**Liquidity and Capital Resources**

The following table summarizes our comparative statements of cash flow:

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

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

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

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

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

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

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

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

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

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

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

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

### Off-Balance Sheet Arrangements

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

### Contractual Commitments

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

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

### Related Party Transactions

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

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

### Interest Rate Risk

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

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

### Foreign Currency Risk

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

## Item 8. *Financial Statements and Supplementary Data*

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

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

None.

## Item 9A. *Controls and Procedures*

### Evaluation of Disclosure Controls and Procedures

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

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

### Management's Report on Internal Control over Financial Reporting

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

**Changes in Internal Control over Financial Reporting**

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

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders
TeleCommunication Systems, Inc.

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

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

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

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

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

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

/s/ Ernst & Young LLP

Baltimore, Maryland
March 2, 2009

## Part III

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

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

### Item 11. *Executive Compensation*

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

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

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

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

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

### Item 14. *Principal Accountant Fees and Services*

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

## Part IV

### <u>Item 15.*Exhibits. Financial Statement Schedules*</u>

**(a)(1) Financial Statements**

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

**(a)(2) Financial Statement Schedules**

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

**Exhibits**

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

**Index to Consolidated Financial Statements**


| | |
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| Consolidated Balance Sheets as of December 31, 2008 and 2007 | F-3 |
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**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders
TeleCommunication Systems, Inc.

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

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

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

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

/s/ Ernst & Young LLP

Baltimore, Maryland
March 2, 2009

TeleCommunication Systems, Inc.

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

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

See accompanying Notes to Consolidated Financial Statements.

## TeleCommunication Systems, Inc.

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

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

See accompanying Notes to Consolidated Financial Statements.

TeleCommunication Systems, Inc.

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

| | Class A Common Stock | Class B Common Stock | Deferred Compensation | Additional Paid-In Capital | Accumulated Other Comprehensive Income (Loss) | Accumulated Deficit | Total |
|---|---|---|---|---|---|---|---|
| **Balance at January 1, 2006** | $ 314 | $ 80 | $ (231) | $ 210,275 | $ (40) | $ (161,336) | $ 49,062 |
| Elimination of deferred compensation upon adoption of SFAS No. 123(R) | — | — | 231 | (231) | — | — | — |
| Options exercised for the purchase of 209,632 shares of Class A Common Stock | 2 | — | — | 343 | — | — | 345 |
| Issuance of 212,194 shares of Class A Common Stock under Employee Stock Purchase Plan | 2 | — | — | 388 | — | — | 390 |
| Issuance of warrants to purchase 1,750,000 shares of Class A Common Stock | — | — | — | 3,455 | — | — | 3,455 |
| Surrender of 67,827 restricted shares of Class A Common Stock as payment for payroll tax withholdings | (1) | — | — | (187) | — | — | (188) |
| Conversion of 510,291 shares of Class B Common Stock to Class A Common Stock | 5 | (5) | — | — | — | — | — |
| Stock compensation expense for issuance of Class A Common Stock options for continuing operations | — | — | — | 2,872 | — | — | 2,872 |
| Stock compensation expense for issuance of Class A Common Stock options for discontinued operations | — | — | — | 504 | — | — | 504 |
| Vesting of employee stock options | — | — | — | 244 | — | — | 244 |
| Valuation adjustment to stock options issued to non-employees for service | — | — | — | 76 | — | — | 76 |
| Foreign currency translation adjustment | — | — | — | — | 40 | — | 40 |
| Net loss for 2006 | — | — | — | — | — | (21,695) | (21,695) |
| **Balance at December 31, 2006** | $ 322 | $ 76 | $ — | $ 217,739 | $ — | $ (183,032) | $ 35,105 |
| Options exercised for the purchase of 1,347,301 shares of Class A Common Stock | 14 | — | — | 3,461 | — | — | 3,475 |
| Issuance of 173,833 shares of Class A Common Stock under Employee Stock Purchase Plan | 2 | — | — | 541 | — | — | 543 |
| Exercise of warrants to purchase 886,787 shares of Class A Common | 9 | — | — | 2,208 | — | — | 2,217 |

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

TeleCommunication Systems, Inc.

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

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

See accompanying Notes to Consolidated Financial Statements.

## TeleCommunication Systems, Inc.

### Consolidated Statements of Cash Flows
(amounts in thousands)

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

See accompanying Notes to Consolidated Financial Statements.

## TeleCommunication Systems, Inc.

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

**1. Significant Accounting Policies**

**Description of Business**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Recent Accounting Pronouncements.**

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

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

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

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

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

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

## 2. Enterprise Assets-Discontinued Operations

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

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

## 3. Income/(loss) Per Common Share

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

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

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

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

## 4. Supplemental Disclosure of Cash Flow Information

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

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

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

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

## 5. Unbilled Receivables

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

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

## 6. Inventory

Inventory consisted of the following at December 31:

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

## 7. Property and Equipment

Property and equipment consisted of the following at December 31:

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

## 8. Acquired Intangible Assets and Capitalized Software Development Costs

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

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

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

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

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

### 9. Accounts Payable and Accrued Expenses

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

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

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

### 10. Line of Credit

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

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

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

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

## 11. Long-Term Debt

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

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

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

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

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

## 12. Capital Leases

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

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

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

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

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

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

### 13. Common Stock

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

### 14. Fair Value of Financial Instruments

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

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

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

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

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

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

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

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

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

## 15. Income Taxes

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

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

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

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

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

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

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

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

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

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

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

The reconciliation of the reported income tax benefit to the amount that would result by applying the U.S. federal statutory rate of 34% to loss from continuing operations for the year ended December 31 is as follows:

| | 2008 | 2007 | 2006 |
|---|---|---|---|
| Income tax (benefit) at statutory rate | $ 8,266 | $ (364) | $ 653 |
| Change in valuation allowances | (45,053) | (887) | (2,241) |
| Write-down of tax attributes | 874 | 1,894 | — |
| Non deductible items | 1,612 | 255 | 55 |
| Non deductible stock compensation expense | 473 | (705) | 689 |
| Research and development tax credit | (230) | (130) | (43) |
| Change in state apportionment tax rates on deferred assets/liabilities | (53) | (41) | 807 |
| State tax (benefit) | 1,066 | (8) | 52 |
| Other | (212) | (14) | 28 |
| Total | $ (33,257) | $ — | $ — |

Upon the adoption of FIN 48, the estimated value of the Company's uncertain tax positions was a liability of $2,736 resulting from unrecognized net tax benefits which did not include interest and penalties. It is reasonably possible theses unrecognized deferred tax benefits will be recognized in the next twelve months through the tax provision. The Company does not currently anticipate that the total amounts of unrecognized tax benefits will significantly increase within the next 12 months. The Company recorded the estimated value of its uncertain tax positions by reducing the value of certain tax attributes.

The following table summarizes the activity related to the Company's unrecognized tax benefits (excluding interest, penalties and related tax carry forwards):

| | Total |
|---|---|
| Balance at December 31, 2006 | |
| Gross increases related to prior year tax positions | $ — |
| Gross decreases related to prior year tax positions | — |
| Gross increases related to current year tax positions | 2,736 |
| Settlements/lapse in statute of limitation | — |
| Balance at December 31, 2007 | $ 2,736 |
| Gross increases related to prior year tax positions | — |
| Gross decreases related to prior year tax positions | — |
| Gross increases related to current year tax positions | — |
| Settlements/lapse in statute of limitation | — |
| Balance at December 31, 2008 | $ 2,736 |

If the Company's positions are sustained by the taxing authority in favor of the Company, approximately, $2,736 (excluding interest and penalties) of uncertain tax position liabilities would favorably impact the Company's effective tax rate.

Upon the adoption of FIN 48, the Company's policy is to classify any interest and penalties accrued on any unrecognized tax benefits as a component of the provision for income taxes. There were no interest or penalties recognized in the consolidated statement of income for year ended December 31, 2008 and the consolidated balance sheet at December 31, 2008. The Company files income tax returns in U.S. and state jurisdictions. As of December 31, 2008, open tax years in the federal and some state jurisdictions date back to 1999, due to the taxing authorities' ability to adjust operating loss carry forwards.

## 16. Employee Benefit Plan

The Company maintains a 401(k) plan covering defined employees who meet established eligibility requirements. Under the provisions of the plan, the Company may contribute a discretionary match. The plan may also contribute a non-elective contribution determined by the Company. For 2008, the Company matched 35% of employee deferrals. The Company contribution was $798, $575, and $218 for the years ended December 31, 2008, 2007, and 2006 respectively.

## 17. Stock-based Compensation Plans

We maintain two stock-based compensation plans: a stock incentive plan, and an employee stock purchase plan.

*Stock Incentive Plan.* We maintain a stock incentive plan that is administered by our Compensation Committee of our Board of Directors. Options granted under the plan vest over periods ranging from one to five years and expire 10 years from the date of grant. Under the principal share-based compensation plans, the Company may grant certain employees, directors and consultants options to purchase common stock, stock appreciation rights and restricted stock units. Options are rights to purchase common stock of the Company at the fair market value on the date of the grant. Stock appreciation rights are equity settled share-based compensation arrangements whereby the number of shares that will ultimately be issued is based upon the appreciation of the Company's common stock and the number of awards granted to an individual. Restricted stock units are equity settled share-based compensation arrangements of a number of share of the Company's common stock. Restricted stock unit holders do not have voting rights until the restrictions lapse.

Beginning January 1, 2006, the Company adopted SFAS 123(R) using the modified prospective method. Consistent with the requirements of SFAS 123(R), we recognized compensation expense net of estimated forfeitures over the requisite service period, which is generally the vesting period of 5 years. The Company estimates the fair value of each stock option award on the date of grant using the Black-Scholes option-pricing model. Expected volatilities are based on historical volatility of the Company's stock. The Company estimates forfeitures based on historical experience and the expected term of the options granted are derived from historical data on employee exercises. The risk free interest rate is based on the U.S. Treasury yield curve in effect at the time of the grant. The Company has not paid and does not anticipate paying dividends in the near future.

A summary of our stock option activity and related information consisted of the following for the years ended December 31 (all share amounts in thousands):

| | 2008 | | 2007 | | 2006 | |
|---|---|---|---|---|---|---|
| | Number of Options | Weighted Average Exercise Price | Number of Options | Weighted Average Exercise Price | Number of Options | Weighted Average Exercise Price |
| Outstanding, beginning of year | 11,144 | $ 3.69 | 11,622 | $ 3.62 | 9,793 | $ 3.86 |
| Granted | 3,056 | 3.57 | 2,537 | 3.69 | 2,908 | 2.42 |
| Exercised | (1,927) | 3.04 | (1,347) | 2.58 | (199) | 1.75 |
| Forfeited | (597) | 3.58 | (1,668) | 4.07 | (880) | 3.26 |
| Outstanding, end of year | 11,676 | $ 3.77 | 11,144 | $ 3.69 | 11,622 | $ 3.62 |
| Exercisable, at end of year | 6,308 | $ 4.12 | 6,515 | $ 4.14 | 6,823 | $ 4.33 |
| Vested and expected to vest, at end of year | 9,992 | $ 3.84 | 7,510 | $ 3.69 | 8,179 | $ 3.62 |
| Estimated weighted-average grant-date fair value of options granted during the year | $ 2.07 | | $ 3.69 | | $ 2.42 | |
| Weighted-average remaining contractual life of options outstanding at end of year | 6.5 years | | 6.6 years | | 7.0 years | |

| | Number of Options | Weighted Average Fair Value | Number of Options | Weighted Average Fair Value | Number of Options | Weighted Average Fair Value |
|---|---|---|---|---|---|---|
| Non-vested, beginning of year | 4,692 | $ 2.29 | 4,799 | $ 2.05 | 3,972 | $ 2.33 |
| Forfeited | (525) | $ 2.16 | (1,088) | $ 2.37 | (731) | $ 2.03 |
| Vested | 1,792 | $ 2.21 | 1,579 | $ 2.13 | 1,350 | $ 2.41 |
| Exercisable, at year end | 6,308 | $ 3.56 | 6,515 | $ 3.73 | 6,823 | $ 4.01 |
| Non-vested, at end of year | 5,368 | $ 2.21 | 4,692 | $ 2.29 | 4,799 | $ 2.05 |

Exercise prices for options outstanding at December 31, 2008 ranged from $0.29 to $26.05 as follows (all share amounts in thousands):

| Exercise Prices | Options Outstanding | Weighted-Average Exercise Prices of Options Outstanding | Weighted-Average Remaining Contractual Life of Options Outstanding (years) | Options Exercisable | Weighted-Average Exercise Prices of Options Exercisable |
|---|---|---|---|---|---|
| $0.29— $2.61 | 2,917 | $ 2.40 | 6.56 | 1,963 | $ 2.40 |
| $2.61— $5.21 | 6,515 | $ 3.34 | 6.99 | 2,365 | $ 3.30 |
| $5.21— $7.82 | 2,214 | $ 6.74 | 5.19 | 1,950 | $ 6.74 |
| $7.82 — $26.05 | 30 | $ 11.07 | 4.01 | 30 | $ 11.07 |
| Total end of year | 11,676 | | | 6,308 | |

As of December 31, 2008, the aggregate intrinsic value of options exercisable was $56,348. As of December 31, 2008, we estimate that we will recognize $3,385 in expense for outstanding, unvested options over their weighted average remaining vesting period of 3.9 years.

In calculating the fair value of our stock options using Black-Scholes for the years ended December 31, 2008, 2007, and 2006, respectively, our assumptions were as follows:

| | For The Years Ended December 31, | | |
|---|---|---|---|
| | 2008 | 2007 | 2006 |
| Expected life (in years) | 5.5 | 5.5 | 5.5 |
| Risk-free interest rate(%) | 2.65%-3.33% | 4.24%-4.90% | 4.56% |
| Volatility(%) | 60%-67% | 68.1%-83% | 78% |
| Dividend yield(%) | 0% | 0% | 0% |

For the years ended December 31, 2008, 2007, and 2006, the Company granted a total of 20,556, 89,600, and 22,025 of restricted shares of Class A Common Stock to directors and certain key executives. The restrictions expired at the end of one year for directors and expire in annual increments over three years for executives conditional on continued employment. The fair value of the restricted stock on the date of issuance is recognized as non-cash stock compensation expense over the period over which the restrictions expire. We recognized $105, $328, and $244 of non-cash stock compensation expense related to these grants for the years ended December 31, 2008, 2007, and 2006, respectively. We expect to record future stock compensation expense of $50 as a result of these restricted stock grants that will be recognized over the remaining vesting periods.

*Employee Stock Purchase Plan.* We have an employee stock purchase plan (the Plan) that gives all employees an opportunity to purchase shares of our Class A Common Stock. The Plan allows for the purchase of 1,384,932 shares of our Class A Common Stock at a discount of 15% of the fair market value. The discount of 15% is calculated based on the average daily share price on either the first or the last day of each quarterly enrollment period, whichever date is more favorable to the employee. Option periods are three months in duration. As of December 31, 2008, 1,092,821 shares of Class A Common Stock have been issued under the Plan. Compensation expense relating to the Employee Stock Purchase Plan is not material.

As of December 31, 2008, our total shares of Class A Common Stock reserved for future issuance is comprised of:

| | (in thousands) |
|---|---|
| Stock incentive plan | 4,524 |
| Warrants (see Note 11) | 700 |
| Employee stock purchase plan | 292 |
| Total shares restricted for future use | 5,516 |

As of December 31, 2008, the composition of non-cash stock compensation expense was as follows:

| | 2008 | 2007 | 2006 |
|---|---|---|---|
| Direct costs of revenue | $ 2,494 | $ 2,080 | $ 1,509 |
| Research and development expense | 822 | 867 | 558 |
| Sales and marketing expense | 272 | 628 | 326 |
| General and administrative expense | 170 | 758 | 723 |
| Total non-cash stock compensation expense | $ 3,758 | $ 4,333 | $ 3,116 |

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

### 18. Operating Leases

We lease certain office space and equipment under non-cancelable operating leases that expire on various dates through 2015. Future minimum payments under non-cancelable operating leases with initial terms of one year or more consisted of the following at December 31, 2008:

| | |
|---|---|
| 2009 | $ 3,423 |
| 2010-2011 | 4,295 |
| 2012-2013 | 1,260 |
| Beyond | 575 |
| | $ 9,553 |

Our leases include our offices in Annapolis, Maryland under a lease expiring in March 2011, a second facility in Annapolis under a lease expiring in April 2013, a facility in Seattle, Washington under a lease expiring in September 2010, a facility in Oakland, California under a lease expiring August 2012, and we relocated our production facility in Tampa, Florida under a lease expiring in December 2014. The Annapolis facilities are utilized for executive and administrative offices, as well as portions of our Commercial and Government Segments. The Seattle and Oakland facilities are utilized by our Commercial Segment and the Tampa facility is utilized by our Government Segment. Future payments on all of our leases are estimated based on future payments including the minimum future rent escalations, if any, stipulated in the respective agreements.

Rent expense for continuing operations was $4,079, $3,823, and $3,603 for the years ended December 31, 2008, 2007, and 2006, respectively.

### 19. Concentrations of Credit Risk and Major Customers

Financial instruments that potentially subject us to significant concentrations of credit risk consist primarily of accounts receivable and unbilled receivables. Those customers that comprised 10% or more of our revenues, accounts receivable, and unbilled receivables from continuing operations are summarized in the following tables.

| Customer | Segment | % of Total Revenues For the Year Ended December 31, 2008 | 2007 | 2006 |
|---|---|---|---|---|
| U.S. Government | Government | 42% | 37% | 25% |
| Customer A | Commercial | 22% | 20% | 20% |

| Customer | As of December 31, 2008 Accounts Receivable | As of December 31, 2008 Unbilled Receivables | As of December 31, 2007 Accounts Receivable | As of December 31, 2007 Unbilled Receivables |
|---|---|---|---|---|
| U.S. Government | 54% | 73% | 40% | 66% |
| Customer A | 22% | <10% | <10% | <10% |
| Customer B | <10% | 10% | 11% | <10% |

As of December 31, 2008, our total exposure to credit risk was $69,532 based on the amount due to us by the above customers. As of December 31, 2007, our exposure to such risks was $23,689. We did not experience significant losses from amounts due to us by any customers for the year ended December 31, 2007.

### 20. Business and Geographic Segment Information

Our two reporting segments are the Commercial Segment and the Government Segment.

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

Our Commercial Segment products and services enable wireless carriers to deliver short text messages, location information, internet content, and other enhanced communication services to and from wireless phones. Our Commercial Segment also provides E9-1-1 services, commercial location-based services, inter-carrier text message distribution services, and carrier technology on a hosted, or service bureau, basis. We also earn subscriber revenue through wireless applications including our Rand McNally® Traffic application.

Our Government Segment designs, assembles, sells and maintains data network communication systems, including our SwiftLink® deployable communication systems. We also own and operate secure satellite teleport facilities, resell access to satellite airtime (known as space segment), and provide communication systems integration, information technology services, and software systems and services to the U.S. Department of Defense and other government customers.

Management evaluates segment performance based on gross profit. We do not maintain information regarding segment assets. Accordingly, asset information by reportable segment is not presented.

For the years ended December 31, 2008, 2007, and 2006, respectively, our revenues include approximately $8,598, $5,551, and $7,349 of revenues generated from customers outside of the United States.

The following table sets forth results for our reportable segments as of December 31, 2008. All revenues reported below are from external customers. A reconciliation of segment gross profit to net loss for the respective periods is also included below:

| | Year Ended December 31, | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2008 | | | 2007 | | | 2006 | | |
| | Comm. | Gvmt | Total | Comm. | Gvmt | Total | Comm. | Gvmt | Total |
| **Revenue** | | | | | | | | | |
| Services | $ 64,441 | $ 36,918 | $ 101,359 | $ 58,793 | $ 29,269 | $ 88,062 | $ 59,741 | $ 28,639 | $ 88,380 |
| Systems | 37,429 | 81,354 | 118,783 | 16,521 | 39,585 | 56,106 | 17,219 | 19,337 | 36,556 |
| Total revenue | 101,870 | 118,272 | 220,142 | 75,314 | 68,854 | 144,168 | 76,960 | 47,976 | 124,936 |
| **Direct costs of revenue** | | | | | | | | | |
| Direct cost of services | 32,402 | 29,192 | 61,594 | 29,346 | 22,815 | 52,161 | 31,409 | 21,131 | 52,540 |
| Direct cost of systems | 8,993 | 68,298 | 77,291 | 5,024 | 32,882 | 37,906 | 5,211 | 12,672 | 17,883 |
| Total Direct Costs | 41,395 | 97,490 | 138,885 | 34,370 | 55,697 | 90,067 | 36,620 | 33,803 | 70,423 |
| **Gross profit** | | | | | | | | | |
| Services gross profit | 32,039 | 7,726 | 39,765 | 29,447 | 6,454 | 35,901 | 28,332 | 7,508 | 35,840 |
| Systems gross profit | 28,436 | 13,056 | 41,492 | 11,497 | 6,703 | 18,200 | 12,008 | 6,665 | 18,673 |
| Total Gross Profit | $ 60,475 | $ 20,782 | $ 81,257 | $ 40,944 | $ 13,157 | $ 54,101 | $ 40,340 | $ 14,173 | $ 54,513 |

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

| | 2008 | 2007 | 2006 |
|---|---|---|---|
| **Total segment gross profit** | $ 81,257 | $ 54,101 | $ 54,513 |
| Research and development expense | (16,161) | (13,072) | (12,586) |
| Sales and marketing expense | (13,715) | (11,917) | (11,713) |
| General and administrative expense | (28,238) | (19,334) | (16,959) |
| Depreciation and amortization of property and equipment | (5,865) | (6,200) | (7,956) |
| Amortization of acquired intangible assets | (147) | (148) | (147) |
| Interest expense | (922) | (1,776) | (1,751) |
| Amortization of debt discount and debt issuance expenses, including $2,458 write-off in June 2007 | (180) | (3,176) | (1,447) |
| Gain on sale of patent | 8,060 | — | — |
| Benefit for income taxes | 33,257 | — | — |
| Other income, net | 222 | 508 | 22 |
| **Income/(loss) from continuing operations** | 57,568 | (1,014) | 1,976 |
| Loss from discontinued operations | — | (275) | (23,671) |
| **Net income/(loss)** | $ 57,568 | $ (1,289) | $ (21,695) |

## 21. Quarterly Financial Information (Unaudited)

The following is a summary of the quarterly results of operations for the years ended December 31, 2008 and 2007. The quarterly information has not been audited, but in our opinion, includes all normal recurring adjustments, which are, in the opinion of the Management, necessary for fair statement of the results of the interim periods.

| | 2008 Three Months Ended (unaudited) | | | |
|---|---|---|---|---|
| | March 31 | June 30 | September 30 | December 31 |
| Revenue | $ 40,413 | $ 43,911 | $ 56,531 | $ 79,287 |
| Gross profit | $ 19,564 | $ 19,212 | $ 17,457 | $ 25,024 |
| Income from continuing operations | $ 4,618 | $ 11,965 | $ 2,757 | $ 38,228 |
| Loss from discontinued operations | — | — | — | — |
| Net income | $ 4,618 | $ 11,965 | $ 2,757 | $ 38,228 |
| Earnings per share — basic from continuing operations | $ 0.11 | $ 0.28 | $ 0.06 | $ 0.87 |
| Loss per share — basic from discontinued operations | $ — | $ — | $ — | $ — |
| Net income per share — basic | $ 0.11 | $ 0.28 | $ 0.06 | $ 0.87 |
| Earnings per share — diluted from continuing operations | $ 0.11 | $ 0.26 | $ 0.06 | $ 0.78 |
| Loss per share — diluted from discontinued operations | $ — | $ — | $ — | $ — |
| Net income per share — diluted | $ 0.11 | $ 0.26 | $ 0.06 | $ 0.78 |

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

| | 2007 Three Months Ended (unaudited) | | | |
|---|---|---|---|---|
| | March 31 | June 30 | September 30 | December 31 |
| Revenue | $ 34,119 | $ 35,336 | $ 37,635 | $ 37,078 |
| Gross profit | $ 14,295 | $ 10,681 | $ 14,138 | $ 14,987 |
| Income/(loss) from continuing operations | $ 767 | $ (5,993) | $ 1,716 | $ 2,498 |
| Income/(loss) from discontinued operations | (124) | (145) | 54 | (61) |
| Net income/(loss) | $ 643 | $ (6,138) | $ 1,770 | $ 2,437 |
| Earnings/(loss) per share — basic from continuing operations | $ 0.02 | $ (0.15) | $ 0.04 | $ 0.06 |
| Loss per share — basic from discontinued operations | $ (0.00) | $ (0.00) | $ 0.00 | $ (0.00) |
| Net income/(loss) per share — basic | $ 0.02 | $ (0.15) | $ 0.04 | $ 0.06 |
| Earnings/(loss) per share — diluted from continuing operations | $ 0.02 | $ (0.15) | $ 0.04 | $ 0.06 |
| Net income/(loss) per share — diluted from discontinued operations | $ (0.00) | $ (0.00) | $ 0.00 | $ (0.00) |
| Net income/(loss) per share — diluted | $ 0.02 | $ (0.15) | $ 0.04 | $ 0.06 |

## 22. Commitments and Contingencies

The Company has been notified that some customers may seek indemnification under its contractual arrangements with those customers for costs associated with defending lawsuits alleging infringement of certain patents through the use of our products and services in combination with the use of products and services of multiple other vendors. The Company will continue to negotiate with these customers in good faith because the Company believes its technology does not infringe on the cited patents and due to specific clauses within the customer contractual arrangements that may or may not give rise to an indemnification obligation. Although the Company cannot currently predict the outcome of these matters, we do not expect the resolutions will have a material effect on our consolidated results of operations, financial position or cash flows.

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

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

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

### 23. Related Party Transactions

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

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized. TeleCommunication Systems, Inc.

By: /s/ MAURICE B. TOSé

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated. The undersigned hereby constitute and appoint Maurice B. Tosé, Thomas M. Brandt, Jr. and Bruce A. White, and each of them, their true and lawful agents and attorneys-in-fact with full power and authority in said agents and attorneys-in-fact, and in any one or more of them, to sign for the undersigned and in their respective names as directors and officers of TeleCommunication Systems, any amendment or supplement hereto. The undersigned hereby confirm all acts taken by such agents and attorneys-in-fact, and any one or more of them, as herein authorized

| Name | Title | Date |
|---|---|---|
| /s/ MAURICE B. TOSé<br>Maurice B. Tosé | Chief Executive Officer, President and Chairman of the Board (Principal Executive Officer) | March 3, 2009 |
| /s/ THOMAS M. BRANDT, JR.<br>Thomas M. Brandt, Jr. | Chief Financial Officer and Senior Vice President (Principal Financial Officer) and Director | March 3, 2009 |
| /s/ JAMES M. BETHMANN<br>James M. Bethmann | Director | March 3, 2009 |
| /s/ CLYDE A. HEINTZELMAN<br>Clyde A. Heintzelman | Director | March 3, 2009 |
| /s/ JAN C. HULY<br>Jan C. Huly | Director | March 3, 2009 |
| /s/ RICHARD A. KOZAK<br>Richard A. Kozak | Director | March 3, 2009 |
| Weldon H. Latham | Director | March 3, 2009 |
| /s/ BYRON F. MARCHANT<br>Byron F. Marchant | Director | March 3, 2009 |
| /s/ RICHARD A. YOUNG<br>Richard A. Young | Executive Vice President, Chief Operating Officer and Director | March 3, 2009 |

## EXHIBIT INDEX

| Exhibit Numbers | Description |
|---|---|
| 4.1 | Amended and Restated Articles of Incorporation. (Incorporated by reference to the company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004) |
| 4.2 | Second Amended and Restated Bylaws. (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004) |
| 4.3 | Form of Class A Common Stock certificate. (Incorporated by reference to the Company's Registration Statement on Form S-1 (No. 333-35522)) |
| 4.5 | Warrants to Purchase Common Stock issued pursuant to the Securities Purchase Agreement for each of the investors party to the Securities Purchase Agreement dated January 13, 2004. (Incorporated by reference to the Company's Current Report on Form 8-K filed on January 23, 2004) |
| 4.6 | Note Purchase Agreement dated March 13, 2006 by and among the Company and the Purchasers named therein (Incorporated by reference to the Company's Annual Report on Form 10-K, as amended, for the year ended December 31, 2005) |
| 4.7 | Warrants to Purchase Common Stock issued pursuant to the Note Purchase Agreement dated March 13, 2006 to each of the Purchasers named therein (Incorporated by reference to the Company's Annual Report on Form 10-K, as amended, for the year ended December 31, 2005) |
| 4.8 | Notes issued pursuant to the Note Purchase Agreement dated March 13, 2006 to each of the Purchasers named therein (Incorporated by reference to the Company's Annual Report on Form 10-K, as amended, for the year ended December 31, 2005) |
| 4.9 | Registration Rights Agreement dated March 13, 2006 by and among the Company and the Investors named therein (Incorporated by reference to the Company's Annual Report on Form 10-K, as amended, for the year ended December 31, 2005) |
| 4.10 | Intellectual Property Security Agreement dated March 13, 2006 by and among the Company, Bonanza Master Fund Ltd., as Agent, and the Secured Parties named therein (Incorporated by reference to the Company's Annual Report on Form 10-K, as amended, for the year ended December 31, 2005) |
| 4.11 | Subordination Agreement dated March 13, 2006 by and among the Company, Silicon Valley Bank, and the Purchasers named therein (Incorporated by reference to the Company's Annual Report on Form 10-K, as amended, for the year ended December 31, 2005) |
| 10.1 | West Garrett Office Building Full service Lease Agreement dated October 1, 1997 by and between the Company and West Garrett Joint Venture. (Incorporated by reference to the Company's Registration Statement on Form S-1 (No. 333-35522)) |
| 10.2† | Form of Indemnification Agreement. (Incorporated by reference to the Company's Registration Statement on Form S-1 (No. 333-35522)) |
| 10.3† | Fourth Amended and Restated 1997 Stock Incentive Plan. (Incorporated by reference to Appendix A to the Company's definitive proxy statement for its 2004 Annual Meeting of stockholders as filed with the SEC on June 17, 2004 (No. 000-30821)) |
| 10.4† | First Amended and Restated Employee Stock Purchase Plan. (Incorporated by reference to the Company's Registration Statement on Form S-8 (No. 333-136072)) |
| 10.5† | Optionee Agreement dated October 1, 1997 by and between the Company and Richard A. Young. (Incorporated by reference to the Company's Registration Statement on Form S-1 (No. 333-35522)) |
| 10.6† | Optionee Agreement dated July 29, 1998 by and between the Company and Richard A. Young. (Incorporated by reference to the Company's Registration Statement on Form S-1 (No. 333-35522)) |
| 10.7† | Optionee Agreement dated October 1, 1997 by and between the Company and Thomas M. Brandt, Jr. (Incorporated by reference to the Company's Registration Statement on Form S-1 (No. 333-35522)) |
| 10.8† | Optionee Agreement dated July 29, 1998 by and between the Company and Thomas M. Brandt, Jr. (Incorporated by reference to the Company's Registration Statement on Form S-1 (No. 333-35522)) |
| 10.9† | Optionee Agreement dated April 1, 1999 by and between the Company and Thomas M. Brandt, Jr. (Incorporated by reference to the Company's Registration Statement on Form S-1 (No. 333-35522)) |
| 10.10† | 401(k) and Profit Sharing Plan of the Company dated January 1, 1999. (Incorporated by reference to the Company's Registration Statement on Form S-4 (No. 333-51656)) |

| Exhibit Numbers | Description |
|---|---|
| 10.11† | Employment Agreement dated February 1, 2001 by and between the Company and Richard A. Young. (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001) |
| 10.12† | Employment Agreement dated February 1, 2001 by and between the Company and Thomas M. Brandt. (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001) |
| 10.13† | Employment Agreement dated February 1, 2001 by and between the Company and Drew A. Morin. (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001) |
| 10.14† | Employment Agreement dated February 1, 2001 by and between the Company and Timothy J. Lorello. (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001) |
| 10.15‡ | Services Integration Agreement dated January 31, 2002 by and between the Company and Hutchison 3G. (Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2001) |
| 10.16 | Deed of Lease by and between Annapolis Partner, LLC and the Company. (Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2002) |
| 10.17† | Restricted stock award certificate to Mr. Thomas M. Brandt, Jr. (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003) |
| 10.18† | Restricted stock award certificate to Mr. Thomas M. Brandt, Jr. (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003) |
| 10.19† | Restricted stock award certificate to Mr. Clyde A. Heintzelman. (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003) |
| 10.20† | Restricted stock award certificate to Mr. Richard A. Kozak. (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003) |
| 10.21† | Restricted stock award certificate to Mr. Weldon H. Latham. (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003) |
| 10.22† | Restricted stock award certificate to Mr. Timothy J. Lorello. (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003) |
| 10.23† | Restricted stock award certificate to Mr. Timothy J. Lorello. (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003) |
| 10.24† | Restricted stock award certificate to Mr. Bryon F. Marchant. (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003) |
| 10.25† | Restricted stock award certificate to Mr. Drew A. Morin. (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003) |
| 10.26† | Restricted stock award certificate to Mr. Drew A. Morin. (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003) |
| 10.27† | Restricted stock award certificate to Mr. Maurice B. Tosé. (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003) |
| 10.28† | Restricted stock award certificate to Mr. Maurice B. Tosé. (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003) |
| 10.29† | Restricted stock award certificate to Mr. Kevin M. Webb. (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003) |
| 10.30† | Restricted stock award certificate to Mr. Kevin M. Webb. (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003) |
| 10.31† | Restricted stock award certificate to Mr. Richard A. Young. (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003) |
| 10.32† | Restricted stock award certificate to Mr. Richard A. Young. (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003) |

| Exhibit Numbers | Description |
|---|---|
| 10.33 | Registration Rights Agreement dated as of December 18, 2003 by and among the Company and the investors party to the 2003 SPA. (Incorporated by reference to Exhibit 10 to the Company's Current Report on Form 8-K dated December 18, 2003) |
| 10.34 | Trademark License Agreement by and among Aether, TSYS and the Company dated as of January 13, 2004. (Incorporated by reference to the Company's Current Report on Form 8-K filed on January 23, 2004) |
| 10.35 | Registration Rights Agreement by and between the Company and Aether dated as of January 13, 2004. (Incorporated by reference to the Company's Current Report on Form 8-K filed on January 23, 2004) |
| 10.36 | Amended and Restated Loan and Security Agreement by and between the Company and Silicon Valley Bank. (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004) |
| 10.37† | Restricted stock award certificate to Mr. Clyde A. Heintzelman (Incorporated by reference to the Company's Annual Report on Form 10-K, as amended, for the year ended December 31, 2005) |
| 10.38† | Restricted stock award certificate to Mr. Richard A. Kozak (Incorporated by reference to the Company's Annual Report on Form 10-K, as amended, for the year ended December 31, 2005) |
| 10.39† | Restricted stock award certificate to Mr. Weldon F. Latham (Incorporated by reference to the Company's Annual Report on Form 10-K, as amended, for the year ended December 31, 2005) |
| 10.40† | Restricted stock award certificate to Mr. Byron F. Marchant (Incorporated by reference to the Company's Annual Report on Form 10-K, as amended, for the year ended December 31, 2005) |
| 10.46 | Second Amended and Restated Loan and Security Agreement by and between the Company and Silicon Valley Bank (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2005) |
| 10.47† | Form of Incentive Stock Option Agreement |
| 10.48† | Form of Non-Qualified Stock Option Agreement |
| 10.49† | Form of Restricted Stock Grant Agreement |
| 12.1 | Supplemental Financial Statement Schedule II |
| 21.1 | Subsidiaries of the Registrant |
| 23.1 | Consent of Ernst & Young LLP |
| 23.2 | Consent of James Cowper |
| 31.1 | Certification of CEO required by the Securities and Exchange Commission Rule 13a-14(a) or 15d-14(a) |
| 31.2 | Certification of CEO required by the Securities and Exchange Commission Rule 13a-14(a) or 15d-14(a) |
| 32.1 | Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 32.2 | Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 99.01 | Report of Independent Auditors- James Cowper |

† Management contract, compensatory plans or arrangement required to be filed as an exhibit pursuant to Item 15(a)(3) of Form 10-K.

‡ Confidential treatment has been for certain portions of this Exhibit pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended, which portions have been omitted and filed separately with the Securities and Exchange Commission.

**Exhibit 23.1**

## Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in Registration Statements on Form S-8 (Nos. 333-144742, 333-136072, 333-118610, 333-107466, 333-66676, 333-51656, and 333-48026) pertaining to various stock incentive and option plans and in Registration Statements on Form S-3 (Nos. 333-133018, 333-119431, 333-112759, and 333-104305) pertaining to various stock offerings of TeleCommunication Systems, Inc. of our reports dated March 2, 2009, with respect to the consolidated financial statements and schedule of Telecommunication Systems, Inc. and the effectiveness of internal control over financial reporting of Telecommunication Systems, Inc. included in this Annual Report (Form 10-K) of TeleCommunication Systems, Inc. for the year ended December 31, 2008.

/s/ Ernst & Young LLP

Baltimore, Maryland
March 2, 2009

Exhibit 31.1

TCS TeleCommunication Systems
*Enabling Convergent Technologies®*

## CERTIFICATIONS

I, Maurice B. Tosé, certify that:

a) I have reviewed this annual report on Form 10-K of TeleCommunication Systems, Inc.;

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

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

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

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

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

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

   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected or is reasonably likely to materially affect the registrant's internal control over financial reporting; and

e) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

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

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

/s/ Maurice B. Tosé
Maurice B. Tosé
Chairman, CEO and President

Exhibit 31.2

TCS TeleCommunication Systems
*Enabling Convergent Technologies®*

**CERTIFICATIONS**

I, Thomas M. Brandt, Jr, certify that:

a) I have reviewed this annual report on Form 10-K of TeleCommunication Systems, Inc.;

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

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

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

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

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

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

  d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected or is reasonably likely to materially affect the registrant's internal control over financial reporting; and

e) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

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

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

/s/ Thomas M. Brandt, Jr.
Thomas M. Brandt, Jr.
Sr. Vice President & CFO

Exhibit 32.1

TCS TeleCommunication Systems

*Enabling Convergent Technologies®*

**Certification of Principal Executive Officer**
**Pursuant to 18 U.S.C. 1350**
**(Section 906 of the Sarbanes-Oxley Act of 2002)**

I, Maurice B. Tosé, President and Chief Executive Officer (principal executive officer) of TeleCommunication Systems, Inc. (the "Registrant"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

(1) The Annual Report on Form 10-K of the Company for the period ended December 31, 2008 (the "Report") fully complies with the requirements of Section 13(a) of the Securities Act of 1934 (15 U.S.C. 78m); and

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

/s/ Maurice B. Tosé
Maurice B. Tosé
Date: March 3, 2009

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

TCS TeleCommunication Systems

*Enabling Convergent Technologies®*

**Certification of Principal Financial Officer**
**Pursuant to 18 U.S.C. 1350**
**(Section 906 of the Sarbanes-Oxley Act of 2002)**

I, Thomas M. Brandt, Jr., Chief Financial Officer (principal financial officer) of TeleCommunication Systems, Inc. (the "Registrant"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

(1) The Annual Report on Form 10-K of the Company for the period ended December 31, 2008 (the "Report") fully complies with the requirements of Section 13(a) of the Securities Act of 1934 (15 U.S.C. 78m); and

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

/s/ Thomas M. Brandt, Jr.
Thomas M. Brandt, Jr.
Date: March 3, 2009

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.