Docket Number: TC15-062
Subject Matter: First Data Request
Request to: NextGen Communications, Inc.
Request from: South Dakota Public Utilities Commission Staff`
Date of Request: September 23, 2015
Responses Due: September 30, 2015

Attachment 1.7

Exhibit 21.1

Subsidiaries of the Registrant

Networks In Motion, Inc., a Delaware corporation
Solvern Innovations, Inc., a Maryland corporation
NextGen Communications, Inc., a Maryland corporation
NextGen Communications, Inc., a Virginia corporation
microDATA LLC, a Maryland corporation
microDATA GIS, Inc., a Vermont corporation
Maple Acquisition LLC, a Maryland corporation
Olive Acquisition LLC, a Maryland corporation
Telmap B.V., a private company with limited liability registered in the Netherlands
Telmap Marketing B.V, a private company with limited liability registered in the Netherlands
Telmap Ltd., a limited company registered in Israel
Telmap Services, S.R.L., a limited liability company registered in Romania

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

(1) Registration Statements (Form S-3 Nos. 333-165005, 333-161544, 333-133018) of TeleCommunication Systems, Inc. and,

(2) Registration Statement (Form S-8 No. 333-189218) pertaining to the Third Amended and Restated Employee Stock Purchase Plan of TeleCommunication Systems, Inc., and,

(3) Registration Statement (Form S-8 No. 333-170412) pertaining to the Amended and Restated Stock Incentive Plan and the Second Amended and Restated Stock Incentive Plan of TeleCommunication Systems, Inc., and,

(4) Registration Statement (Form S-8 No. 333-144742) pertaining to the Fifth Amended and Restated 1997 Stock Incentive Plan of TeleCommunication Systems, Inc., and,

(5) Registration Statement (Form S-8 No. 333-136072) pertaining to the First Amended and Restated Employee Stock Purchase Plan of TeleCommunication Systems, Inc., and,

(6) Registration Statement (Form S-8 No. 333-118610) pertaining to the Fourth Amended and Restated 1997 Stock Incentive Plan of TeleCommunication Systems, Inc., and,

(7) Registration Statement (Form S-8 No. 333-107466) pertaining to the Third Amended and Restated 1997 Stock Incentive Plan of TeleCommunication Systems, Inc., and,

(8) Registration Statement (Form S-8 No. 333-66676) pertaining to the Amended and Restated 1997 Stock Incentive Plan of TeleCommunication Systems, Inc., and,

(9) Registration Statement (Form S-8 No. 333-48026) pertaining to the Amended and Restated 1997 Stock Incentive Plan and Employee Stock Purchase Plan of TeleCommunication Systems, Inc.;

of our reports dated March 13, 2015, 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, 2014.

/s/ Ernst & Young LLP

Baltimore, Maryland
March 13, 2015

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.

Date: March 13, 2015

/s/ Maurice B. Tosé

Maurice B. Tosé
Chairman, CEO and President

Exhibit 31.2

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.

Date: March 13, 2015

/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, 2014 (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 13, 2015

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

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, 2014 (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 13, 2015

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.

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarter ended June 30, 2015

OR

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

Commission File No. 0-30821

TELECOMMUNICATION SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☑ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☑ Non-accelerated filer ☐ (Do not check if a smaller reporting company) Smaller reporting company ☐

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Title of Each Class	Shares outstanding as of July 28, 2015
Class A Common Stock, par value $0.01 per share	56,321,657
Class B Common Stock, par value $0.01 per share	4,801,245
Total Common Stock Outstanding	61,122,902

INDEX

TELECOMMUNICATION SYSTEMS, INC.

TeleCommunication Systems, Inc.

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

	June 30, 2015 (unaudited)	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	$ 34,126	$ 26,922
Marketable securities	19,583	23,226
Accounts receivable, net of allowance of $631 in 2015 and $605 in 2014	62,877	74,051
Unbilled receivables	31,988	22,324
Inventory	9,217	6,253
Deferred project costs and other current assets	22,490	17,977
Total current assets	180,281	170,753
Property and equipment, net of accumulated depreciation and amortization of $89,192 in 2015 and $83,645 in 2014	32,576	33,418
Software development costs, net of accumulated amortization of $3,857 in 2015 and $3,072 in 2014	4,730	4,608
Acquired intangible assets, net of accumulated amortization of $15,813 in 2015 and $13,970 in 2014	15,363	17,206
Goodwill	104,241	104,241
Other assets	3,905	3,855
Total assets	$ 341,096	$ 334,081
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 37,352	$ 41,599
Accrued payroll and related liabilities	11,569	13,599
Deferred revenue	23,751	22,000
Current portion of bank borrowings, notes payable, and capital lease obligations	8,573	19,291
Total current liabilities	81,245	96,489
Notes payable and capital lease obligations, less current portion	136,156	119,850
Deferred tax liabilities	3,814	3,556
Other liabilities	3,841	1,340
Stockholders' equity:		
Class A Common Stock; $0.01 par value:		
Authorized shares - 225,000,000; issued and outstanding shares of 56,256,169 in 2015 and 55,144,066 in 2014	563	552
Class B Common Stock; $0.01 par value:		
Authorized shares - 75,000,000; issued and outstanding shares of 4,801,245 in 2015 and 4,801,245 in 2014	48	48
Additional paid-in capital	348,511	346,277
Accumulated other comprehensive loss	(177)	(114)
Accumulated deficit	(232,905)	(233,917)
Total stockholders' equity	116,040	112,846
Total liabilities and stockholders' equity	$ 341,096	$ 334,081

See accompanying Notes to Consolidated Financial Statements.

TeleCommunication Systems, Inc.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Revenue				
Services	$ 61,288	$ 67,052	$ 124,137	$ 129,321
Systems	26,639	19,169	45,657	41,990
Total revenue	87,927	86,221	169,794	171,311
Direct costs of revenue				
Direct cost of services revenue	34,680	37,184	69,402	70,599
Direct cost of systems revenue	19,424	10,802	32,804	27,678
Total direct cost of revenue	54,104	47,986	102,206	98,277
Services gross profit	26,608	29,868	54,735	58,722
Systems gross profit	7,215	8,367	12,853	14,312
Total gross profit	33,823	38,235	67,588	73,034
Operating expenses				
Research and development expense	8,923	11,285	17,370	21,648
Sales and marketing expense	6,082	6,317	12,466	13,248
General and administrative expense	11,787	13,177	24,406	24,824
Depreciation and amortization of property and equipment	3,027	3,366	6,064	6,769
Amortization of acquired intangible assets	916	949	1,843	1,898
Total operating expenses	30,735	35,094	62,149	68,387
Income from operations	3,088	3,141	5,439	4,647
Interest expense	(2,062)	(2,026)	(4,041)	(4,230)
Amortization of deferred financing fees	(156)	(212)	(319)	(380)
Other income, net	248	—	700	137
Net income before income taxes	1,118	903	1,779	174
Income tax (provision) benefit	(401)	155	(767)	407
Net income	$ 717	$ 1,058	$ 1,012	$ 581
Net income per share-basic	$ 0.01	$ 0.02	$ 0.02	$ 0.01
Net income per share-diluted	$ 0.01	$ 0.02	$ 0.02	$ 0.01
Weighted average shares outstanding-basic	60,948	59,396	60,608	59,238
Weighted average shares outstanding-diluted	62,678	60,575	62,316	59,742

See accompanying Notes to Consolidated Financial Statements.

TeleCommunication Systems, Inc.

Consolidated Statements of Comprehensive Income
(amounts in thousands)
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net income	$ 717	$ 1,058	$ 1,012	$ 581
Other comprehensive income:				
Foreign currency translation adjustments	6	54	13	50
Unrealized gain (loss) on interest rate hedge	92	—	(105)	—
Unrealized gain (loss) on securities:				
Arising during the period	(58)	—	34	(1)
Reclassification to net income	(1)	(5)	(5)	(7)
Net unrealized gain (loss)	(59)	(5)	29	(8)
Other comprehensive income:	39	49	(63)	42
Comprehensive income	$ 756	$ 1,107	$ 949	$ 623

See accompanying Notes to Consolidated Financial Statements.

TeleCommunication Systems, Inc.

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

	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Operating activities:		
Net income	$ 1,012	$ 581
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	6,064	6,769
Stock-based compensation expense	2,528	3,200
Amortization of acquired intangible assets	1,843	1,898
Amortization of capitalized software development costs	785	597
Deferred tax expense	258	—
Amortization of deferred financing fees	319	380
Amortization of investment premiums and accretion of discounts, net	156	177
Other non-cash adjustments	(989)	12
Changes in operating assets and liabilities:		
Accounts receivable, net	11,174	1,140
Unbilled receivables	(9,664)	(2,138)
Inventory	(2,964)	(1,207)
Deferred project costs and other current assets	(4,513)	(1,368)
Other assets	205	(289)
Accounts payable and accrued expenses	(4,247)	(2,214)
Accrued payroll and related liabilities	(2,030)	(1,868)
Deferred revenue	1,751	(799)
Other liabilities	2,396	(1,687)
Subtotal - Changes in operating assets and liabilities	(7,892)	(10,430)
Net cash provided by operating activities	4,084	3,184
Investing activities:		
Cash received for business wind-down arrangement	—	15,016
Proceeds from sale of property and equipment	1,550	—
Purchases of property and equipment	(4,606)	(2,518)
Capitalized software development costs	(896)	(988)
Purchases of marketable securities	(3,338)	(22,260)
Proceeds from sale and maturity of marketable securities	6,854	4,288
Net cash used in investing activities	(436)	(6,462)
Financing activities:		
Payments on bank borrowings, notes payable, and capital lease obligations	(21,099)	(12,278)
Proceeds from bank and other borrowings	24,938	—
Payments of tax withholdings on restricted stock	(1,054)	(833)
Earn-out payment related to 2012 acquisition	—	(268)
Proceeds from exercise of employee stock options and sale of stock	771	456
Net cash provided by (used) in financing activities	3,556	(12,923)
Net increase (decrease) in cash	7,204	(16,201)
Cash and cash equivalents at the beginning of the period	26,922	41,904
Cash and cash equivalents at the end of the period	$ 34,126	$ 25,703

See accompanying Notes to Consolidated Financial Statements.

1. ***Basis of Presentation and Summary of Significant Accounting Policies***

Basis of Presentation. The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six months ended June 30, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015. There were no significant changes to our accounting policies as described in Note 1 of our consolidated financial statements included in Item 15(a)(1) of our 2014 Annual Report on Form 10-K. These unaudited consolidated financial statements should be read in conjunction with our audited financial statements and related notes included in our 2014 Annual Report on Form 10-K. The terms “TCS,” “Company,” “we,” “us,” and “our” as used in this Form 10-Q refer to TeleCommunication Systems, Inc. and its subsidiaries as a combined entity, except where it is made clear that such terms mean only TeleCommunication Systems, Inc.

Use of Estimates. The preparation of these 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. Significant estimates and assumptions in these consolidated financial statements include estimates used in revenue recognition, fair value of business combinations, fair value associated with goodwill, intangible assets and long-lived asset impairment tests, estimated values of software development costs, income taxes and deferred valuation allowances, the fair value of marketable securities and stock-based compensation, and legal and contingency fees. Actual results could differ from those estimates.

Reclassifications. Certain amounts previously presented for prior periods have been reclassified to conform to the current presentation. These immaterial reclassifications had no effect on net income, working capital, or equity previously reported.

Recent Accounting Pronouncements. In April 2015, the Financial Accounting Standards Board ("FASB") issued new guidance to simplify the presentation of debt issuance costs by requiring debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying value of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the update. The guidance is effective for annual periods beginning after December 15, 2015, including interim periods within those periods. Early adoption is permitted. The amended guidance is not expected to have a material impact on our consolidated financial statements.

In August 2014, the FASB issued new guidance for presentation of financial statements for going-concern, which addresses when and how to disclose going-concern uncertainties in the financial statements. The new standard requires management to perform interim and annual assessments of an entity’s ability to continue as a going concern within one year after the date the financial statements are issued. An entity must provide certain disclosures if conditions or events raise substantial doubt about the entity’s ability to continue as a going concern. The new guidance applies to all entities and is effective for annual periods ending after December 15, 2016, and interim periods thereafter, with early adoption permitted. The amended guidance is not expected to have a material impact on our consolidated financial statements.

In May 2014, the FASB issued new guidance for revenue recognition. The new guidance provides a five-step revenue recognition model which replaces the prior revenue recognition guidance in its entirety. The core principle of the new standard is that an entity will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects what it expects in exchange for the goods or services. The standard also requires more detailed disclosures to enable users of the financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The guidance provides alternative methods of initial adoption; retrospectively applied to each prior reporting period or a modified retrospective approach, in which the cumulative effect of initially applying this new guidance is recognized at the date of initial application with additional disclosures. In July 2015, the FASB deferred the effective date to January 1, 2018 and is allowing early adoption beginning January 1, 2017. We are currently evaluating the alternative transition methods and the impact that this standard will have on our consolidated financial statements.

2. ***Earnings per share***

Basic net income per common share is based upon the average number of shares of common stock outstanding during the period.

For the three and six months ended June 30, 2015 and 2014, respectively, 4,832 shares issuable upon conversion of our 7.75% Convertible Notes were excluded from the computation of diluted net income per share because their inclusion would have been anti-dilutive.

For the three and six months ended June 30, 2014, shares issuable upon conversion of our 4.5% Convertible Senior Notes were excluded from the computation of diluted net loss per share because their inclusion would have been anti-dilutive.

Concurrent with the issuance of the 4.5% Convertible Notes, we entered into convertible note hedge and warrant transactions. Because the Company would have exercised a call option if the market price of our stock exceeded the warrant exercise price of $12.74 per share, the effect of the convertible note hedge, which expired pro rata as the 2014 Notes were repurchased, was excluded from the calculation of diluted earnings per share for the three and six months ended June 30, 2014, as the impact was always considered anti-dilutive. The warrants expired in the second quarter of 2015.

The following table summarizes the computations of basic and diluted earnings per share:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Numerator:				
Net income, basic and diluted	$ 717	$ 1,058	$ 1,012	$ 581
Denominator:				
Total basic weighted-average common shares outstanding	60,948	59,396	60,608	59,238
Effect of dilutive stock options and restricted stock based on treasury stock method	1,730	1,179	1,708	504
Weighted average diluted shares	62,678	60,575	62,316	59,742
Basic earnings per common share:				
Net income per share-basic	$ 0.01	$ 0.02	$ 0.02	$ 0.01
Diluted earnings per common share:				
Net income per share-diluted	$ 0.01	$ 0.02	$ 0.02	$ 0.01

Our two classes of common stock (Class A and B) share equally in dividends declared or accumulated and have equal participation rights in undistributed earnings. In addition, our unvested restricted stock does not contain non-forfeitable rights to dividends and dividend equivalents. As such, unvested shares of restricted stock are not participating securities and our basic and diluted earnings per share are not impacted by the two-class method of computing earnings per share.

3. ***Stock-Based Compensation***

Restricted Stock

We had 1,674 and 2,190 restricted stock units outstanding at a weighted-average grant date fair value per share of $2.75 and $2.42 as of June 30, 2015 and 2014, respectively. Total unrecognized share-based compensation expense is approximately $3,600 and $4,000 as of June 30, 2015 and 2014, respectively, which is expected to be recognized over a weighted-average period of approximately two years.

Stock Options

We had 16,085 and 16,172 stock options outstanding as of June 30, 2015 and 2014, respectively, of which 7,534 were “in-the-money” at June 30, 2015. During the first six months of 2015, we granted 2,561 options and 1,109 shares were exercised. Total unrecognized share-based compensation expense was approximately $5,700 and $4,700 as of June 30, 2015 and 2014, respectively, which is expected to be recognized over a weighted-average period of approximately four and three years, respectively.

Total Stock-Based Compensation

We recognized total share-based compensation expense of $1,210 and $1,379 in in the second quarters of 2015 and 2014, respectively, and $2,528 and $3,200 in the six months ended June 30, 2015 and 2014, respectively.

4. ***Supplemental Disclosure of Cash Flow Information***

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Property and equipment acquired under capital lease	$ 832	$ 647	$ 1,749	$ 991
Interest paid	$ 3,005	$ 3,817	$ 4,020	$ 4,685
Income taxes (refunded) paid	$ (169)	$ 320	$ 66	$ 288

5. ***Marketable Securities***

Available-for-sale marketable securities at June 30, 2015:

	Amortized Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Corporate bonds	$ 18,066	$ 6	$ (20)	$ 18,052
Mortgage-backed and asset-backed securities	733	—	(2)	731
Agency bonds	803	—	(3)	800
Total marketable securities	$ 19,602	$ 6	$ (25)	$ 19,583

The following table summarizes the estimated fair value of available-for-sale marketable securities by contractual maturity at June 30, 2015:

	Fair Value
Due within 1 year or less	$ 10,153
Due after 1 through 5 years	8,699
Mortgage-backed securities not due in a single maturity date	731
	$ 19,583

Available-for-sale marketable securities at December 31, 2014:

	Amortized Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Corporate bonds	$ 21,748	$ 6	$ (50)	$ 21,704
Mortgage-backed and asset-backed securities	1,226	—	(3)	1,223
Agency bonds	300	—	(1)	299
Total marketable securities	$ 23,274	$ 6	$ (54)	$ 23,226

The following table summarizes the estimated fair value of available-for-sale marketable securities by contractual maturity at December 31, 2014:

	Fair Value
Due within 1 year or less	$ 7,483
Due after 1 through 5 years	14,520
Mortgage-backed securities not due in a single maturity date	1,223
	$ 23,226

6. *Fair Value Measurements*

Our assets and liabilities subject to fair value measurements on a recurring basis and the required disclosures:

As of June 30, 2015	Fair Value Total	Fair Value Measurements Using Fair Value Hierarchy Level 1	Level 2	Level 3
Assets:				
Cash and cash equivalents	$ 34,126	$ 34,126	$ —	$ —
Corporate bonds	18,052	18,052	—	—
Mortgage-backed and asset-backed securities	731	731	—	—
Agency bonds	800	800	—	—
Marketable securities	19,583	19,583	—	—
Deferred compensation plan investments	1,049	1,049	—	—
Assets at fair value	$ 54,758	$ 54,758	$ —	$ —
Liabilities:				
Interest rate swap	$ 345	$ —	$ 345	$ —
Deferred compensation	988	988	—	—
Liabilities at fair value	$ 1,333	$ 988	$ 345	$ —

As of December 31, 2014	Fair Value Total	Fair Value Measurements Using Fair Value Hierarchy Level 1	Level 2	Level 3
Assets:				
Cash and cash equivalents	$ 26,922	$ 26,922	$ —	$ —
Corporate bonds	21,704	21,704	—	—
Mortgage-backed and asset-backed securities	1,223	1,223	—	—
Agency bonds	299	299	—	—
Marketable securities	23,226	23,226	—	—
Deferred compensation plan investments	1,282	1,282	—	—
Assets at fair value	$ 51,430	$ 51,430	$ —	$ —
Liabilities:				
Interest rate swap	$ 240	$ —	$ 240	$ —
Deferred compensation	873	873	—	—
Liabilities at fair value	$ 1,113	$ 873	$ 240	$ —

The carrying values of financial instruments, including accounts receivable, unbilled receivables, and accounts payable approximate their fair values due to their short-term maturities.

We hold marketable securities that are investment grade and are classified as available-for-sale. The securities include corporate bonds, agency bonds, and mortgage and asset-backed securities that are carried at fair market value based on quoted market prices.

We hold trading securities as part of a rabbi trust to fund supplemental executive retirement plans and deferred income plans. The funds held are all managed by a third party and include fixed income funds, equity securities, and money market accounts, or other investments for which there is an active quoted market. The related deferred compensation liabilities are valued based on the underlying investment selections in each participant’s account.

The interest rate swap was valued based on forward curves observable in the market, using Level 2 inputs; see Note 12. The effectiveness of the interest rate swap is computed by comparing the present value of the cumulative change in the expected future cash flows of the variable leg of the swap and the present value of the cumulative change in the expected future variable interest payments designated in the hedging relationship.

Assets and liabilities that are measured at fair value on a non-recurring basis include long-lived assets, intangible assets, and goodwill. These items are recognized at fair value when they are considered to be other than temporarily impaired using significant unobservable inputs and are classified as Level 3.

The long-term debt, excluding leases, is reported at the borrowed amounts outstanding. The estimated fair value is based on a market approach using quoted market prices or current market rates for similar debt with approximately the same remaining maturities, where possible, and are classified as Level 2. Our long-term debt, excluding leases, consisted of borrowings under our Senior Credit Facilities and 7.75% convertible senior notes; see Note 12. At June 30, 2015, the estimated fair value of our long-term debt, excluding leases, was approximately $135,000 versus a carrying value of $135,717. At December 31, 2014, the estimated fair value of the long-term debt, excluding leases, was approximately $123,000 versus a carrying value of $124,567.

There were no transfers in or out of Level 1, 2, or 3 during the three and six months ended June 30, 2015.

7. *Segment Information*

We report operating results in two business segments:

Commercial Segment: We are one of two leading companies that enable 9-1-1 call delivery via cellular, VoIP, and next generation technology. Other TCS hosted and managed services include cellular network and device platforms and applications for text messaging and location-based services. We are also engaged in patent monetization activity which is included in this segment. Commercial Segment customers include wireless network operators, VoIP service providers, wireless device manufacturers, automotive industry suppliers, and state and local governments.

Government Segment: For U.S. Department of Defense agencies, we provide cybersecurity training and consulting, support, and “C4ISR” (command, control, communications, computers, intelligence surveillance and reconnaissance) resources, wireless ground terminals and related support, management and resale of satellite bandwidth, and information technology outsource services. TCS engineers furnish and support ground terminals used for secure satellite-based and other line-of-sight and beyond-line-of-sight communications, as well as related components incorporating government-approved cryptologic devices and other hardened components for aerospace and defense.

Management evaluates segment performance based on gross profit, and all revenues reported below are from external customers. We do not maintain information regarding segment assets. Accordingly, asset information by reportable segment is not presented.

The following tables set forth the results of our reportable segments and a reconciliation of segment gross profit to net income:

	Three Months Ended June 30,					
	2015			2014		
	Comm.	Gvmt	Total	Comm.	Gvmt	Total
Revenue						
Services	$ 37,598	$ 23,690	$ 61,288	$ 37,949	$ 29,103	$ 67,052
Systems	6,715	19,924	26,639	9,284	9,885	19,169
Total revenue	44,313	43,614	87,927	47,233	38,988	86,221
Direct costs of revenue						
Direct cost of services	15,437	19,243	34,680	14,744	22,440	37,184
Direct cost of systems	3,953	15,471	19,424	3,609	7,193	10,802
Total direct cost of revenue	19,390	34,714	54,104	18,353	29,633	47,986
Gross profit						
Services gross profit	22,161	4,447	26,608	23,205	6,663	29,868
Systems gross profit	2,762	4,453	7,215	5,675	2,692	8,367
Total gross profit	$ 24,923	$ 8,900	$ 33,823	$ 28,880	$ 9,355	$ 38,235

	Six Months Ended June 30,					
	2015			2014		
	Comm.	Gvmt	Total	Comm.	Gvmt	Total
Revenue						
Services	$ 75,906	$ 48,231	$ 124,137	$ 72,590	$ 56,731	$ 129,321
Systems	13,613	32,044	45,657	14,672	27,318	41,990
Total revenue	89,519	80,275	169,794	87,262	84,049	171,311
Direct costs of revenue						
Direct cost of services	30,549	38,853	69,402	28,488	42,111	70,599
Direct cost of systems	8,443	24,361	32,804	6,264	21,414	27,678
Total direct cost of revenue	38,992	63,214	102,206	34,752	63,525	98,277
Gross profit						
Services gross profit	45,357	9,378	54,735	44,102	14,620	58,722
Systems gross profit	5,170	7,683	12,853	8,408	5,904	14,312
Total gross profit	$ 50,527	$ 17,061	$ 67,588	$ 52,510	$ 20,524	$ 73,034

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Total segment gross profit	$ 33,823	$ 38,235	$ 67,588	$ 73,034
Research and development expense	(8,923)	(11,285)	(17,370)	(21,648)
Sales and marketing expense	(6,082)	(6,317)	(12,466)	(13,248)
General and administrative expense	(11,787)	(13,177)	(24,406)	(24,824)
Depreciation and amortization of property and equipment	(3,027)	(3,366)	(6,064)	(6,769)
Amortization of acquired intangible assets	(916)	(949)	(1,843)	(1,898)
Interest expense	(2,062)	(2,026)	(4,041)	(4,230)
Amortization of deferred finance fees	(156)	(212)	(319)	(380)
Other income, net	248	—	700	137
Net income before income taxes	1,118	903	1,779	174
Income tax (expense) benefit	(401)	155	(767)	407
Net income	$ 717	$ 1,058	$ 1,012	$ 581

8. ***Inventory***

Inventory consisted of:

	June 30, 2015	December 31, 2014
Component parts	$ 7,963	$ 4,848
Finished goods and work in progress	1,254	1,405
Total inventory	$ 9,217	$ 6,253

9. ***Acquired Intangible Assets, Capitalized Software Development Costs, and Goodwill***

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

	June 30, 2015			December 31, 2014		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Acquired intangible assets and capitalized software development costs:						
Acquired intangible assets, including customer lists	$ 31,176	$ 15,813	$ 15,363	$ 31,176	$ 13,970	$ 17,206
Capitalized software development costs	8,587	3,857	4,730	7,680	3,072	4,608
Total acquired intangible assets and capitalized software development costs	$ 39,763	$ 19,670	$ 20,093	$ 38,856	$ 17,042	$ 21,814

Estimated future amortization expense:

Six months ending December 31, 2015	$ 2,730
Year ending December 31, 2016	5,276
Year ending December 31, 2017	4,482
Year ending December 31, 2018	3,200
Year ending December 31, 2019	2,280
Thereafter	2,125
Total estimated future amortization expense	$ 20,093

Software development costs:

For the three and six months ended June 30, 2015, we capitalized $500 and $906, respectively, of software development costs after the point of technological feasibility had been reached but before the software was available for general release. For the three and six months ended June 30, 2014, we capitalized $492 and $1,001, respectively, of software development costs. These costs are being amortized over their estimated useful lives beginning when the products are available for general release. We routinely update our estimates of the recoverability of the capitalized software product costs. Management uses these estimates as the basis for evaluating the carrying values and remaining useful lives of the respective assets.

Goodwill:

The carrying amount of goodwill is:

	Commercial Segment	Government Segment	Total
Balance as of June 30, 2015 and December 31, 2014	$ 49,945	$ 54,296	$ 104,241

10. ***Concentrations of Credit Risk and Major Customers***

The financial instruments that potentially subject us to concentrations of credit risk are accounts receivable and unbilled receivables. Those customers that comprised 10% or more of our total revenue or receivables (billed and unbilled) are summarized in the following tables:

Percentage of total revenue:		% of Total Revenue For the Three Months Ended June 30,		% of Total Revenue For the Six Months Ended June 30,	
Customer	**Segment**	**2015**	**2014**	**2015**	**2014**
U.S. Government agencies and departments	Government	17%	15%	15%	18%
Customer A	Commercial	16%	16%	17%	15%
Customer B	Commercial	<10%	11%	<10%	10%

Percentage of receivables (billed and unbilled) as of June 30:

Customer	Segment	2015	2014
U.S. Government agencies and departments	Government	12%	14%
Customer A	Commercial	15%	10%
Customer B	Commercial	<10%	19%

11. ***Line of Credit***

We have maintained a line of credit arrangement with Silicon Valley Bank ("SVB") since 2003. On June 25, 2013, we closed on a new senior secured credit facility, as amended on April 30, 2015 (the "Senior Credit Facility" or "Credit Agreement"), with the SVB and three other lenders. The Credit Agreement includes a revolving loan facility ("Revolving Loan Facility") for up to $30,000 and matures on March 31, 2018. The principal amount outstanding under the Revolving Loan Facility is payable prior to or on the maturity date. Interest on the Revolving Loan Facility accrues at Eurodollar/LIBOR (beginning at LIBOR+3.75%) or Alternate Base Rate ("ABR") (beginning at ABR +2.75%), which may be adjusted as provided in the Credit Agreement, and is payable monthly.

The Revolving Loan Facility includes two sub-facilities: (i) a $10,000 letter of credit sub-facility under which the bank may issue letters of credit, and (ii) a $5,000 swingline sub-facility.

As of June 30, 2015, there were no borrowings under our Revolving Loan Facility and we had $30,000 of unused borrowing availability. As of December 31, 2014, we had $5,000 of borrowings outstanding under the Revolving Loan Facility and had $25,000 of unused borrowing availability.

12. ***Long-Term Debt***

Long-term debt consisted of:

	June 30, 2015	December 31, 2014
Senior credit facility	$ 85,717	$ 74,567
7.75% Convertible notes due 2018	50,000	50,000
Total long-term debt	135,717	124,567
Less: current portion	(4,572)	(10,049)
Non-current portion of long-term debt	$ 131,145	$ 114,518

Aggregate maturities of long-term debt at June 30, 2015 are:

2015	$ 2,286
2016	5,143
2017	7,429
2018	120,859
Total long-term debt	$ 135,717

Senior credit facilities

Our senior credit facilities under a June 25, 2013 agreement, as amended on April 30, 2015 (the "Senior Credit Facilities" or "Credit Agreement") include (i) a $56,500 term loan A facility ("Term Loan A Facility"), and (ii) a $43,500 delayed draw term loan facility ("Delayed Draw Term Loan Facility"). The Senior Credit Facilities also include a $25,000 incremental loan arrangement subject to the Company's future needs and bank approval, although no assurances can be given that this incremental loan amount will be available to us when and if needed. In 2013 and 2014, we borrowed $10,000 and $14,562, respectively, under our Delayed Draw Term Loan Facility and the proceeds were used towards the retirement of our 4.5% convertible notes. The remaining $18,938 of the Delayed Draw Term Loan Facility was fully drawn on April 30, 2015 and the proceeds were used for general corporate purposes. The Credit Agreement provides that the banks hold at least $35,000 of the Company's cash and marketable securities until December 31, 2015.

*Interest rate hedging activiti*es

In August 2014, we entered into an interest rate swap agreement with our principal bank. Its $32,094 initial notional amount represents about half of the outstanding balances of the floating rate Term Loan A Facility and the Delayed Term Loan Facility to reduce the variability of interest expense due to changes in interest rates. The interest rate swap results in us paying a fixed rate of 5.17% on the notional amount of the swap until its June 25, 2018 maturity. The notional amount of the swap will change over time to reflect approximately 50% of the outstanding expected Term Loan A Facility and Delayed Draw Term Loan Facility balances. Interest rate reset and interest rate payment dates mirror those of the underlying Term Loan A Facility and Delayed Draw Term Loan Facility. The swap is expected to exactly offset changes in expected cash flows due to fluctuations in the one month LIBOR rate over the term of the hedge. The interest rate swap fair value as of June 30, 2015 and December 31, 2014 was a $345 and $240 liability, respectively. For the three and six months ended June 30, 2015 and the three months ended December 31, 2014, the hedge was highly effective and no gains or losses were recognized in earnings.

13. *Capital Leases*

We lease certain equipment under capital leases which are collateralized by the leased assets. Amortization of leased assets is included in depreciation and amortization expense.

Future minimum payments under capital lease obligations consisted of the following at June 30, 2015:

2015	$	2,389
2016		3,570
2017		2,457
2018		1,040
2019		190
Total minimum lease payments		9,646
Less: amounts representing interest		(634)
Present value of net minimum lease payments (including current portion of $4,001)	$	9,012

14. *Income Taxes*

We reported income tax expense of $401 and $767 for the three and six months ended June 30, 2015, respectively, compared to $155 and $407 of income tax benefits for the three and six months ended June 30, 2014, respectively. As of June 30, 2015, we continued to provide a valuation allowance for all federal and some state deferred tax assets. The Company continually evaluates facts representing both positive and negative evidence in the determination of its ability to realize the deferred tax assets reported in the notes included in our 2014 Annual Report on Form 10-K.

We do not anticipate a significant change to the total amount of unrecognized tax benefits within the next twelve months.

15. *Commitments and Contingencies*

Some customers seek indemnification under their contractual arrangements with the Company for claims and other costs associated with defending lawsuits alleging infringement of patents through their use of our products and services, and the use of our products and services in combination with products and services of other vendors. In some cases we have agreed to assume the defense of the case. In others, the Company will negotiate with these customers in good faith because the Company believes its technology does not infringe the cited patents and due to specific clauses within the customer contractual arrangements that may or may not give rise to an indemnification obligation. The Company cannot predict the outcome of such matters and the resolutions could have a material effect on our consolidated results of operations, financial position, or cash flows. Due to the inherent difficulty of predicting the outcome of litigation and other legal proceedings and uncertainties regarding the Company's existing litigation and other legal proceedings, the Company is unable to estimate the amount or range of reasonably possible loss in excess of amounts accrued. The Company's assessments are based on estimates and assumptions that have been deemed reasonable by management, but that may prove to be incomplete or inaccurate, and unanticipated events and circumstances may occur that might cause the Company to change those estimates and assumptions. Therefore, it is possible that an unfavorable resolution of one or more pending litigation or other contingencies could have a material adverse effect on the Company's consolidated financial statements in a future fiscal period.

The application and interpretation of applicable state and local sales and other tax laws to certain of our service and system offerings in certain jurisdictions is uncertain. In accordance with generally accepted accounting principles, the Company makes a provision for a liability for taxes when it is both probable that the liability has been incurred and the amount of the liability or range of liability can be reasonably estimated. These provisions are reviewed at least quarterly and adjusted if necessary. At June 30, 2015, the Company is subject to an ongoing state and local tax audit by the Washington State Department of Revenue. As this and other tax audits progress in the normal course of business, the Company will review and adjust a provision for loss as appropriate.

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

Item 2. ***Management's Discussion and Analysis of Financial Condition and Results of Operations***

The following discussion and analysis of the financial condition and results of operations should be read in conjunction with the consolidated financial statements, related notes, and other detailed information included elsewhere in this Quarterly Report on Form 10-Q for the quarter ended June 30, 2015 (this "Form 10-Q"). This Form 10-Q contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are statements other than historical information or statements of current condition. We generally identify forward-looking statements by the use of terms such as "believe," "intend," "expect," "may," "should," "plan," "project," "contemplate," "anticipate," or other similar statements. Examples of forward looking statements in this Quarterly Report on Form 10-Q include but are not limited to statements: (a) regarding our belief that our technology does not infringe the patents related to customer indemnification requests and that indemnification claims should not have a material effect on our results of operations; (b) regarding our expectations with regard to our Senior credit facility, notes, notes hedge transactions and interest rate hedging activity; (c) that we believe we have sufficient capital resources to fund our operations for the next twelve months; (d) relating to our backlog; (e) that we believe that capitalized software development costs will be recoverable from future gross profits; (f) regarding our expectations with regard to income tax assumptions and future stock-based compensation expenses; (g) regarding our assumptions related to goodwill; (h) that a significant underperformance relative to historical or projected future operating results, significant change in the manner of our use of acquired assets, and significant negative industry or economic trends could cause us to conclude that impairment indicators exist and that our acquired intangible assets might be impaired; (i) relating to our research and development spending; and (j) that we believe the unusual accounting and legal fees incurred in the first quarter of 2015 are nonrecurring and complete.

These forward-looking statements relate to our plans, objectives and expectations for future operations. We base these statements on our beliefs as well as assumptions made using information currently available to us. In light of the risks and uncertainties inherent in all such projected operational matters, the inclusion of forward-looking statements in this report should not be regarded as a representation by us or any other person that our objectives or plans will be achieved or that any of our operating expectations will be realized. Revenues, results of operations, and other matters are difficult to forecast and our actual financial results realized could differ materially from the statements made herein as a result of the risks and uncertainties described in our filings with the Securities and Exchange Commission. These include without limitation risks and uncertainties relating to our financial results and our ability to (i) continue to rely on our customers and other third parties to provide additional products and services that create a demand for our products and services, (ii) conduct our business in foreign countries, (iii) adapt and integrate new technologies into our products, (iv) develop software without any errors or defects, (v) protect our intellectual property rights, (vi) implement our business strategy, (vii) realize backlog, (viii) compete with small business competitors, (ix) effectively manage our counterparty risks, (x) achieve continued revenue growth in the foreseeable future in certain of our business lines, (xi) have sufficient capital resources to fund the Company's operations, and (xii) successfully integrate the assets and personnel obtained in our acquisitions. These factors should not be considered exhaustive; we undertake no obligation to release publicly the results of any future revisions we may make to forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. We caution you not to put undue reliance on these forward-looking statements.

The information in *Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations* discusses our unaudited consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles for interim financial information.

Critical Accounting Policies and Estimates

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

- Revenue recognition,

- Business combinations,

- Acquired intangible assets and goodwill,
- Software development costs,
- Income taxes, and
- Legal and other contingencies.

This discussion and analysis should be read in conjunction with our consolidated financial statements and related notes included in our 2014 Form 10-K.

Overview

TeleCommunication Systems, Inc. develops and delivers highly reliable and secure wireless communication technology. The Company enables 9-1-1 infrastructure, cybersecurity, deployable wireless terminals, space components, and applications for mobile location-based services and messaging. Principal customers are wireless network operators, defense and public safety government agencies, and Fortune 150 enterprises requiring high reliability and security. While we manage and have historically reported two business segments, Commercial and Government, digital wireless voice and data communication technology is converging, so engineers from both segments are collaborating to address solution needs for customers of both segments.

Commercial Segment: We are one of two leading companies that enable 9-1-1 call delivery via cellular, VoIP, and next generation technology. Other TCS hosted and managed services include cellular network and device platforms and applications for text messaging and location-based services. We are also engaged in patent monetization activity which is included in this segment. Commercial Segment customers include wireless network operators, VoIP service providers, wireless device manufacturers, automotive industry suppliers, and state and local governments.

Government Segment: For U.S. Department of Defense agencies and other customers, we provide cybersecurity training, support and services, and "C4ISR" (command, control, communications, computers, intelligence surveillance and reconnaissance) resources, wireless ground terminals and related support, management and resale of satellite bandwidth, and information technology outsource services. TCS engineers furnishes and supports ground terminals used for secure satellite-based and other line-of-sight and beyond-line-of-sight communications, as well as related components incorporating government-approved cryptologic devices and other hardened components for aerospace and defense.

This *Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations* provides information that our management believes to be necessary to achieve a clear understanding of our financial statements and results of operations. It should be read together with *Item 1A Risk Factors and Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations* in our 2014 Form 10-K as well as the unaudited interim consolidated financial statements and the notes thereto located elsewhere in this Form 10-Q.

Indicators of Our Financial and Operating Performance

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

- *Revenue.* We derive revenue from the sales of services and systems, including recurring monthly software-as-a-service and subscriber fees, maintenance fees, software licenses and related service fees for the design, development, and deployment of software for information processing, communication systems and components.

- *Gross profit (revenue minus direct cost of revenue, including certain non-cash expenses).* Our cost of revenue is comprised of compensation and benefits, third-party hardware and software, network operation center and co-location facility operating expenses, amortization of capitalized software development costs, stock-based compensation, and overhead expenses. The costs of hardware and third-party software are primarily associated with the delivery of systems, and fluctuate from period to period as a result of the relative volume, mix of projects, level of service support required, and complexity of customized products and services delivered. Amortization of capitalized software development costs, including acquired technology, is associated with the recognition of revenue from our Commercial Segment.

- *Operating expenses.* Our operating expenses are primarily compensation and benefits, professional fees, commissions, facility costs, marketing and sales-related expenses, and travel costs as well as non-cash expenses such as stock-based compensation expense, depreciation and amortization of property and equipment, and amortization of acquired intangible assets.

- *Liquidity and cash flows.* Our cash flows are mainly driven by our results of operations. Other sources of our liquidity are our capacity to borrow through our bank credit and term loan facility and other markets; lease financing for the purchase of equipment; and access to the public equity market.

- *Balance sheet.* We view cash, working capital, and accounts receivable balances and days revenue outstanding as important indicators of our financial health.

Results of Operations

Revenue and Cost of Revenue by Segment

Commercial Segment

	Three Months Ended June 30,		2015 vs. 2014		Six Months Ended June 30,		2015 vs. 2014	
($ in millions)	2015	2014	$	%	2015	2014	$	%
Services revenue	$ 37.6	$ 38.0	$ (0.4)	(1%)	$ 75.9	$ 72.6	$ 3.3	5%
Systems revenue	6.7	9.3	(2.6)	(28%)	13.6	14.7	(1.1)	(7%)
Total Commercial Segment revenue	44.3	47.3	(3.0)	(6%)	89.5	87.3	2.2	3%
Direct cost of services	15.5	14.8	0.7	5%	30.6	28.5	2.1	7%
Direct cost of systems	3.9	3.6	0.3	8%	8.4	6.3	2.1	33%
Total Commercial Segment cost of revenue	19.4	18.4	1.0	5%	39.0	34.8	4.2	12%
Services gross profit	22.1	23.2	(1.1)	(5%)	45.3	44.1	1.2	3%
Systems gross profit	2.8	5.7	(2.9)	(51%)	5.2	8.4	(3.2)	(38%)
Total Commercial Segment gross profit[1]	$ 24.9	$ 28.9	$ (4.0)	(14%)	$ 50.5	$ 52.5	$ (2.0)	(4%)
Segment gross profit as a percentage of revenue	*56%*	*61%*			*56%*	*60%*		

1 *See discussion of segment reporting in Note 7 to the accompanying unaudited consolidated financial statements*

Commercial Services Revenue, Cost of Revenue, and Gross Profit:

Our commercial services revenue is generated from hosting and maintaining software and networks for 9-1-1 service for wireless and VoIP service providers and operators of next generation (internet protocol) 9-1-1 infrastructure (mainly state and local governments), as well as hosting and maintaining applications and infrastructure software for Location-Based Services ("LBS") and text messaging platform software. This revenue primarily consists of monthly recurring service fees recognized in the month earned. Hosted LBS and E9-1-1 fees are generally priced based on units served during the period, such as the number of customer cell sites, the number of connections to Public Safety Answering Points ("PSAPs"), or the number of customer subscribers or sessions using our technology. Subscriber service revenue is generated by hosted client software applications for wireless subscribers, generally on a per-subscriber per-month basis. We also earn services revenue through nonrecurring engineering ("NRE") custom software development contracts. Maintenance fees on our systems and software licenses are usually collected in advance and recognized ratably over the contractual maintenance period, and unrecognized maintenance fees are included in deferred revenue. Services also include custom software development, implementation, and related service projects under time and materials or fixed-fee contracts, which are reported using percentage-of-completion accounting.

Second quarter 2015 commercial services revenue was $37.6 million, about flat to second quarter 2014 revenue, reflecting 12% growth in 9-1-1 related services offset by a decrease in location-based hosted services revenue and a 20% decrease in messaging solutions services. First half 2015 commercial services revenue was $3.3 million, or 5% higher than the first half of 2014 primarily due to 10% higher 9-1-1 services revenue.

The direct cost of our commercial services revenue consists primarily of compensation and benefits, licensed location-based application content, network access, data feed and circuit costs for network operation centers and co-location facilities, and equipment and software maintenance.

Second quarter and first half of 2015 direct cost of commercial services revenue was $0.7 million (5%) and $2.1 million (7%) higher, respectively, than for the same periods in 2014, reflecting additional costs related to custom development efforts.

Commercial services gross profit for the three months ended June 30, 2015 was down $1.1 million (5%) from the three months ended June 30, 2014 due to the higher costs associated with the 2015 mix of business. Commercial services gross profit for the six months ended June 30, 2015 was up $1.2 million (3%) compared to the corresponding 2014 period on higher volume.

Commercial Systems Revenue, Cost of Revenue, and Gross Profit:

Commercial systems revenue results from sales to wireless carriers and state and local governments of systems incorporating our licensed software for enablement of 9-1-1 call routing and computer-aided call handling, and location-based wireless services infrastructure. It also includes revenue from the sale of patents and licensing of our intellectual property including payments for past patent infringement liabilities, upfront and non-refundable license fees, and royalty fees. In all cases, revenue from the licensing of our intellectual property is recognized when all four of the revenue recognition criteria are met. Some revenue from our larger NG9-1-1 deployments incorporating our software and third party components is recognized as long term contracts using percentage of completion accounting. License prices for our carrier software are generally a function of its volume of usage in our customers' networks during the relevant period.

Second quarter 2015 commercial systems revenue was $2.6 million, or 28% lower than the second quarter of 2014 mainly due to a one-time platform feature sale in the second quarter of 2014. First half 2015 commercial systems revenue was $1.1 million, or 7% lower than the first half of 2014, reflecting $1.2 million less revenue from intellectual property transactions.

The direct cost of commercial systems revenue consists primarily of compensation and benefits, third-party hardware and software purchased for integration and resale, travel expenses, and consulting fees as well as the amortization of acquired and capitalized software development costs. Second quarter and first half 2015 direct cost of systems revenue was $0.3 million (8%) and $2.1 million (33%) higher, respectively, reflecting higher labor and direct costs for custom development work, and software development cost amortization in 2015, which were about $0.1 million and $0.2 million higher, respectively, in the three and six months ended June 30, 2015 compared to the same periods in 2014.

Second quarter and first half 2015 commercial systems gross profit was $2.9 million (51%) and $3.2 million (38%) lower, respectively, from the same 2014 periods, reflecting the lower revenue and a lower margin mix.

Government Segment

	Three Months Ended June 30,		2015 vs. 2014		Six Months Ended June 30,		2015 vs. 2014	
($ in millions)	**2015**	**2014**	**$**	**%**	**2015**	**2014**	**$**	**%**
Services revenue	$ 23.6	$ 29.1	$ (5.5)	(19%)	$ 48.2	$ 56.7	$ (8.5)	(15%)
Systems revenue	20.0	9.8	10.2	104%	32.1	27.3	4.8	18%
Total Government Segment revenue	43.6	38.9	4.7	12%	80.3	84.0	(3.7)	(4%)
Direct cost of services	19.2	22.4	(3.2)	(14%)	38.8	42.1	(3.3)	(8%)
Direct cost of systems	15.5	7.2	8.3	115%	24.4	21.4	3.0	14%
Total Government Segment cost of revenue	34.7	29.6	5.1	17%	63.2	63.5	(0.3)	(0%)
Services gross profit	4.4	6.7	(2.3)	(34%)	9.4	14.6	(5.2)	(36%)
Systems gross profit	4.5	2.6	1.9	73%	7.7	5.9	1.8	31%
Total Government Segment gross profit[1]	$ 8.9	$ 9.3	$ (0.4)	(4%)	$ 17.1	$ 20.5	$ (3.4)	(17%)
Segment gross profit as a percentage of revenue	*20%*	*24%*			*21%*	*24%*		

1 *See discussion of segment reporting in Note 7 to the accompanying unaudited consolidated financial statements.*

The primary Government Segment customers are U.S. government agencies including the Departments of Defense and Homeland Security, domestic and foreign space programs, and the contractors that supply products and services to these government customers.

Government Services Revenue, Cost of Revenue, and Gross Profit:

Government services revenue is generated from cybersecurity training and consulting, professional communications engineering and field support, program management, help desk outsource, and network design, deployment and management for government agencies, and operation, including resale of satellite airtime of fixed satellite ground terminal facilities for data connectivity. Systems maintenance fees are usually collected in advance and recognized ratably over the contractual maintenance periods.

Second quarter 2015 government services revenue was $5.5 million, or 19%, lower than the 2014 second quarter due mainly to 40% lower professional services revenue resulting mainly from the 2014 draw-down of Afghanistan field support personnel, partially offset by a 2% increase in cybersecurity services revenue. For the 2015 first half, government services revenue was $8.5 million, or 15% lower than in the first half of 2014, reflecting 40% lower professional services revenue resulting from the draw-down of field support personnel, offset by 5% higher cybersecurity training revenue and $1.4 million higher global satellite and ground station support services revenue.

Direct cost of government services revenue consists of compensation, benefits, and travel expenses incurred in delivering these services, as well as satellite space segment purchased for resale. These costs were lower in the three and six months ended June 30, 2015 than the same periods in 2014, which is correlated with the lower revenue and lower average margins on field support work.

Our gross profit from government services was $2.3 million (34%) and $5.2 million (36%) lower, respectively, in the three and six month period ended June 30, 2015 versus the same periods in 2014 due mainly to lower volume and margins from wartime field support work.

Government Systems Revenue, Cost of Revenue, and Gross Profit:

We generate government systems revenue from the sale of secure wireless communication systems, and the integration of these systems into customer networks. Our government systems revenue also includes electronic components sold mainly to domestic and foreign space programs.

Second quarter 2015 government systems revenue was up $10.2 million, more than double compared to second quarter 2014 due to higher deployable communication system sales and about 30% higher revenue from electronic components sales. For 2015 first half, government systems sales were $4.8 million higher than the first half of 2014 due to about 45% higher sales of our deployable communication devices offset by approximately 30% lower electronic components revenue.

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

Our government systems gross profit was $1.9 million, or 73% higher in the 2015 second quarter, and $1.8 million, or 31% higher in the 2015 first half, than for the corresponding 2014 periods due mainly to higher volume. Government systems gross profit as a percentage of revenue was 23% and 24% for the three and six months ended June 30, 2015, and was 27% and 22% for the three and six months ended June 30, 2014, respectively, reflecting higher average margins on the mix of sales for the first half of 2015.

Revenue Backlog

We had unfilled orders, or funded contract backlog at June 30:

			2015 vs. 2014	
($ in millions)	2015	2014	$	%
Funded backlog:				
Commercial Segment	$ 235.3	$ 234.5	$ 0.8	NM
Government Segment	63.2	52.2	11.0	21%
Total funded contract backlog	$ 298.5	$ 286.7	$ 11.8	4%
Expected to be realized within next 12 months	$ 182.8	$ 166.9	$ 15.9	10%

(NM = Not meaningful)

Funded contract backlog represents contracts for which fiscal year funding has been appropriated by our customers (mainly federal agencies), and for hosted services (mainly for wireless and other network operators). Backlog is computed by multiplying the most recent month's contract or subscription revenue by the months remaining under the existing long-term agreements, which is considered to be the best available information for anticipating revenue under those agreements.

Our backlog at any given time may be affected by factors including the availability of funding, contracts being renewed, or new contracts being signed before existing contracts are completed and the other factors described in the Company's Risk Factors as filed with the Securities and Exchange Commission from time to time. The timing and amounts of government contract funding may be adversely affected by federal budget policy decisions, like handling of sequestration and continuing resolutions, and can lead to delays in procurement of our products and services due to lack of funding. Some of our backlog could be canceled for causes such as late delivery, poor performance and other factors. Accordingly, a comparison of backlog from period to period is not necessarily meaningful and may not be indicative of eventual actual revenue.

Operating Expenses

Research and development expense:

($ in millions)	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	2015 vs. 2014 $	2015 vs. 2014 %	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014	2015 vs. 2014 $	2015 vs. 2014 %
Research and development expense	$ 8.9	$ 11.2	$ (2.3)	(21%)	$ 17.4	$ 21.6	$ (4.2)	(19%)
% of total revenue	10%	13%			10%	13%		

Our research and development ("R&D") expense consists of compensation, benefits, and a proportionate share of facilities and corporate overhead, as well as costs associated with using third-party laboratory and testing resources. We expense such costs as they are incurred until technological feasibility has been reached and we believe that capitalized costs will be recoverable, upon which we capitalize and amortize them over the product's expected life. Technological feasibility is established for our software when a detailed program design is completed. Capitalized costs of software developed for internal use are included in fixed assets and depreciated over expected useful lives. We incur R&D costs to enhance existing software products as well as to create new products, including software hosted in network operation centers.

We develop software for systems and services used mainly by network operators, state and local public safety organizations, federal agencies, and device manufacturers. In 2015 and 2014, we invested in R&D for 9-1-1 software and updates to location-based products, including our toolkits and application program interfaces for markets beyond network operators. We also invested in updating and expanding our secure wireless communication technology products for government customers and applications for network operators, telematics supply chain, and network security. We continue to obtain patents for some of our developers' innovations. The total of capitalized and expensed R&D spending for the 2015 second quarter and first half was about $1.7 million and $2.9 million lower than the same periods in 2014.

In addition to company deliverables, our research and development expenditures and acquisitions have yielded a portfolio of 418 patents as of June 30, 2015 and more than 300 patent applications pending, primarily for wireless location-based technology.

R&D expense was $2.3 million and $4.2 million lower for the three and six months ended June 30, 2015 compared to the same periods of 2014, reflecting efficiency improvements, and assignment of more software developers to customer projects classified as cost of revenue.

Sales and marketing expense:

($ in millions)	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	2015 vs. 2014 $	2015 vs. 2014 %	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014	2015 vs. 2014 $	2015 vs. 2014 %
Sales and marketing expense	$ 6.1	$ 6.3	$ (0.2)	(3%)	$ 12.5	$ 13.2	$ (0.7)	(5%)
% of total revenue	7%	7%			7%	8%		

Our sales and marketing expenses include fixed and variable compensation and benefits, trade show expenses, travel costs, advertising and public relations costs, as well as a proportionate share of facility-related costs which are expensed as incurred. Our marketing efforts also include speaking engagements and industry conferences. We sell our solutions through our direct sales force and we leverage relationships with original equipment manufacturers and large network operators as channels for our technology. We sell our products and services to agencies and departments of the U.S. government primarily through direct sales professionals, and to foreign customers through agency and subcontractor arrangements.

Sales and marketing expenses were $0.2 million and $0.7 million lower in the three and six months ended June 30, 2015 than for the corresponding periods in 2014, respectively, due to decreases in personnel and travel expenses.

General and administrative expense:

($ in millions)	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	2015 vs. 2014 $	2015 vs. 2014 %	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014	2015 vs. 2014 $	2015 vs. 2014 %
General and administrative expense	$ 11.8	$ 13.2	$ (1.4)	(11%)	$ 24.4	$ 24.8	$ (0.4)	(2%)
% of total revenue	13%	15%			14%	14%		

General and administrative ("G&A") expense primarily represents management, finance, legal (including intellectual property management), human resources, and internal information system functions. These costs include compensation, benefits, professional fees, travel, and a proportionate share of rent, utilities, and other facilities costs which are expensed as incurred. G&A expense was $1.4 million lower in the three months ended June 30, 2015 than the same period in 2014 mainly due to cost reductions. G&A expense was $0.4 million lower in the six months ended June 30, 2015 than the six months ended June 30, 2014. The benefits of continuing cost reductions from efficiency improvements were offset by $1.1 million of unplanned, nonrecurring accounting and legal fees in the first quarter, resulting mainly from obligatory investigation work under the direction of the audit committee of the board in response to a variety of questions raised by an employee. No changes to the Company's financial statements were required as a result of the work, which is complete.

Depreciation and amortization of property and equipment:

	Three Months Ended June 30,		2015 vs. 2014		Six Months Ended June 30,		2015 vs. 2014	
($ in millions)	2015	2014	$	%	2015	2014	$	%
Depreciation and amortization of property and equipment	$ 3.1	$ 3.4	$ (0.3)	(9%)	$ 6.1	$ 6.8	$ (0.7)	(10%)
Average gross cost of property and equipment during the period	$ 119.9	$ 113.9			$ 119.0	$ 113.1		

Depreciation and amortization of property and equipment represents the period costs associated with our investment in information technology and telecommunications equipment, software, furniture and fixtures, and leasehold improvements, as well as amortization of capitalized software developed for internal use, including hosted applications. We compute depreciation and amortization using the straight-line method over the estimated useful lives of the assets, generally five years for furniture, fixtures, and leasehold improvements, and three to seven years for other types of assets including, computers, software, and telephone equipment.

Depreciation expense decreased year-over-year, as lower capital spending, including lower spending on capitalized software for internal use, over the past two years has generated less new depreciation.

Amortization of acquired intangible assets:

	Three Months Ended June 30,		2015 vs. 2014		Six Months Ended June 30,		2015 vs. 2014	
($ in millions)	2015	2014	$	%	2015	2014	$	%
Amortization of acquired intangible assets	$ 0.9	$ 0.9	$ —	—	$ 1.8	$ 1.9	$ (0.1)	(5%)

Acquired intangible assets are amortized over their estimated useful lives of five to ten years. Amortization expense has declined slightly, as some of the acquired technology is now fully amortized.

Interest expense:

	Three Months Ended June 30,		2015 vs. 2014		Six Months Ended June 30,		2015 vs. 2014	
($ in millions)	2015	2014	$	%	2015	2014	$	%
Interest expense on bank and other notes payable	$ 0.9	$ 0.8	$ 0.1	13%	$ 1.9	$ 1.7	$ 0.2	12%
Interest expense on convertible note financing	1.0	1.1	(0.1)	(9%)	1.9	2.3	(0.4)	(17%)
Interest expense on capital lease obligations	0.1	0.1	—	—	0.2	0.3	(0.1)	(33%)
Amortization of deferred financing fees	0.1	0.2	(0.1)	(50%)	0.3	0.4	(0.1)	(25%)
Total interest and financing expense	$ 2.1	$ 2.2	$ (0.1)	(5%)	$ 4.3	$ 4.7	$ (0.4)	(9%)

Interest expense is incurred under bank and other notes payable, convertible note financing, and capital lease obligations. Financing expense amortization results from deferral of costs incurred at the time of contracting for financing facilities, which are then amortized over the terms of the facilities.

Interest and financing expenses were lower in the 2015 second quarter and first half than the 2014 second quarter and first half due to lower outstanding debt in 2015, partly offset by the effect of a slightly higher average rate. Interest on our bank and other notes payable was slightly higher in the three and six month ended June 30, 2015 as compared to the same periods in 2014 due to a higher average borrowing balance on our Senior Credit Facility, offset by lower interest on seller notes as these were fully paid in 2014. Further financing details are in the Liquidity and Capital Resources section below.

Other income (expenses), net:

Other income (expenses), net, includes interest income earned, a gain on the sale of land associated with our Manassas, VA facility, realized gains on investment accounts, and foreign currency transaction gain or loss, which is dependent on fluctuation in exchange rates. Other income (expenses), net also includes the effects of foreign currency revaluation on our cash, receivables, and deferred revenues that are stated in currencies other than U.S dollars.

Income taxes:

As of June 30, 2015, the Company continued to provide a valuation allowance for all federal and some state deferred tax assets as management's evaluation that the Company's ability to realize such deferred tax assets did not meet the "more likely than not" criteria. The Company continually evaluates facts representing both positive and negative evidence in the determination of its ability to realize the deferred tax assets reported in footnotes to the annual financial statements. For the three and six months ended June 30, 2015, we have recorded income tax expense of $0.4 million and $0.8 million, respectively.

Net income:

	Three Months Ended June 30,		2015 vs. 2014		Six Months Ended June 30,		2015 vs. 2014	
($ in millions)	**2015**	**2014**	**$**	**%**	**2015**	**2014**	**$**	**%**
Net income:	$ 0.7	$ 1.1	$ (0.4)	(36%)	$ 1.0	$ 0.6	$ 0.4	67%

Net income was $0.4 million lower in the three months ended June 30, 2015 than for the second quarter of 2014, mainly due to higher income tax expense, and other factors discussed above. Net income was $0.4 million higher in the six months ended June 30, 2015 compared to the six months ended June 30, 2014, mainly due to lower operating expenses, offset by higher income tax expense, and other factors discussed above.

Liquidity and Capital Resources

	Six Months Ended June 30,		2015 vs. 2014	
($ in millions)	**2015**	**2014**	**$**	**%**
Net cash and cash equivalents provided by/(used in):				
Operating activities:				
Net income	$ 1.0	$ 0.6	$ 0.4	67%
Non-cash charges	10.7	13.4	(2.7)	(20%)
Deferred income tax provision	0.3	—	0.3	100%
Net changes in working capital, including changes in other assets	(7.9)	(10.8)	2.9	27%
Net operating activities	4.1	3.2	0.9	28%
Investing activities:				
Proceeds from disposal of property and equipment	1.6	—	1.6	100%
Purchases of property and equipment	(6.3)	(3.5)	(2.8)	(80%)
Capital purchases funded through leases	1.7	1.0	0.7	70%
Purchases of property and equipment, net of assets funded through leases	(4.6)	(2.5)	(2.1)	(84%)
Capitalized software development costs	(0.9)	(0.9)	—	—
Proceeds from (purchases of) marketable securities, net	3.5	(18.0)	21.5	119%
Cash received for location business wind-down arrangement	—	15.0	(15.0)	(100%)
Net investing activities	(0.4)	(6.4)	6.0	94%
Financing activities:				
Payments on long-term debt and capital leases	(21.1)	(12.3)	(8.8)	(72%)
Proceeds from bank and other debt borrowings	24.9	—	24.9	100%
Earn-out payment	—	(0.3)	0.3	100%
Other financing activities	(0.3)	(0.4)	0.1	25%
Net financing activities	3.5	(13.0)	16.5	127%
Net change in cash and cash equivalents	$ 7.2	$ (16.2)	$ 23.4	144%
Days revenue outstanding in accounts receivable, including unbilled receivables	97	69		

Capital resources: We have funded our operations, acquisitions, and capital expenditures primarily using cash generated by our operations, debt and capital leases, and issuance of public equity.

<u>Sources and uses of cash:</u> At June 30, 2015, our cash and marketable securities balance was $53.7 million, down from $63.5 million at June 30, 2014 and up from $50.6 million at the beginning of the quarter. At June 30, 2015, our liquidity also included $30 million of unused borrowing availability under our Revolving Loan Facility.

Operating activities: Cash generated from operating activities was $4.1 million for the six months ended June 30, 2015 compared to cash of $3.2 million provided for the six months ended June 30, 2014. Changes in working capital were due to the timing of billings, collections, and vendor payments.

Investing activities: In the first half of 2015, we received $3.5 million of cash from the sale and maturity of our investment grade marketable securities classified as available-for-sale and sold the land and equipment associated with our Manassas, VA facility for $1.6 million of proceeds and a gain of $0.4 million. For the six months ended June 30, 2015 and 2014, fixed asset additions, excluding assets funded by leasing, were $4.6 million and $2.5 million, respectively, and investments in development of software for resale which had reached the stage of development calling for capitalization were the same at $0.9 million.

Financing activities: In April 2015, the remaining $18.9 million of Delayed Draw Term Loan Facility was fully drawn. In the first half of 2015, we made $21.1 million in principal payments on bank and capital lease borrowings. We funded $1.7 million and $1 million, respectively, of fixed asset additions under capital leases during the six months ended June 30, 2015 and 2014.

<u>Senior debt:</u> The Company has borrowing capacity under our $130 million Senior Credit Facilities (the “Senior Credit Facilities” or “Credit Agreement”) in accordance with a June 25, 2013 agreement, as amended April 30, 2015. The Senior Credit Facilities include (i) a $56.5 million term loan A facility (“Term Loan A Facility”), (ii) a $43.5 million delayed draw term loan facility (“Delayed Draw Term Loan Facility”), and (iii) a $30 million revolving loan facility (“Revolving Loan Facility”). The Senior Credit Facilities also include a $25 million incremental loan arrangement subject to the Company’s future needs and bank approval, although no assurance can be given that this incremental loan amount will be available to us when and if needed.

On June 25, 2013, we borrowed $56.5 million under the Term Loan A Facility and used proceeds for (i) repayment of the remaining balance under our 2012 Term Loan, (ii) approximately $16 million for working capital and general corporate purposes, and (iii) fees and expenses associated with the new facility. In 2013 and 2014, we borrowed $10 million and $14.6 million, respectively, under the Delayed Draw Term Loan Facility which was used towards the purchase of the remaining outstanding 4.5% convertible notes. Under the agreement, $18.9 million of the remaining Delayed Draw Term Loan Facility was fully drawn in the second quarter of 2015 and was used for general corporate purposes. The Credit Agreement provides that the banks hold at least $35 million of the Company’s cash and marketable securities until December 31, 2015.

Additional liquidity is available through the undrawn $30 million Revolving Loan Facility at June 30, 2015, to be used for our ongoing working capital and other general corporate purposes.

The Term Loan A Facility, the Delayed Draw Term Loan Facility, and the Revolving Loan Facility have a maturity date of March 31, 2018, unless extended as provided in the Credit Agreement. The Term Loan A and Delayed Draw facility are payable in quarterly installments on the first fiscal day of each quarter beginning October 1, 2013. We made $0.4 million of scheduled payments on the Term Loan A and Delayed Draw facilities in 2013, $2 million in 2014, and $1.9 million in the first half of 2015. $1.1 million is payable in each of the remaining two quarters of 2015 increasing to $1.7 million in the quarter ending December 31, 2016 and to $2.3 million in the quarter ending December 31, 2017, with the remaining principal due at maturity. The Senior Credit Facilities are also subject to mandatory repayments from excess cash flow and other sources, such as net cash proceeds of debt or equity issuances, asset sales, casualty insurance claims and other recovery events, as described in the Credit Agreement. In 2014, mandatory repayments of $3.9 million for excess cash flow and $0.2 million for other sources were made by the Company based on 2013 results. Based on 2014 excess cash flow as defined, the Company made a mandatory repayment of $5.9 million in the first quarter of 2015.

The Senior Credit Facilities are secured by substantially all of the Company’s tangible and intangible assets, including intellectual property. The Credit Agreement contains customary representations and warranties of the Company and customary covenants and events of default. Availability under the Revolving Loan Facility and the Delayed Draw Term Loan Facility is subject to certain conditions, including the continued accuracy of the Company’s representations and warranties and compliance with covenants. The Senior Credit Facilities are also subject to possible mandatory repayments from excess cash flow and other sources, such as net cash proceeds of debt or equity issuances, asset sales, casualty insurance claims and other recovery events, as described in the Credit Agreement. During the continuance of an event of default, at the request of the required lenders, all outstanding loans shall bear interest at a rate per annum equal to the rate that would otherwise be applicable thereto plus 2%, and shall be payable from time to time on demand.

<u>Interest rate hedging activities:</u> In August 2014, we entered into an interest rate swap agreement with our principal bank to reduce the variability of interest expense due to fluctuations in market interest rates. Its $32.1 million initial notional amount represents about half of the outstanding balances of the floating rate Loan Facilities. The interest rate swap results in a fixed rate of 5.17% on the notional amount of the swap until its June 25, 2018 maturity. The notional amount of the swap will change over time to

reflect approximately 50% of the outstanding expected Senior Credit Facility balances; interest rate re-set and interest rate payment dates mirror those of the underlying Senior Credit Facilities. The swap is expected to offset changes in expected cash flows due to fluctuations in the one month LIBOR rate over the term of the hedge. The interest rate swap fair value as of June 30, 2015 was a $0.3 million liability. For the six months ended June 30, 2015, the hedge was highly effective and no gains or losses were recognized in earnings.

On May 8, 2013, we completed privately-negotiated exchange agreements with note holders and retired $50 million of our 4.5% Convertible Senior Notes due 2014 issued in 2009 (“2014 Notes”) in exchange for $50 million of new 7.75% Convertible Senior Notes due 2018 (“2018 Notes”).

The 2018 Notes were issued pursuant to an indenture, dated as of May 8, 2013 (the “Indenture”), between the Company and The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”). We offered the 2018 Notes to certain holders of the 2014 Notes in reliance on the exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended. The 2018 Notes bear interest at 7.75% per year, payable semiannually in arrears in cash on June 30 and December 30 of each year, beginning on December 30, 2013. The 2018 Notes are TCS’s senior unsecured obligations and rank equally with all of its present and future senior unsecured debt and senior to any future subordinated debts and will be effectively subordinate to all of TCS’s present and future secured debt to the extent of the collateral securing that debt.

Holders may convert the 2018 Notes at their option on any day prior to the close of business on the second “scheduled trading day” (as defined in the Indenture) immediately preceding June 30, 2018. The conversion rate will initially be 96.637 shares of Class A common stock per $1 (one thousand) principal amount of 2018 Notes, equivalent to an initial conversion price of $10.35 per share of Class A common stock, which is the same conversion price as the 2014 Notes. Shares of the Company’s Class A common stock into which the 2018 Notes are convertible have been reserved for issuance by the Company. We may redeem some or all of the 2018 Notes at any time on or after June 30, 2014 at the redemption prices set forth in the Indenture plus accrued and unpaid interest to the redemption date. In addition, subject to certain exceptions, holders may require us to repurchase, for cash, all or part of their 2018 Notes upon a “fundamental change” (as defined in the Indenture) at a price equal to the purchase prices set forth in the Indenture, plus accrued and unpaid interest to, but excluding, the fundamental change purchase date. The Indenture contains customary terms and covenants, including that upon certain events of default occurring and continuing, either the Trustee or the holders of not less than 25% in aggregate principal amount of the 2018 Notes then outstanding may declare the entire principal amount of all the 2018 Notes plus accrued interest, if any, to be immediately due and payable.

4.5% Convertible notes: In 2009, we sold $103.5 million aggregate principal amount of 4.5% Convertible Senior Notes, which have now been fully retired. In the fourth quarter of 2012, we repurchased $10 million of the outstanding 2014 Notes, plus accrued and unpaid interest and recorded a gain on the early retirement of $0.4 million. On May 8, 2013, we retired $50 million of the 4.5% Convertible Senior Notes by exchanging them for $50 million of 2018 Notes. In the second half of 2013, we repurchased $28.9 million of the outstanding 2014 Notes, plus accrued and unpaid interested and recorded a loss of $0.2 million. In 2014, we repurchased the remaining $14.6 million balance of the 2014 Notes.

Concurrent with the issuance of the 2014 Notes, we entered into convertible note hedge transactions and warrant transactions, that reduced the potential dilution associated with the conversion of the 2014 Notes. The note hedge transaction expired pro rata as the 2014 Notes were repurchased. The warrants expired in the second quarter of 2015.

Seller notes: In July, 2012, we issued $14.3 million in 6% promissory notes as part of the consideration for our acquisition of microDATA, full payment of which was completed in accordance with the note terms on June 30, 2014.

We currently 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 a Revolving Loan Facility through March 2018 of which $30 million was undrawn at June 30, 2015, and $18.9 million of the remaining Delayed Draw Term Loan Facility was fully drawn in April 2015. We also have borrowing capacity under a capital lease facility. We may also consider raising capital in the public markets to meet capital needs and to invest in our business. Although we may need to return to the capital markets, establish new credit facilities, 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.

Contractual Commitments

As of June 30, 2015, our most significant commitments are term debt, non-cancelable operating leases, purchase obligations, and obligations under capital leases. We lease certain furniture and computer equipment under capital leases. We lease office space and equipment under non-cancelable operating leases. Purchase obligations represent contracts for parts and services in connection with our government satellite services and systems offerings. Our commitments consisted of the following:

($ in millions)	Within 12 Months	1-3 Years	3-5 Years	More Than 5 Years	Total
Senior credit facility[1]	$ 8.0	$ 87.2	$ —	$ —	$ 95.2
7.75% Convertible notes obligation due 2018	3.9	57.8	—	—	61.7
Operating leases	6.4	11.7	1.8	0.4	20.3
Purchase obligations	9.6	5.9	—	—	15.5
Capital lease obligations	4.3	5.3	—	—	9.6
Total contractual commitments	$ 32.2	$ 167.9	$ 1.8	$ 0.4	$ 202.3

[1]The cash payments due for our Senior credit facility include estimated interest payments based on LIBOR plus a fixed spread that were effective at the balance sheet date.

Item 3. ***Quantitative and Qualitative Disclosures About Market Risk***

There have not been any material changes to our interest rate or our foreign currency risk as described in Item 7A of our 2014 Annual Report on Form 10-K.

Item 4. ***Controls and Procedures***

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's reports filed under the Securities Exchange Act of 1934, as amended, is recorded, processed, and summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As required by Rule 13a-15(b), the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and the Company's Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the end of the quarter covered by this report. Based on the foregoing, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were effective at a reasonable assurance level as of June 30, 2015.

There have been no changes in the Company's internal control over financial reporting during the latest fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. — OTHER INFORMATION

Item 1. ***Legal Proceedings***

Some customers seek indemnification under their contractual arrangements with the Company for claims and other costs associated with defending lawsuits alleging infringement of patents through their use of our products and services, and the use of our products and services in combination with products and services of other vendors. In some cases we have agreed to assume the defense of the case. In others, the Company will negotiate with these customers in good faith because the Company believes its technology does not infringe the cited patents and due to specific clauses within the customer contractual arrangements that may or may not give rise to an indemnification obligation. The Company cannot predict the outcome of such matters and the resolutions could have a material effect on our consolidated results of operations, financial position, or cash flows. Due to the inherent difficulty of predicting the outcome of litigation and other legal proceedings and uncertainties regarding the Company's existing litigation and other legal proceedings, the Company is unable to estimate the amount or range of reasonably possible loss in excess of amounts accrued. The Company's assessments are based on estimates and assumptions that have been deemed reasonable by management, but that may prove to be incomplete or inaccurate, and unanticipated events and circumstances may occur that might cause the Company to change those estimates and assumptions. Therefore, it is possible that an unfavorable resolution of one or more pending litigation or other contingencies could have a material adverse effect on the Company's consolidated financial statements in a future fiscal period.

The application and interpretation of applicable state and local sales and other tax laws to certain of our service and system offerings in certain jurisdictions is uncertain. In accordance with generally accepted accounting principles, the Company makes a provision for a liability for taxes when it is both probable that the liability has been incurred and the amount of the liability or range of liability can be reasonably estimated. These provisions are reviewed at least quarterly and adjusted if necessary. At June 30, 2015, the Company is subject to an ongoing state and local tax audit by the Washington State Department of Revenue. As this and other tax audits progress in the normal course of business, the Company will review and adjust a provision for loss as appropriate.

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

Item 1A. *Risk Factors*

There have not been any material changes to the information previously disclosed in *Item 1A. Risk Factors* in our 2014 Annual Report on Form 10-K.

Item 2. *Unregistered Sales of Equity Securities and Use of Proceeds*

None.

Item 3. *Defaults Upon Senior Securities*

None.

Item 4. *Mine and Safety Disclosures*

None.

Item 5. *Other Information*

(a) None.

(b) None.

Item 6. *Exhibits*

Exhibit Numbers	Description
31.1	Certification of CEO required by the Securities and Exchange Commission Rule 13a-14(a) or 15d-14(a)
31.2	Certification of CFO 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
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized on the 30th day of July 2015.

TELECOMMUNICATION SYSTEMS, INC.

By: /S/ MAURICE B. TOSÉ
Maurice B. Tosé
Chairman, President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this Report has been signed below by the following persons on behalf of the Registrant in the capacities and on the dates indicated.

/S/ MAURICE B. TOSÉ Maurice B. Tosé July 30, 2015	Chairman, President and Chief Executive Officer (Principal Executive Officer)
/S/ THOMAS M. BRANDT, JR. Thomas M. Brandt, Jr. July 30, 2015	Senior Vice President and Chief Financial Officer (Principal Financial Officer)

Exhibit 31.1

CERTIFICATIONS

I, Maurice B. Tosé, certify that:

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

b) Based on my knowledge, this quarterly 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
Date: July 30, 2015

Exhibit 31.2

CERTIFICATIONS

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

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

b) Based on my knowledge, this quarterly 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
Date: July 30, 2015

Exhibit 32.1

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 Quarterly Report on Form 10-Q of the Company for the period ended June 30, 2015 (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: July 30, 2015

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

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 Quarterly Report on Form 10-Q of the Company for the period ended June 30, 2015 (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: July 30, 2015

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.