

**EXHIBIT A-2**

**FINANCIAL QUALIFICATIONS**



# **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

# Table of Contents

10-K - FORM 10-K

## PART I

- Item 1A.     Risk Factors
- Item 1B.     Unresolved Staff Comments
- Item 2.       Properties
- Item 3.       Legal Proceedings
- Item 4.       Submission of Matters to a Vote of Security Holders

## Part II

- Item 5.       Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities
- Item 6.       Selected Financial Data
- Item 7.       Management's Discussion and Analysis of Financial Condition and Results of Operations
- Item 7A.      Qualitative and Quantitative Disclosures about Market Risk
- Item 8.       Financial Statements and Supplementary Data
- Item 9.       Changes In and Disagreements With Accountants on Accounting and Financial Disclosure
- Item 9A.      Controls and Procedures

## Part III

- Item 10.      Directors, Executive Officers, and Corporate Governance
- Item 11.      Executive Compensation
- Item 12.      Security Ownership of Certain Beneficial Owners and Management
- Item 13.      Certain Relationships and Related Transactions and Director Independence
- Item 14.      Principal Accountant Fees and Services

## Part IV

- Item 15.      Exhibits, Financial Statement Schedules

SIGNATURES

EXHIBIT INDEX

EX-23.1 (EXHIBIT 23.1)

EX-31.1 (EXHIBIT 31.1)

EX-31.2 (EXHIBIT 31.2)

EX-32.1 (EXHIBIT 32.1)

EX-32.2 (EXHIBIT 32.2)

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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, 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**  
(State or Other Jurisdiction of Incorporation or Organization)  
**275 West Street, Annapolis, MD**  
(Address of principal executive offices)

**52-1526369**  
(I.R.S. Employer Identification No.)  
**21401**  
(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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## TABLE OF CONTENTS

		<u>Page Number</u>
<u>Part I</u>		
<u>Item 1</u>	<u>Business</u>	2
<u>Item 1A</u>	<u>Risk Factors</u>	12
<u>Item 1B</u>	<u>Unresolved Staff Comments</u>	27
<u>Item 2</u>	<u>Properties</u>	27
<u>Item 3</u>	<u>Legal Proceedings</u>	28
<u>Item 4</u>	<u>Submission of Matters to a Vote of Security Holders</u>	29
<u>Part II</u>		
<u>Item 5</u>	<u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	29
<u>Item 6</u>	<u>Selected Financial Data</u>	32
<u>Item 7</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	33
<u>Item 7A</u>	<u>Qualitative and Quantitative Disclosure About Market Risk</u>	47
<u>Item 8</u>	<u>Financial Statements and Supplementary Data</u>	48
<u>Item 9</u>	<u>Changes In and Disagreements With Accountants on Accounting and Financial Disclosure</u>	48
<u>Item 9A</u>	<u>Controls and Procedures</u>	48
<u>Part III</u>		
<u>Item 10</u>	<u>Directors, Executive Officers and Corporate Governance</u>	51
<u>Item 11</u>	<u>Executive Compensation</u>	51
<u>Item 12</u>	<u>Security Ownership of Certain Beneficial Owners and Management</u>	51
<u>Item 13</u>	<u>Certain Relationships and Related Transactions and Director Independence</u>	51
<u>Item 14</u>	<u>Principal Accountant Fees and Services</u>	51
<u>Part IV</u>		
<u>Item 15</u>	<u>Exhibits, Financial Statement Schedules</u>	52
<u>Index to Consolidated Financial Statements</u>		F-1
<u>Signatures</u>		53
<u>Exhibit Index</u>		54

### 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](http://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 against 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 Swiftlink® 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:

(\$ in millions)	December 31,		2008 vs. 2007	
	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.; Globecom 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 WiderThanAmericas 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 WiderThanAmericas, 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
<b>2009</b>		
First Quarter 2009 (through February 20, 2009)	\$ 9.93	\$ 7.01
<b>2008</b>		
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
<b>2007</b>		
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.

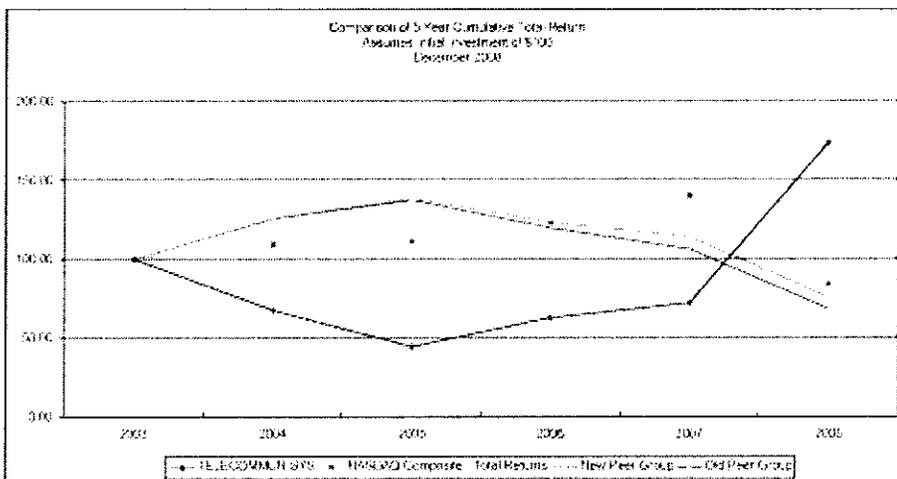
**Stock Performance Graph**

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.; Converse Technology Inc.; Globecom 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)				
<b>Statement of Operations Data:</b>					
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
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	As of December 31,				
	2008	2007	2006	2005	2004
	(in millions)				
<b>Balance Sheet Data:</b>					
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		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%)
<b>Total Commercial Segment revenue</b>	<b>101.8</b>	<b>75.3</b>	<b>26.5</b>	<b>35%</b>	<b>77.0</b>	<b>(1.7)</b>	<b>(2%)</b>
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%)
<b>Total Commercial Segment cost of revenue</b>	<b>41.3</b>	<b>34.4</b>	<b>6.9</b>	<b>20%</b>	<b>36.6</b>	<b>(2.2)</b>	<b>(6%)</b>
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%)
<b>Total Commercial Segment gross profit (1)</b>	<b>\$ 60.5</b>	<b>\$ 40.9</b>	<b>\$ 19.6</b>	<b>48%</b>	<b>\$ 40.3</b>	<b>\$ 0.6</b>	<b>1%</b>
<i>Segment gross profit as a percent of revenue</i>	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 vs. 2007				2007 vs. 2006			
	2008	2007	\$	%	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 vs. 2007				2007 vs. 2006		
	2008	2007	\$	%	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		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		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 vs. 2007				2007 vs. 2006	
	2008	2007	\$	%	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 vs. 2007				2007 vs. 2006	
	2008	2007	\$	%	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 vs. 2007				2007 vs. 2006	
	2008	2007	\$	%	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 vs. 2007		2007 vs. 2006		
	2008	2007	\$	%	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.

(\$ in millions)	2008	2007	2008 vs. 2007		2006	2007 vs. 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):**

(\$ in millions)	2008	2007	2008 vs. 2007		2006	2007 vs. 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.