard A. Young. (Incorporated by reference to the company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001)
10.12†	Employment Agreement dated February 1, 2001 by and between the company and Thomas M. Brandt. (Incorporated by reference to the company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001)
10.13†	Employment Agreement dated February 1, 2001 by and between the company and Drew A. Morin. (Incorporated by reference to the company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001)
10.14†	Employment Agreement dated February 1, 2001 by and between the company and Timothy J. Lorello. (Incorporated by reference to the company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001)
10.15‡	Services Integration Agreement dated January 31, 2002 by and between the company and Hutchison 3G. (Incorporated by reference to the company's Annual Report on Form 10-K for the year ended December 31, 2001)
10.16	Deed of Lease by and between Annapolis Partner, LLC and the company. (Incorporated by reference to the company's Annual Report on Form 10-K for the year ended December 31, 2002)
10.17†	Restricted stock award certificate to Mr. Thomas M. Brandt, Jr. (Incorporated by reference to the company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003)
10.18†	Restricted stock award certificate to Mr. Thomas M. Brandt, Jr. (Incorporated by reference to the company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003)
10.19†	Restricted stock award certificate to Mr. Clyde A. Heintzelman. (Incorporated by reference to the company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003)
10.20†	Restricted stock award certificate to Mr. Richard A. Kozak. (Incorporated by reference to the company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003)
10.21†	Restricted stock award certificate to Mr. Weldon H. Latham. (Incorporated by reference to the company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003)
10.22†	Restricted stock award certificate to Mr. Timothy J. Lorello. (Incorporated by reference to the company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003)
10.23†	Restricted stock award certificate to Mr. Timothy J. Lorello. (Incorporated by reference to the company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003)
10.24†	Restricted stock award certificate to Mr. Bryon F. Marchant. (Incorporated by reference to the company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003)
10.25†	Restricted stock award certificate to Mr. Drew A. Morin. (Incorporated by reference to the company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003)
10.26†	Restricted stock award certificate to Mr. Drew A. Morin. (Incorporated by reference to the company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003)
10.27†	Restricted stock award certificate to Mr. Maurice B. Tosé. (Incorporated by reference to the company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003)
10.28†	Restricted stock award certificate to Mr. Maurice B. Tosé. (Incorporated by reference to the company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003)
10.29†	Restricted stock award certificate to Mr. Kevin M. Webb. (Incorporated by reference to the company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003)
10.30†	Restricted stock award certificate to Mr. Kevin M. Webb. (Incorporated by reference to the company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003)
10.31†	Restricted stock award certificate to Mr. Richard A. Young. (Incorporated by reference to the company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003)
10.32†	Restricted stock award certificate to Mr. Richard A. Young. (Incorporated by reference to the company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003)

Exhibit Numbers	Description
10.33	Registration Rights Agreement dated as of December 18, 2003 by and among the company and the investors party to the 2003 SPA. (Incorporated by reference to Exhibit 10 to the company's Current Report on Form 8-K dated December 18, 2003)
10.34	Trademark License Agreement by and among Aether, TSYS and the company dated as of January 13, 2004. (Incorporated by reference to the company's Current Report on Form 8-K filed on January 23, 2004)
10.35	Registration Rights Agreement by and between the company and Aether dated as of January 13, 2004. (Incorporated by reference to the company's Current Report on Form 8-K filed on January 23, 2004)
10.36†	Amended and Restated Loan and Security Agreement by and between the company and Silicon Valley Bank. (Incorporated by reference to the company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004)
10.37	Restricted stock award certificate to Mr. Clyde A. Heintzelman (Incorporated by reference to the company's Annual Report on Form 10-K, as amended, for the year ended December 31, 2005)
10.38	Restricted stock award certificate to Mr. Richard A. Kozak (Incorporated by reference to the company's Annual Report on Form 10-K, as amended, for the year ended December 31, 2005)
10.39	Restricted stock award certificate to Mr. Weldon F. Latham (Incorporated by reference to the company's Annual Report on Form 10-K, as amended, for the year ended December 31, 2005)
10.40	Restricted stock award certificate to Mr. Byron F. Marchant (Incorporated by reference to the company's Annual Report on Form 10-K, as amended, for the year ended December 31, 2005)
10.46	Second Amended and Restated Loan and Security Agreement by and between the Company and Silicon Valley Bank (Incorporated by reference to the company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2005)
10.47†	Form of Incentive Stock Option Agreement
10.48†	Form of Non-Qualified Stock Option Agreement
10.49†	Form of Restricted Stock Grant Agreement
12.1	Supplemental Financial Statement Schedule II
21.1	Subsidiaries of the Registrant
23.1	Consent of Ernst & Young LLP
23.2	Consent of James Cowper
31.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
99.01	Report of Independent Auditors- James Cowper

† Management contract, compensatory plans or arrangement required to be filed as an exhibit pursuant to Item 15(a)(3) of Form 10-K.

‡ Confidential treatment has been for certain portions of this Exhibit pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended, which portions have been omitted and filed separately with the Securities and Exchange Commission.

Incentive Stock Option Grant Agreement
Under The
TeleCommunication Systems, Inc.
Fifth Amended and Restated 1997 Stock Incentive Plan

1. Terminology. All capitalized words that are not defined in this Agreement have the meanings ascribed to them in the Plan. For purposes of this Agreement, the terms below have the following meanings:

(a) "***Cause***" has the meaning ascribed to such term or words of similar import in the Employee's written employment or service contract with the Company and, in the absence of such agreement or definition, means: (i) the willful commission by the Employee of a criminal or other act that causes or is likely to cause substantial economic damage to the Company or substantial injury to the business reputation of the Company; (ii) the commission by the Employee of an act of fraud in the performance of such Employee's duties on behalf of the Company; or (iii) the continuing willful failure of the Employee to perform the duties of such Employee to the Company (other than such failure resulting from the Employee's incapacity due to physical or mental illness), all as determined by the Administrator, which determination will be conclusive. For purposes of this Agreement, no act, or failure to act, on the Employee's part shall be considered "willful" unless done or omitted to be done by the Employee not in good faith with the reasonable belief that the Employee's action or omission was in the best interest of the Company.

(b) "***Change in Control***" means: (i) an acquisition (other than from the Company) in a transaction, or a series of related transactions, by any person, entity or "group," within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934 (the "***Exchange Act***"), (excluding for this purpose, (A) the Company or its subsidiaries, (B) any employee benefit plan of the Company or its subsidiaries which acquires beneficial ownership of voting securities of the Company, (C) an underwriter temporarily holding securities pursuant to an offering of such securities, or (D) any corporation owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of the then outstanding voting securities of the Company entitled to vote generally in the election of directors) of beneficial ownership, within the meaning of Rule 13d-3 promulgated under the Exchange Act, of 50% or more of either the then outstanding shares of common stock or the combined voting power of the Company's then outstanding voting securities entitled to vote generally in the election of directors (the "***Company Voting Stock***"); (ii) the effective time of any merger, share exchange, consolidation or other reorganization or business combination of the Company if immediately after such transaction persons who hold a majority of the outstanding voting securities entitled to vote generally in the election of directors of the surviving entity (or the entity owning 100% of such surviving entity) are not persons who held the Company Voting Stock immediately prior to such transaction; (iii) the closing of a sale or conveyance of all or substantially all of the assets of the Company; (iv) individuals who were the Board's nominees for election as directors immediately prior to a meeting of the stockholders of the Company involving an actual or threatened election contest relating to the election of the directors of the Company, as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the

Exchange Act, cease to constitute a majority of the Board following the election; or (v) the dissolution or liquidation of the Company; provided, however, that the term "Change in Control" does not include a public offering of capital stock of the Company that is effected pursuant to a registration statement filed with, and declared effective by, the Securities and Exchange Commission under the Securities Act of 1933.

(c) "***Company***" includes TeleCommunication Systems, Inc. and its Affiliates, except where the context otherwise requires.

(d) "***Option Shares***" mean the shares of Common Stock underlying the Options.

(e) "***Total and Permanent Disability***" means the inability to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than twelve months. The Administrator may require such proof of Total and Permanent Disability as the Administrator in its sole discretion deems appropriate and the Administrator's good faith determination as to whether the Employee is totally and permanently disabled will be final and binding on all parties concerned.

2. Vesting. The Options vest in accordance with the vesting schedule identified in the Stock Option Certificate which is attached hereto and constitutes a part of the Agreement (the "***Vesting Schedule***"), so long as the Employee is in the continuous employ of, or in a service relationship with, the Company from the Grant Date through the applicable date upon which vesting is scheduled to occur. No vesting will accrue to any Options after the Employee ceases to be in either an employment or other service relationship with the Company.

3. Exercise of Options.

(a) Right to Exercise. The Employee may exercise the Options to the extent vested at any time on or before the Expiration Date or the earlier termination of the Options, unless otherwise provided in this Agreement. Section 4 below describes certain limitations on exercise of the Options that apply in the event of the Employee's death, Total and Permanent Disability, discharge by the Company without Cause or other termination of employment or other service relationship with the Company. The Options may be exercised only in multiples of whole shares and may not be exercised at any one time as to fewer than one hundred shares (or such lesser number of shares as to which the Options are then exercisable). No fractional shares will be issued under the Options.

(b) Exercise Procedure. In order to exercise the Options, the following items must be delivered to the Administrator before the expiration or termination of the Options: (i) an exercise notice, in such form as the Administrator may require from time to time, specifying the number of Option Shares to be purchased, and (ii) full payment of the Exercise Price for such Option Shares or properly executed, irrevocable instructions, in such form as the Administrator may require from time to time, to effectuate a broker-assisted cashless exercise, each in accordance with Section 3(c) of this Agreement. An exercise will not be effective until all of the foregoing items are received by the Administrator.

(c) Method of Payment. Payment of the Exercise Price may be made by delivery of cash, certified or cashier's check, money order or other cash equivalent acceptable to the Administrator in its discretion, a broker-assisted cashless exercise in accordance with Regulation T of the Board of Governors of the Federal Reserve System through a brokerage firm approved by the Administrator, or a combination of the foregoing. In addition, payment of the Exercise Price may be made by any of the following methods, or a combination thereof, as determined by the Administrator in its discretion at the time of exercise:

(i) by tender (via actual delivery or attestation) to the Company of other shares of Common Stock of the Company which have a Fair Market Value on the date of tender equal to the Exercise Price, providedthat such shares have been owned by the Employee for a period of at least six months free of any substantial risk of forfeiture or were purchased on the open market without assistance, direct or indirect, from the Company;

(ii) by delivery of the Employee's full recourse promissory note payable to the Company in a form approved by the Administrator; or

(iii) by any other method approved by the Administrator.

(d) Issuance of Shares upon Exercise. *Upon exercise of the Options in accordance* with the terms of this Agreement, the Company will issue to the Employee, the brokerage firm specified in the Employee's delivery instructions pursuant to a broker-assisted cashless exercise, or such other person exercising the Options, as the case may be, the number of shares of Common Stock so paid for, in the form of fully paid and nonassessable stock. The Company will deliver stock certificates for the Option Shares as soon as practicable after exercise, which certificates will, unless such Option Shares are registered or an exemption from registration is available under applicable federal and state law, bear a legend restricting transferability of such shares.

4. Termination of Employment or Service.

(a) Exercise Period Following Cessation of Employment or Other Service Relationship, In General. If the Employee ceases to be employed by, or in a service relationship with, the Company for any reason other than death, Total and Permanent Disability, or discharge by the Company without Cause, the Options terminate in their entirety, regardless of whether the options are vested, immediately upon the Employee's termination of employment or other service relationship.

(b) Termination by the Company Without Cause. In the event the Employee's employment or other service relationship is terminated by the Company without Cause, (i) the unvested Options, after giving effect to the provisions of Section 2 of this Agreement, terminate immediately upon such cessation, and (ii) the vested Options remain exercisable during the 90-day period following such cessation, but in no event after the Expiration Date. Unless sooner terminated, the vested Options terminate upon the expiration of such 90-day period.

(c) Disability of Employee. Notwithstanding the provisions of Section 4(a) above, if the Employee ceases to be employed by, or in a service relationship with, the Company as a result of the Employee's Total and Permanent Disability, (i) the unvested

Options, after giving effect to the provisions of Section 2 of this Agreement, terminate immediately upon such cessation, and (ii) the vested Options remain exercisable during the six-month period following such cessation, but in no event after the Expiration Date. Unless sooner terminated, the vested Options terminate upon the expiration of such six-month period.

(d) Death of Employee. If the Employee dies prior to the expiration or other termination of the Options, (i) the unvested Options, after giving effect to the provisions of Section 2 of this Agreement, terminate immediately upon the Employee's death, and (ii) the vested Options remain exercisable during the six-month period following the Employee's death, but in no event after the Expiration Date, by the Employee's executor, personal representative, or the person(s) to whom the Options are transferred by will or the laws of descent and distribution. Unless sooner terminated, the vested Options terminate upon the expiration of such six-month period.

(e) Misconduct. Notwithstanding anything to the contrary in this Agreement, the Options terminate in their entirety, regardless of whether the Options are vested, immediately upon the Employee's discharge of employment or other service relationship for Cause or upon the Employee's commission of any of the following acts during any period following the cessation of employment or other service relationship during which the Options otherwise would be exercisable: (i) fraud on or misappropriation of any funds or property of the Company, or (ii) breach by the Employee of any provision of any employment, non-disclosure, non-competition, non-solicitation, assignment of inventions, or other similar agreement executed by the Employee for the benefit of the Company, as determined by the Administrator, which determination will be conclusive.

(f) Change in Status. If the Employee's relationship with the Company ceases to be a "common law employee" relationship but the Employee continues to provide bona fide services to the Company following such cessation in a different capacity, including without limitation as a director, consultant or independent contractor, then a termination of employment or other service relationship shall not be deemed to have occurred for purposes of this Section 4 upon such change in relationship. Notwithstanding the foregoing, the Options shall not be treated as incentive stock options within the meaning of Code section 422 with respect to any exercise that occurs more than 90 days after such cessation of the common law employee relationship (except as otherwise permitted under Code section 421 or 422).

5. Nontransferability of Options. These Options are nontransferable otherwise than by will or the laws of descent and distribution and during the lifetime of the Employee, the Options may be exercised only by the Employee or, during the period the Employee is under a legal disability, by the Employee's guardian or legal representative. Except as provided above, the Options may not be assigned, transferred, pledged, hypothecated or disposed of in any way (whether by operation of law or otherwise) and shall not be subject to execution, attachment or similar process.

6. Qualified Nature of the Options. The Options are intended to qualify as incentive stock options within the meaning of Code section 422 ("Incentive Stock Options"), to the fullest extent permitted by Code section 422, and this Agreement shall be so construed. Pursuant to Code section 422(d) the aggregate fair market value (determined as of the Grant Date) of shares of Common Stock with respect to which all Incentive Stock Options first become exercisable by the Employee in any calendar year under the Plan or any other plan of the

Company (and its parent and subsidiary corporations, within the meaning of Code section 424(e) and (f), as may exist from time to time) may not exceed $100,000 or such other amount as may be permitted from time to time under Code section 422. To the extent that such aggregate fair market value exceeds $100,000 or other applicable amount in any calendar year, such stock options will be treated as nonstatutory stock options with respect to the amount of aggregate fair market value thereof that exceeds the Code section 422(d) limit. For this purpose, the Incentive Stock Options will be taken into account in the order in which they were granted. In such case, the Company may designate the shares of Common Stock that are to be treated as stock acquired pursuant to the exercise of Incentive Stock Options and the shares of Common Stock that are to be treated as stock acquired pursuant to nonstatutory stock options by issuing separate certificates for such shares and identifying the certificates as such in the stock transfer records of the Company.

Notwithstanding anything herein to the contrary, if the Employee owns, directly or indirectly through attribution, stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or of any of its subsidiaries (within the meaning of Code section 424(f)) on the Grant Date, then the Exercise Price is the greater of (a) the Exercise Price stated on the Stock Option Certificate which is attached hereto and constitutes a part of this Agreement or (b) 110% of the Fair Market Value of the Common Stock on the Grant Date, and the Expiration Date is the last business day prior to the fifth anniversary of the Grant Date.

Code section 422 provides additional limitations respecting the treatment of these Options as Incentive Stock Options.

7. Notice of Disqualifying Disposition. If the Employee makes a disposition (as that term is defined in Code section 424(c)) of any Option Shares acquired pursuant to these Options within two years of the Grant Date or within one year after the Option Shares are transferred to the Employee, the Employee agrees to notify the Administrator of such disposition in writing within 30 days of the disposition.

8. Withholding of Taxes. At the time the Options are exercised, in whole or in part, or at any time thereafter as requested by the Company, the Employee hereby authorizes withholding from payroll or any other payment of any kind due the Employee and otherwise agrees to make adequate provision for foreign, federal, state and local taxes required by law to be withheld, if any, which arise in connection with the Options (including upon a disqualifying disposition within the meaning of Code section 421(b)). The Company may require the Employee to make a cash payment to cover any withholding tax obligation as a condition of exercise of the Options or issuance of share certificates representing Option Shares.

The Administrator may, in its sole discretion, permit the Employee to satisfy, in whole or in part, any withholding tax obligation which may arise in connection with the Options either by electing to have the Company withhold from the shares to be issued upon exercise that number of shares, or by electing to deliver to the Company already-owned shares, in either case having a Fair Market Value equal to the amount necessary to satisfy the statutory minimum withholding amount due.

9. Adjustments for Corporate Transactions and Other Events.

(a) Stock Dividend, Stock Split and Reverse Stock Split. Upon a stock dividend of, or stock split or reverse stock split affecting, the Common Stock, the number of shares covered by and the exercise price and other terms of the Options, shall, without further action of the Board, be adjusted to reflect such event unless the Board determines, at the time it approves such stock dividend, stock split or reverse stock split, that no such adjustment shall be made. The Administrator may make adjustments, in its discretion, to address the treatment of fractional shares and fractional cents that arise with respect to the Options as a result of the stock dividend, stock split or reverse stock split.

(b) Non-Change in Control Transactions. Except with respect to the transactions set forth in Section 9(a), in the event of any change affecting the Common Stock, the Company or its capitalization, by reason of a spin-off, split-up, dividend, recapitalization, merger, consolidation or share exchange, other than any such change that is part of a transaction resulting in a Change in Control, the Administrator, in its discretion and without the consent of the Employee, shall make any adjustments in the Options, including but not limited to reducing the number, kind and price of securities subject to the Options.

(c) Change in Control Transactions. In the event of any transaction resulting in a Change in Control, the Options will terminate upon the effective time of any such Change in Control unless provision is made in connection with the transaction in the sole discretion of the parties thereto for the continuation or assumption of the Options, or the substitution of the Options with new options of the surviving or successor entity or a parent thereof. In the event of such termination, the Employee will be permitted, for a period of at least 10 days prior to the effective time of the Change in Control, to exercise all of the Options that are then exercisable or will become exercisable upon or prior to the effective time of the Change in Control; provided, however, that any such exercise of any Options that become exercisable as a result of the Change in Control shall be deemed to occur immediately prior to the effective time of such Change in Control.

(d) Pooling of Interests Transaction. Notwithstanding anything in the Plan or this Agreement to the contrary, in connection with any business combination authorized by the Board, the Administrator, in its sole discretion and without the consent of the Employee, may make any modifications to the Options, including but not limited to cancellation, forfeiture, surrender or other termination of the Options, in whole or in part, regardless of their vested status, but solely to the extent necessary to facilitate the compliance of such transaction with requirements for treatment as a pooling of interests transaction for accounting purposes under generally accepted accounting principles.

(e) Adjustments for Unusual Events. The Administrator is authorized to make, in its discretion and without the consent of the Employee, adjustments in the terms and conditions of, and the criteria included in, the Options in recognition of unusual or nonrecurring events affecting the Company, or the financial statements of the Company or any Affiliate, or of changes in applicable laws, regulations, or accounting principles, whenever the Administrator determines that such adjustments are appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Options or the Plan.

(f) Binding Nature of Adjustments. Adjustments under this Section 9 will be made by the Administrator, whose determination as to what adjustments, if any, will be made and the extent thereof will be final, binding and conclusive. No fractional shares will be issued pursuant to the Options on account of any such adjustments. The terms and conditions of this Agreement shall apply with equal force to any additional and/or substitute securities received by the Employee pursuant to this Section 9 in exchange for, or by virtue of the Employee's ownership of, the Options or the Option Shares, except as otherwise determined by the Administrator.

10. Confidential Information. In consideration of the Options granted to the Employee pursuant to this Agreement, the Employee agrees and covenants that, except as specifically authorized by the Company, the Employee will keep confidential any trade secrets or confidential or proprietary information of the Company which are now or which hereafter may become known to the Employee as a result of the Employee's employment by or other service relationship with the Company, and shall not at any time, directly or indirectly, disclose any such information to any person, firm, Company or other entity, or use the same in any way other than in connection with the business of the Company, at all times during and after the Employee's employment or other service relationship. The provisions of this Section 10 shall not narrow or otherwise limit the obligations and responsibilities of the Employee set forth in any agreement of similar import entered into between the Employee and the Company.

11. Non-Guarantee of Employment or Service Relationship. Nothing in the Plan or this Agreement shall alter the at-will or other employment status or other service relationship of the Employee, nor be construed as a contract of employment or service relationship between the Company and the Employee, or as a contractual right of Employee to continue in the employ of, or in a service relationship with, the Company for any period of time, or as a limitation of the right of the Company to discharge the Employee at any time with or without cause or notice and whether or not such discharge results in the failure of any Options to vest or any other adverse effect on the Employee's interests under the Plan.

12. No Rights as a Stockholder. The Employee shall not have any of the rights of a stockholder with respect to the Option Shares until such shares have been issued to him or her upon the due exercise of the Options. No adjustment shall be made for dividends or distributions or other rights for which the record date is prior to the date such shares are issued.

13. The Company's Rights. The existence of the Options shall not affect in any way the right or power of the Company or its stockholders to make or authorize any or all adjustments, recapitalizations, reorganizations or other changes in the Company's capital structure or its business, or any merger or consolidation of the Company, or any issue of bonds, debentures, preferred or other stocks with preference ahead of or convertible into, or otherwise affecting the Common Stock or the rights thereof, or the dissolution or liquidation of the Company, or any sale or transfer of all or any part of the Company's assets or business, or any other corporate act or proceeding, whether of a similar character or otherwise.

14. Employee. Whenever the word "Employee" is used in any provision of this Agreement under circumstances where the provision should logically be construed, as determined by the Administrator, to apply to the estate, personal representative, or beneficiary to whom the Options may be transferred by will or by the laws of descent and distribution, the word "Employee" shall be deemed to include such person.

15. Notices. All notices and other communications made or given pursuant to this Agreement shall be in writing and shall be sufficiently made or given if hand delivered or mailed by certified mail, addressed to the Employee at the address contained in the records of the Company, or addressed to the Administrator, care of the Company for the attention of its Corporate Secretary at its principal office or, if the receiving party consents in advance, transmitted and received via telecopy or via such other electronic transmission mechanism as may be available to the parties.

16. Entire Agreement. This Agreement contains the entire agreement between the parties with respect to the Options granted hereunder. Any oral or written agreements, representations, warranties, written inducements, or other communications made prior to the execution of this Agreement with respect to the Options granted hereunder shall be void and ineffective for all purposes.

17. Amendment. This Agreement may be amended from time to time by the Administrator in its discretion; provided, however, that this Agreement may not be modified in a manner that would have a materially adverse effect on the Options or Option Shares as determined in the discretion of the Administrator, except as provided in the Plan or in a written document signed by each of the parties hereto.

18. Conformity with Plan. This Agreement is intended to conform in all respects with, and is subject to all applicable provisions of, the Plan. Inconsistencies between this Agreement and the Plan shall be resolved in accordance with the terms of the Plan. In the event of any ambiguity in this Agreement or any matters as to which this Agreement is silent, the Plan shall govern. A copy of the Plan is available upon request to the Administrator.

19. Governing Law. The validity, construction and effect of this Agreement, and of any determinations or decisions made by the Administrator relating to this Agreement, and the rights of any and all persons having or claiming to have any interest under this Agreement, shall be determined exclusively in accordance with the laws of the State of Maryland, without regard to its provisions concerning the applicability of laws of other jurisdictions. Any suit with respect hereto will be brought in the federal or state courts in the districts which include the city and state in which the principal offices of the Company are located, and the Employee hereby agrees and submits to the personal jurisdiction and venue thereof.

20. Headings. The headings in this Agreement are for reference purposes only and shall not affect the meaning or interpretation of this Agreement.

Enclosure: Prospectus of the TeleCommunication Systems, Inc. Fifth Amended and Restated 1997 Stock Incentive Plan

Exhibit 10.48

Nonstatutory Stock Option Grant Agreement
Under The
TeleCommunication Systems, Inc.
Fifth Amended and Restated 1997 Stock Incentive Plan

1. Terminology. All capitalized words that are not defined in this Agreement have the meanings ascribed to them in the Plan. For purposes of this Agreement, the terms below have the following meanings:

(a) "***Cause***" has the meaning ascribed to such term or words of similar import in the Optionee's written employment or service contract with the Company and, in the absence of such agreement or definition, means: (i) the willful commission by the Optionee of a criminal or other act that causes or is likely to cause substantial economic damage to the Company or substantial injury to the business reputation of the Company; (ii) the commission by the Optionee of an act of fraud in the performance of such Optionee's duties on behalf of the Company; or (iii) the continuing willful failure of the Optionee to perform the duties of such Optionee to the Company (other than such failure resulting from the Optionee's incapacity due to physical or mental illness), all as determined by the Administrator, which determination will be conclusive. For purposes of this Agreement, no act, or failure to act, on the Optionee's part shall be considered "willful" unless done or omitted to be done by the Optionee not in good faith with the reasonable belief that the Optionee's action or omission was in the best interest of the Company.

(b) "***Change in Control***" means: (i) an acquisition (other than from the Company) in a transaction, or a series of related transactions, by any person, entity or "group," within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934 (the "***Exchange Act***"), (excluding for this purpose, (A) the Company or its subsidiaries, (B) any employee benefit plan of the Company or its subsidiaries which acquires beneficial ownership of voting securities of the Company, (C) an underwriter temporarily holding securities pursuant to an offering of such securities, or (D) any corporation owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of the then outstanding voting securities of the Company entitled to vote generally in the election of directors) of beneficial ownership, within the meaning of Rule 13d-3 promulgated under the Exchange Act, of 50% or more of either the then outstanding shares of common stock or the combined voting power of the Company's then outstanding voting securities entitled to vote generally in the election of directors (the "***Company Voting Stock***"); (ii) the effective time of any merger, share exchange, consolidation or other reorganization or business combination of the Company if immediately after such transaction persons who hold a majority of the outstanding voting securities entitled to vote generally in the election of directors of the surviving entity (or the entity owning 100% of such surviving entity) are not persons who held the Company Voting Stock immediately prior to such transaction; (iii) the closing of a sale or conveyance of all or substantially all of the assets of the Company; (iv) individuals who were the Board's nominees for election as directors immediately prior to a meeting of the stockholders of the Company involving an actual or threatened election contest relating to the election of the directors of the

Company, as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act, cease to constitute a majority of the Board following the election; or (v) the dissolution or liquidation of the Company; provided, however, that the term "Change in Control" does not include a public offering of capital stock of the Company that is effected pursuant to a registration statement filed with, and declared effective by, the Securities and Exchange Commission under the Securities Act of 1933.

(c) "***Company***" includes TeleCommunication Systems, Inc. and its Affiliates, except where the context otherwise requires.

(d) "***Option Shares***" mean the shares of Common Stock underlying the Options.

(e) "***Total and Permanent Disability***" means the inability to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than twelve months. The Administrator may require such proof of Total and Permanent Disability as the Administrator in its sole discretion deems appropriate and the Administrator's good faith determination as to whether the Optionee is totally and permanently disabled will be final and binding on all parties concerned.

2. Vesting. The Options vest in accordance with the vesting schedule identified in the Stock Option Certificate which is attached hereto and constitutes a part of the Agreement (the "***Vesting Schedule***"), so long as the Optionee is in the continuous employ of, or in a service relationship with, the Company from the Grant Date through the applicable date upon which vesting is scheduled to occur. No vesting will accrue to any Options after the Optionee ceases to be in either an employment or other service relationship with the Company.

3. Exercise of Options.

(a) Right to Exercise. The Optionee may exercise the Options to the extent vested at any time on or before the Expiration Date or the earlier termination of the Options, unless otherwise provided in this Agreement. Section 4 below describes certain limitations on exercise of the Options that apply in the event of the Optionee's death, Total and Permanent Disability, discharge by the Company without Cause or other termination of employment or other service relationship with the Company. The Options may be exercised only in multiples of whole shares and may not be exercised at any one time as to fewer than one hundred shares (or such lesser number of shares as to which the Options are then exercisable). No fractional shares will be issued under the Options.

(b) Exercise Procedure. In order to exercise the Options, the following items must be delivered to the Administrator before the expiration or termination of the Options: (i) an exercise notice, in such form as the Administrator may require from time to time, specifying the number of Option Shares to be purchased, and (ii) full payment of the Exercise Price for such Option Shares or properly executed, irrevocable instructions, in such form as the Administrator may require from time to time, to effectuate a broker-assisted cashless exercise, each in accordance with Section 3(c) of this Agreement. An exercise will not be effective until the Administrator receives all of the foregoing items.

(c) Method of Payment. Payment of the Exercise Price may be made by delivery of cash, certified or cashier's check, money order or other cash equivalent acceptable to the Administrator in its discretion, a broker-assisted cashless exercise in accordance with Regulation T of the Board of Governors of the Federal Reserve System through a brokerage firm approved by the Administrator, or a combination of the foregoing. In addition, payment of the Exercise Price may be made by any of the following methods, or a combination thereof, as determined by the Administrator in its discretion at the time of exercise:

(i) by tender (via actual delivery or attestation) to the Company of other shares of Common Stock of the Company which have a Fair Market Value on the date of tender equal to the Exercise Price, providedthat such shares have been owned by the Optionee for a period of at least six months free of any substantial risk of forfeiture or were purchased on the open market without assistance, direct or indirect, from the Company;

(ii) by delivery of the Optionee's full recourse promissory note payable to the Company in a form approved by the Administrator; or

(iii) by any other method approved by the Administrator.

(d) Issuance of Shares upon Exercise. Upon exercise of the Options in accordance with the terms of this Agreement, the Company will issue to the Optionee, the brokerage firm specified in the Optionee's delivery instructions pursuant to a broker-assisted cashless exercise, or such other person exercising the Options, as the case may be, the number of shares of Common Stock so paid for, in the form of fully paid and nonassessable stock. The Company will deliver stock certificates for the Option Shares as soon as practicable after exercise, which certificates will, unless such Option Shares are registered or an exemption from registration is available under applicable federal and state law, bear a legend restricting transferability of such shares.

4. Termination of Employment or Service.

(a) Exercise Period Following Cessation of Employment or Other Service Relationship, In General. If the Optionee ceases to be employed by, or in a service relationship with, the Company for any reason other than death, Total and Permanent Disability, or discharge by the Company without Cause, the Options terminate in their entirety, regardless of whether the Options are vested, immediately upon the Optionee's termination of employment or other service relationship.

(b) Termination by the Company Without Cause. In the event the Optionee's employment or other service relationship is terminated by the Company without Cause, (i) the unvested Options, after giving effect to the provisions of Section 2 of this Agreement, terminate immediately upon such cessation, and (ii) the vested Options remain exercisable during the 90-day period following such cessation, but in no event after the Expiration Date. Unless sooner terminated, the vested Options terminate upon the expiration of such 90-day period.

(c) Disability of Optionee. Notwithstanding the provisions of Section 4(a) above, if the Optionee ceases to be employed by, or in a service relationship with, the Company as a result of the Optionee's Total and Permanent Disability, (i) the unvested Options, after giving effect to the provisions of Section 2 of this Agreement, terminate immediately upon such cessation, and (ii) the vested Options remain exercisable during the six-month period following such cessation, but in no event after the Expiration Date. Unless sooner terminated, the vested Options terminate upon the expiration of such six-month period.

(d) Death of Optionee. If the Optionee dies prior to the expiration or other termination of the Options, (i) the unvested Options, after giving effect to the provisions of Section 2 of this Agreement, terminate immediately upon the Optionee's death, and (ii) the vested Options remain exercisable during the six-month period following the Optionee's death, but in no event after the Expiration Date, by the Optionee's executor, personal representative, or the person(s) to whom the Options are transferred by will or the laws of descent and distribution. Unless sooner terminated, the vested Options terminate upon the expiration of such six-month period.

(e) Misconduct. Notwithstanding anything to the contrary in this Agreement, the Options terminate in their entirety, regardless of whether the Options are vested, immediately upon the Optionee's discharge of employment or other service relationship for Cause or upon the Optionee's commission of any of the following acts during any period following the cessation of employment or other service relationship during which the Options otherwise would be exercisable: (i) fraud on or misappropriation of any funds or property of the Company, or (ii) breach by the Optionee of any provision of any employment, non-disclosure, non-competition, non-solicitation, assignment of inventions, or other similar agreement executed by the Optionee for the benefit of the Company, as determined by the Administrator, which determination will be conclusive.

5. Nontransferability of Options. These Options are nontransferable otherwise than by will or the laws of descent and distribution and during the lifetime of the Optionee, the Options may be exercised only by the Optionee or, during the period the Optionee is under a legal disability, by the Optionee's guardian or legal representative. Except as provided above, the Options may not be assigned, transferred, pledged, hypothecated or disposed of in any way (whether by operation of law or otherwise) and shall not be subject to execution, attachment or similar process.

6. Nonstatutory Nature of the Options. The Options are not intended to qualify as incentive stock options within the meaning of Code section 422, and this Agreement shall be so construed. The Optionee acknowledges that, upon exercise of the Options, the Optionee will recognize taxable income in an amount equal to the excess of the then Fair Market Value of the Option Shares over the Exercise Price and must comply with the provisions of Section 7 of this Agreement with respect to any tax withholding obligations that arise as a result of such exercise.

7. Withholding of Taxes. At the time the Options are exercised, in whole or in part, or at any time thereafter as requested by the Company, the Optionee hereby authorizes withholding from payroll or any other payment of any kind due the Optionee and otherwise agrees to make adequate provision for foreign, federal, state and local taxes required by law to be withheld, if any, which arise in connection with the Options. The Company may require the Optionee to make a cash payment to cover any withholding tax obligation as a condition of exercise of the Options or issuance of share certificates representing Option Shares.

The Administrator may, in its sole discretion, permit the Optionee to satisfy, in whole or in part, any withholding tax obligation which may arise in connection with the Options either by electing to have the Company withhold from the shares to be issued upon exercise that number of shares, or by electing to deliver to the Company already-owned shares, in either case having a Fair Market Value equal to the amount necessary to satisfy the statutory minimum withholding amount due.

8. Adjustments for Corporate Transactions and Other Events.

(a) Stock Dividend, Stock Split and Reverse Stock Split. Upon a stock dividend of, or stock split or reverse stock split affecting, the Common Stock, the number of shares covered by and the exercise price and other terms of the Options, shall, without further action of the Board, be adjusted to reflect such event unless the Board determines, at the time it approves such stock dividend, stock split or reverse stock split, that no such adjustment shall be made. The Administrator may make adjustments, in its discretion, to address the treatment of fractional shares and fractional cents that arise with respect to the Options as a result of the stock dividend, stock split or reverse stock split.

(b) Non-Change in Control Transactions. Except with respect to the transactions set forth in Section 8(a), in the event of any change affecting the Common Stock, the Company or its capitalization, by reason of a spin-off, split-up, dividend, recapitalization, merger, consolidation or share exchange, other than any such change that is part of a transaction resulting in a Change in Control, the Administrator, in its discretion and without the consent of the Optionee, shall make any adjustments in the Options, including but not limited to reducing the number, kind and price of securities subject to the Options.

(c) Change in Control Transactions. In the event of any transaction resulting in a Change in Control, the Options will terminate upon the effective time of any such Change in Control unless provision is made in connection with the transaction in the sole discretion of the parties thereto for the continuation or assumption of the Options, or the substitution of the Options with new options of the surviving or successor entity or a parent thereof. In the event of such termination, the Employee will be permitted, for a period of at least 10 days prior to the effective time of the Change in Control, to exercise all of the Options that are then exercisable or will become exercisable upon or prior to the effective time of the Change in Control; provided, however, that any such exercise of any Options that become exercisable as a result of the Change in Control shall be deemed to occur immediately prior to the effective time of such Change in Control.

(d) Pooling of Interests Transaction. Notwithstanding anything in the Plan or this Agreement to the contrary, in connection with any business combination authorized by the Board, the Administrator, in its sole discretion and without the consent of the Optionee, may make any modifications to the Options, including but not limited to cancellation, forfeiture, surrender or other termination of the Options, in whole or in part, regardless of their vested status, but solely to the extent necessary to facilitate the compliance of such transaction with requirements for treatment as a pooling of interests transaction for accounting purposes under generally accepted accounting principles.

(e) Adjustments for Unusual Events. The Administrator is authorized to make, in its discretion and without the consent of the Optionee, adjustments in the terms and conditions of, and the criteria included in, the Options in recognition of unusual or nonrecurring events affecting the Company, or the financial statements of the Company or any Affiliate, or of changes in applicable laws, regulations, or accounting principles, whenever the Administrator determines that such adjustments are appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Options or the Plan.

(f) Binding Nature of Adjustments. Adjustments under this Section 8 will be made by the Administrator, whose determination as to what adjustments, if any, will be made and the extent thereof will be final, binding and conclusive. No fractional shares will be issued pursuant to the Options on account of any such adjustments. The terms and conditions of this Agreement shall apply with equal force to any additional and/or substitute securities received by the Optionee pursuant to this Section 8 in exchange for, or by virtue of the Optionee's ownership of, the Options or the Option Shares, except as otherwise determined by the Administrator.

9. Confidential Information. In consideration of the Options granted to the Optionee pursuant to this Agreement, the Optionee agrees and covenants that, except as specifically authorized by the Company, the Optionee will keep confidential any trade secrets or confidential or proprietary information of the Company which are now or which hereafter may become known to the Optionee as a result of the Optionee's employment by or other service relationship with the Company, and shall not at any time, directly or indirectly, disclose any such information to any person, firm, Company or other entity, or use the same in any way other than in connection with the business of the Company, at all times during and after the Optionee's employment or other service relationship. The provisions of this Section 9 shall not narrow or otherwise limit the obligations and responsibilities of the Optionee set forth in any agreement of similar import entered into between the Optionee and the Company.

10. Non-Guarantee of Employment or Service Relationship. Nothing in the Plan or this Agreement shall alter the at-will or other employment status or other service relationship of the Optionee, nor be construed as a contract of employment or service relationship between the Company and the Optionee, or as a contractual right of Optionee to continue in the employ of, or in a service relationship with, the Company for any period of time, or as a limitation of the right of the Company to discharge the Optionee at any time with or without cause or notice and whether or not such discharge results in the failure of any Options to vest or any other adverse effect on the Optionee's interests under the Plan.

11. No Rights as a Stockholder. The Optionee shall not have any of the rights of a stockholder with respect to the Option Shares until such shares have been issued to him or her upon the due exercise of the Options. No adjustment shall be made for dividends or distributions or other rights for which the record date is prior to the date such shares are issued.

12. The Company's Rights. The existence of the Options shall not affect in any way the right or power of the Company or its stockholders to make or authorize any or all adjustments, recapitalizations, reorganizations or other changes in the Company's capital structure or its business, or any merger or consolidation of the Company, or any issue of bonds, debentures, preferred or other stocks with preference ahead of or convertible into, or otherwise affecting the Common Stock or the rights thereof, or the dissolution or liquidation of the Company, or any sale or transfer of all or any part of the Company's assets or business, or any other corporate act or proceeding, whether of a similar character or otherwise.

13. Optionee. Whenever the word "Optionee" is used in any provision of this Agreement under circumstances where the provision should logically be construed, as

determined by the Administrator, to apply to the estate, personal representative, or beneficiary to whom the Options may be transferred by will or by the laws of descent and distribution, or another permitted transferee, the word "Optionee" shall be deemed to include such person.

14. Notices. All notices and other communications made or given pursuant to this Agreement shall be in writing and shall be sufficiently made or given if hand delivered or mailed by certified mail, addressed to the Optionee at the address contained in the records of the Company, or addressed to the Administrator, care of the Company for the attention of its Corporate Secretary at its principal office or, if the receiving party consents in advance, transmitted and received via telecopy or via such other electronic transmission mechanism as may be available to the parties.

15. Entire Agreement. This Agreement contains the entire agreement between the parties with respect to the Options granted hereunder. Any oral or written agreements, representations, warranties, written inducements, or other communications made prior to the execution of this Agreement with respect to the Options granted hereunder shall be void and ineffective for all purposes.

16. Amendment. This Agreement may be amended from time to time by the Administrator in its discretion; provided, however, that this Agreement may not be modified in a manner that would have a materially adverse effect on the Options or Option Shares as determined in the discretion of the Administrator, except as provided in the Plan or in a written document signed by each of the parties hereto.

17. Conformity with Plan. This Agreement is intended to conform in all respects with, and is subject to all applicable provisions of, the Plan. Inconsistencies between this Agreement and the Plan shall be resolved in accordance with the terms of the Plan. In the event of any ambiguity in this Agreement or any matters as to which this Agreement is silent, the Plan shall govern. A copy of the Plan is available upon request to the Administrator.

18. Governing Law. The validity, construction and effect of this Agreement, and of any determinations or decisions made by the Administrator relating to this Agreement, and the rights of any and all persons having or claiming to have any interest under this Agreement, shall be determined exclusively in accordance with the laws of the State of Maryland, without regard to its provisions concerning the applicability of laws of other jurisdictions. Any suit with respect hereto will be brought in the federal or state courts in the districts which include the city and state in which the principal offices of the Company are located, and the Optionee hereby agrees and submits to the personal jurisdiction and venue thereof.

19. Headings. The headings in this Agreement are for reference purposes only and shall not affect the meaning or interpretation of this Agreement.

Enclosure: Prospectus of the TeleCommunication Systems, Inc. Fifth Amended and Restated 1997 Stock Incentive Plan

Exhibit 10.49

Restricted Stock Grant Agreement
Under The
TeleCommunication Systems, Inc. Fifth Amended and Restated 1997 Stock Incentive Plan

The Restricted Stock Award Certificate which is attached hereto constitutes a part of this Restricted Stock Grant Agreement.

1. Terminology. All capitalized words that are not defined in this Agreement have the meanings ascribed to them in the Plan or the Restricted Stock Award Certificate. All of the provisions of the Plan are expressly incorporated into this Agreement. For purposes of this Agreement, the terms below have the following meanings:

(a) "***Cause***" has the meaning ascribed to such term or words of similar import in the Employee's written employment or service contract with the Company and, in the absence of such agreement or definition, means: (i) the willful commission by the Employee of a criminal or other act that causes or is likely to cause substantial economic damage to the Company or substantial injury to the business reputation of the Company; (ii) the commission by the Employee of an act of fraud in the performance of such Employee's duties on behalf of the Company; or (iii) the continuing willful failure of the Employee to perform the duties of such Employee to the Company (other than such failure resulting from the Employee's incapacity due to physical or mental illness), all as determined by the Administrator, which determination will be conclusive. For purposes of this Agreement, no act, or failure to act, on the Employee's part shall be considered "willful" unless done or omitted to be done by the Employee not in good faith with the reasonable belief that the Employee's action or omission was in the best interest of the Company.

(b) "***Change in Control***" means: (i) an acquisition (other than from the Company) in a transaction, or a series of related transactions, by any person, entity or "group," within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934 (the "***Exchange Act***"), (excluding for this purpose, (A) the Company or its subsidiaries, (B) any employee benefit plan of the Company or its subsidiaries which acquires beneficial ownership of voting securities of the Company, (C) an underwriter temporarily holding securities pursuant to an offering of such securities, or (D) any corporation owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of the then outstanding voting securities of the Company entitled to vote generally in the election of directors) of beneficial ownership, within the meaning of Rule 13d-3 promulgated under the Exchange Act, of 50% or more of either the then outstanding shares of common stock or the combined voting power of the Company's then outstanding voting securities entitled to vote generally in the election of directors (the "***Company Voting Stock***"); (ii) the effective time of any merger, share exchange, consolidation or other reorganization or business combination of the Company if immediately after such transaction persons who hold a majority of the outstanding voting securities entitled to vote generally in the election of directors of the surviving entity (or the entity owning 100% of such surviving entity) are not persons who held the Company Voting Stock immediately prior to such transaction; (iii) the closing of a sale or conveyance of all or substantially all of the assets of the Company; (iv) individuals who were the Board's nominees for election as directors immediately prior to a meeting of the stockholders of the Company involving an actual or threatened election contest relating to the election of the directors of the Company, as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act, cease to constitute a majority of the Board following the election; or (v) the dissolution or liquidation of the Company; provided, however, that the term "Change in Control" does not include a public offering of capital stock of the Company that is effected pursuant to a registration statement filed with, and declared effective by, the Securities and Exchange Commission under the Securities Act of 1933.

(c) "***Company***" includes TeleCommunication Systems, Inc. and its Affiliates, except where the context otherwise requires.

(d) "***Restricted Shares***" means Award Shares that are not vested as provided in Section 2 on the relevant date.

(e) "***Total and Permanent Disability***" means the inability to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than twelve months. The Administrator may require such proof of Total and Permanent Disability as the Administrator in its sole discretion deems appropriate and the Administrator's good faith determination as to whether the Employee is totally and permanently disabled will be final and binding on all parties concerned.

2. Vesting. The Award Shares vest and become nonforfeitable in accordance with the vesting schedule identified in the Restricted Stock Award Certificate (the "***Vesting Schedule***") so long as the Employee is in the continuous employ of, or in a service relationship with, the Company from the Grant Date through the applicable date upon which vesting is scheduled to occur. No vesting will accrue to any Award Shares after the Employee ceases to be in either an employment or other service relationship with the Company.

3. Termination of Employment or Service. If the Employee ceases to be employed by, or in a service relationship with, the Company for any reason, all Restricted Shares, after giving effect to the provisions of Section 2 of this Agreement, will be immediately forfeited to the Company upon such cessation for no consideration.

4. Restrictions on Transfer.

(a) Restricted Shares may not be assigned, transferred, pledged, hypothecated or disposed of in any way (whether by operation of law or otherwise) and shall not be subject to execution, attachment or similar process.

(b) The Company, at its discretion, may impose restrictions upon the sale, pledge or other transfer of the Award Shares (including the placement of appropriate legends on stock certificates or the imposition of stop-transfer instructions) if, in the judgment of the Company, such restrictions are necessary or desirable in order to achieve compliance with the Securities Act, the securities laws of any state or any other law.

(c) The Company shall not be required to (i) transfer on its books any Award Shares that have been sold or transferred in contravention of this Agreement or (ii) treat as the owner of Award Shares, or otherwise to accord voting, dividend or liquidation rights to, any transferee to whom Award Shares have been transferred in contravention of this Agreement.

5. Stock Certificates.

(a) The stock certificates evidencing the Award Shares shall be registered on the Company's books in the name of the Employee as of the Grant Date. Physical possession or custody of such stock certificates shall be retained by the Company until such time as the shares are vested and, thereafter, the Company shall either deliver to the Employee one or more certificates in the name of the Employee for that number of vested shares owned by the Employee or provide for uncertificated, book entry issuance of those shares. If requested, the Employee shall deliver to the Company a stock power, endorsed in blank, with respect to any Restricted Shares. All regular cash dividends on Restricted Shares shall be paid directly to the Employee and shall not be held by the Company.

(b) The stock certificate evidencing the Award Shares shall bear a legend restricting transferability of such shares, unless such Award Shares are registered or an exemption from registration is available under applicable federal and state law. If required by the authorities of any state in connection with the issuance of the Award Shares, the legend or legends required by such state authorities shall also be endorsed on all such certificates.

6. Tax Election and Tax Withholding.

(a) The Employee hereby acknowledges that he has been advised by the Company to seek independent tax advice regarding the availability and advisability of making an election under Section 83(b) of the Internal Revenue Code of 1986, as amended, and that any such election, if made, must be made within 30 days of the Grant Date. The Employee is not relying on the Company or any of its officers, directors or employees for tax advice regarding this award. The Employee expressly acknowledges that he is solely responsible for filing any such Section 83(b) election with the appropriate governmental authorities, irrespective of the fact that such election is also delivered to the Company.

(b) The Company or any Affiliate shall have the right to deduct from any compensation or any other payment of any kind (including withholding the issuance of shares of Common Stock) due the Employee the amount of any federal, state, local or foreign taxes required by law to be withheld as a result of the grant or vesting of the Award Shares in whole or in part; provided, however, that the value of the shares of Common Stock withheld may not exceed the statutory minimum withholding amount required by law. In lieu of such deduction, the Company may require the Employee to make a cash payment to the Company or an Affiliate equal to the amount required to be withheld. If the Employee does not make such payment when requested, the Company may refuse to issue any Common Stock certificate under this Agreement until arrangements satisfactory to the Administrator for such payment have been made.

7. Adjustments for Corporate Transactions and Other Events.

(a) Stock Dividend, Stock Split and Reverse Stock Split. Upon a stock dividend of, or stock split or reverse stock split affecting, the Common Stock, the number of Award Shares and the number of such Award Shares that constitute Restricted Shares shall, without further action of the Board, be adjusted to reflect such event, unless, the Board determines, at the time it approves such stock dividend, stock split, or reverse stock split, that no such adjustment shall be made. The Administrator may make adjustments, in its discretion, to address the treatment of fractional shares with respect to the Award Shares as a result of the stock dividend, stock split or reverse stock split.

(b) Non-Change in Control Transactions. Except with respect to the transactions set forth in Section 7(a), in the event of any change affecting the Common Stock, the Company or its capitalization, by reason of a spin-off, split-up, dividend, recapitalization, merger, consolidation or share exchange, other than any such change that is part of a transaction resulting in a Change in Control, the Administrator, in its discretion and without the consent of the Employee, shall make any adjustments in the Award Shares, including but not limited to reducing the number and kind of securities subject to the Award Shares.

(c) Change in Control Transactions. In the event of any transaction resulting in a Change in Control, the Restricted Shares will be forfeited upon the effective time of any such Change in Control unless provision is made in connection with the transaction in the sole discretion of the parties thereto for the continuation or assumption of the Restricted Shares, or the substitution of the Restricted Shares with new shares of the surviving or successor entity or a parent thereof.

(d) Adjustments for Unusual Events. The Administrator is authorized to make, in its discretion and without the consent of the Employee, adjustments in the terms and conditions of, and the criteria included in, the Award Shares in recognition of unusual or nonrecurring events affecting the

Company, or the financial statements of the Company or any Affiliate, or of changes in applicable laws, regulations, or accounting principles, whenever the Administrator determines that such adjustments are appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available pursuant to the Award Shares or the Plan.

(e) Binding Nature of Adjustments. *Adjustments* under this Section 7 will be made by the Administrator, whose determination as to what adjustments, if any, will be made and the extent thereof will be final, binding and *conclusive*. No fractional Award Shares will result from any such adjustments.

(f) Binding Nature of Agreement. The terms and conditions of this Agreement shall apply with equal force to any additional and/or substitute securities received by the Employee in exchange for, or by virtue of the Employee's ownership of, the Award Shares, whether as a result of any spin-off, stock split-up, stock dividend, stock distribution or other reclassification of the Common Stock of the Company, except as otherwise determined by the Administrator. If the Award Shares are converted into or exchanged for, or stockholders of the Company receive by reason of any distribution in total or partial liquidation or pursuant to any merger of the Company or acquisition of its assets, securities of another entity, or other property (including cash), then the rights of the Company under this Agreement shall inure to the benefit of the Company's successor, and this Agreement shall apply to the securities or other property received upon such conversion, exchange or distribution in the same manner and to the same extent as the Award Shares.

8. Confidential Information. In consideration of the Award Shares granted to the Employee pursuant to this Agreement, the Employee agrees and covenants that, except as specifically authorized by the Company, the Employee will keep confidential any trade secrets or confidential or proprietary information of the Company which are now or which hereafter may become known to the Employee as a result of the Employee's employment by or other service relationship with the Company, and shall not at any time, directly or indirectly, disclose any such information to any person, firm, Company or other entity, or use the same in any way other than in connection with the business of the Company, at all times during and after the Employee's employment or other service relationship. The provisions of this Section 8 shall not narrow or otherwise limit the obligations and responsibilities of the Employee set forth in any agreement of similar import entered into between the Employee and the Company.

9. Non-Guarantee of Employment or Service Relationship. Nothing in the Plan or this Agreement shall alter the at-will or other employment status or other service relationship of the Employee, nor be construed as a contract of employment or service relationship between the Company and the Employee, or as a contractual right of the Employee to continue in the employ of, or in a service relationship with, the Company for any period of time, or as a limitation of the right of the Company to discharge the Employee at any time with or without cause or notice and whether or not such discharge results in the failure of any Award Shares to vest or any other adverse effect on the Employee's interests under the Plan.

10. Rights as Stockholder. Except as otherwise provided in this Agreement with respect to the Restricted Shares, the Employee shall be entitled to all rights of a stockholder of the Company, including the right to vote the shares and receive dividends and/or other distributions declared on the Award Shares.

11. The Company's Rights. The existence of the Award Shares shall not affect in any way the right or power of the Company or its stockholders to make or authorize any or all adjustments, recapitalizations, reorganizations or other changes in the Company's capital structure or its business, or any merger or consolidation of the Company, or any issue of bonds, debentures, preferred or other stocks with preference ahead of or convertible into, or otherwise affecting the Common Stock or the rights thereof, or the dissolution or liquidation of the Company, or any sale or transfer of all or any part of the

Company's assets or business, or any other corporate act or proceeding, whether of a similar character or otherwise.

12. Employee. Whenever the word "Employee" is used in any provision of this Agreement under circumstances where the provision should logically be construed, as determined by the Administrator, to apply to the estate, personal representative, beneficiary to whom the Award Shares may be transferred by will or by the laws of descent and distribution, or another permitted transferee, if any, the word "Employee" shall be deemed to include such person.

13. Notices. All notices and other communications made or given pursuant to this Agreement shall be in writing and shall be sufficiently made or given if hand delivered or mailed by certified mail, addressed to the Employee at the address contained in the records of the Company, or addressed to the Administrator, care of the Company for the attention of its Corporate Secretary at its principal executive office or, if the receiving party consents in advance, transmitted and received via telecopy or via such other electronic transmission mechanism as may be available to the parties.

14. Entire Agreement. This Agreement contains the entire agreement between the parties with respect to the Award Shares granted hereunder. Any oral or written agreements, representations, warranties, written inducements, or other communications made prior to the execution of this Agreement with respect to the Award Shares granted hereunder shall be void and ineffective for all purposes.

15. Amendment. This Agreement may be amended from time to time by the Administrator in its discretion; provided, however, that this Agreement may not be modified in a manner that would have a materially adverse effect on the Award Shares as determined in the discretion of the Administrator, except as provided in the Plan or in a written document signed by each of the parties hereto.

16. Conformity with Plan. This Agreement is intended to conform in all respects with, and is subject to all applicable provisions of, the Plan. Inconsistencies between this Agreement and the Plan shall be resolved in accordance with the terms of the Plan. In the event of any ambiguity in this Agreement or any matters as to which this Agreement is silent, the Plan shall govern. A copy of the Plan is available upon request to the Administrator.

17. Governing Law. The validity, construction and effect of this Agreement, and of any determinations or decisions made by the Administrator relating to this Agreement, and the rights of any and all persons having or claiming to have any interest under this Agreement, shall be determined exclusively in accordance with the laws of the State of Maryland, without regard to its provisions concerning the applicability of laws of other jurisdictions. Any suit with respect hereto will be brought in the federal or state courts in the districts which include Annapolis, Maryland, and the Employee hereby agrees and submits to the personal jurisdiction and venue thereof.

18. Headings. The headings in this Agreement are for reference purposes only and shall not affect the meaning or interpretation of this Agreement.

Enclosure: Prospectus of the TeleCommunication Systems, Inc. Fifth Amended and Restated 1997 Stock Incentive Plan

c

STOCK POWER

FOR VALUE RECEIVED, the undersigned,___________________, hereby sells, assigns and transfers unto TeleCommunication Systems, Inc., a Maryland corporation (the "Company"), or its successor, _____________ shares of common stock, par value $0.01 per share, of the Company standing in my name of the books of the Company, represented by Certificate No.___________________, which is attached hereto, and hereby irrevocably constitutes and appoints ____ as my attorney to transfer the said stock on the books of the Company with full power of substitution in the premises.

WITNESS:

________________________ ________________________________

Dated: ____________________________

INSTRUCTIONS REGARDING SECTION 83(b) ELECTIONS

1. An 83(b) *Election is Irrevocable.*
2. If you choose to make an 83(b) Election, an 83(b) Election Form must be filed with the Internal Revenue Service within 30 days of the date the restricted stock is transferred to you; no exceptions to this rule are made.
3. You must provide a copy of the 83(b) Election Form to the corporate secretary or other designated officer of the Company. This copy should be provided to the Company at the same time that you file your 83(b) Election Form with the Internal Revenue Service.
4. In addition to making the filing under Item 2 above, you must attach a copy of your 83(b) Election Form to your tax return for the taxable year in which you received the restricted stock.
5. If you make an 83(b) Election and later forfeit the restricted stock, you will not be entitled to a deduction with respect to the gross income you recognized under the 83(b) Election.

You are urged to consult your personal tax advisor before making an 83(b) Election to discuss the consequences thereof and consider whether such an election is advisable under the circumstances.

SECTION 83(b) ELECTION FORM

Election Pursuant to Section 83(b) of the Internal Revenue Code to include Property in Gross Income in Year of Transfer

The undersigned hereby makes an election pursuant to Section 83(b) of the Internal Revenue Code with respect to the property described below and supplies the following information in accordance with the regulations promulgated thereunder:

1. The name, address, and taxpayer identification number of the undersigned are:

____

____

____

____-____-____

2. The property with respect to which the election is made is ____________________shares of Class A Common Stock, $0.01 par value, of TeleCommunication Systems, Inc., a Maryland corporation.

3. The date on which the property was transferred to the taxpayer was ____________________, 20__________.

4. The taxable year to which this election relates is calendar year 20__________.

5. The property is subject to forfeiture if for any reason taxpayer's service with the issuer is terminated. The risk of forfeiture lapses in installments, 33-1/3% on the date one year after the date the property was transferred, 66-2/3% on the date two years after the date the property was transferred and 100% on the date three years after the date the property was transferred, provided that the taxpayer is in the employ of or a service relationship with the issuer on each such date.

6. The fair market value at the time of transfer (determined without regard to any restrictions other than restrictions which by their terms will never lapse) of the property with respect to which this election is being made is $__________________ per share; with a cumulative fair market value of $____________________. The taxpayer did not pay any amount for these shares.

7. A copy of this statement was furnished to TeleCommunication Systems, Inc., for whom taxpayer rendered the services underlying the transfer of such property.

8. This election is made to the same effect, and with the same limitations, for purposes of any applicable state statute corresponding to Section 83(b) of the Internal Revenue Code.

The undersigned understands that the foregoing election may not be revoked except with the consent of the Commissioner of Internal Revenue.

Signed:____

Date: ______________________________

Letter for filing §83(b) Election Form

[Date]

CERTIFIED MAIL

RETURN RECEIPT REQUESTED

Internal Revenue Service Center

____

____

____

(the Service Center to which individual income tax return is filed)

Re: 83(b) Election of______________________________
Social Security Number:____________________

Dear Sir/Madam:

Enclosed is an election under §83(b) of the Internal Revenue Code of 1986 with respect to certain shares of stock of TeleCommunication Systems, Inc., a Maryland corporation, that were transferred to me on ____________________, 20__________.

Please file this election.

Sincerely,

____

cc: Corporate Secretary of TeleCommunication Systems, Inc.

This election must be filed with the Internal Revenue Service Center with which the Executive files his or her Federal income tax returns and must be filed within 30 days after the date of award of the shares. This filing should be made by registered or certified mail, return receipt requested. The Executive must retain two copies of the completed form for filing with his or her Federal and state tax returns for the current tax year and an additional copy for his or her records.

Exhibit 12.1

Supplemental Financial Schedule II

TeleCommunication Systems, Inc.
Valuation and Qualifying Accounts
(amounts in thousands)

Column A	Column B	Column C	Column D	Column E
Description	Balance Beginning of Year	Additions, Costs, and Expenses	Deductions	Balance End of Year
Year ended December 31, 2007				
Allowance for Doubtful Accounts	$ 290	$ 123	$ (148)	$ 265
Allowance for Inventory Obsolescence	$ 616	$ 100	$ (71)	$ 645
Year ended December 31, 2006				
Allowance for Doubtful Accounts	$ 233	$ 284	$ (227)	$ 290
Allowance for Inventory Obsolescence	$ 533	$ 83	$ —	$ 616
Year ended December 31, 2005				
Allowance for Doubtful Accounts	$ 690	$ 243	$ (700)	$ 233
Allowance for Inventory Obsolescence	$ —	$ 533	$ —	$ 533

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in Registration Statements on Form S-8 (Nos. 333-144742, 333-136072, 333-118610, 333-107466, 333-66676, 333-51656, and 333-48026) pertaining to various stock incentive and option plans and in Registration Statements on Form S-3 (Nos. 333-133018, 333-119431, 333-112759, and 333-104305) pertaining to various stock offerings of TeleCommunication Systems, Inc. of our reports dated February 29, 2008, with respect to the consolidated financial statements and schedule of Telecommunication Systems, Inc. and the effectiveness of internal control over financial reporting of Telecommunication Systems, Inc. included in this Annual Report (Form 10-K) of TeleCommunication Systems, Inc. for the year ended December 31, 2007.

/s/ Ernst & Young LLP

Baltimore, Maryland
February 29, 2008

Exhibit 23.2

Consent of Independent Auditors

To the Board of Directors
TeleCommunication Systems (Holdings) Ltd

We consent to the incorporation, as exhibit 99.01 in December 31, 2007 annual report on Form 10-K of TeleCommunication Systems Inc, of our report dated March 3, 2006, with respect to the consolidated balance sheet of TeleCommunication Systems (Holdings) Ltd and subsidiaries as of December 31, 2005 and the related consolidated statements of operations, stockholders' equity, and cash flows for the year ended December 31, 2005.

James Cowper

/s/ James Cowper

James Cowper
Phoenix House
Bartholomew Street
Newbury
Berkshire
RG14 5QA

March 5, 2008

Exhibit 31.1

TCS TeleCommunication Systems

Enabling Convergent Technologies®

CERTIFICATIONS

I, Maurice B. Tosé, certify that:

a) I have reviewed this annual report on Form 10-K of TeleCommunication Systems, Inc.;

b) Based on my knowledge, this annual 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;

c) 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;

d) The registrant's other certifying officers 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 that has materially affected or is reasonably likely to materially affect the registrant's internal control over financial reporting; and

e) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   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 controls over financial reporting.

/s/ Maurice B. Tosé

Maurice B. Tosé
Chairman, CEO and President

Exhibit 31.2

TCS TeleCommunication Systems

Enabling Convergent Technologies®

CERTIFICATIONS

I, Thomas M. Brandt, Jr, certify that:

a) I have reviewed this annual report on Form 10-K of TeleCommunication Systems, Inc.;

b) Based on my knowledge, this annual 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;

c) 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;

d) The registrant's other certifying officers 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 that has materially affected or is reasonably likely to materially affect the registrant's internal control over financial reporting; and

e) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

  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 controls over financial reporting.

/s/ Thomas M. Brandt, Jr.

Thomas M. Brandt, Jr.
Sr. Vice President & CFO

EXHIBIT 32.1

TCS TeleCommunication Systems
Enabling Convergent Technologies®

Certification of Principal Executive Officer
Pursuant to 18 U.S.C. 1350
(Section 906 of the Sarbanes-Oxley Act of 2002)

I, Maurice B. Tosé, President and Chief Executive Officer (principal executive officer) of TeleCommunication Systems, Inc. (the "Registrant"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

(1) The Annual Report on Form 10-K of the Company for the period ended December 31, 2007 (the "Report") fully complies with the requirements of Section 13(a) of the Securities Act of 1934 (15 U.S.C. 78m); and

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

/s/ Maurice B. Tosé
Maurice B. Tosé
Date:

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

EXHIBIT 32.2

TeleCommunication Systems

Enabling Convergent Technologies®

Certification of Principal Financial Officer
Pursuant to 18 U.S.C. 1350
(Section 906 of the Sarbanes-Oxley Act of 2002)

I, Thomas M. Brandt, Jr., Chief Financial Officer (principal financial officer) of TeleCommunication Systems, Inc. (the "Registrant"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

(1) The Annual Report on Form 10-K of the Company for the period ended December 31, 2007 (the "Report") fully complies with the requirements of Section 13(a) of the Securities Act of 1934 (15 U.S.C. 78m); and

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

/s/ Thomas M. Brandt, Jr.
Thomas M. Brandt, Jr.
Date:

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 99.01

Report of Independent Auditors

To the shareholders of TeleCommunication Systems (Holdings) Ltd

We have audited the accompanying consolidated balance sheet of TeleCommunication Systems (Holdings) Ltd & subsidiaries as of December 31, 2005, and the related consolidated statements of operations, stockholders' equity, and cash flows. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the Standards of the Public Company Accounting Oversight Board (United States) and International Standards on Auditing (UK and Ireland). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of TeleCommunication Systems (Holdings) Ltd & subsidiaries at December 31, 2005, and the consolidated results of its operations and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

/s/ James Cowper
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March 3, 2006