

FINAL TRANSCRIPT

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TSYS - Q1 2008 TeleCommunication Systems, Inc. Earnings Conference Call

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May. 01. 2008 / 5:00PM, TSYS - Q1 2008 TeleCommunication Systems, Inc. Earnings Conference Call

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PRESENTATION

Operator

Welcome to today's teleconference. At this time, all participants are in a listen-only mode. Later you will have the opportunity to ask questions during our Q&A session. Please note this call may be recorded. I will now turn the call over to Maurice Tose, CEO of TeleCommunication Systems. Please go ahead, sir.

Maurice Tose - TeleCommunication Systems - President & CEO

Good evening and thank you for joining us to discuss TeleCommunications Systems' First Quarter 2008 Results. With me today is Tom Brandt, our CFO, and Bruce White, our General Counsel. Before we present our formal comments, I will ask Bruce to advise listeners of the cautions that they should consider during this call. And following our presentation, we'll open the lines for Q&A. Bruce?

Bruce White - TeleCommunication Systems - General Counsel

Thank you. Some of the statements you will hear during this call are forward-looking within the meaning of federal securities laws. Some, but not all of these statements include language such as believes, expects, or anticipates, and you should listen to those statements with the knowledge that actual results may differ materially from these forward-looking statements. The risk factors that could cause the results to differ may be found in our SEC filings including Forms 10-K and 10-Q. We encourage all investors to read these documents. Also during this call we may refer to measures of income that are not computed in accordance with Generally Accepted Accounting Principles. To the extent that we refer to non-GAAP data, we have provided reconciliation in our press release and on our web site. Maurice?

May. 01. 2008 / 5:00PM, TSYS - Q1 2008 TeleCommunication Systems, Inc. Earnings Conference Call

Maurice Tose - TeleCommunication Systems - President & CEO

Thank you, Bruce. Our first quarter earnings release crossed the wire services at about 4:15 p.m. today, and a full text copy of our press release has been distributed via e-mail and is also available on our website. We have also updated the financial model that puts the company's financial information into perspective, and this is available for download from the investor information section of our website.

As indicated in our news release, net income for the first quarter was a record \$4.6 million on \$40.4 million of revenue and \$8.4 million of EBITDA, all representing unprecedented operating results for the company. It was the eighth GAAP profitable quarter of our past nine.

The first quarter results are highlighted by improved profit contributions from our commercial segment text messaging location-based services for public safety and across the entire government segment.

As demonstrated by our record revenue and gross margins, our commercial short message service center, or SMSC and wireless intelligent gateway, or WIG, messaging, software license and maintenance business continues to thrive in concert with the growth of text messaging usage in the U.S.

The stable recurring revenue from our hosted location-based services for cellular E-911 is delivering better margins while we continue to invest for growth in the emerging voice over IP market.

We are pleased to report improved margins across all areas of our government business with a resurgence in growth of our recurring professional services revenue and continued demand for our Swiftlink or other wireless systems.

We are well positioned to deliver not only strong revenue growth but, more importantly, improved bottom line growth as well.

Now some highlights from this quarter's operations. First quarter commercial segment revenue was a record \$26.2 million yielding gross profit of \$16.3 million, or 62% of revenue. This profit contribution is an increase of \$4.6 million or 39% over the first quarter last year and reflects the larger purchases of license messaging capacity in the first quarter of 2008.

During the first quarter, we continue to expand our market penetration into North American operators, and we have received a new order for SMS Express from another U.S. CDMA carrier customer. Also, we are one of two SMSC vendors for two other U.S. customers where we have been successful in displacing some of the other vendors' platforms. With these current awards and deployments, we anticipate by year's end that we will have captured over half of the CDMA messaging market in the U.S.

Installations of 32 new and upgraded SMSC and WIG messaging platforms are currently in progress as operators continue to cut over markets and upgrade features. While much of this work represents fulfillment of backlog as we entered the first quarter, the continuing explosive growth in U.S. text messaging has resulted in additional new rewards to TCS in the first quarter.

These additional wins will result in revenue over the second and third quarters. This new business is in addition to the acceleration of the capacity purchases under the six-quarter arrangement with our largest SMSC customer. In response to increasing demand, this customer has indicated that over \$7.5 million of license sales previously slated for the second half of 2008 will occur in the second and third quarters. We anticipate a follow-on multi-quarter arrangement in the second half of 2008.

At this point, I'd like to share a few significant industry trends in messaging, which we believe will favorably drive continued growth in our messaging business. Nearly 100% of mobile devices are SMS compatible, which CTIA estimates at more than 250 million U.S. subscribers. We are beginning to see rapid growth in the more traditional users of mobile services. M-Metrics reports that over the past two years there has been a 130% increase in use of SMS by adults ages 45 to 54. This compares to a 40% usage increase by teenagers during the same period.

May. 01. 2008 / 5:00PM, TSYS - Q1 2008 TeleCommunication Systems, Inc. Earnings Conference Call

CTIA recently announced that 363 billion text messages were sent in the U.S. during 2007, a 130% increase over 2006, when 158 billion were sent. TCS platforms handled 80 billion U.S. messages in 2007, about a quarter of the total.

TCS expects this trend of 100%-plus annual SMS usage growth to continue through 2008 and 2009 before eventually trending towards the 40% year-over-year growth rates over the next three to four years as we have observed in Western Europe.

So there is a reasonable basis for us to expect at least several more years of robust sales of our SMS licenses. This growth will be on a much higher cumulative capacity base and will yield a healthy, long-term revenue stream.

Another merging area of opportunity in messaging is in support of emergency mobile alerts. TCS is an active participant in the development of standards and technology related to the commercial mobile alerts system. This system, which is driven by an FCC initiative, is envisioned to provide location-relevant alerts in the event of a regional emergency such as a tornado or earthquake. TCS recently announced the availability of our latest SMSC software release that features enhanced integration with LBS.

We believe that TCS is in a unique position as a provider of SMS technology, LBS-enabled platforms, emergency 911 services, and mapping technology to deliver successfully on the promise of a nationwide emergency alert system.

Moving to location-based services arena, we announced during the first quarter a contract for our first secure user plane for location known as SUPL, deployment in the Asia Pacific region. We will deliver our LBS platform to Allion in Taiwan, which they will, in turn, use to provide hosted location services for wireless carriers in the Asia Pacific region. We expect to complete deployment at the beginning of the third quarter and anticipate the launch of their first hosted customer in the region later this year.

For carriers that have already deployed location-based services, we are seeing a growth in usage, which results in capacity orders to TCS. Besides the traditional applications such as navigation and points of interest, we are seeing increased usage associated with application-specific devices such as for tracking.

As with text messaging, we expect to see enterprises find more novel methods to leverage the new location technology in an increasingly mobile world. In addition, the emerging focus on emergency services in the European Union is becoming a catalyst for operators in some countries to pursue precise location. While this service is still early in its evolution, TCS has been a leader with 1-1-2 deployments in the UK, Sweden, and Denmark already operational.

In a recent report on the global LBS market, Berg Insight estimated shipments of GPS-enabled handsets are expected to grow from 175 million units in 2007 to reach 560 million units in 2012. Rapid adoption of GPS technology in mass market GSM WCDMA handsets will be the main driver. To quote the report, "This year we expect to see an abundance of new models supporting GPS from all major brands. By 2009, GPS is going to be a must-have in all high-end handsets."

This trend is evidenced by, one, Nokia's plan to deliver 35 million SUPL handsets in 2008 including both high end and consumer branded models and, two, announcements of SUPL handset availability for 2008 from HTC, Samsung, BenQ, and other manufacturers at this year's Mobile World Congress in February.

We see other factors -- Google's entry into mobile maps business and Nokia's direct offers to consumers at catalysts to the growth in LBS. Our expectation is that network operators will need to act if they are going to participate in the LBS revenue stream. While there are a multitude of location technologies for carriers to select, the Yankee Group reports that the obvious leader is assisted GPS. This steers LBS control to carriers.

Further, Yankee predicts that wireless location will evolve into always on, always available -- into an always on, always available enabler of location-aware mobile applications.

May. 01. 2008 / 5:00PM, TSYS - Q1 2008 TeleCommunication Systems, Inc. Earnings Conference Call

We believe there are similarities to be recognized or observed of LBS adoption over a period of time displacing a substantial portion of the personal navigation devices marketplace, much the same as SMS adoption did to pagers.

During the first quarter, TCS continued to gain traction in telematics market around our connected navigation and E-911 solutions. We release Xypoint Mapping Server 5.3 known as XMS as an enabling technology in support of this effort. XMS 5.3 provides new capabilities including commercial vehicle routing, traffic-based routing, and fuzzy logic point-of-interest search.

Late in the quarter, TCS launched our Rand McNally streetfinder and traffic applications on 23 regional operators as part of a managed service offering from Qualcomm. We also announced the expansion of our relationship with nTelos to address customer interest in location-based services. Under a three-year agreement, nTelos will offer the Rand McNally Navigator wireless application developed by TCS. This application is enabled by the TCS Xypoint location service to provide precise location.

As part of the deal, nTelos also extended its enhanced emergency wireless 911 contract with TCS for an additional three years. We believe our work with nTelos is an excellent example of the complete end-to-end solution that brings -- or that TCS brings to the market, and it was recognized by analyst firm Frost & Sullivan in their report released earlier this year.

Our commercial carrier service bureau unit continues to enhance our market lead and master street address guide products through support of breakthrough automatic translation rule creation technology and the launch of a new service, PASS, which is the positive address selection system. PASS allows voice over IP operators to have remote access to subscriber 911 data and gives operators the ability to perform real-time query, edit, and troubleshooting functions through a Web service.

This service enables our voice over IP 911 operator customers to dramatically accelerate the time to verify and to deploy a new or nomadic subscriber. And for VoIP operators, time is money.

PASS joins our other branded voice over IP services that have been deployed -- Livewire 911, which is a call routing engine, and our real-time address validation engine, RAVE911. Combined, these services form a complete suite from VoIP operators.

In addition to the Internet Telephony Award announced earlier this year, TCS RAVE911 product was again recognized during the first quarter with a VON Magazine Innovator 2008 award. TCS was also awarded a top 10 product award at the VON presentation.

RAVE911 is currently in service at several operators, which provides TCS with the broad geographic coverage necessary to integrate our 911 technology within the nationwide operators' networks.

During the quarter, we also successfully execute an agreement for RAVE911 service to commence in the second quarter with a tier 1 cable MSO.

Moving on to a review of our patent activity, TCS has been issued four patents since the beginning of the year bringing the total number of our patents to 59 with over 190 applications pending. Noteworthy new patents include Area Watcher for wireless networks that enable automatic messages to be sent when a user moves from one location to another based upon the speed of the user. This invention can assist in tracking applications and can be used for mobile advertising and real-time traffic information.

Another new patent titled Mobile Originated to HTTP Internet Communications allows the user to send a short messaging to a predefined address with the intent of receiving a return message back. This invention can be used to enable text messaging marketing in voting campaigns such as those used in "American Idol" as well as mobile local search services.

TCS continues with our efforts to enforce and license our patents, post-trial motions remain pending in the intercarrier messages patent lawsuit against Sybase, which led to a May 2007 jury award of more than \$10 million. In a separate action, we recently announced that we have entered into a patent lawsuit standstill agreement with RIM in the pending patent infringement lawsuit

May. 01. 2008 / 5:00PM, TSYS - Q1 2008 TeleCommunication Systems, Inc. Earnings Conference Call

filed in December 2007. The standstill agreement provides a fixed 60-day timeframe for TCS and RIM to negotiate an amicable business resolution while legal proceedings are temporarily halted.

We are mindful of the potential cost of long-term patent enforcement actions and have taken an approach, which controls our legal expenses while maximizing the litigation effort and likelihood of success. We believe our approach provides the company with advocates of the highest caliber and appropriately defends against infringement attempts to prolong the legal process and the resulting expenses.

In summary, our commercial performance for the quarter and outlook for the remainder of 2008 is stellar. Our investment in commercial messages systems is paying substantial dividends now and for the foreseeable future. We expect our recurring business generated by the service bureau will deliver solid results. We continue to expand our reach through partners, which enables us to penetrate new markets while controlling cost, and our intellectual property portfolio continues to grow.

In light of these positive indicators, we are forecasting our strongest year ever for the commercial segment in a market that has others pulling back. We believe that creates even more opportunity for TCS.

Now we turn to Government Solutions Group's performance. Revenue for the first quarter of 2008 was \$14.2 million, which is a modest growth of \$0.5 million from the same quarter of last year. We delivered improved gross margins up 4% from last year's 19% to 23% for the first quarter. The modest 3.5% increase in revenue does not reflect a slowdown in projected growth of our government business. Rather, our relocation in mid-February to our new state-of-the-art production facility in Tampa plus some customer forced delays associated with the test and evaluation of new systems caused us to shift a significant amount of booked revenue from the first to the second quarter.

With a healthy backlog of funded orders in a robust pipeline of high probability opportunities, we are confident of the Government Group's contribution to the company's guidance for 2008. With nine more months of selling in 2008, we believe our government business unit can produce even more significant year-over-year growth at improved margins and yielding a better bottom line profit contribution.

In the quarter, we received a new contract to support the Department of Homeland Security. This engagement is a variation from our traditional IT operation support contracts in that we have been asked to provide a more consultative service for strategic planning and execution. This contract is a strategic win for TCS.

First it creates a new and close relationship with the Department of Homeland Security, or DHS, which historically has been a big purchaser of deployable communication products and services similar to our Swiftlink products and, secondly, this new business helps us build a better balance between our traditional DOD customers and the federal civilian government agencies where we believe more and more federal spending is likely to move over the next few years.

We are already doing business with some constituent agencies of DHS including the U.S. Secret Service, the Federal Emergency Management Agency, or FEMA, and the United States Coast Guard. With this win, TCS employees in critical support roles are now embedded directly within the Chief Information Officer, or CIO, organization of DHS. For the first time, we have an insider's view of ongoing and future communication and IT programs and requirements.

In addition to this win, we have received orders from the U.S. Army via the worldwide satellite services contract to expand the number of TCS field service engineers overseas to support our growing installed base as swiftly VSAT and wireless deployable communication systems in the Middle East and other remote areas of the world. There is an almost predictable growth of this field service support, which is tied closely to the growth of our system sales.

Because the system sales are rapidly expanding on a broad scale, we fully expect to see continued expansion of our field service revenue. In addition, we are seeing renewed demand for our managed bandwidth services with several new customers taking advantage of our Swiftlink private satellite network offering.

May. 01. 2008 / 5:00PM, TSYS - Q1 2008 TeleCommunication Systems, Inc. Earnings Conference Call

This is one of the drivers in our improved profitability as these revenues leverage our existing teleport and bandwidth infrastructure. Our business and continuity of operation planning, or COOP, and telecom expense management, known as TEM, also expanded in the first quarter from growth of existing contracts.

In the area of TEM, we are delivering significant returns on investment for our customers by helping them to identify substantial cost savings through the audits of their devices and service agreements of both their wireline and wireless services. We expect to see good growth in both our COOP and TEM services in Q2 and beyond with commitments already in hand for further expansion from several of our existing accounts.

At the beginning of the year, we launched a new service offering called Swiftlink Information Assurance. Government customers that purchase our Swiftlink systems are required by official security policies to obtain certifications and accreditations to use these products on their highly secured networks. Securing these approvals can be a long and tedious process and an impediment to swiftly deploying our solutions after contract award.

Our Swiftlink Information Assurance offering develops necessary documentation and forms to expedite the approval process. Every Swiftlink customer can benefit from this offering. We launched this offering in the first quarter of '08 and are already under contract with the Marine Corps.

Based on initial feedback from our installed base, other opportunities should close shortly.

We also launched our wireless point-to-point link, or WPPL system, which provides communicators with secure point-to-point and point-to-multipoint line of sight and non-line of sight transmission of voice, video, and data communications. WPPL was developed to satisfy critical last-mile communications for the Department of Defense and allows communicators to extend their local area network to remote locations via terrestrial microwave radio links.

Initial deployments are with the Marine Corps. We are currently delivering our first 30 systems to the Marines and are in discussions to expand this number by hundreds over the next several quarters. We have a contract vehicle that allows them to purchase up to \$71 million over the next several years and are optimistic that procurements could be compressed into the next 18 months.

In addition, we received a contract from DataPath to support their U.S. Marine Corps mini SWAN program. DataPath is one of the other five vendors on the worldwide satellite contract vehicle. Last September, they won a multimillion-dollar project to provide the next generation mini SWAN network for the Marines. They were the incumbents on the original SWAN program.

After the award, they approached TCS requesting us to provide the baseband technology for the initial order and, as well, all future mini SWAN systems. Based on total contract value and expressed immediate requirements from the Marines, we expect this win to drive a lot of revenue in 2008 and 2009.

Another new marquis engagement is with the Joint Expeditionary Forensic facility. TCS was selected to provide the communication suite, which consist of Swiftlink DVM VSAT terminals, baseband technologies, network engineering, and our managed bandwidth services. Together with our customer, we are now fielding deployable forensic kits used by a wide range of customers to help fight the war on terrorism.

We continue to invest in our systems business with ongoing engineering projected to release five new Swiftlink VSAT terminal models and over a dozen new variants of our Swiftlink baseband units mainly in support of Q2 orders from several different customers.

One example of these is the Swiftlink 2610. This new design incorporates the latest BGAN technology and newest DOD Internet protocol encryption. It is designed into a very small footprint that can easily fit into an airliner's overhead compartment. It is perfect for our traditional quick-reaction customer such as special forces operators, members of the intelligence community, diplomats, law enforcement professionals, federal emergency teams, and executive communicators.

May. 01. 2008 / 5:00PM, TSYS - Q1 2008 TeleCommunication Systems, Inc. Earnings Conference Call

Lastly in our systems business, we hosted our Fourth Annual Swiftlink Users' Forum in March. This year attendance nearly doubled with 100 participants including many of our key partners. We had customers travel from throughout the U.S. to spend several days viewing TCS's newest technology and to give us their inputs for future requirements.

To summarize my comments, all vectors in the government business unit are pointing in the right direction. Revenue is up, gross margins are improved from last year, we are seeing great progress in building our recurring business, which helps solidify and stabilize our future.

Our customer base is expanding and diversifying. We are leading with new technologies by making strategic investments based on feedback from our user community, and we've taken all the necessary steps to manage this growth. On the whole, we are very bullish about the direction of this business in 2008 and beyond.

With that, I'll rest for a few moments, here is Tom.

Tom Brandt - TeleCommunication Systems - CFO

Thanks, Maurice. For the first quarter, record revenue of \$40.4 million was up 18% from last year. Gross profit was \$19.6 million for the quarter, or 48% of revenue. We had record EBITDA of \$8.4 million, or \$0.20 per share, and GAAP net income of \$4.6 million, or \$0.11 a share.

The overall revenue split for the quarter was 56% services, 44% systems, and revenue was about 65% commercial and 35% government. Growth in first quarter system sales was mainly due to the incremental licenses sold to wireless carriers as well as SATCOM gear sold to government customers.

First quarter commercial services gross profit was up \$1.3 million to \$7.6 million from \$6.3 million a year ago on a 14% increase in services revenue.

Higher maintenance revenue and an increased number of service connection deployments for our VoIP and E-911 services contributed to higher profitability. Commercial systems gross profit was \$8.7 million for the first quarter, up 61%, or \$3.3 million from \$5.4 million a year ago. This was on \$10.7 million of revenue, up from \$6.8 million a year ago, reflecting the higher license component in the 2008 quarters' mix.

The government segment's services revenue and gross profit were about the same in Q1 '08 at \$7.3 million and \$1.5 million, or 21% of revenue, respectively. In between last year's first quarter and the most recent quarter, these revenues went down, so Q1 was a sequential uptick.

Sales of government systems for the quarter were \$6.9 million compared to \$6.4 million in the first quarter a year ago and gross profit of \$1.8 million was up from \$1 million in the first quarter of last year, mainly due to the growing volume of shipments under the WWS vehicle and higher margins.

The company-wide operating expenses excluding depreciation increased 15% over last year's first quarter including some nonrecurring items. However, as a percentage of revenue, they were down from the same period last year.

The total of R&D, sales and marketing, and G&A expenses was \$12.5 million, or 31% of total revenue compared to \$10.9 million last year, which was 32% of revenue. This increase was due primarily to a \$0.5 million charge associated with vacating our former Tampa facility prior to the end of its lease as we relocated those operations to larger, more efficient quarters; and a \$0.7 million accrual for non-executive variable compensation expense. These nonrecurring charges were reported mainly in the R&D and G&A expense captions.

May. 01. 2008 / 5:00PM, TSYS - Q1 2008 TeleCommunication Systems, Inc. Earnings Conference Call

Research and development expense was \$4.1 million in Q1 '08 versus \$3.1 million a year ago. Sales and marketing expenses totaled \$3.1 million in the most recent quarter versus \$3.2 million a year ago. And G&A expenses for the quarter were \$5.3 million versus \$4.7 million in the first quarter of '07.

So overall EBITDA from continuing operations was a record \$8.4 million up from \$4.7 million in the first quarter of 2007. Noncash charges totaled \$3.4 million in the quarter versus \$3.4 million a year ago. Quarterly depreciation of fixed assets was \$1.5 million down a little from \$1.7 million a year ago and noncash stock-based compensation expense was the same as last year at \$1 million.

So GAAP net income for the quarter was \$4.6 million. This was after the unusual charges to earnings, as I mentioned, the \$0.5 million for relocating the Tampa facility, \$0.5 million as well to write down the Mobile Pro securities we received in connection with last year's divestiture of an enterprise division, and \$0.7 million for non-executive variable comp.

So it's reasonable to expect that expenses in the remaining quarters of 2008 will be lower than they were in the first quarter.

At the end of March, funded backlog was \$125 million, up from \$69 million at the end of the first quarter a year ago. At March 31, 2008, our total backlog was \$225 million up from \$90 million a year ago. We entered the second quarter expecting to realize \$78 million of our funded backlog over the next 12 months. Beyond this funded backlog, our licensing arrangement and our unfunded government contract orders give us substantially improved visibility overall from where we were a year ago.

Funded contract backlog represents contracts for which fiscal year funding has been appropriated by our customers, mainly federal agencies, and for our hosted services contracts, multiplied in the most recent months recurring revenue times the remaining months under existing multi-year agreements.

Total backlog as is typically measured by government contracts includes orders covering optional periods of service or deliverables, but which have not been incrementally funded.

The company's liquidity position improved considerably in the first quarter. Quarter-end cash totaled about \$18.5 million up from \$16 million at the beginning of the quarter after \$4.6 million of debt reduction down to about \$12.8 million and with no borrowings outstanding under our credit line.

The company's first quarter EBITDA generated \$8.4 million of cash and proceeds from stock options generated another \$0.1 million. So in addition to the debt reduction, funds were used for \$0.6 million of capital expenditures including capitalized software development. We paid net cash interest of \$0.3 million and working capital went up \$0.5 million.

We are continuing our practice of providing longer-term but not quarterly guidance as to future P&L performance. Under our multi-quarter arrangement for SMS capacity in the balance of the year, we expect not less than \$7.5 million of additional license capacity sales over the second and third quarters.

Based on the rate of increase in SMS usage that we are seeing, it's reasonable to expect that there will be further need beyond that commitment originally deemed to be the minimum through the end of 2008. In this respect, our visibility into 2008 is more favorable than when we set this year's expectations.

We remain optimistic that wireless E-911 contract renewals will be on terms that reflect the quality of service our company has provided with continuing upside from greater penetration of the voice over IP service provider market.

As indicated by our backlog and pipeline data, we have a solid foundation of government business, and sales efforts, as Maurice said, in response to large-scale SATCOM and wireless requests for proposal are continuing.

May. 01. 2008 / 5:00PM, TSYS - Q1 2008 TeleCommunication Systems, Inc. Earnings Conference Call

Following top-line growth of 22% in 2006 and 17% in 2007, we continued to expect overall revenue for 2008 to be in the \$165 million to \$175 million range representing year-over-year growth of 15% to 22%.

However, based on our first quarter experience with the higher margin mix of revenue, we now expected EBITDA for 2008 to grow from 2007's \$15.6 million to the range of \$20 million to \$23 million, or \$0.45 to \$0.52 a share.

We foresee noncash charges for 2008 to remain about the same as 2007's \$12.5 million. So the GAAP net income should be about \$6 million to \$9 million or between \$0.13 and \$0.20 a diluted share.

These expectations for 2008 profitability don't include any potential net proceeds from the company's patent infringement claims. Once again, our 2008 guidance data may be viewed in the context of history by referring to the financial model portion of our website's Investor Relations page.

At this time, I'll turn the call back to Maurice.

Maurice Tose - TeleCommunication Systems - President & CEO

Thank you, Tom. Our company's text messaging, government, and public safety technology all contributed to solid first quarter profits. We fully expect each of these business segments to benefit from favorable market trends as well as TCS's increasing market presence throughout the remainder of 2008 and into 2009.

Our messaging business will grow with the record-setting text messaging growth in the U.S. in our new customer wins that we discussed on this call. Our government business will grow through increasing reliance on deployable communications and our new government and DOD customers several of which we highlighted in this call.

Our public safety business will benefit from the rapid growth of VoIP usage and, as we continue winning new VoIP customers such as the announced tier 1 cable MSO operator with our award-winning voice over IP products. While these three business segments serve as the triangle of our success in 2008, at the same time, we are positioning ourselves for even greater rewards in the future from our investments in commercial LBS.

With our first SUPL server win in Asia and our LBS applications gaining traction in the carrier market, now in our 21st year, the company has earned customer respect as a vendor of highly reliable communications technologies. This is our foundation for expanding long-term relationships in the wireless and government communities.

As I've told some of you, my education was in operations analysis, involving PERT charting, linear programming and optimizations. It is that approach that has led to the company investments of capital and talent with a long-term view. So it is gratifying to see in the first quarter of 2008, the fruits from seeds sown more than a decade ago in software for wireless text messaging.

As predicted on last quarter's call, TCS is on track for a third consecutive year of double-digit revenue growth and EBITDA in the \$20 million to \$23 million range up from \$7 million in 2005 and \$4 million in 2004.

While we have raised our 2008 guidance today, we are currently tracking additional orders for closure in the second quarter that could further improve our outlook for the year.

We thank you for your time and support and we'll now like to open the call to any questions.

May. 01. 2008 / 5:00PM, TSYS - Q1 2008 TeleCommunication Systems, Inc. Earnings Conference Call

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Shawn Patel, Raymond James.

Tom Brandt - TeleCommunication Systems - CFO

This is Warren Chada filling in for Shawn. What is the government system's backlog ex services?

Maurice Tose - TeleCommunication Systems - President & CEO

The details are going to be in the Q, and I don't even remember if we break it down that small. We split government and commercial, but we don't get that granular.

Warren Chada - Raymond James - Analyst

You announced a recent government systems deal the other day. How much of that was factored into your previous guidance and how would you characterize the margins on that deal relative to the overall government systems business?

Tom Brandt - TeleCommunication Systems - CFO

The announcement identity sort of captured the orders for the last four months, and consequently they are factored into the guidance because they are business that we are aware of and that we've included in backlog.

The margins have been trending favorably. They are generally now in the 20% range for the systems business and the low 20s for the services business in the government segment. So they are all part of the broader picture that was described in the call.

Warren Chada - Raymond James - Analyst

All right, and will we see the drivers after the government system's margin, and what revenue run rate do you expect to see more scale and component costs are [used to competitive] to see meaningful expansion?

Tom Brandt - TeleCommunication Systems - CFO

The margins are not really a function of getting to a factory capacity kind of concept, which is what I sense in the question. We have upside opportunity with vendors as we become a bigger and bigger buyer of components that enables us to expand margins that way. But our overall government average margins are -- for 2008 and probably 2009, are -- we expect to be in the low 20s, and we're going to make more profits from higher volume. We've got a relatively fixed SG&A cost for that business, and we get a bottom line scaling up from just larger volume.

Warren Chada - Raymond James - Analyst

All right, and could you talk about SMS traffic trends and how that compares with what carrier customers have in terms of capacity to handle that traffic? Have they invested enough for next year or are they still in catch-up mode?

May. 01. 2008 / 5:00PM, TSYS - Q1 2008 TeleCommunication Systems, Inc. Earnings Conference Call

Tom Brandt - TeleCommunication Systems - CFO

I can start on this, and Maurice can certainly go more deeply, but, remember, we're selling licenses for incremental capacity, and we are collaborating with our carrier customers to match the licenses for our software with the platforms that they need in order to run the software.

Maurice commented in his remarks about the total number of SMSC and messaging gateway platforms that are in the process of being deployed now, and those are a reflection of collaboration with the customers to ensure that they can physically handle the volumes of traffic that are continuing to grow. So I hope that answers the gist of your question -- I don't think any of these big carriers we're working with is going to run into a physical roadblock as -- rather -- because these numbers have grown so large and relatively predictable. They are buying the gear they need, and they are making deals with us for licenses for our code in a fashion that makes their business, as well as ours, more predictable.

Warren Chada - Raymond James - Analyst

All right, and just one last question here -- could you just talk about the progress in the quarter for your location-based services in the U.S. and internationally? There seem to be some important 3G device releases coming up in '08 and location-based services obviously becoming an important theme, and how does that play into your strengths?

Maurice Tose - TeleCommunication Systems - President & CEO

Well, we say forever. We're waiting for the devices. We cited Berg Insight and other metrics that say we need the handsets. So the handsets -- that's been a long pull in the tent for some time. It's finally beginning to get here, and as we say as well the European Union and demands for 1-1-2, in fact, help as well.

I think on the last call, the previous, we looked to have eight to 10 LBS wins this year, and we're on track for that and, obviously, as we've said before, we can't always announce those wins when they, in fact, occur and often we'll have a win, and it's not going to show up until it's deployed and in some cases some of those are going to be hosted. We are seeing a good number, a fair number, of, in fact, the wins being hosted. So they'll represent less revenue up front, and more, over time, as their business grows and as the uptake in LBS, in fact, occurs.

But, for us, it's getting established across a great number of carriers far deeper or far broader than we were able to do with text messaging as we were limited, in part, by the technologies that our partner, in fact, retrenched to, which is primarily to CDMA. Where here, we lead and, as well, we partner, and our intent is to get broad and deep across a great number of carriers.

Operator

Scott Sutherland, Wedbush Morgan Securities.

Scott Sutherland - Wedbush Morgan Securities - Analyst

Great, thank you. Good afternoon, and good job on those margins, guys.

Maurice Tose - TeleCommunication Systems - President & CEO

Thanks, Scott.

May. 01. 2008 / 5:00PM, TSYS - Q1 2008 TeleCommunication Systems, Inc. Earnings Conference Call

Scott Sutherland - *Wedbush Morgan Securities - Analyst*

A few questions, mainly following up on the government questions. You mentioned in the past when you get initial deals on these government contracts the margins are lower, and you get follow-on deals that the margins get better. So -- going forward in '08 and '09, is this more follow-on deal business or are you still seeing new deal type business and new master contracts?

Maurice Tose - *TeleCommunication Systems - President & CEO*

Scott, we're seeing both, and we see them across a broad spectrum of contract vehicles, from the which contract where we're partnered with Verizon to WWSS where we continue to see and believe and plan for great things to some direct awards and wins and to some sole source wins that customers can do the justification for as was done last year with the \$25 million award.

So there is -- or there are new wins existing, and we haven't gotten greatly into technology refresh, but that does play into it, and it plays into where -- it plays into where a good number of our systems are out in terrains that are fairly harsh, so that helps as well that when units come back for potentially being refurbished, if the technology has changed, quite often the user wants to go with that as well.

Scott Sutherland - *Wedbush Morgan Securities - Analyst*

I guess the follow-on question to that is do you have a good visibility in new business as well as follow-on orders that you can see margins at 22 -- in the low 20s rather than dipping back to 15 if you had a quarter of a lot of new orders? Or is that still a potential possibility in certain quarters?

Maurice Tose - *TeleCommunication Systems - President & CEO*

This call, I'm sure, is going to be monitored and analyzed by our competitors, so a lot of the information we can't go into -- it wouldn't be prudent for us to go into. I guess the general position is the low 20s is what we're looking at across the government business.

Scott Sutherland - *Wedbush Morgan Securities - Analyst*

Okay, that's fair enough.

Tom Brandt - *TeleCommunication Systems - CFO*

I've just got to speak up, being the bean counter on this, though, Scott. To your question, is it possible they could dip back down, the answer is yes. We are grabbing ground, and we are grabbing volume, and it is possible that it's not going to linear.

Scott Sutherland - *Wedbush Morgan Securities - Analyst*

Okay. I just wanted to make sure. That's how I understood the business, over time.

Moving to this notification business, it seems like there's been press out there, and I knew another company who want to try and address this opportunity indicating that it's potentially very large. How large do you see this emergency notification opportunity and is it more like your 911 biz where you got paid per sub or per cell site, or is it more like the text messaging business, it's per-message sent when they're needed?

May. 01. 2008 / 5:00PM, TSYS - Q1 2008 TeleCommunication Systems, Inc. Earnings Conference Call

Maurice Tose - TeleCommunication Systems - President & CEO

Scott, it's way premature, as those that follow it know, the FCC did the mandate, but then right now there is no government entity that says it wants to own the initiative. So there are various conversations going on with potential places where it would reside, but it's not there yet, and those models are to be determined.

What we, in fact, wanted to get out was a few points there, which, part of it, it's a bring-together of our commercial technology into a government environment and where we look and hope we'll be able to leverage relationships within the government sector that we -- in the government sector as well as with our carrier partners to be able to play a role. It's not a 2008 event. It could be a late 2009 event. There could be trials, there could be other things, but it's not something that is on the very near track. It was just to show that what we've developed as a company brings together most of the competencies that would be needed, which is understanding of LBS and understanding of SMS and understanding of mapping, secure hosting, high reliable data centers, et cetera.

Scott Sutherland - Wedbush Morgan Securities - Analyst

Okay, fair enough. Now just a couple of modeling questions maybe for Tom or on based on you guys' comments -- one of the government systems revenue side. You said you expect year-over-year growth on the (inaudible). That means you're going to be doing \$10 million, \$11 million, \$12 million per quarter for the rest of the year? Is that what I understand to be?

Tom Brandt - TeleCommunication Systems - CFO

That's not bad, yeah.

Scott Sutherland - Wedbush Morgan Securities - Analyst

Okay, because you do expect year-over-year growth in each of the next three quarters over the 11, 411, 2, 10, 6 last year.

Tom Brandt - TeleCommunication Systems - CFO

Right, so that makes sense.

Scott Sutherland - Wedbush Morgan Securities - Analyst

So a big bounce back from that low Q1. On the licensing side, you mentioned \$7.5 million. Is this those contracts that you know you have, and could there be incremental capacity orders, and doesn't that \$7.5 million on licensing for the next two quarters include any location-based revenue in commercial systems?

Tom Brandt - TeleCommunication Systems - CFO

What we're talking about there is text messaging alone and, yes, the point is that our monitoring of usage suggests that there is going to be a need for growth beyond the \$7.5 million in messaging, and that's with one important customer.

Scott Sutherland - Wedbush Morgan Securities - Analyst

Okay, I'm just making sure that's not \$7.5 million and nothing more in the next two quarters in commercial systems.

May. 01. 2008 / 5:00PM, TSYS - Q1 2008 TeleCommunication Systems, Inc. Earnings Conference Call

Maurice Tose - TeleCommunication Systems - President & CEO

No, and as far as we mentioned, we had some other wins or had another win, and we've been capturing more market share where we are, in fact, in a dual-mode strategy -- or dual-vendor strategy with the carrier -- with two carriers.

Operator

(Operator Instructions) [Sarah Phillips, Catherine Stephens], Inc.

Sarah Catherine - Stephens, Inc. - Analyst

Hi, this is Sarah Catherine, good afternoon. I just have a couple of quick questions, actually, following up on the modeling questions. On the commercial systems side, how should we look at the near term? It sounds like we had a pretty good understanding going the first quarter, but I was hoping for a little more direction for the next three quarters.

Tom Brandt - TeleCommunication Systems - CFO

Well, picking up on Scott's question on the \$7.5 million of incremental text messaging licenses, those flow through the commercial systems category, and it would be reasonable to take that and divide by 2, as between Q2 and Q3, and, as Maurice just said, there have been additional wins, and there's at least one additional win in that space before going to the LBS category, the location-based services category of commercial systems.

Whereas analysts had indicated a sharp dropoff and, indeed, we conservatively anticipated that Q2 '08 could be like our Q2 '07 when there wasn't going to be a big license sale in that systems category. We now see a smoother path during the balance of 2008. It would be aggressive to expect it at the same level as Q1, but there's a lot going on so that we could have commercial system sales in the balance of the year at a relatively balanced level.

Sarah Catherine - Stephens, Inc. - Analyst

Okay, fair enough. And then my second question is if you can talk a little bit about your government systems pipeline?

Tom Brandt - TeleCommunication Systems - CFO

Sarah Catherine, I missed your question, I'm sorry.

Sarah Catherine - Stephens, Inc. - Analyst

That's okay, I was just asking about the pipeline for your government systems segment.

Tom Brandt - TeleCommunication Systems - CFO

Well, the pipeline is larger than it's ever been, that's really what drives this management team today to be more bullish than ever before. A year ago we lacked anywhere close to the backlog that we enjoy today, and this feeds on itself. As Maurice points out in his comments, we had substantially higher attendance at our Swiftlink Users Forum, which is kind of an indicator of the degree to which our deliverables are known and respected among government agencies, and new deliverables like the wireless point-to-point link further expand the range of opportunities for penetration. And those conditions translate both to backlog

May. 01. 2008 / 5:00PM, TSYS - Q1 2008 TeleCommunication Systems, Inc. Earnings Conference Call

and pipeline, and so, as we said, we raised our guidance with this quarter's call, there's a lot of upside out there that gives us optimism that we could be adjusting upwards again three months from now.

Maurice Tose - TeleCommunication Systems - President & CEO

And some of that, to what Scott's question was, is it coming from new ends or existing contracts, and, like I said, it's kind of a mix of both, but I said in my comments that under the same WPPL, it's a multiyear contract that was, I think, either three to five years, and we said that that ceiling could burn itself in 18 months, it could burn itself in 12 to 18 months.

There are a number of actions ongoing across a lot of different customers, or a fair number of customers, that we are waiting for or anticipating some decisions, and, one, we mentioned the information assurance, that drives some of the activity or is a gating factor or a critical path item for some of the decisions. But our pipeline, this is -- it is a phenomenal pipeline, and we have still a discipline here across the company for some time now on booked, expected, and pipeline, and all of those categories are, at this point in the year, I'd say they're beyond where we've ever been at this point in fiscal or calendar year.

Operator

Jason Stankowski, Castle Peak.

Jason Stankowski - Castle Peak - Analyst

Hi guys, thanks for taking this call, and congratulations in bringing some net income to the bottom line. I know it's been a while, so congratulations.

I was curious how much of the SMS revenue was booked in this quarter? Was it \$12 million we received in cash?

Tom Brandt - TeleCommunication Systems - CFO

When you include the maintenance -- of the 12 we talked about in January, I believe it was between 10 and 11 that came through in Q1 -- if I understand your question right.

Jason Stankowski - Castle Peak - Analyst

Yeah, I'm just trying to -- and the GAAP kind of booking of that is driven by -- in terms of the GAAP rules is driven by kind of a matching principal?

Tom Brandt - TeleCommunication Systems - CFO

These licenses are, for the most part, based on acceptance, so that when a customer -- where we fulfilled our contract, indeed, where capacity is concerned, what they're getting from us is a document that says your license capacity has now increased. GAAP says that we've earned our revenue.

Maurice Tose - TeleCommunication Systems - President & CEO

In the case of a capacity freeze, there is nothing that physically has to happen because they already have the capacity within their systems.

May. 01. 2008 / 5:00PM, TSYS - Q1 2008 TeleCommunication Systems, Inc. Earnings Conference Call

Jason Stankowski - *Castle Peak - Analyst*

In terms of the capacity that they need, is it just a particular number of messages flowing through their systems, or is it a particular number of users that have the ability to send messages that we're charging on?

Maurice Tose - *TeleCommunication Systems - President & CEO*

Let me go back and say, because, for the most part, the software that's needed to increase their capacity is within their system, and part of what we were trying to indicate with the number of platforms that we are installing or upgrading, some of those are upgrading and some of those are new installs to allow the ability for expanded usage. Most of the time, or the majority or in [pi-squared 95] or something in time, it's there. It's just a matter of them being legal.

The second part of your question, I guess, was --?

Tom Brandt - *TeleCommunication Systems - CFO*

Is it priced based on close and the term of ours is called --

Maurice Tose - *TeleCommunication Systems - President & CEO*

Is [abysm] or [abysma], it's a busy hour short message or message attempt, and what it is, it's a calculation that, in the busiest hour of the carrier's day, which is normally rush hour, that they have enough capacity on their systems to accommodate that. The busiest time ever is New Year's Eve, and it spikes other times around Mother's Day and other events, but it's in that hour that they've bought enough capacity to be able to handle that spike.

Jason Stankowski - *Castle Peak - Analyst*

I guess I'm just trying to understand, and I don't know if you're trying to -- I can't understand the guidance, going forward, with -- why would you have thought the number was going to go down? What would be the logical conclusion that would take that number down, then, in subsequent quarters if it, you know, more or less, was kind of tracking with their usage and the acceptance, like you said, why would the number go down unless you lose share of that particular carrier to a competitor? Why would that go down? Maybe give us an example of that so we can understand.

Maurice Tose - *TeleCommunication Systems - President & CEO*

An example of going down is that we mentioned on previous calls about having a multi-quarter arrangement. So a carrier, in this case, you know, had a multi-quarter arrangement and bought two quarters' worth of usage to catch up, and there was a not at that point -- at the point when initially we weren't sure was whether or not they were going to pull forward from a later quarter. And, since then, we've gotten word that, yes, they're going to come forward.

Tom Brandt - *TeleCommunication Systems - CFO*

Let me add just -- what might clarify. Remember, what we're talking about is licenses for incremental license capacity. The carriers buy perpetual licenses. So what we're predicting when we establish guidance for what our revenues from license sales are going to be is what's the rate of growth. Not whether text messaging volume usage will be consistent with what it was in the past, but rather how much will it grow this quarter over the preceding quarter and then, further, our customers' buying

May. 01. 2008 / 5:00PM, TSYS - Q1 2008 TeleCommunication Systems, Inc. Earnings Conference Call

patterns aren't linear. The customer, in fact, we sell our SMSC through Alcatel Lucent, they are making and bundling deals. We can't always predict how they are going to sell the incremental licenses for capacity.

Now, the numbers have gotten so big, that it is a lot easier to predict than jointly see the future; that is, [us, ALU], and the carrier customers.

Jason Stankowski - *Castle Peak - Analyst*

Right, okay, that does clarify a lot. So then you're really only getting paid on the marginal growth in which they have to upgrade their license to a new set of -- a new threshold, so to speak, and they can do that in a very lumpy fashion when they finally figure out and sign another systems deal with a VAR that's selling your systems? So that does clarify it a lot.

And then maybe you could also give us a sense of how many other vendors are at the -- either that carrier or in the recent deal you won, is it just one other vendor? And kind of why would they have multiple SMS vendors on one -- their network? Is it just the regional networks that they have kluged together and so there's a legacy kind of permanent license at those places, and they don't need additional? Is that kind of the idea or why wouldn't they just go with one SMS kind of standard for their whole network?

Maurice Tose - *TeleCommunication Systems - President & CEO*

It's all the above. As you said, it could be that they have another in that was a regional. Some carriers, the larger carriers, like to have dual vendors, and that's what we're saying. Maybe it wasn't quite clear in the remarks, that we want a new carrier customer where we're going to be totally displacing the incumbent and part of what happens there -- our message center is at the high end. It's a very robust, very scalable platform. So quite often we can't financially or competitively compete with someone that's looking for just the cheapest platform.

But, conversely, those cheaper ones may not be as scalable, and a carrier may be experiencing the same robust growth that everyone else is, and they need more capacity, and so they look, and there is an opportunity -- do I continue with a vendor that doesn't scale, that may require me to do a forklift to get more capacity versus just putting another set of processors in? There are a variety of reasons, and then there's features.

You know, as I further said, with this most recent CDMA win, by the end of the year, we believe pretty confidently that we're going to be north of half of the CDMA messages in the U.S., and we are arguably believe we have the best CDMA SMS platform in the business.

Now, what I further kind of alluded to regarding LBS is that we are somewhat constrained with SMS because we're a partner with Lucent, and Lucent originally, when we began this relationship, which was back in '96, '97 timeframe, the plan was to go across all their interfaces, and they did for a while. But then they retrenched, and they focused only on CDMA. Hence, we were relegated to only being able to do CDMA.

So in the CDMA world, we have some things that our competitors can't do or are having difficulty, such a geo-redundant systems and a host of other things. So there's a new win, and then there are two carriers where we are in a dual mode, and we're gaining market share.

Jason Stankowski - *Castle Peak - Analyst*

Okay, and I'll get out of the way here so someone in the queue can ask, so that would lead to, in the deal you won, at some point when you have implementation there, you would get a one-time check for them to get bought up with whatever they

May. 01. 2008 / 5:00PM, TSYS - Q1 2008 TeleCommunication Systems, Inc. Earnings Conference Call

think the capacity is that they need, and you'd enter into a similar type of relationship where each quarter or each year they would reassess the usage and pay a true-up amount for the continued growth in SMS messaging?

Maurice Tose - TeleCommunication Systems - President & CEO

Yeah, but the important thing is that all carriers don't operate the same. We would like to get them operating the same, and that's our striving to do, but it doesn't necessarily comport. They're the 800-pound gorilla, but, yes, that's --

Jason Stankowski - Castle Peak - Analyst

But at this point, at least one of them has chosen to work with you and displace their incumbent. So it's just a matter of how you get paid rather than whether you're going to get paid from them.

Maurice Tose - TeleCommunication Systems - President & CEO

Correct, absolutely. One of the other things, in part, we went back and did a little bit of analysis, and when we developed the SMSC, the short message service center, on the Lucent platform, we developed a companion platform, which is that wireless Internet gateway, which really is a traffic cop that stands between the wild, wild west, or the Web, and the carrier's network. We do anti-spamming, we do a host of things, and implementation example is you go to Verizon and Vtext.com, that wireless in their gateway is a programmable platform that a carrier can develop applications on top of, or, in the case of Verizon, we developed and maintain and manage that application implementation for them. So it does anti-spamming, it does a host of things, but we typically endeavor to sell that platform along with the message center, and most carriers need the two. That's why when we say we're experiencing growth across both, it's a good thing.

Operator

Tim Quillen, Stephens.

Tim Quillen - Stephens, Inc. - Analyst

I just had a quick question for Tom. We really haven't had to think about this, maybe ever, but taxes -- how do you -- first of all, what kind of tax loss carryforwards do you have right now? I presume you're not going to be cash taxpayer for a long time, but when do you think about accruing for taxes on an accounting basis? Thanks.

Tom Brandt - TeleCommunication Systems - CFO

We actually had a \$46,000 accrual for alternative minimum tax with this quarter, and the company came into the year with about a \$50 million deferred tax asset. So we don't anticipate a tax provision in the P&L for several years. There's the interesting academic question as to when the predictability of future profits becomes so ensured that the reserve against that deferred tax asset gets reversed, which will be an interesting one-time accounting phenomenon, but that's not on the table for the next couple of quarters, anyway.

Operator

Hinda Mizrahi, SSM Investment Corporation.

May. 01. 2008 / 5:00PM, TSYS - Q1 2008 TeleCommunication Systems, Inc. Earnings Conference Call

Hinda Mizrahi - SSM Investment Corporation - Analyst

Hi, guys, congratulations on a great quarter. I just have a general question -- what percentage of the SMS market do you think you have, and has that number changed over the past few years?

Maurice Tose - TeleCommunication Systems - President & CEO

Well, again, we're predominantly CDMA, and outside the U.S. we do have some installations in Caribbean, Latin America, and then we have an installation in Australia, New Zealand, and an installation in Poland. But outside of the U.S., the biggest one is China, and we're not there, and that's most likely going to be and remain with the Chinese vendors there. But here in the U.S. CDMA, as I said, we believe that by year's end, we'll be well north of -- or we'll be north of 50% of the CDMA market in the U.S.

Tom Brandt - TeleCommunication Systems - CFO

And we published that based on CTI data, we are handling about a quarter of all the text messages in all the United States.

Hinda Mizrahi - SSM Investment Corporation - Analyst

And outside -- that was the other -- okay. I got it, thank you.

Maurice Tose - TeleCommunication Systems - President & CEO

I think on last quarter's call, just to give a little bit more flavor, I guess, and a little more color, or potential -- I think we mentioned previously that we are looking at our going into the GSM space and, actually, we have a very small GSM customer in the Caribbean. So where Lucent had been CDMA-only focus, there is a market there for GSM, and especially even moreso with the marriage with Alcatel.

The core of our code is core SMS messaging and the adaptations that are needed to make a full-fledged GSM or not significant. And so we are looking at that market opportunity as well, and the ability to do as we do with our SMS Express that allows a carrier to just put it in their network for either a voting messaging platform or to handle the first delivery attempt that lets them have more efficient use of their core SMS platform, which is, by nature of the technology, a (inaudible) forward technology.

So the long and short there is to say we are looking at that very aggressively because, in effect, it would be found money.

Hinda Mizrahi - SSM Investment Corporation - Analyst

Just to add onto that question -- I mean, to that part that you answered me-- if the GSM -- if you -- right now if the carrier is a GSM carrier, would they have someone for GSM and then someone for you? I mean, for the other -- the CD --

Maurice Tose - TeleCommunication Systems - President & CEO

Yeah, just to go back to some of the -- to the global footprint, the -- on the global basis, GSM is about 75% of the handset population. CDMA is about 15%, 15%, 16%, so that's the order of magnitude. And there are five, six, seven SMSC vendors. The largest is the remnants of what was Logica CMG called [Ascion] --

May. 01. 2008 / 5:00PM, TSYS - Q1 2008 TeleCommunication Systems, Inc. Earnings Conference Call

Tom Brandt - TeleCommunication Systems - CFO

Escicion.

Maurice Tose - TeleCommunication Systems - President & CEO

Escicion -- and they have the largest market share and are the predominant provider in the GSM market space.

Hinda Mizrahi - SSM Investment Corporation - Analyst

And can they also do the CMA, or they just specialize in SMS?

Maurice Tose - TeleCommunication Systems - President & CEO

Yes. When we first started, they had CDMA as well. When we first entered the SMS business back in '95, '96 and convinced Lucent, our partner, they had all the business, or there were like three vendors that were doing it, really, and we convinced our partner that we could build a better one. And, further, we saw all that SMS back then would be, for us, the entry point of data into the wireless world. We were first a data company that had been -- that took on telecom attributes and have the ability of looking at telecom and data and the Internet.

And so, yes, they can build one. Yes, they could. We really don't foresee that happening.

Hinda Mizrahi - SSM Investment Corporation - Analyst

Right now, just -- if the carrier -- sometimes these have SMS ability, would they have one carrier doing SMS on the CMA, or they have you for the CMA and then they have another company for the SMS?

Tom Brandt - TeleCommunication Systems - CFO

Most carriers are one or the other -- they're either CDMA or GSM.

Hinda Mizrahi - SSM Investment Corporation - Analyst

But if they're SMS they should be able to do CMA also, right? Isn't SMS the higher level, or am I misunderstanding that?

Tom Brandt - TeleCommunication Systems - CFO

SMS is an application that goes over an air interface, and the infrastructure to the carrier's network has to be custom -- has to be tailored to the air interface, whether it's --

Hinda Mizrahi - SSM Investment Corporation - Analyst

Oh, okay, I see.

May. 01. 2008 / 5:00PM, TSYS - Q1 2008 TeleCommunication Systems, Inc. Earnings Conference Call

Tom Brandt - TeleCommunication Systems - CFO

Whether it's CDMA or GSM.

Maurice Tose - TeleCommunication Systems - President & CEO

It's a transport.

Hinda Mizrahi - SSM Investment Corporation - Analyst

I always thought it was an add-on feature. Okay.

Maurice Tose - TeleCommunication Systems - President & CEO

It's a transport that uses the signaling --

Tom Brandt - TeleCommunication Systems - CFO

An SS7 network to control channel, which is uniform, but as to the equipment that goes into the specific carrier's network to accept its subscriber's text messages, that infrastructure has to be conformed to the air interface.

Hinda Mizrahi - SSM Investment Corporation - Analyst

And when do you expect the (inaudible)?

Maurice Tose - TeleCommunication Systems - President & CEO

Into GSM.

Hinda Mizrahi - SSM Investment Corporation - Analyst

I'm sorry, the GMS.

Maurice Tose - TeleCommunication Systems - President & CEO

Yeah, GSM. We're working that now. We can't get there soon enough for our liking, but we're in discussions with our partner in that regard.

Operator

Thank you, I will now turn the program back over to Mr. Tose for any closing remarks.

Maurice Tose - TeleCommunication Systems - President & CEO

Well, this concludes our first quarter investor call, and we thank you for being with us, and we'll look forward to speaking with you on our next call.

May. 01. 2008 / 5:00PM, TSYS - Q1 2008 TeleCommunication Systems, Inc. Earnings Conference Call

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