April 26, 2012

TeleCommunication Systems Reports First Quarter 2012 Results

Revenue Up 11% to $100 Million, Driven by 37% Government Segment Growth

Note: Comtech Acquired TCS on 2/23/2016

ANNAPOLIS, MD, Apr 26, 2012 --TeleCommunication Systems, Inc. (TCS) (NASDAQ: TSYS), a world leader in highly reliable and secure mobile communication technology, reported results for the first quarter ended March 31, 2012.

First Quarter 2012 Results

- Revenue was $100 million, up 11% from $90.4 million in the same year-ago quarter, representing record first quarter revenue.
- Gross profit was $34.4 million, down 6% from the same year-ago quarter, reflecting a less favorable mix of margin contributors.
- EBITDA (Earnings before Interest, Taxes, Depreciation, Amortization and non-cash stock-based compensation) was $11.5 million versus $15.3 million in the same year-ago quarter. (See discussion about the presentation of EBITDA and Adjusted Net Income, non-GAAP terms, below.)

- Adjusted net income was $3.2 million or $0.06 per diluted share, compared to $7.9 million or $0.13 per diluted share in the first quarter of 2011. GAAP net loss was $0.4 million or $(0.01) per share, versus GAAP net income of $2.1 million or $0.04 per share in the same year-ago quarter.

Management Commentary

"Our record first quarter revenue was driven by growth in TotalCom™ solutions for federal government customers, as well as by growth from our commercial 9-1-1 services for network operators and state and local governments," stated Maurice B. Tose, TCS chairman and CEO. "Long sales cycles that began years ago for expanded government business, including new and increased contract vehicles, are progressing as expected, while we continue to invest in process infrastructure for more efficient handling of higher volume communication solution sales.

"Our commercial applications and infrastructure team is shifting emphasis toward network security solutions that leverage the company's expertise and relationships in cellular network architecture and device location, as carriers continue to adapt application sales strategies to a changing market. Mobile threats are becoming increasingly prolific as smart devices gain popularity. CIOs are quickly grasping the notion that mobile malware will likely evolve as did PC-based threats, and that similar protection and detection measures will be necessary. TCS's Secure the Edge™ initiative addresses the need for new edge device security and user authentication through carriers and other channels.

"Progress is being made on monetizing our growing portfolio of proprietary intellectual property. We expect long-term profit growth to come from enabling secure and reliable communications for government and enterprises, and the growing number of consumers who are increasingly aware of wireless communication cyber-risks."

Summary of EBITDA and Adjusted Net Income and Reconciliation to Net Income (Loss)

	Quarter ended Mar 31	
	2012	2011
	(unaudited)	
Revenue	$ 100,035	$ 90,366
EBITDA	$ 11,461	$ 15,267

Non-cash charges (1)	(10,418)	(9,556)
Income from operations	1,043	5,711
Interest and other expense	(1,726)	(2,072)
Tax benefit/(provision)	314	(1,580)
Net income/(loss)	$ (369)	$ 2,059
Diluted shares for net income/(loss) per share (2)	57,572	57,837
Net income/(loss) per share - diluted	$ (0.01)	$ 0.04
Net income/(loss)	$ (369)	$ 2,059
Non-cash stock based compensation expense	2,807	2,581
Amortization of acquired intangible assets	1,374	1,325
Non-cash tax (benefit)/expense	(808)	1,776
Amortization of deferred finance fees	188	187
Adjusted net income	3,192	7,928
Add back tax-effected convertible debt interest expense (2)	-	659
Adjusted net income for Diluted EPS calculation	$ 3,192	$ 8,587
Diluted shares for adjusted net income per share (2)	57,572	67,839
Adjusted net income per share - diluted	$ 0.06	$ 0.13

(1)Non-cash charges are depreciation/amortization of fixed assets, acquired intangible assets, software development costs and stock-based compensation expense.
(2)Shares issuable via the convertible debt are included if dilutive, in which case tax-effected interest expense on the debt is excluded from the determination of Net income/(loss) per share and adjusted net income per share.

First Quarter 2012 Financial Highlights

Revenue and Gross Profit (unaudited):

	Three months ended March 31								
	2012			2011			Incr. (Decr.)		
	Coml.	Govt.	Total	Coml.	Govt.	Total	Coml.	Govt.	Total
Revenue ($millions)									
Services	$39.0	$33.3	$ 72.3	$44.2	$30.6	$74.8	$(5.2)	$ 2.7	$(2.5)
Systems	4.2	23.5	27.7	4.8	10.8	15.6	(0.6)	12.7	12.1
Total revenue	$43.2	$56.8	$100.0	$49.0	$41.4	$90.4	$(5.8)	$15.4	$ 9.6
Gross profit ($millions)									
Gross profit-									

services	$20.0	$ 8.1	$ 28.1	$24.4	$ 8.7	$33.1	$(4.4)	$(0.6)	$(5.0)
As % of rev	51%	24%	39%	55%	28%	44%			
Gross profit- systems	1.1	5.2	6.3	1.6	1.9	3.5	(0.5)	3.3	2.8
As % of rev	27%	22%	23%	33%	18%	22%			
Total gross profit	$21.1	$13.3	$ 34.4	$26.0	$10.6	$36.6	$(4.9)	$ 2.7	$(2.2)
As % of rev	49%	23%	34%	53%	26%	40%			

(Gross Profit = revenue minus direct cost of revenue, including amortization of capitalized software development costs and related non-cash stock-based compensation.)

Government Segment Revenue and Gross Profit:

Government segment revenue in the first quarter of 2012 was $56.8 million, up 37% from $41.4 million in first quarter of 2011, about three quarters of which growth was organic. Government services revenue was up 9% over the same year-ago period, while government systems revenue of $23.5 million was more than double the previous year, reflecting higher shipments of deployable communication systems and a full quarter of Trident system component sales.

Government segment gross profit in the first quarter of 2012 increased 25% to $13.3 million or 23% of revenue from the first quarter of 2011 due to higher overall volume.

Commercial Segment Revenue and Gross Profit:

First quarter Commercial segment revenue was $43.2 million, down 12% from $49.0 million in the year-ago quarter, as growth in revenue from 9-1-1 public safety business was offset by the effects of evolving business models for carrier-branded wireless applications.

Commercial segment gross profit in the first quarter of 2012 was $21.1 million or 49% of revenue, compared to $26.0 million or 53% of revenue in the same year-ago quarter, reflecting the shifts in mix of business.

Operating Costs and Expenses:

R&D: First quarter 2012 R&D expense was $8.7 million (9% of revenue), up 1% from $8.5 million (9% of revenue) in the same year-ago quarter. TCS is investing in next generation 9-1-1, secure communications technology for government customers, and through network operators, the telematics supply chain and others.

SG&A: First quarter 2012 selling, general and administrative expense was $19.9 million (20% of revenue), up from $17.9 million (20% of revenue) in the first quarter 2011. The increase reflects an increased investment in intellectual property-related activities, overhead and other operating costs.

Non-cash charges: First quarter 2012 total non-cash charges to operating profit were $10.4 million, up 9% from $9.6 million in the same year-ago quarter due to higher non-cash stock-based compensation, depreciation and amortization of fixed assets including hosted software, as well as amortization of capitalized software development costs.

Income Taxes:

For the first quarter 2012, the company recorded a $0.3 million income tax benefit against pre-tax $0.7 million GAAP loss.

Liquidity and Capital Resources:

At March 31, 2012, TCS had $51.3 million of cash, equivalents and marketable securities, versus $60.1 million at the beginning of the quarter. Funds were generated in the first quarter of 2012 from $11.5 million in EBITDA. Uses of cash for the quarter included $10 million of net payments on bank borrowing and lease payments, $6.4 million for capital expenditures including software development, $3.7 million increase in working capital and $ 0.2 million for cash interest, cash taxes and other expenses. At the end of the quarter, the company had approximately $81.3 million of total liquidity, including $30 million of unused borrowing availability under its bank credit line.

Intellectual Property:

TCS was issued 19 patents during the first quarter of 2012, bringing the quarter-end patent portfolio to 218 patents issued in the U.S. and abroad, and more than 300 patent applications pending.

Backlog:

($millions)	12/31/2011	New Orders	Revenue	3/31/2012
Commercial Funded Contract Backlog	$ 269.4	$ 8.8	$ (43.2)	$ 235.0
Government Funded Contract Backlog	$ 180.1	$ 56.5	$ (56.8)	$ 179.8
Total Funded Contract Backlog	$ 449.5	$ 65.3	$ (100.0)	$ 414.8
Un-Funded Customer Options	$ 809.4	$ 7.0		$ 816.4
Total Backlog	$ 1,258.9	$ 72.3	$ (100.0)	$ 1,231.2

Funded contract backlog on March 31, 2012 was $415 million, of which the company expects to recognize approximately $283 million in the next 12 months.

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

Subsequent Event:

Subsequent to quarter-end, the company received notice from a navigation application customer that it intends to adjust pricing for TCS services effective in early May and negotiations are continuing. Management considers this to be an indicator that the company should evaluate for potential impairment of the long-lived and intangible assets associated with the company's 2009 acquisition of Networks In Motion. The expected impact of the revised pricing arrangement will be reflected in updated revenue and EBITDA guidance for 2012 that TCS management will report on this evening's conference call. Calculations as to whether and how much impairment of the book values of the company's goodwill and other intangibles, which may affect the depreciation, amortization, net and adjusted income and EPS elements of guidance, will begin immediately and results will be reported when known.

Conference Call

TCS will hold a conference call later today (April 26, 2012) to discuss these financial results. The company's chairman and CEO, Maurice B. Tose, and senior vice president and CFO, Tom Brandt, will host the call starting at 5:00 p.m. Eastern time. A question and answer session will follow management's presentation.

To participate in the call, dial the appropriate number 5-10 minutes prior to the start time, ask for the TeleCommunication Systems conference call and provide the conference ID.

Dial-In Number: 1-877-941-4774
International: 1-480-629-9760
Conference ID#: 4529929

The conference call will be broadcast simultaneously on the company's website at www.telecomsys.com. For the webcast, please go to the website at least 15 minutes early to register, download, and install any necessary audio software. If you have any difficulty connecting with the conference call or webcast, please contact Liolios Group at 1-949-574-3860.

A replay of the call will be available after 8:00 p.m. Eastern time on the same day and until May 10, 2012.

Toll-free replay number: 1-877-870-5176
International replay number: 1-858-384-5517
Replay pin number: 4529929

About TeleCommunication Systems, Inc.

TeleCommunication Systems, Inc. (TCS) (NASDAQ: TSYS) is a world leader in highly reliable and secure mobile communication technology. TCS infrastructure forms the foundation for market leading solutions in E9-1-1, text messaging, commercial location and deployable wireless communications. TCS is at the forefront of new mobile cloud computing services, providing wireless applications for navigation, hyper-local search, asset tracking, social applications and telematics. Millions of consumers around the world use TCS wireless apps as a fundamental part of their daily lives. Government agencies utilize TCS' cyber security expertise, professional services, and highly secure deployable satellite solutions for mission-critical communications. Headquartered in Annapolis, MD, TCS maintains technical, service and sales offices around the world. To learn more about emerging and innovative wireless technologies, visit www.telecomsys.com.

About the Presentation of EBITDA

EBITDA is not a financial measure calculated and presented in accordance with U.S. generally accepted accounting principles (GAAP) and should not be considered as an alternative to net income, operating income or any other financial measures so calculated and presented, nor as an alternative to cash flow from operating activities as a measure of liquidity. The company defines EBITDA as net income/(loss) before depreciation; amortization of non-cash stock-based compensation; amortization of capitalized software development costs, property and equipment and other intangibles; taxes; and interest expense and other non-cash financing costs. Other companies (including competitors) may define EBITDA differently. The company presents EBITDA because management believes it to be an important supplemental measure of performance that is commonly used by securities analysts, investors and other interested parties in the evaluation of companies in our industry. Management also uses this information internally for forecasting and budgeting. It may not be indicative of the historical operating results of TCS nor is it intended to be predictive of potential future results. Investors should not consider EBITDA in isolation or as a substitute for analysis of the company's results as reported under GAAP. See "GAAP to non-GAAP Reconciliation" above for further information on this non-GAAP measure. Shares used in the calculation of GAAP diluted earnings per share are the same as the shares used in the calculation of diluted adjusted operating income/(loss) per share except when the company reports a GAAP loss.

About the Presentation of Adjusted Net Income

Adjusted net income is not a financial measure calculated and presented in accordance with GAAP and should not be considered as an alternative to net income, operating income or any other financial measures so calculated and presented, nor as an alternative to cash flow from operating activities as a measure of liquidity. Adjusted net income is defined as GAAP net income/(loss) adjusted for amortization of acquired intangibles, non-cash stock-based compensation expense, non-cash tax and financing charges.TCS has provided adjusted net income in addition to GAAP financial results because management believes this non-GAAP measure helps provide a consistent basis for comparison between quarters and fiscal year growth rates that are not influenced by certain non-cash charges and credits or items not part of our ongoing operations, and is helpful in understanding the underlying operating results.

Forward-looking Statements

This announcement contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities and Exchange Act of 1934, as amended. These statements are based upon TCS' current expectations and assumptions that are subject to a number of risks and uncertainties that would cause actual results to differ materially from those anticipated. The words, "believe," "expect," "intend," "anticipate," "should," "prospect," and variations of such words, and similar expressions identify forward-looking statements, but their absence does not mean that the statement is not forward-looking. Statements in this announcement that are forward-looking include, but are not limited to statements that are made in the management commentary section and by Mr. Tose regarding our (a)progress regarding expanded government business, including new and increased contract vehicles; (b) investments in process infrastructure for more efficient handling of higher volume communication solution sales; © Secure the Edge initiative and the need for new edge device security and user authentication through carriers and other channels; (d) progress on monetizing our growing portfolio of proprietary intellectual property; (e) expectations regarding long-term profit growth sources; (f) R&D investment priorities; (g) borrowing availability; (h) ability to recognize any of the reported backlog; and (i) subsequent to quarter-end events which we consider to be an indicator that the company should evaluate for potential impairment of the long-lived and intangible assets associated with the company's 2009 acquisition of Networks In Motion.

Additional risks and uncertainties are described in the company's filings with the Securities and Exchange Commission (SEC). These include without limitation risks and uncertainties relating to the company's financial results and the ability of the company to (i) sustain profitability, (ii) accurately assess impairment triggering events related to our intangibles, including goodwill; (iii) continue to rely on its customers and other third parties to provide additional products and services that create a demand for its products and services, and to do so at prices that will allow us to continue to fund our operations, (iv) conduct its business in foreign countries, (v) adapt and integrate new technologies into its products and adequately expand its data centers and data delivery systems, (vi) expand its sales and business offerings in the wireless communications industry, (vii) develop software and provide services without any errors or defects and with adequate security threat protections, (viii) protect its intellectual property rights, (ix) have sufficient capital resources to fund its operations, (x) not incur substantial costs from product liability and IP infringement claims and indemnification demands relating to its software, (xi) implement its sales and marketing strategy, and (xii) successfully integrate the assets and personnel obtained in its acquisitions and investments. Existing and prospective investors are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The company undertakes no obligation to update or revise the information in this press release, whether as a result of new information, future events or circumstances, or otherwise.

TeleCommunication Systems, Inc.
Condensed Consolidated Balance Sheets

(amounts in $000)	March 31, 2012 (unaudited)	December 31, 2011
Assets		
Current assets:		
Cash, equivalents, and marketable securities	$ 51,293	$ 60,130
Accounts receivable, net	58,539	64,716
Unbilled receivables	31,006	31,247
Inventory	8,309	7,143
Deferred income tax assets	8,861	8,602
Deferred project costs and other current assets	15,294	16,158
Total current assets	173,302	187,996
Property and equipment, net	58,275	53,506
Software development costs, net	28,445	31,151
Acquired intangible assets, net	30,301	31,675
Goodwill	176,750	176,477
Other assets	7,683	8,834
Total assets	$ 474,756	$ 489,639
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 49,835	$ 61,867
Deferred revenue	17,796	14,358
Current portion of bank borrowings and capital leases	18,903	24,761
Total current liabilities	86,534	100,986
Notes payable and capital leases, less current portion	123,257	125,491
Deferred income taxes	7,234	7,017
Other liabilities	4,321	5,396
Total stockholders' equity	253,410	250,749
Total liabilities and stockholders' equity	$ 474,756	$ 489,639

TeleCommunication Systems, Inc.
Consolidated Statements of Operations

($000 except EPS)	Three Months Ended March 31, 2012	2011
	(unaudited)	
Revenue		
Services	$ 72,348	$ 74,802
Systems	27,687	15,564
Total revenue	100,035	90,366
Direct costs of revenue		
Direct cost of services revenue	44,241	41,707
Direct cost of systems	21,404	12,065
Total direct cost of revenue	65,645	53,772
Services gross profit	28,107	33,095
As a % of revenue	39%	44%
Systems gross profit	6,283	3,499
As a % of revenue	23%	22%
Total gross profit	34,390	36,594
Total gross profit as a % of revenue	34%	40%
Operating expenses		
Research and development expense	8,662	8,543
Sales and marketing expense	7,505	7,350
General and administrative expense	12,367	10,566
Depreciation and amortization of property and equipment	3,439	3,099
Amortization of acquired intangible assets	1,374	1,325
Total operating expenses	33,347	30,883
Income from operations	1,043	5,711
Interest expense	(1,642)	(1,920)
Amortization of debt issuance expenses	(188)	(187)
Other income, net	104	35
Income/(loss) before income taxes	(683)	3,639
Benefit/(provision) for income taxes	314	(1,580)
Net income/(loss)	$ (369)	$ 2,059
Net income/(loss) per share-basic	$ (0.01)	$ 0.04
Net income/(loss) per share-diluted	$ (0.01)	$ 0.04
Weighted average shares used in calculation - basic	57,572	55,530
Weighted average shares used in calculation - diluted (1)	57,572	57,837

(1)Shares issuable via the convertible debt are included if dilutive, in which case tax-effected interest expense on the debt is excluded from the determination of Net income/(loss) per Share.

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