

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

(Mark One)

Annual report pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934

For the fiscal year ended.....December 31, 2000

OR

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from.....to.....

Commission File Number 0-19437

CELLULAR TECHNICAL SERVICES COMPANY, INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware

11-2962080

(State or Other Jurisdiction of
Incorporation or Organization)

(I.R.S. Employer Identification No.)

2815 Second Avenue Suite 100, Seattle, Washington 98121

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (206) 443-6400

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, \$.001 par value

(Title of Class)

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 the filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

As of March 12, 2001, there were 2,291,789 shares of Common Stock, \$.001 par value outstanding. As of March 12, 2001, the aggregate market value of the Registrant's Common Stock, \$.001 par value, held by non-affiliates was approximately \$7.7 million. The aggregate market value of the Company's stock was calculated using the average of the high (\$3.44) and low (\$3.41) sale price for its Common Stock on March 12, 2000 as reported on The Nasdaq Stock Market (National Market System).

Documents incorporated by reference in Part III: The Company's definitive proxy statement to be filed in connection with the 2000 Annual Meeting of Stockholders.

CELLULAR TECHNICAL SERVICES COMPANY, INC.

TABLE OF CONTENTS FOR FORM 10-K

PART I..... 3

ITEM 1. BUSINESS..... 3

ITEM 2. PROPERTIES.....18

ITEM 3. LEGAL PROCEEDINGS.....19

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.....19

PART II..... 20

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS..... 20

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA.....21

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS..... 22

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.....28

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.....28

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.....28

PART III..... 29

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT..... 29

ITEM 11. EXECUTIVE COMPENSATION..... 30

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.....30

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.....30

PART IV..... 31

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K..... 31

PART I

Item 1. Business

Unless the context otherwise requires, all references to the "Company" in this Annual Report on Form 10-K include Cellular Technical Services Company, Inc. and any entity over which it has or shares operational control.

Special Note Regarding Forward-Looking Statements

This Annual Report on Form 10-K contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that reflect the Company's views with respect to future events and financial performance. The Company uses words and phrases such as "anticipate," "expect," "intend," "the Company believes," "future," and similar words and phrases to identify forward-looking statements. Reliance should not be placed on these forward-looking statements. These forward-looking statements are based on current expectations and are subject to risks, uncertainties and assumptions that could cause, or contribute to causing, actual results to differ materially from those expressed or implied in the applicable statements. Readers should pay particular attention to the descriptions of risks and uncertainties described in this report and in the Company's other filings with the Securities and Exchange Commission. All forward-looking statements included in this report are based on information available to the Company on the date of this report. The Company assumes no obligation or duty to update any such forward-looking statements.

General

The Company develops, markets, distributes and supports a diversified mix of products and services for the telecommunications industry. Over the past 12 years, the Company has developed expertise in real-time wireless call processing and has created technologically advanced solutions for this industry, focusing primarily in the area of wireless communications fraud management. The Company's Blackbird Platform Products are sold in this arena. During 1999 and 2000, the Company implemented a short and long-range strategic plan to diversify its product mix, both within and outside of the telecommunications industry. This diversification strategy is at the foundation of the Company's growth plan for the future.

In the fourth quarter of 1999, as part of its diversification strategy, the Company launched Isis Tele-Communications, Inc. ("Isis"), a majority-owned subsidiary, which designs, markets, and distributes both regionally and nationally branded prepaid long-distance phone cards. Also in the fourth quarter of 1999, the Company made a strategic investment in KSI, Inc. ("KSI"), a provider of development-stage wireless geo-location technology. The Company made further investments in KSI during 2000. KSI was acquired by TruePosition, Inc. ("TruePosition") in August 2000; as a result, the Company's investment in KSI became and remains one in TruePosition. This technology is expected to provide a platform for hosting a variety of location-sensitive consumer applications for the wireless communications market. The Company expects to leverage its entrance into the geo-location marketplace by developing, marketing, distributing, and supporting a suite of commercial geo-location applications as this technology evolves and is commercially deployed by wireless carriers. In late 2000 the Company created a division called Neumobility™ to develop and market its range of geo-location wireless software applications.

Presently, the Company's major customers are wireless telephone carriers for its Blackbird Platform Products. These carriers operate in a dynamic, rapidly changing environment and are subject to intense competition, cost sensitivity and other market forces. Customers for the Company's Isis phone card segment are primarily distributors, retailers and convenience stores, which also operate in highly competitive marketplaces. These and other related factors have influence on the Company's direction for the future. The Company believes that these factors will provide opportunities for new products and services in a wide variety of markets.

Products

The Blackbird Platform Products

The Company's Blackbird'r' Platform product line includes a suite of radio frequency ("RF") based platform solutions focusing on wireless fraud prevention. Presently, it involves various forms of "pre-call" verification to ensure that the use of an analog wireless telephone is legitimate before the device is allowed to connect to a carrier's analog wireless communications network. In this area, the Company is a leading provider of RF-based solutions for the prevention of "cloning fraud." This term is used to describe the illegal activity of using a scanning device to steal the electronic serial number and mobile identification number of a legitimate wireless telephone while in use, then reprogramming the stolen numbers into other phones. These reprogrammed phones, or "clone phones," are then used to make illegal calls on a wireless communications network, without payment for the wireless services rendered. The Company's suite of RF-based platform solutions include the Blackbird'r' Platform, PreTect'TM' cloning-fraud prevention application, No Clone Zone'sm' roaming-fraud prevention service, and related application products and services (collectively, the "Blackbird Platform Products"). The Company's Blackbird Platform Products are currently deployed in approximately 1,600 cell sites in most major metropolitan areas throughout the United States. The Company's customers have reported up to a 98% reduction in cloning fraud activity in areas served by the Blackbird Platform Products since its initial installation, and continue to rely on its cloning prevention capabilities for their existing analog wireless communications networks.

The Blackbird Platform. The Blackbird Platform provides real-time collection, distribution, storage and reporting of pre-call data retrieved from an analog wireless communications network. It is designed to deliver centralized control and efficiencies of operation based on industry standards, open systems and real-time distributed messaging. The Blackbird Platform Products incorporate software and hardware designs that use the UNIX operating system with TCP/IP message transport networking, supporting both client-server and peer-to-peer communication architectures. This operating system environment is widely used and accepted in the telecommunications industry.

The PreTect Application. The PreTect application employs patented RF "fingerprinting" technology to proactively prevent cloning fraud in real-time. It accomplishes this by building RF fingerprints of legitimate subscribers' wireless phones using the pre-call data collected by the Blackbird Platform. An RF fingerprint is the wireless phone's unique electromagnetic signal waveform characteristics contained in each phone, with no two RF fingerprints being exactly the same. The PreTect application compares RF fingerprints of incoming call requests to its database of RF fingerprints for validated legitimate subscriber phones and also examines usage characteristics to assist in verifying authenticity. It then directs automatic call "tear-down" or interdiction of a fraudulent call before connection is completed. The PreTect application provides proactive pre-call fraud prevention rather than post-call fraud detection.

The No Clone Zone Service. The Company has developed a roaming-fraud prevention service, known as the No Clone Zone service, which provides seamless, RF-based roaming fraud prevention. The No Clone Zone service proactively and transparently prevents roaming cloning fraud in markets that utilize the Blackbird Platform and PreTect fraud prevention application. The service leverages the underlying power of existing Blackbird Platform deployments, and the Blackbird Platform's real-time distributed messaging system, to quickly and seamlessly link participating carrier systems nationwide, into a private, high-speed cloning fraud prevention network.

Blackbird Platform Monitoring Option. The Company has developed system-monitoring technology for the Blackbird Platform Products that provides real-time capabilities for monitoring overall system health of any network-based distributed applications. The Company's Blackbird Platform Monitoring product provides sophisticated real-time alarming of system performance exceptions that can be directed to a centralized call center. The product is designed to support industry standards with the flexibility of open architecture and platform portability. Additionally, the Company provides a Blackbird Platform Monitoring service, available to all Blackbird Platform customers, which is hosted from the Company's Seattle headquarters call center. This provides

a flexible alternative for customers who have limited expertise to perform this critical component of fraud system management to keep the Blackbird Platform Products at optimal performance 24 hours per day, 7 days per week.

Blackbird Backup & Restore Option. The Company has developed the Blackbird Backup & Restore product that optimizes and validates the storage of critical data in the event of system failure so complete reconstruction can be performed easily. This product provides a completely automated operation with customizable scheduling flexibility, requiring no manual intervention by customer personnel.

Blackbird Platform Professional Services. The Company provides system performance analysis, system project planning, configuration, implementation and other professional services in connection with its Blackbird Platform Products. Customers are charged hourly rates for such services or may contract with the Company for fixed fees.

Prepaid Wireline Long-Distance Phone Cards

To stimulate revenue growth for the Company, and in alignment with its product diversification strategy, the Company expanded into the prepaid long-distance service arena in the fourth quarter of 1999. Prepaid long-distance service represents one of the fastest growing sectors of the telecommunications industry, with growth in this market accelerating as a result of the Telecommunications Act of 1996. According to the International Telecard Association, prepaid long-distance calling card revenues in the United States have grown from an estimated \$12.0 million in 1992 to an estimated \$2.1 billion in 1997, and they are projected to be at least \$4.0 billion in 2001. Growth in this market is has been driven by a large population of consumers such as first generation immigrants, students, temporary residents, and lower-income individuals, who in many instances do not have local phone service due to credit or identification problems. The Company expects that growth in this market will both continue in these customer groups and expand to other customer groups as prepaid phone cards become more widely adopted.

Through its majority-owned subsidiary, Isis, the Company markets and distributes branded prepaid long-distance phone cards in denominations generally ranging from \$5 to \$20 per card. Isis specializes in targeted marketing programs with aggressive domestic and international long-distance rates. Isis distributes cards through regional and national multi-level distribution channels, using direct sales, third-party distributors, and telemarketing. End users of these cards can use them by dialing the local or toll-free access number identified on the card, keying in a personal identification number (a "PIN") that is assigned to the card, and then dialing the telephone number that the end user seeks to reach. The third-party long-distance service provider then completes the call, debits the balance on the card following the call, and provides customer assistance as necessary. The Company anticipates that its ability to provide aggressive per-minute rates, broad multi-level distribution coverage, and quality customer service will be the key ingredients for continued revenue growth and expansion of this product line. Isis has offices in Los Angeles, Boston, and Chicago.

TruePosition Investment and Neumobility Products

The Federal Communications Commission ("FCC") has required all wireless carriers to deploy wireless geo-location technology by October 2001 to provide comparable 911 services to wireless telecommunications subscribers. Wireless geo-location technology provides and identifies the specific geographic location (in latitude and longitude measurements) of a wireless telephone, and can eventually be applied to other wireless communications devices. Industry analysts have estimated the market for commercial geo-location applications to be well over \$8.0 billion. During the fourth quarter of 1999, and as part of the Company's long-term diversification strategy, the Company made a strategic investment in KSI, Inc. ("KSI"), a provider of development-stage wireless geo-location technology. In August 2000, TruePosition, Inc., a subsidiary of Liberty Media Corporation, acquired KSI. The Company's total investment in TruePosition, Inc. common stock at December 31, 2000 was \$1,758,000.

In late 1999 the Company began development of a location-based wireless software product platform and mobile commerce applications. The Company expects to leverage its entrance into the geo-location marketplace by developing, marketing, distributing, and supporting a suite of commercial geo-location applications as the technology evolves and is deployed by all wireless carriers to comply with the FCC's requirements. In January 2001 the Company formed a division called Neumobility™ for this product line. The Neumobility family of products includes a scalable platform and an application suite providing location-based information utilizing both network and satellite positioning technologies. The platform is called NeuTrac™, and is a system utilizing positioning data to create, maintain and deliver relevant content and services in a location-based format. The NeuTrac platform is configurable and creates a combination of subscription-based, pay-per-use and free value-added services. The application suite will include: NeuCommerce™, which allows for personalized, permission-based one-to-one marketing; NeuMerchant™, which allows for the tracking of merchant offers and creates metrics to analyze the impact of marketing efforts; NeuMap™, which creates directions based upon positioning data; NeuList™, which adds a location-sensitive component to wireless e-mail functions; and NeuJournal™, a journaling feature which allows for the documentation of location and content. The Company anticipates completing the initial product suite in 2001.

The Telecommunications Industry

The Telecommunications Act of 1996 was implemented to stimulate competition in all arenas of the telecommunications industry. The results have provided consumers with a broader spectrum of cost-effective service choices for their telecommunication needs. Correspondingly, the wireless industry has seen a dramatic expansion. The Cellular Telecommunications Industry Association has estimated that the number of wireless telephone subscribers in the United States increased from approximately 340,000 subscribers in 1985 to approximately 75 million subscribers in 1999. Industry analysts believe that the number of wireless telephone subscribers may grow to in excess of 120 million in the United States by the end of 2001. International market analysts have forecast that total worldwide wireless telephone service revenue will grow to \$360 billion by the end of 2002.

Key Issues Resulting from Increased Competition in the Telecommunications Industry

Lower price per minute has driven minutes of usage up. The increased presence of multiple telecommunications carriers in any given market has spawned a number of new single-rate pricing plans, effectively driving the price per minute of wireless telephone usage substantially lower. As a result, wireless telephone carriers must supplement revenues by implementing new subscriber service offerings to not only grow, but also preserve their existing subscriber base. New add-on consumer services (such as text messaging, stock quote delivery and transportation alerts) are expected to continue to drive the minutes of use up, which should position the wireless communication device as the only communication device an individual will need to own, covering both communication and personal information management needs of the future.

Nearly one-third of all new subscribers leave each year. Customer "churn," which is when a subscriber switches from one wireless carrier to another in a short amount of time, has become a significant problem facing the wireless telephone carriers today. Churn not only results in a loss of subscriber revenue, but also makes it difficult for carriers to recover the significant costs associated with acquiring new subscribers. Presently, churn is running in the range of 25% - 35% per year for most carriers, according to industry sources. This level is expected to remain high as competition to attract new subscribers continues. Aggressive rate plans and bundled service packages, including free roaming and free or low-cost long-distance rates have served to differentiate one wireless carrier from another. However, the Company believes that the availability of consumer applications and services by carriers that integrate personalized information, the internet, and email messaging may prove to be the most effective tool for managing subscriber churn.

Prepaid market has expanded to capture new consumers. Prepaid service represents one of the fastest growing sectors of the telecommunications industry and is providing a new point of differentiation in local markets as

telecommunication carriers expand their service offerings. Once driven primarily by a large population of first generation immigrants, students and lower-income individuals, a variety of prepaid services is rapidly expanding toward the mainstream in the United States. This expansion is primarily due to the widespread availability of competitive long-distance rates, the convenience of a set-limit debit card for long-distance calling, and an easy solution for travel and emergency situations.

Competition has raised consumer expectations on service offerings. The intense competition in the telecommunications market is placing new pressures on wireless telephone carriers to differentiate their service offerings. As the wireless communications device becomes capable of receiving a wider variety of communications, i.e., voice messaging, paging, or emails, the Company believes that wireless subscribers will require and expect a robust suite of consumer services that not only replicate what landline service providers offer (such as emergency 911 assistance), but also provide new ways to access personalized information through their wireless phone. Examples include roadside assistance, asset tracking, personalized information or "concierge" service ("E411") and traffic advisories, and others. The Company believes the results of competition in the telecommunications market, including lower price per minute, higher minutes of usage, and demand for new sources of carrier revenue, will continue to provide diversified market opportunities for the Company's existing products and services, as well as new offerings in the future.

The Company's Strategy

The Company believes the key issues affecting the telecommunications industry described above support and validate the Company's strategic direction toward diversification.

1. Diversify the Company's product mix within the growing telecommunications market.

The Company believes that the present dynamics of the telecommunications industry will result in a proliferation of new service applications focused on mobile information management. These services may include such things, for example, as prepaid calling services, location-sensitive advertising, stock quote notification and weather advisories. The Company believes that many of the new applications will be enhanced by the addition of geo-location technology. As the Company further expands on its diversification plan, it believes it will be well positioned for offering a variety of new consumer-convenience products and services. The Company expects that these target offerings may help the carriers reduce churn and increase revenues, while enhancing the Company's market position beyond its current products and services, enlarging its customer base across multiple sectors, and providing for both near-term and long-term revenue growth.

2. Leverage existing intellectual property in new ways.

The Company believes it can leverage its core expertise and patented technology in the real-time information management area to develop new products and services. The Company has developed unique expertise in the area of distributed real-time computing over high-speed, interlinked networks on a nationwide scale. This capability allows the Company to acquire data and perform information processing in a highly distributed environment, such as encountered in wireless infrastructures. The Company believes this expertise will be particularly useful in the development of new commercial geo-location applications. The Company has also developed the ability to combine streams of telephone billing information, such as toll charges, discounts, promotions and surcharges to mimic a carrier's billing system on a real-time basis. This happens within minutes after the end of the call, rather than in the typical batch process for monthly customer billing cycles. The Company's focus on diversification supports the continued use of its intellectual property, providing cost-savings and accelerating product development efforts for new telecommunications products and services.

3. Deliver exceptional customer service.

The Company believes the ability to provide knowledgeable, high quality customer service is a critical success factor for servicing the needs of wireless telephone carriers as they implement new commercial applications. The Company currently provides real-time system monitoring 24 hours per day, 7 days per week for its Blackbird Platform Products through its call center located at the Seattle headquarters. Additionally, the Company provides regional technical support personnel in major markets for on-site maintenance service of its systems, ensuring optimal uptime performance. The Seattle call center employs sophisticated commercial call tracking and system alarming software, integrated with the Company's own proprietary Blackbird technology, and is staffed with technicians who are required to meet continuous training objectives. Through its knowledge of unique customer technical requirements, the Company believes it can expand these same technical support service offerings to support other new commercial applications it develops for the telecommunications marketplace, as well as products and services offered in new markets.

Product Development

For the years ended December 31, 2000, 1999 and 1998, the Company incurred gross research and development expenditures of \$1.5 million, \$1.6 million and \$5.1 million, respectively. The 1998 period included \$0.6 million of capitalized software development costs. The Company ceased capitalization of software development costs during 1998. The Company's current research and development efforts are focused on enhancing and improving existing products and services, and developing new products and services, including new software applications and technology interfaces. These enhancements and/or new products and services may, when and if developed, enable the Company to expand on its existing products and services to provide a broad variety of functions not presently offered. Costs included in the Company's gross research and development expenditures include costs for research, design, development, tests, and preparation of training and user documentation. The Company anticipates that it will continue to commit significant resources to product development in the future to address market opportunities for new and enhanced products and services. See also "Business Risks -- Dependence on New Product Development and Product Enhancements" below.

Sales, Marketing and Distribution

The Company primarily markets Blackbird Platform Products directly to wireless telephone carriers operating analog networks in the most heavily populated United States markets. The Company sells and licenses Blackbird Platform Products pursuant to agreements that typically provide for hardware purchases, software licenses, customer support and the provision of related services.

The Company designs and markets its own prepaid phone cards and also resells prepaid phone cards produced by others. The Company markets prepaid phone card products primarily through regional and national multi-level distribution channels, using direct sales, third-party distributors, and telemarketing. These marketing efforts are pursuant to distribution agreements and other forms of sales and marketing arrangements.

The Company also participates at targeted trade shows, conferences and industry events to augment its marketing efforts. The Company further consults with its current and prospective customers to gather product feedback to assist the Company in determining product direction. Achieving greater market acceptance and penetration of the Company's products and services will require, in addition to enhancing and improving its products and services, increased marketing efforts and the expenditure of funds to increase customer awareness of the Company and to inform potential customers of the benefits of the Company's products and service offerings. See also "Business Risks -- Fluctuations in Quarterly Performance," "Business Risks -- Need for Additional Financing" and "Business Risks - Dependence on Distributors" below.

Revenues from Blackbird Platform Products represented 31% of the Company's total revenue in 2000, and 96% of the Company's total revenues in 1999 and 1998. The Company anticipates that revenues from Blackbird Platform

Products will continue to represent a meaningful portion of the Company's total revenue in 2001, but that the Company's dependence on Blackbird Platform Products will decrease during 2001 as revenues from its prepaid phone card products continue to represent a larger portion of total revenue. See also "Business Risks -- Dependence on Limited Product Base; Uncertainty of Widespread Market Demand" below.

Customer Support and Services

The Company provides hardware maintenance, software maintenance, software subscription services (for software upgrades and new releases), the No Clone Zone service and Blackbird Platform Monitoring service to its customers of Blackbird Platform Products. Customer service personnel diagnose and resolve problems, dispatch third-party vendors, provide provisioning and integration services, forward enhancement requests to the Company's product management staff, and coordinate with customers with respect to software upgrades and new releases. From its centralized call center in Seattle, Washington, the Company monitors and maintains a national high-speed network for optimizing uptime and connectivity to the local area networks of its customers. The Company also provides on-site maintenance services for selected customers. Software troubleshooting, maintenance and upgrades are performed either through the Company's private data network or through modem over a standard telephone line. An on-line customer management system tracks problems and resolutions. Customer service is available 24 hours per day, seven days per week. Engineering research and development personnel assist in software support activities to the extent required.

Major Customers

The customers of the Company's Blackbird Platform Products are wireless telephone carriers. The Company has agreements with Verizon Wireless, Ameritech Mobile Communications, Inc. ("Ameritech") and SNET Mobility ("SNET") to deploy and support Blackbird Platform Products. As a result, the Blackbird Platform Products are currently operational in many of the largest markets throughout the United States, including New York, Boston, Hartford/New Haven, Philadelphia, Baltimore, Washington D.C., Chicago, Detroit, Milwaukee, St. Louis, Atlanta, Los Angeles, San Francisco, San Diego and Sacramento. Revenues from the Company's agreements with Verizon accounted for 24% of the Company's total revenues in 2000. See "Business Risks -- Limited Customer Base; Reliance on Significant Customers" below.

Competition

The market for the Company's products and services is highly competitive and subject to rapid technological change, regulatory developments and emerging industry standards. The Company believes that the principal competitive factors in the markets in which the Company competes include factors such as product effectiveness, quality and ease of use, technical support, customer service, price, the availability of real-time information and the financial stability of the vendor. A number of companies currently offer one or more products or services similar to the products and services offered by the Company. In addition, many carriers and vendors of telecommunications products are or may be capable of developing and offering products and services that are competitive with the Company's current or future offerings. Trends in the telecommunications industry, including greater consolidation and technological developments that make it easier or more cost-effective for carriers to develop or provide certain services themselves, could affect demand for any new products or services offered by the Company, and could make it more difficult for the Company to offer cost-effective alternatives to a carrier's own in-house capabilities.

The Company is aware of various competitors which currently or are expected to compete directly with the Company's Blackbird Platform Products in the cloning fraud prevention arena. One competitor, Lightbridge Inc., competes directly with the Company's RF-based cloning fraud prevention products and services. The Company also competes with a number of alternative technologies in this arena, including roamer verification reinstatement systems, profiler systems, personal identification numbers and A-Key authentication systems. Companies marketing such technologies include, among others, Nortel Networks, TSI Telecommunications Services, Inc., Lightbridge, Inc., and Systems/Link Corporation. The A-Key authentication technology is provided by telephone

switch and wireless handset manufacturers (e.g., Lucent Technologies, Inc., Ericsson Radio Systems AB, Motorola, Inc., Nokia and Nortel Networks). An additional competitive factor in the cloning fraud prevention arena includes the compatibility with cloning fraud prevention products used by the carrier in other geographic markets and by the carrier's roaming partners. The Company believes that carriers purchasing RF fingerprinting fraud prevention products tend to purchase these products from the same vendor that supplies these products to their roaming partners. Thus, the Company believes it will be more difficult to market its Blackbird Platform Products to a carrier if the carrier's roaming partners are using RF fingerprinting fraud prevention products supplied by a competitor.

The Company believes that A-Key authentication, in particular, poses significant future competition for the Blackbird Platform Products in the cloning fraud prevention arena. A-Key authentication is a form of cryptographic authentication that uses a complex algorithm derived from a mathematical cryptographic process containing a secret key (or number) shared only by the phone and the carrier's network. A-Key authentication is expected to be the form of cryptographic authentication most widely adopted by wireless telephone carriers in the United States. Today, almost all new digital and analog phones for the U.S. market are being manufactured with A-Key authentication capability. A-Key authentication is now in extensive use by wireless telephone carriers operating digital networks and, to a lesser extent, is now in use by certain wireless telephone carriers operating analog networks. However, the Company believes that the use of A-Key authentication is currently limited in analog networks due to the large number of existing analog phones that were not manufactured with A-Key authentication capability.

The Company also is aware of many competitors which currently or are expected to compete directly with the Company's prepaid phone card products. In part, these competitors include both the long-distance telecommunications service providers as well as their service resellers, including service providers and resellers for whom the Company resells prepaid long-distance telephone services through its prepaid phone card products. Many of these competitors, including AT&T Corp., MCI WORLDCOM, Inc. and Sprint Corporation, are substantially larger and have longer operating histories, greater name recognition, larger customer bases, and substantially greater financial, marketing, technical and other resources than the Company. Additional competitive factors in the prepaid phone card arena include factors such as efficiency and depth of distribution channels, marketing capabilities and name recognition.

The location-based services and mobile commerce market is in its early stages. The Company believes that there will be several categories of competitors for its products and services. These include both network-based and GPS-based geo-location position determination equipment providers, wireless switch providers, wireless carriers and applications software providers. These companies include: TruePosition, Inc., the Grayson Wireless division of Allen Telecom, Inc., Cell-Loc, Inc., Cambridge Positioning Systems, SCC, SiRF Technology, Inc., SignalSoft Corp., the XYPoint division of TeleCommunication Systems, Inc., the SnapTrack, Inc. division of Qualcomm, Inc., Alcatel, Ericsson, Nortel, Motorola Inc., Verizon Wireless, Cingular Wireless, Sprint, AT&T Wireless, Voicestream Wireless, Airbiquity, Inc., and others. Many of these competitors are substantially larger and have longer operating histories, greater name recognition, larger customer bases, and substantially greater financial, marketing, technical and other resources than the Company.

See generally "Business Risks -- Competition" below for a more detailed description of the risks and uncertainties associated with competition involving the Company and its current and future products and services.

Manufacturing and Third-Party Vendors

The Company has been and will continue to be dependent on third-party vendors for the computer equipment, electronic components, manufacturing services, maintenance services and software that are incorporated in its products. While these are generally available from multiple sources, the Company currently obtains or licenses certain equipment, electronic components, manufacturing services, maintenance services and software from a limited number of suppliers. The Company's current software products are specifically designed to adhere to the

UNIX operating system standard that can operate on standard computer equipment sold by numerous manufacturers and vendors. The Company currently purchases hardware and maintenance services directly or indirectly from Hewlett-Packard Company, its primary system hardware supplier. The Company also maintains relationships with other hardware vendors. The Company currently purchases hardware components from its vendors at discounts from list prices. These hardware components then become a cost component as the Company's systems are generally priced as bundled turnkey products (system, components, installation and training). The Company also currently maintains various software license arrangements with several suppliers. All of these licenses allow the Company's customers to use the software in perpetuity, with the result that the loss of a particular source would not affect any product already in use.

The Company manufactures, as necessary, its proprietary Blackbird Cell Site System hardware that operates in connection with the hardware components described above. While certain parts and components of this system are industry standard and generally available from many suppliers, the Company designs and contracts manufacturing for certain proprietary printed circuit boards and other subassemblies. These standard components and custom manufactured subassemblies are then integrated and tested by the Company for delivery to the Company's customers. See also "Business Risks -- Risk of Hardware Manufacturing Activities" below.

In connection with its prepaid phone card products, the Company has been and will continue to be dependent on third-party long-distance telephone service providers and their resellers for a package of accurate, reliable and competitively-priced telecommunications services, access numbers, PIN codes and, in some cases, prepaid phone cards produced by third parties. While these components are generally available from multiple sources, the Company currently acquires them from a relatively limited number of suppliers. See also "Business Risks -- Dependence on Third-Party Vendors" below.

Proprietary Rights

The Company's success will depend, in part, on its ability to protect its technology, processes, trade secrets and other proprietary rights from unauthorized disclosure and use and to operate without infringing the proprietary rights of third parties. The Company's strategy is to protect its technology and other proprietary rights through patents, copyrights, trademarks, nondisclosure agreements, license agreements and other forms of protection. The Company has been active in pursuing patent protection for technology and processes involving its products that it believes to be proprietary and to provide a potential competitive advantage for the Company. To date, the Company owns 14 issued United States patents relating to its products. In addition, the Company has also licensed patents from third parties in an effort to maintain flexibility in the development and use of its technology, including exclusive and non-exclusive rights to use patents in connection with the Blackbird Platform Products. The Company also attempts to protect its proprietary rights through the use of nondisclosure agreements with its employees and consultants, and license agreements with customers, which contain restrictions on disclosure, use and transfer of proprietary information. The Company further employs various physical security measures to protect its software source codes, technology and other proprietary rights. See also "Business Risks -- Uncertainty Regarding Proprietary Rights" below.

Employees

As of February 28, 2001, the Company had 47 employees. None of the Company's employees are covered by a collective bargaining agreement. The Company believes that its relations with its employees are good. See also "Business Risks-Dependence on Personnel" below.

Business Risks

The Company operates in a dynamic and rapidly changing business environment that involves substantial risk and uncertainty. The following discussion addresses some of the risks and uncertainties that could cause, or contribute to causing, actual results to differ materially from those expressed or implied in this report or any other disclosures

or statements, oral or written, made by or on behalf of the Company. Readers should pay particular attention to the descriptions of risks and uncertainties described below and in other sections of this report and the Company's other filings with the Securities and Exchange Commission.

Dependence on Limited Product Base; Uncertainty of Widespread Market Demand. The Company's revenues and profits have been and can be expected to continue to be derived from a limited number of products and services. See "Business -- Major Customers" above. In part, the Company's future operating results will depend on the continued demand for Blackbird Platform Products. Currently, a majority of the carriers in the largest markets in the United States are using cloning fraud prevention products. The Company believes that the demand for cloning fraud prevention products in the United States will continue to decline in the future. If not offset by other sales opportunities, this trend would have a material adverse effect on the Company's revenue. The Company anticipates that its prepaid phone card products will account for a growing percentage of the Company's revenue in 2001. As a result, the Company's future operating results will depend on the demand for and market acceptance of prepaid phone card products. The market adoption and profitability of the Company's prepaid phone card products will need to increase in order to achieve the Company's income targets for that product line. Although the Company believes that its product and services present the basis for growth for the Company's business, there can be no assurance that its products and services will achieve widespread market penetration or that the Company will derive significant revenues or profits from the sale of such products and services.

Dependence on Analog Networks; Industry and Technological Change. The Company's future success will depend on the continued and expanded use of its existing products and services, its ability to develop new products and services to meet the needs of the Company's target industries, and its ability to adapt existing products and services to keep pace with changes in the Company's target industries. Presently, the Company's Blackbird Platform Products are used exclusively in analog networks, although the Company believes that certain of the technology from its Blackbird Platform Products may be adaptable for use in digital networks in the future. The Company believes that a majority of wireless telephone subscribers in the United States use analog networks today, but that the industry is undertaking a shift to digital networks due to certain advantages of digital technology, including expanded capacity, greater privacy and enhanced security. In addition, alternative cloning fraud prevention products are available in both digital and analog networks, such as A-Key authentication. See "Business -- Competition" above. The Company expects that A-Key authentication will be widely deployed in digital networks over time. Accordingly, the Company does not believe that wireless telephone carriers will purchase RF fingerprinting fraud prevention solutions, such as the Blackbird Platform Products, for their digital networks unless and until the encryption technology that forms the basis for A-Key authentication is compromised. The shift from analog networks to digital networks, the expanded use of alternative cloning fraud prevention technologies such as A-Key authentication, and other technological developments in the wireless communications industry, could each reduce or eliminate demand for the Company's Blackbird Platform Products. There can be no assurance that the Company will be successful in modifying or developing its existing or future products in a timely manner, or at all, to respond to changing market, customer or technological requirements. If the Company is unable, due to resource, technological or other constraints, to adequately anticipate or respond to changing market, customer or technological requirements, the Company's business, financial condition and results of operations will be materially adversely affected. Further, there can be no assurance that products or services developed by others will not render the Company's products and services non-competitive or obsolete.

Dependence on New Product Development and Product Enhancements. The Company's future success will depend, in part, on its ability to timely develop, introduce and gain acceptance of new products and services and enhancements to existing products and services to meet the needs of the Company's target industries. The Company is continually seeking to enhance its existing products and to develop new products. However, the Company remains subject to all of the risks inherent in product development, including unanticipated technical or other development problems that could result in material delays in product introduction and acceptance or significantly increased costs. There can be no assurance that the Company will be able to successfully enhance existing products or develop new products, or to timely introduce and gain acceptance of such enhancements and new products in the marketplace.

Ability to Manage Changing Business Conditions. The Company's future operating results will depend, among other things, on its ability to manage changing business conditions. If the Company's management is unable to do so effectively, its business, financial condition and results of operations could be materially adversely affected. The Company's ability to manage changing business conditions depends, in part, on its ability to attract, train and retain a sufficient number of qualified personnel to meet the ongoing needs of the Company. During 1998 and 1999, the Company implemented a restructuring plan that included, among other initiatives, reducing its workforce by approximately 80% from December 1997 staffing levels. Failure to properly manage the effects of such activity may limit the Company's ability to attract, train and retain qualified personnel and may increase the Company's recruiting and training costs. If the Company is unable to recruit and retain a sufficient number of qualified personnel, it could be forced to limit its growth or possibly curtail its operations. There can be no assurance that the Company will be successful in attracting, training and retaining the required number of qualified personnel to support the Company's business in the future. Failure to manage the Company's operations with the reduced staffing levels discussed above may further strain the Company's management, financial and other resources, and could have a material adverse effect on the Company's business, financial condition and results of operations.

Limited Customer Base; Reliance on Significant Customers. The Company's potential customer base is relatively limited due to the significant concentration of ownership and/or operational control of telecommunication markets. Currently, the Company markets its Blackbird Platform Products only to wireless communications carriers that operate analog networks. Historically, a significant portion of the Company's revenues in any given period has been attributable to a relatively small number of customers. This trend is likely to continue for the foreseeable future. Sales to customers aggregating 10% or more, either individually or combined as affiliates due to common ownership, were concentrated as follows: one customer whose purchases represented 24% of consolidated 2000 sales, four customers whose purchases represented 46%, 21%, 14% and 12% of consolidated 1999 sales and three customers whose purchases represented 41%, 20% and 19% of 1998 sales. The aggregate sales to these customers represented 24% and 93% of the Company's consolidated phone card, systems and service revenues in 2000 and 1999, respectively, and 80% of the Company's total systems and service revenues in 1998. There can be no assurance that such customers will continue to maintain business relationships with the Company. Accordingly, the loss of one or more major customers could have a material adverse effect on the Company's business, financial condition and results of operations.

Competition. The market for the Company's products and services is highly competitive and subject to rapid technological change, regulatory developments and emerging industry standards. A number of companies currently offer one or more products or services similar to the products and services offered by the Company. In addition, many carriers and vendors of telecommunications products are or may be capable of developing and offering products and services that are competitive with the Company's current products and services or any new products or services that the Company may offer in the future. See "Business -- Competition" above.

The Company believes that, among other competing technologies, A-Key authentication poses significant future competition for the Blackbird Platform Products in the cloning fraud prevention arena. See "Business -- Competition" above. The Company believes the demand for its Blackbird Platform Products would be materially adversely affected if wireless communications carriers implement A-Key authentication applicable to analog phones as their sole or major cloning fraud prevention solution in major markets, if wireless communications carriers adopt a uniform digital standard that reduces the need for digital phones to operate in analog mode while roaming, or if analog phone manufacturers change product designs and/or manufacturing standards in such a way as to impact the performance of the Blackbird Platform Products. See also "Business Risks -- Dependence on Analog Networks; Industry and Technological Changes" above.

The Company also is aware of many competitors which currently or are expected to compete directly with the Company's prepaid phone card products. The market for prepaid phone cards in the United States is increasingly competitive. In part, the Company competes with the long-distance telecommunications service providers as well as their service resellers, including service providers and resellers for whom the Company resells prepaid long-distance telephone services through its prepaid phone card products. Many of these competitors, including AT&T Corp.,

MCI WORLDCOM, Inc., and Sprint Corporation, are substantially larger and have longer operating histories, greater name recognition, larger customer bases, and substantially greater financial, marketing, technical and other resources than the Company.

In addition, trends in the telecommunications industry, including greater consolidation and technological or other developments that make it simpler or more cost-effective for telecommunications carriers to provide certain services themselves, could affect demand for the Company's products and services and could make it more difficult for the Company to offer a cost-effective alternative to a carrier's own capabilities. Current and potential competitors have established or may in the future establish collaborative relationships among themselves or with third parties, including third parties with whom the Company has a relationship, to increase the visibility and utility of their products and services. Accordingly, it is possible that new competitors or alliances may emerge and rapidly acquire significant market share. In addition, the Company anticipates continued growth in the telecommunications industry and, consequently, the entrance of new competitors in the future. An increase in competition could result in price reductions and loss of market share and could have a material adverse effect on the Company's business, financial condition and results of operations.

To remain competitive, the Company will need to continue to invest in engineering, research and development, sales and marketing, customer service, manufacturing activities and administrative systems. There can be no assurance that the Company will have sufficient resources to make such investments or that the Company will be able to make the technological advances necessary to remain competitive. Many of the Company's current and potential competitors have significantly greater financial, marketing, technical and other competitive resources, as well as greater name recognition, than the Company. As a result, the Company's competitors may be able to adapt more quickly to new or emerging technologies and changes in customer requirements or may be able to devote greater resources to the promotion and sale of their products and services. There can be no assurance that the Company will be able to compete successfully with its existing competitors or with new competitors.

Uncertainty Regarding Proprietary Rights. The Company's success will depend in part on its ability to protect its technology, processes, trade secrets and other proprietary rights from unauthorized disclosure and use and to operate without infringing the proprietary rights of third parties. The Company's strategy is to protect its technology and other proprietary rights through patents, copyrights, trademarks, nondisclosure agreements, license agreements and other forms of protection. See "Business -- Proprietary Rights" above.

Patents issued and patent applications filed relating to products used in the Company's target industries are numerous, and the patent positions of companies in these industries, including the Company, are generally uncertain and involve complex legal and factual issues. Accordingly, there can be no assurance that any pending or future patent application of the Company or its licensors will result in issuance of a patent or that, when a patent does issue, that the scope of protection of the patent will be sufficiently broad to protect the Company's technology or provide a competitive advantage for the Company. There can be no assurance that any issued patent will not be challenged, invalidated or circumvented. Litigation or regulatory proceedings, which could result in substantial cost and uncertainty to the Company, may be necessary to enforce patent or other proprietary rights of the Company or to determine the scope and validity of a third-party's proprietary rights. There can be no assurance that the Company will succeed or will have the resources necessary to succeed in any such litigation or regulatory proceedings.

Although the Company believes that its technology has been independently developed and that its products do not infringe patents known to be valid or violate other proprietary rights of third parties, it is possible that such infringement of existing or future patents or violation of proprietary rights may occur. There can be no assurance that the Company is aware of all third-party proprietary rights that may materially affect the Company's ability to make, use or sell its current or future products and services. United States patent applications, for example, are confidential while pending at the United States Patent and Trademark Office, and the laws of many foreign countries do not protect proprietary rights to the same extent as the laws of the United States. There can be no assurance that third parties will not assert infringement claims with respect to the Company's current or future

products or services, or that any such claims will not result in litigation or regulatory proceedings or require the Company to modify its products or enter into licensing arrangements, regardless of the merits of such claims. See "Business Risks -- Risk of Litigation" below. No assurance can be given that the Company will have the resources necessary to successfully defend against any such infringement claims or that any necessary licenses can be obtained in a timely manner, upon commercially reasonable terms, or at all. Parties making such infringement claims may be able to obtain injunctive or other equitable relief that could effectively limit or prohibit the Company's ability to make, use or sell its current or future products or services. The Company's failure to successfully defend against any such claims or obtain any such license could result in substantial cost and uncertainty to the Company and have a material adverse effect on the Company's business, financial condition or results of operations.

The Company employs various physical security measures to protect its software source codes, technology and other proprietary rights. However, such measures may not afford complete protection and there can be no assurance that others will not independently develop similar source codes, technology or other proprietary rights or obtain access to the Company's software codes, technology, or other proprietary rights. In addition, although the Company has and expects to continue to have internal nondisclosure agreements with its employees and consultants and strategic partners, and license agreements with customers, which contain restrictions on disclosure, use and transfer of proprietary information, there can be no assurance that such arrangements will adequately protect the Company's proprietary rights or that the Company's proprietary rights will not become known to third parties in such a manner that the Company has no practical recourse. The Company's failure to successfully defend against any such claims or obtain any such license could result in substantial cost and uncertainty to the Company and have a material adverse effect on the Company's business, financial condition or results of operations.

Risk of Litigation. From time to time, the Company may be a party to legal proceedings, which may or may not be in the ordinary course of business and which may have a material adverse effect on the Company's business, financial condition or results of operations. No such proceedings are currently pending.

Need for Additional Financing. The Company's needs for additional financing will depend upon a number of factors, including, but not limited to, the commercial success of the Company's existing products and services, the timing and success of new products and services (if any), the progress of the Company's research and development efforts, the Company's results of operations, the status of competitive products and services, and the timing and success of potential strategic alliances or acquisitions of businesses, technologies or assets. In addition, the Company historically has experienced uneven cash flow and operating results, and, during two of the past four years, significant operating losses. The Company believes the combination of existing cash reserves and projected cash flow from operations will provide sufficient cash to fund its operations for at least the next 12 to 18 months. However, if the Company is unable to maintain profitability or achieves sales growth requiring working capital beyond current amounts, the Company may be required to seek additional financing sooner than currently anticipated or may be required to curtail some of its activities. There can be no assurance that additional financing will be available on acceptable terms, or at all. The Company's failure to obtain such additional financing, if needed, could have a material adverse effect on the Company's business, financial condition and results of operations.

Fluctuations in Quarterly Performance. The Company has experienced fluctuations in its quarterly operating results and anticipates that such fluctuations may continue and/or intensify. The Company's quarterly operating results may vary significantly depending on a number of factors, such as : dependence on analog cellular networks for certain products and services; vulnerability to rapid industry change and technological obsolescence; changes in regulations affecting the wireless industry; limited customer base and reliance on a relatively small number of customers and customer contracts; dependence on a limited number of existing products and services; uncertainty of continued demand for and market penetration of its existing products and services under existing and future contracts; long sales cycles; uncertainty in its ability to timely develop, introduce and gain acceptance of new products and services; uncertainty of the demand for and market penetration of new products and services; the possible impact of competitive products and pricing; the risk that its current and future products may contain errors

or be affected by technical problems that would be difficult and costly to detect and correct; manufacturing difficulties, including reliance on a limited number of outside vendors for key components and processes; potential difficulties in managing changing business conditions; dependence on key personnel; the availability of financing; changes in the Company's operating expenses; uneven revenue streams; the timing of payments by customers; the Company's revenue recognition practices and policies; and general economic conditions. There can be no assurance that the Company's results of operations will not vary significantly among quarterly periods or that in future quarterly periods the Company's results of operations will not be below prior results or the expectations of public market analysts and investors.

Volatility of Stock Price. The market for the Company's common stock is highly volatile. The trading price of the Company's common stock has been and could continue to be subject to wide fluctuations in response to quarterly variations in operating and financial results, announcements of technological innovations or new products by the Company or its competitors, changes in prices of the Company's or its competitors' products and services, changes in the Company's revenue and revenue growth rates, changes in the Company's stock market listing status, as well as other events or factors. See "Business Risks -- Fluctuations in Quarterly Performance" above. Statements or changes in opinions, ratings, or earnings estimates made by brokerage firms or industry analysts relating to the markets in which the Company competes have resulted, and could in the future result, in an adverse effect on the market price of the Company's common stock. In addition, the stock market has from time to time experienced extreme price and volume fluctuations which have particularly affected the market price for the securities of many high technology companies and which often have been unrelated to the operating performance of these companies. These broad market fluctuations may adversely affect the market price of the Company's common stock.

History of Net Losses; Accumulated Deficit. As of December 31, 2000, the Company had an accumulated deficit of \$21.7 million, the majority of which has accumulated during the three years ended December 31, 1998. See Part II, Item 7, entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" below for a more detailed description of the Company's accumulated deficit and history of net losses. There can be no assurance that the Company's operations will be profitable on a quarterly or annual basis in the future or that existing revenue and earnings levels can be enhanced or sustained. Past and existing revenue levels should not be considered indicative of future operating results. Operating results for future periods are subject to numerous risks and uncertainties, including those specified elsewhere in this report. If the Company is not successful in addressing such risks and uncertainties, the Company's business, financial condition and results of operations will be materially adversely affected.

Dependence on Personnel. The Company's future success depends in large part on its ability to continue to attract, motivate and retain highly qualified personnel, particularly the members of its senior management and certain other employees who may be difficult to replace. Competition for such personnel is intense and there can be no assurance that the Company will be successful in attracting, motivating and retaining key personnel. The Company also believes stock options are a critical component for motivating and retaining its key personnel. The decline in the Company's stock price during the past three years has made stock options previously granted with higher exercise prices less valuable to the Company's current employees and has consequently made it more difficult for the Company to retain its key personnel. The inability to hire and retain qualified personnel or the loss of the services of key personnel could have a material adverse effect upon the Company's business, financial condition and results of operations. The Company does not maintain any key-man life insurance policies on any of its employees.

Adequate Staffing Levels and Management of Growth. The Company's accounting and financial requirements have become more complex with the addition of its ISIS business and this trend is expected to continue as its Neumobility products reach the marketplace. The Company's failure to adequately recruit, hire, train and retain sufficient qualified staff to enable proper financial and accounting control of the Company's growth could have a material adverse effect on the Company's business, financial condition and results of operations.

Risk of Hardware Manufacturing Activities. For the most part, the Company's engineering resources historically

have been devoted to software design and development. As a result, only a limited number of such resources were initially used in the design and prototype production of the Company's proprietary hardware. The Company continues to utilize third-party vendors for hardware design, engineering, manufacturing and integration of certain proprietary printed circuit boards, radio equipment and other subassemblies that are components of the Company's Blackbird Platform Products. The Company will continue to depend on third-party vendors for manufacturing activities with respect to the design and engineering of hardware, and its future success will depend on maintaining relationships with such third-party vendors, improving its inventory control systems, maintaining effective quality control and procuring sufficient quantities of component parts. Failure to achieve any of these factors could have a material adverse effect on the Company's business, financial condition and results of operations.

Dependence on Third-Party Vendors. The Company has been and will continue to be dependent on third-party vendors for a variety of components incorporated in its products and services, including such items as quality long-distance service and related telecommunications services, competitive end-user rates and wholesale discounts, accurate and reliable access numbers and PIN codes, prepaid phone cards, computer equipment, network services, component parts, manufacturing services, maintenance services, systems integration and certain software. While available from multiple sources, some of these items are obtained from a single supplier or a limited number of sources. Although the Company believes that there are currently available substitute sources for all of these items, the Company could be required to redesign or modify affected products to accommodate for substitutions. The Company's reliance on third-party suppliers generally, and a sole or a limited number of sources in particular, involves several risks, including financial condition of the suppliers and a potential inability to obtain an adequate supply of required components and reduced control over quality, pricing and timing of delivery of components. There can be no assurance that the Company will be able to procure necessary components on a satisfactory and timely basis. Any failure or delay in obtaining necessary components or, if necessary, establishing alternative procurement arrangements, could cause delays in product commercialization and could require product redesign or modification. There can be no assurance that the Company could complete any necessary modifications in a timely manner or that modified or redesigned products would maintain current functionality or performance features or could be successfully commercialized. Any inability or delay in establishing necessary procurement arrangements or successfully modifying products could have a material adverse effect on the Company's business, financial condition and results of operations.

Dependence on Distributors. The Company's Blackbird Platform Products are currently marketed primarily through the Company's direct sales efforts. However, its prepaid phone card products are currently marketed through multiple distribution channels. The Company believes that its dependence on distributors and these other sales and marketing relationships will increase in the future, both with respect to its prepaid phone card products and any new products and services that the Company may offer in the future. There can be no assurance that any existing or future distributors or other sales and marketing partners will not become competitors of the Company with respect to its prepaid phone card products or any new products and services, either by developing their own competitive products and services or by distributing the competitive offerings of others. Any failure by the Company's existing and future distributors or other sales and marketing partners to generate significant revenues could have a material adverse effect on the Company's business, financial condition and results of operations.

Risk of Product Defects. It is common for hardware and software as complex and sophisticated as that incorporated in the Company's products and services to experience errors or "bugs" both during development and subsequent to commercial deployment. In particular, the Company has encountered certain software and hardware errors in its Blackbird Platform Products and to date corrected the majority, but not all, of such errors identified to date. There can be no assurance that any errors in the Company's existing or future products will be identified, and if identified, corrected. Any such errors could delay additional installations of products and require modifications in products that have already been installed. Remedying such errors has been and may continue to be costly and time consuming. Delays in remedying any such errors could materially adversely affect the Company's competitive position with respect to existing or new products offered by its competitors. Once the Company's products are installed, they are subject to compliance with certain contractual requirements, which may include acceptance testing to ensure that they are properly installed and performing in accordance with contractual specifications.

While the Company has achieved acceptance of a substantial number of products shipped to date, there can be no assurance that current or future installations of the Company's products will satisfy all contractual requirements. In addition, product warranties are generally included as part of the Company's contractual obligations. To the extent that available support or maintenance fees from its products are not adequate to cover the costs of making any necessary modifications or meeting the Company's warranty obligations, the Company could be required to make significant additional expenditures, which could have a material adverse effect on the Company.

Risk of System Failure. The Company operates and maintains internal computers and telecommunication equipment for, among other things, monitoring and supporting its products and services and operating its No Clone Zone roaming fraud prevention service. The Company's operations are dependent upon its ability to maintain such equipment and systems in effective working order and to protect them against damage from fire, natural disaster, power loss, communications failure, unauthorized entry or other events. Although the Company provides back up for substantially all of its systems, these measures do not eliminate the risk to the Company's operations from a system failure. In addition to its own systems, the Company relies on certain equipment, systems and services from third parties that are also subject to risks, including risks of system failure. There can be no assurance that the Company's property and business interruption insurance will be adequate to compensate the Company for any losses that may occur in the event of a system failure. Any damage, failure or delay that causes interruptions in the Company's operations could have a material adverse effect on the Company's business, financial condition and results of operations.

International Operations. To the extent that the Company pursues potential sales opportunities for its products and services in international markets, the Company is and will remain subject to all the risks inherent in international sales activities, such as lengthy sales cycles, high costs of sales, changes in export, import, tariff and other trade regulations, currency exchange rates, foreign tax laws and other legal, economic and political conditions. There can be no assurance that the occurrence of any of the foregoing will not have a material adverse effect on the Company's business, financial condition and results of operations. Further, the laws of certain foreign countries do not protect the Company's intellectual property to the same extent as the laws of the United States. See "Business Risks -- Uncertainty Regarding Proprietary Rights." In certain international markets, the Company will need to modify its products or develop new or additional products to adapt to the different wireless technologies or network standards utilized by the carriers in such markets. There can be no assurance that the Company's marketing efforts and technological enhancements will result in successful commercialization or market acceptance or penetration in such international markets. If the Company is unable to adequately anticipate and respond to marketing or technological requirements in the international marketplace, the Company's business, financial condition and results of operations could be materially adversely affected.

Government Regulation and Legal Uncertainties. While, for the most part, the Company's operations are not directly regulated, certain of the Company's existing and potential customers, vendors and strategic alliance partners are subject to a variety of United States and foreign governmental laws, regulations and other requirements. The terms of any existing laws, regulations or other requirements, or any changes thereto, may inhibit the growth of the telecommunications industry, limit the number of potential customers for the Company's products and services and/or impede the Company's ability to offer competitive services to the telecommunications market or otherwise have a material adverse effect on the Company's business, financial condition and results of operations. Recently enacted federal legislation deregulating the telecommunications industry has caused and is expected to continue causing changes in the industry, including entrance of new competitors or industry consolidation, which could in turn subject the Company to increased pricing pressures, decrease the demand for the Company's products and services, increase the Company's cost of doing business or otherwise have a material adverse effect on the Company's business, financial condition and results of operations.

Item 2. Properties

The Company leases approximately 10,000 square feet of general office space in Seattle, Washington for its corporate offices under a three-year non-cancelable operating lease that expires in September 2003. The lease

contains renewal options and provides for the pass-through to the Company of increases in operating and other costs. The Company also has a lease for approximately 4,000 square feet of space in Seattle, Washington, for assembly, testing and general warehouse purposes expiring in December 2001, subject to certain early termination provisions. Additionally, the Company currently has four lease arrangements in connection with its prepaid phone card operations, which include a 15-month sublease for approximately 1,200 square feet of general office space in Lyndhurst, New Jersey expiring May 2001, a 16 month lease for approximately 1,200 square feet of general office space in Stoneham, Massachusetts expiring June 2001, a three-year lease for approximately 1,100 square feet of general office space in Hinsdale, Illinois expiring July 2003 and a three-year lease for approximately 1,700 square feet of general office space in Los Angeles, California expiring March 2003.

Item 3. Legal Proceedings

In January 2001 the Company filed an arbitration claim against CMT Partners, a Delaware general partnership d/b/a AT&T Wireless Services for breach of contract and recovery of approximately \$900,000 of damages, plus attorneys' fees and costs. The arbitration is scheduled to be completed during the second quarter of 2001. The Company believes it has a strong position in this matter, however, the outcome of such arbitration cannot be predicted.

From time to time, the Company may be a party to legal proceedings, which may or may not be in the ordinary course of business and which may have a material adverse effect on the Company's business, financial condition or results of operations. No such proceedings are currently pending.

Item 4. Submission of Matters to a Vote of Security Holders

There were no matters submitted to a vote of security holders of the Company, through solicitation of proxies or otherwise, during the fourth quarter of the fiscal year covered by this Annual Report.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

The following table sets forth, for each quarter during fiscal 1998 and 1999 and for the period from January 1, 2000 through March 12, 2000, the reported high and low sales prices of the Company's Common Stock on The Nasdaq Stock Market (National Market System) (Symbol: "CTSC"). Prices and the number of shares of the Company's common stock described in this Item 5 have been adjusted to give effect to the one-for-ten stock combination (reverse stock split) described in this report, which was consummated as of January 5, 1999.

	Sales Price	
	High	Low
	----	---
1999		

First Quarter	4.38	1.88
Second Quarter	12.00	1.69
Third Quarter	6.25	3.25
Fourth Quarter	13.50	3.19
2000		

First Quarter	18.56	7.56
Second Quarter	16.38	6.75
Third Quarter	11.38	7.06
Fourth Quarter	8.50	2.22
2001		

First Quarter through March 12, 2001	7.00	2.59

As of March 12, 2001, the number of holders of record of the Company's Common Stock was 202, and the number of beneficial shareholders was estimated to be in excess of 4,700.

There were no dividends paid or other distributions made by the Company with respect to its Common Stock during 2000 or 1999.

Item 6. Selected Consolidated Financial Data(1)

Statement of Operations Data:	Year Ended December 31, (In 000's, except per share amounts)				
	2000	1999	1998	1997	1996
Revenues	\$ 25,973	\$ 10,241	\$ 11,955	\$ 30,255	\$ 20,902
Gross Research & Development Expenditures(2)	1,480	1,593	5,112	9,814	7,010
Net Income (Loss)	2,552	2,599	(10,860)	(5,046)	(7,350)
Basic Earnings (Loss) Per Share(3)	1.12	1.14	(4.76)	(2.22)	(3.34)
Diluted Earnings (Loss) Per Share(3)	1.09	1.13	(4.76)	(2.22)	(3.34)
Weighted-Average Shares Outstanding:					
Basic	2,287	2,282	2,281	2,273	2,199
Diluted	2,339	2,292	2,281	2,273	2,199
Cash Dividends Declared	--	--	--	--	--

Balance Sheet Data:	December 31, (In 000's)				
	2000	1999	1998	1997	1996
Working Capital	\$ 5,443	\$ 3,621	\$ 596	\$ 6,535	\$ 11,409
Cash	4,529	4,787	1,567	3,448	4,854
Capitalized Software Development Costs, net	--	178	535	3,391	3,599
Total Assets	9,774	10,202	8,102	20,721	32,352
Long Term Investment	1,758	1,000	--	--	--
Total Stockholders' Equity	8,268	5,673	3,072	13,890	18,185

(1) Certain reclassifications have been made to the prior year financial statements to conform to current period's presentation.

(2) Gross research and development expenditures presented in this Statement of Operations Data are higher than research and development costs and expenses disclosed in the Statements of Operations for 1998 and earlier due to the inclusion herein of capitalized software development costs and contract design and development services costs which are disclosed elsewhere in the financial statements. The Company did not capitalize any software development costs in 1999 or 2000. See "Management's Discussion and Analysis of Financial Condition and Results of Operations".

(3) Per common share amounts and weighted average shares outstanding have been retroactively adjusted to give effect to the two-for-one stock split in 1996 and the one-for-ten reverse stock split effective January 5, 1999. In years where the Company incurred a net loss, common equivalent shares were not used in calculating Diluted EPS, as the effect would be antidilutive.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis provides information which management believes is relevant to an assessment and understanding of the Company's results of operations and financial condition. The discussion should be read in conjunction with the financial statements and notes thereto. Unless the context otherwise requires, all references to the "Company" herein include Cellular Technical Services Company, Inc. and any entity over which it has or shares operational control.

Special Note Regarding Forward-Looking Statements

This Annual Report on Form 10-K contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that reflect the Company's views with respect to future events and financial performance. The Company uses words and phrases such as "anticipate," "expect," "intend," "the Company believes," "future," and similar words and phrases to identify forward-looking statements. Reliance should not be placed on these forward-looking statements. These forward-looking statements are based on current expectations and are subject to risks, uncertainties and assumptions that could cause, or contribute to causing actual results to differ materially from those expressed or implied in the applicable statements. Readers should pay particular attention to the descriptions of risks and uncertainties described in this report and in the Company's other filings with the Securities and Exchange Commission. All forward-looking statements included in this report are based on information available to the Company on the date of this report. The Company assumes no obligation or duty to update any such forward-looking statements.

Overview

The Company develops, markets, distributes and supports a diversified mix of products and services for the telecommunications industry. Over the past 12 years, the Company has developed expertise in real-time wireless call processing and has created technologically advanced solutions for this industry, focusing primarily in the area of wireless communications fraud management. During 1999 and 2000, the Company implemented a short and long-range strategic plan to diversify its product mix, both within and outside of the telecommunications industry. This diversification strategy is at the foundation of the Company's growth plan for the future.

Products

The Blackbird Platform Products

The Company's Blackbird'r' Platform product line includes a suite of radio frequency ("RF") based platform solutions focusing on wireless fraud prevention. Presently, it involves various forms of "pre-call" verification to ensure that the use of an analog wireless telephone is legitimate before the device is allowed to connect to a carrier's analog wireless communications network. In this area, the Company is a leading provider of RF-based solutions for the prevention of "cloning fraud." This term is used to describe the illegal activity of using a scanning device to steal the electronic serial number and mobile identification number of a legitimate wireless telephone while in use, then reprogramming the stolen numbers into other phones. These reprogrammed phones, or "clone phones," are then used to make illegal calls on a wireless communications network, without payment for the wireless services rendered. The Company's suite of RF-based platform solutions include the Blackbird'r' Platform, PreTectTM cloning-fraud prevention application, No Clone Zonesm roaming-fraud prevention service, and related application products and services (collectively, the "Blackbird Platform Products"). The Company's Blackbird Platform Products are currently deployed in approximately 1,600 cell sites in most major metropolitan areas throughout the United States. The Company's customers have reported up to a 98% reduction in cloning fraud activity in areas served by the Blackbird Platform Products since its initial installation, and continue to rely on its cloning prevention capabilities for their existing analog wireless communications networks.

Prepaid Wireline Long-Distance Phone Cards

To stimulate revenue growth for the Company, and in alignment with its product diversification strategy, the Company expanded into the prepaid long-distance service arena in the fourth quarter of 1999. Through its new majority-owned subsidiary, Isis Tele-Communications, Inc., the Company markets and distributes branded prepaid long-distance phone cards in denominations generally ranging from \$5 to \$20 per card. Isis specializes in targeted marketing programs and features local and toll-free access numbers and aggressive domestic and international long-distance rates. Isis distributes cards through regional and national multi-level distribution channels, using direct sales, third party distributors and telemarketing. The Company anticipates that its ability to provide aggressive per-minute rates, broad multi-level distribution coverage, and quality customer service will provide the key ingredients to fueling revenue growth and future product expansion of this product line for the Company. Isis has sales offices in Los Angeles, Boston and Chicago.

Geo-Location Wireless Applications Investment and Product Development

The Federal Communications Commission ("FCC") has required all wireless carriers to deploy wireless geo-location technology by October 2001 to provide comparable 911 services to wireless telecommunications subscribers. Wireless geo-location technology provides and identifies the specific geographic location (in latitude and longitude measurements) of a wireless telephone, and can eventually be applied to other wireless communications devices. Industry analysts have estimated the market for commercial geo-location applications to be well over \$8.0 billion. During the fourth quarter of 1999, and as part of the Company's long-term diversification strategy, the Company made a strategic investment in KSI, Inc. ("KSI"), a provider of development-stage wireless geo-location technology. In August 2000, TruePosition, Inc., a subsidiary of Liberty Media Corporation, acquired KSI. The Company's total investment in TruePosition, Inc. common at December 31, 2000 was \$1,758,000.

In late 1999 the Company began development of a location-based wireless software product platform and mobile commerce applications. The Company expects to leverage its entrance into the geo-location marketplace by developing, marketing, distributing, and supporting a suite of commercial geo-location applications as the technology evolves and is deployed by all wireless carriers to comply with the FCC's requirements. In January 2001 the Company formed a division called Neumobility™ for this product line. The Neumobility family of products includes a scalable platform and an application suite providing location-based information utilizing both network and satellite positioning technologies. The platform is called NeuTrac™, and is a system utilizing positioning data to create, maintain and deliver relevant content and services in a location-based format. The NeuTrac platform is configurable and creates a combination of subscription-based, pay-per-use and free value-added services. The application suite will include: NeuCommerce™, which allows for personalized, permission-based one-to-one marketing; NeuMerchant™, which allows for the tracking of merchant offers and creates metrics to analyze the impact of marketing efforts; NeuMap™, which creates directions based upon positioning data; NeuList™, which adds a location-sensitive component to wireless e-mail functions; and NeuJournal™, a journaling feature which allows for the documentation of location and content. The Company anticipates completing the initial product suite in 2001.

Revenue and Expense

Revenue

During 2000, the Company generated revenue through three sources: (i) Isis pre-paid phonenumber product sales, (ii) Blackbird systems revenue, and (iii) Blackbird service revenue.

Prepaid phone-card revenue is comprised of wholesale and retail sales of prepaid local, long-distance and wireless products. The revenue is recognized at shipment of product, net of reserves for estimated returns. The Company maintains an allowance for sales returns for prepaid phone cards based on estimated returns in accordance with

SFAS 48. Estimated returns, along with their costs, have been reflected as a reduction in sales and cost of goods sold, respectively, and reflected as a reduction in accounts receivable and an increase in inventory, respectively.

Systems revenue is generated from licensing and sales of the Company's proprietary software and hardware products, the sale of third-party products sold in connection with the Company's proprietary products and, to a lesser extent, fees earned in connection with the installation and deployment of these products. Revenue is recognized when all of the following conditions are met:

- (i) persuasive evidence of an arrangement exists;
- (ii) delivery has occurred, including satisfaction of all contractual obligations, and other elements that are essential to the functionality of the delivered products have been satisfied;
- (iii) the amount is fixed or determinable; and
- (iv) collectability is probable.

Revenue is deferred if the above conditions are not met, based on vendor specific objective evidence ("VSOE") of the fair value for all elements of the arrangement. VSOE is typically based on the price charged when an element is sold separately, or, in the case of an element not yet sold separately, the price established by authorized management, if it is probable that the price, once established, will not change before market introduction. Elements included in multiple element arrangements could consist of software products, upgrades, enhancements, customer support services, or consulting services.

Service revenue is derived primarily from hardware and software maintenance programs, No Clone Zone roaming fraud prevention service, Blackbird Platform Monitoring service and related professional services provided in support of the Company's currently deployed product base. Service revenue is recognized ratably over the period that the service is provided. Hardware and software maintenance generally begins after system acceptance. Prepaid or allocated maintenance and services are recorded as deferred revenue.

Revenue recognition for the Company's systems varies by customer and by product. Every element of a contract must be identified and valued based upon VSOE, regardless of any stated price in the contract. Revenue from any undelivered elements of a contract is deferred. However, any undelivered element essential to the functionality of the delivered product will cause a 100% deferral of the sale. Amounts billed and received on sales contracts before products are delivered or before revenue is recognized or recognizable are recorded as customer deposits or deferred revenue.

Costs and Expenses

Costs of phone cards, systems and services are primarily comprised of the costs of: (i) prepaid phone card costs; (ii) equipment, including both proprietary and third-party hardware and, to a lesser extent, manufacturing overhead and related expenses; (iii) amortization of capitalized software development costs; (iv) systems integration and installation; (v) royalty fees related to the licensing of intellectual property rights from others; (vi) customer support; and (vii) activities associated with the evaluation, repair and testing of parts returned from the field in connection with the Company's ongoing hardware maintenance service activities.

Research and development expenditures include the costs for research, design, development, testing, preparation of training and user documentation and fixing and refining features for the software and hardware components included in the Company's current and future products and services.

The Company expects that its costs and expenses in these and other areas will continue to be incurred in the future, due to the ongoing need to: (i) make investments in research and development to enhance existing products and services and to develop new products and services to address emerging market opportunities, such as those in the geo-location and prepaid phone card markets; (ii) enhance its sales and marketing activities; (iii) enhance hardware

maintenance processes; (iv) enhance its customer support capabilities; and (v) enhance its general and administrative activities.

Year ended December 31, 2000 compared to year ended December 31, 1999

Overview

Total revenues increased 154% to \$26.0 million in 2000 from \$10.2 million in 1999, and the Company generated net income of \$2.6 million, or \$1.12 per basic share in 2000, compared to \$2.6 million, or \$1.14 per basic share in 1999. The Company recognized an alternative minimum tax expense of \$58,000 in 2000 compared to \$31,000 in 1999.

As described below, the increased overall revenue was due to an increase in revenue from the Company's new ISIS Tele-Communications, Inc. subsidiary from prepaid long distance phone products, offset by a 22% decrease in combined sales and service revenue from the Company's Blackbird Platform Products. The Company attributes the lower revenue from its Blackbird Platform Products to: (i) a reduction in domestic market opportunities for the Company's cloning fraud prevention technology due to the effectiveness of this and other authentication-based products in combating cloning fraud; (ii) lower market penetration than originally planned of Company's cloning fraud prevention technology; and (iii) the lack of significant additional new sales of the Company's cloning fraud prevention technology in 2000.

Revenue

Phonecard revenue totaled \$18.0 million in 2000. Revenue was \$19,000 from sales of prepaid phone cards in 1999. Blackbird systems and service revenue decreased 22% to \$7.9 million in 2000 from \$10.2 million in 1999 due to the factors discussed above.

Cost of Phonecards, Systems and Services

Costs of phonecards, systems and services increased to \$20.5 million in 2000 from \$3.7 million in 1999. As a percent of total revenue, the costs were 79% and 37% for the 2000 and 1999 periods, respectively. The increase in the amounts and percentages of costs for 2000 relative to 1999 is primarily due to the prepaid phone card business being a larger percentage of the Company's overall business with lower gross margins compared to the Company's other products. Included in costs of goods sold for the Company's Isis subsidiary were write-offs related to bankruptcies of three of its suppliers during 2000 totaling approximately \$1.3 million. Partially offsetting these increases in costs were decreases in amortization of capitalized software development costs and expense reductions relating to reduced headcount and consolidation of warehousing facilities.

Operating Expenses

Sales and marketing expenses increased to \$1.4 million in 2000 from \$0.7 million in 1999. As a percent of total revenue, the costs were 5% and 7% for the 2000 and 1999 periods, respectively. The increase in sales and marketing expenses is attributable to costs incurred in selling and marketing prepaid phone cards in 2000 offset by a decrease in sales and marketing expenses for the Blackbird Platform products.

General and administrative expenses remained comparable at \$2.1 million in 2000 and 1999.

Research and development costs decreased to \$1.5 million in 2000 from \$1.6 million in 1999. The decrease in expenditures in 2000 was attributable to reduced staffing levels and related expenditures from the prior year period, partially offset by increased spending on product enhancements and new product research in the geo-location application technology area.

Other Income, net

Other income was \$1.7 million in 2000, compared to \$0.3 million in 1999. The 2000 period included a net legal settlement of \$1.5 million received by the Company and the 1999 period included a net state sales tax refund of \$0.5 million.

Interest Income, net

Interest income increased to \$0.4 million in 2000 from \$0.3 million in 1999, resulting from higher average cash balances on hand and higher average interest rates earned on invested cash in 2000 compared to 1999.

Year ended December 31, 1999 compared to year ended December 31, 1998

Overview

Total revenues decreased 14% to \$10.2 million in 1999 from \$12.0 million in 1998 and the Company generated net income of \$2.6 million, or \$1.14 per basic share in 1999 compared to a net loss of \$10.9 million, or \$4.76 per basic share in 1998. The Company recognized an alternative minimum tax expense of \$31,000 during the 1999 period.

While the Company enjoyed increased service revenue, as described below, the Company attributes the total lower revenue to: (i) a reduction in domestic market opportunities for the Company's cloning fraud prevention technology due to the effectiveness of this and other authentication-based products in combating cloning fraud; (ii) lower market penetration than originally planned of Company's cloning fraud prevention technology; and (iii) the lack of significant additional new sales of the Company's cloning fraud prevention technology in 1999.

The improved net income performance is attributable to: (i) cost reductions that included, among other initiatives, streamlining the Company's operations, reducing its workforce and consolidating its facilities; (ii) increased service revenue originating from an increased installed base of systems; (iii) reduced non-cash charges related to inventory reserves, software amortization and fixed asset write-offs; and (iv) increased interest income due to higher average cash balances on hand during 1999.

Revenue

Service revenue increased 14% to \$8.6 million in 1999 from \$7.5 million in 1998. Approximately 96% and 92%, respectively, of the 1999 and 1998 total service revenue was derived from Blackbird Platform Products. The increase in service revenue is largely attributable to a larger installed base of Blackbird Platform Products in 1999 as compared to 1998 and additional recurring services performed in 1999 as compared to 1998. Service revenues from Hotwatch Platform Products, which were phased out of commercial use in 1999, were not material in the 1999 period. Systems revenue decreased 63% to \$1.6 million in 1999 from \$4.4 million in 1998 due to the factors discussed above.

Cost of Systems and Services

Costs of systems and services, which primarily relate to the Company's Blackbird Platform Products, decreased 74% to \$3.7 million in 1999 from \$14.4 million in 1998. Costs of systems and services, as a percent of total revenue, were 37% and 120% for the 1999 and 1998 periods, respectively. The decrease in amounts and percentages for 1999 relative to 1998 reflects:

- (i) the full-year impact of cost reductions implemented in 1998;
- (ii) reduced inventory reserve additions and capitalized software amortization;
- (iii) increased service revenue in 1999, resulting from an increased leveraging of the Company's fixed customer support operating expenses; and
- (iv) lower costs associated with the decrease in systems revenue in 1999 as discussed above.

Operating Expenses

Sales and marketing expenses decreased 20% to \$0.7 million in 1999 from \$0.9 million in 1998. The decrease in sales and marketing expense is attributable primarily to the full-year impact of reductions in average staffing levels and related expenses resulting from the cost reductions implemented in 1998.

General and administrative expenses decreased 19% to \$2.1 million in 1999 from \$2.6 million in 1998 and primarily reflect the full-year impact of a reduction in staffing levels and related expenses implemented in 1998.

Research and development costs decreased 65% to \$1.6 million in 1999 from \$4.5 million in 1998. The decrease in expenditures in 1999 was primarily attributable to the full-year impact of reduced staffing levels implemented in 1998, partially offset by spending on product enhancements and new product research.

Other Income, net

Other income was \$0.3 million in 1999 compared to a net expense of \$0.5 million in 1998. A net state sales tax refund of \$0.5 million was received in the 1999 period. Net losses on dispositions of fixed assets were \$0.2 million in 1999 and \$0.5 million in 1998.

Interest Income, net

Interest income increased to \$0.3 million in 1999 from \$0.1 million in 1998, resulting from higher average cash balances, interest income earned on customer accounts and interest earned on a state sales tax refund received in the 1999 period.

Liquidity and Capital Resources

The Company's capital requirements have historically consisted primarily of funding hardware and software research and development, property and equipment requirements, working capital and the Company's operating expenses. The Company has funded these requirements in recent years from operating profits and through issuance of common stock (including proceeds from the exercise of warrants and options). On December 31, 2000, the Company's cash balance was \$4.5 million as compared to \$4.8 million on December 31, 1999. The Company's working capital increased to \$5.4 million at December 31, 2000 from \$3.6 million at December 31, 1999. Excluding deferred revenue, working capital decreased to \$5.8 million at December 31, 2000 from \$6.7 million at December 31, 1999.

Cash Provided by Operating Activities

Cash provided by operating activities amounted to \$1.0 million in 2000, compared to \$4.2 million in 1999, and cash used in operating activities of \$1.4 million in 1998. The major factor contributing to the Company's cash flow from operating activities in the 2000 period was the \$2.6 million net income. The reduction from 1999 to 2000 primarily reflects the reduced level of deferred revenue at December 31, 2000.

Cash Used in Investing Activities

Cash used in investing activities totaled \$1.3, \$1.0 and \$0.5 million in 2000, 1999 and 1998, respectively. In 2000 the Company invested \$758,000 in common stock of KSI, Inc. The 2000 amount also included \$0.7 million in equipment and leasehold improvement capital expenditures. In 1999 the Company invested \$1.0 million in a convertible note receivable due from KSI, Inc., a provider of development-stage wireless geo-location technology. The note receivable and common stock were converted into common stock of TruePosition, Inc. during 2000. At December 31, 2000, the Company had no significant commitments for capital expenditures.

Cash Provided By Financing Activities

Cash provided by financing activities resulting from the exercise of stock options totaling \$43,000, \$2,000 and \$0 during 2000, 1999 and 1998, respectively.

Operating Trends

The Company earned \$2.6 million for the year ended December 31, 2000, compared to \$2.6 million for the year ended December 31, 1999 and an operating loss of \$10.9 for the year ended December 31, 1998. As of December 31, 2000, the Company had an accumulated deficit of \$21.7 million, which primarily accumulated during the three years ended December 31, 1998. During 1996 and 1997, the Company deployed its initial cloning fraud prevention Blackbird Platform Products and incurred substantial operating expenses during such deployment. During 1998, in response to unfavorable operating results, the Company implemented a restructuring plan that included, among other initiatives, streamlining the Company's operations to better balance expenses and revenues, and directing additional development efforts and resources towards new products to generate new sources of revenue. Through the end of 2000 the results of the Company's restructuring plan showed significant improvement in profitability and cash flow. There can be no assurance, however, that the Company's operations will be profitable on a quarterly or annual basis in the future or that existing revenue levels can be enhanced or sustained. Past and existing revenue levels should not be considered indicative of future operating results. While the Company believes that its current cash reserves and projected cash flow from operations provide sufficient cash to fund its operations for at least the next twelve to eighteen months, unanticipated changes in customer needs and/or other external factors may require additional financing and/or further expense reductions.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The Company believes that all such risks are immaterial.

Item 8. Financial Statements and Supplementary Data

The financial statements and supplementary data required by this item are included in Part IV as indexed at Item 14(a)(1) and (a)(2).

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

PART III

Item 10. Directors and Executive Officers of the Registrant

Identification of Directors and Executive Officers

The name, age, position with the Company and other information with respect to each of its directors and executive officers is as set forth below.

Name	Age	Position with Company	Year First Elected	Term of Office
Stephen Katz	57	Chairman of the Board of Directors and Chief Executive Officer	1988	2003
Lawrence Schoenberg(1),(2)	68	Director	1996	2002
James Porter(1),(2)	65	Director	1997	2001
Henry B. Ellis(1),(2)	51	Director	2001	2001
Bruce R. York	45	Vice President, Chief Financial Officer and Secretary	--	--

Business Experience

Stephen Katz, Chairman of the Board of Directors, was Acting Chief Executive Officer and Acting President from November 1992 until February 1994, at which time he became Chief Executive Officer. Mr. Katz was re-appointed as Acting President in September 1998. Mr. Katz has been Chairman of the Board and a director of the Company since its inception and a member of the Management Committee of the predecessor partnership during the entire period of its existence. From September 1984 until September 1995, Mr. Katz was Chairman of the Board, Chief Executive Officer and until September 1993, President of Nationwide Cellular Service, Inc., which was the Company's majority stockholder until May 1992 and its largest stockholder, owning 34% of its outstanding shares, until September 1995. At that time such shares were distributed to Nationwide's stockholders, immediately prior to Nationwide's merger with MCI Communications Corp. In May 1996, Mr. Katz was appointed Vice-Chairman of the Board and Chief Executive Officer of Global Payment Technologies, Inc. (formerly Coin Bill Validator, Inc.) whose business is currency validation. In September 1996, Mr. Katz was appointed Chairman of the Board and Chief Executive Officer of Global Payment Technologies, Inc.

Lawrence Schoenberg joined the Company as a director in September 1996. Mr. Schoenberg also serves as Director of Government Technology Services, Inc., Merisel, Inc., and Sunguard Data Services, Inc. Former directorships include Systems Center, Inc. (which was sold to Sterling Software, Inc.), SoftSwitch, Inc. (which was sold to Lotus/IBM Corp.), Forecross Corporation, Image Business Systems, Inc., and Penn America Group, Inc. Mr. Schoenberg founded AGS Computers, Inc. in 1967 and served as Chief Executive Officer until 1991. The company was sold to NYNEX in 1988. The microcomputer segment subsequently became a part of Merisel, Inc.

- (1) Member of the Compensation and Stock Option Committee
- (2) Member of the Audit Committee

James Porter joined the Company as a director in July 1997. Mr. Porter also serves as a Director of Silicon Valley Bank and Chairman of FirstWave Technologies, both publicly traded companies. He further serves on the Board of Directors of CCI/Triad Systems Corporation, American Central Gas Technologies and Cardone Industries, on the Board of Regents of Pepperdine University, and the Board of Trustees of Abilene Christian University. From February 1997 to June 1999, Mr. Porter served as Chairman of CCI/Triad Systems Corporation. From September 1985 to February 1997, he was President and Chief Executive Officer of Triad Systems Corporation.

Henry B. Ellis has been a director of the Company since February 2001. Since 1992 Mr. Ellis has been President and Chief Executive Officer of Bassett California Company, a family-owned real estate holding company located in El Paso, Texas. From June 1992 to February 1994 Mr. Ellis served as Chairman of the Board and Chief Executive Officer of Grayson County State Bank, located in Sherman, Texas. Since 1992 Mr. Ellis has served as a member of the Board of Directors of Bluebonnet Savings Bank, a savings and loan institution located in Dallas Texas. Mr. Ellis is also a director of Global Payment Technologies, Inc.

Bruce R. York joined the Company in April 1999 as Vice President and Chief Financial Officer. Prior to joining the Company, Mr. York was the Director of Finance of Cell Therapeutics, Inc., a biopharmaceutical company, from February 1998 to February 1999. From May 1987 to January 1998, Mr. York held various positions with Physio Control International Corporation, a manufacturer of external defibrillators, in Seattle and London, including Director of Business Planning, Director of Finance - Europe, Director of Finance and Corporate Controller, and Finance Manager. From September 1978 to April 1987, Mr. York held several positions with Price Waterhouse in Seattle and New York, including Senior Tax Manager. Mr. York is a C.P.A. and has an A.B. and an M.B.A. from Dartmouth College.

The Company's Board of Directors is divided into three classes. The Board is composed of two Class I directors, Mr. Porter and Mr. Ellis, one Class II director, Mr. Schoenberg, and one Class III director, Mr. Katz. The terms of the Class I, Class II and Class III directors expire on the dates of the 2001, 2002 and 2003 annual meetings, respectively. At each annual meeting, successors to the class of directors whose term expires at that annual meeting are elected for a three-year term. Officers are elected annually at the discretion of the Board of Directors and serve at the discretion of the Board.

Item 11. Executive Compensation

The information required by this item is incorporated by reference to the Company's definitive proxy statement relating to its 2001 Annual Meeting of Stockholders under the caption "Executive Compensation and Related Information."

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information required by this item is incorporated by reference to the Company's definitive proxy statement relating to its 2001 Annual Meeting of Stockholders under the caption "Security Ownership."

Item 13. Certain Relationships and Related Transactions

The information required by this item is incorporated by reference to the Company's definitive proxy statement relating to its 2001 Annual Meeting of Stockholders under the caption "Certain Relationships and Related Transactions."

PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a) 1. Financial Statements:

The following financial statements of Cellular Technical Services Company, Inc. are included as required to be filed by Item 8.

Report of Ernst & Young LLP, Independent Auditors	33
Consolidated Balance Sheets at December 31, 2000 and 1999	34
Consolidated Statements of Operations for the years ended December 31, 2000, 1999 and 1998	35
Consolidated Statements of Stockholders' Equity for the years ended December 31, 2000, 1999 and 1998	37
Consolidated Statements of Cash Flows for the years ended December 31, 2000, 1999 and 1998	38
Notes to Financial Statements	38

2. Financial Statement Schedules:

Schedule II - Valuation and Qualifying Accounts.....	51
--	----

All other schedules have been omitted because they are inapplicable, not required, or the information is included in the financial statements or notes thereto.

3. Exhibits:

3.1	Restated Certificate of Incorporation of the Registrant, as amended (1)
3.2	Amendment to Restated Certificate of Incorporation of the Registrant (7)
3.3	By-Laws of the Registrant (1)
3.4	Amendment I to By-Laws of the Registrant, dated October 28, 1993 (3)
4.1	Specimen Certificate for Common Stock of Registrant (1)
7.1	1991 Qualified Stock Option Plan (as amended as of November 30, 1993) +(2)
7.2	Amendment to 1991 Qualified Stock Option Plan dated July 11, 1996 +(7)
7.3	1991 Non-Qualified Stock Option Plan (as amended as of November 30, 1993) +(2)
7.4	Amendment to 1991 Non-Qualified Stock Option Plan dated July 11, 1996 +(7)
7.5	1993 Non-Employee Director Stock Option Plan +(3)
7.6	Amendment to 1993 Non-Employee Director Stock Option Plan dated July 11, 1996 +(7)
7.7	Amendment to 1993 Non-Employee Director Stock Option Plan dated April 22, 1999 +(8)
7.8	1996 Stock Option Plan +(5)
7.9	Amendment to 1996 Stock Option Plan dated December 14, 1998 +(7)
10.1	Master Purchase and License Agreement between the Registrant and Ameritech Mobile Communications, Inc. dated October 14, 1996 (b)(6)
10.2	Patent Sublicense Agreement between Registrant and Motron Electronics dated May 24, 1995 (a)(4)
10.3	Lease Agreement between Registrant and ASA Properties, Inc. dated July 11, 2000.(9)
10.4	Services Agreement between Registrant and Verizon Wireless dated March 2, 2001.(9)
21.1	Subsidiaries of the Registrant (9)
23.1	Consent of Ernst & Young LLP, independent auditors (9)

-
- (a) Confidential treatment granted pursuant to order of the Secretary of the Securities and Exchange Commission dated January 25, 1996 (File No. 0-19437).
 - (b) Confidential treatment granted pursuant to order of the Secretary of the Securities and Exchange Commission dated February 28, 1997 (File No. 0-19437).
 - (+) Management contract or compensation plan or arrangement required to be noted as provided in Item 14(a)(3).
 - (1) Incorporated by reference to Registration Statement on Form S-1 declared effective on August 6, 1991 (File No. 33-41176).
 - (2) Incorporated by reference to Registration Statement on Form S-8 filed on March 7, 1994 (File No. 33-76128).
 - (3) Incorporated by reference to Annual Report on Form 10-K filed on March 30, 1994 for the year ended December 31, 1993 (File No. 0-19437).
 - (4) Incorporated by reference to Quarterly Report on Form 10-Q filed on August 8, 1995 for the quarter ended June 30, 1995 (File No. 0-19437).
 - (5) Incorporated by reference to Registration Statement on Form S-8 filed on July 12, 1996 (File No. 333-08049).
 - (6) Incorporated by reference to Quarterly Report on Form 10-Q filed on November 14, 1996 for the quarter ended September 30, 1996 (File No. 0-19437).
 - (7) Incorporated by reference to Annual Report on Form 10-K filed on March 30, 1999 for the year ended December 31, 1998 (File No. 0-19437).
 - (8) Incorporated by reference to Annual Report on Form 10-K filed on March 29, 2000 for the year ended December 31, 1999 (File No. 0-19437).
 - (9) Filed herewith.

(b) Reports on Form 8-K

None.

REPORT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

The Board of Directors and Stockholders
Cellular Technical Services Company, Inc.

We have audited the accompanying consolidated balance sheets of Cellular Technical Services Company, Inc. as of December 31, 2000 and 1999, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2000. Our audits also included the consolidated financial statement schedule listed in the Index at Item 14(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Cellular Technical Services Company, Inc. at December 31, 2000 and 1999, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2000, in conformity with auditing standards generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

ERNST & YOUNG LLP

Seattle, Washington
March 12, 2001

CELLULAR TECHNICAL SERVICES COMPANY, INC.
CONSOLIDATED BALANCE SHEETS
(In 000's, except share and per share amounts)

	December 31,	
	2000	1999
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 4,529	\$ 4,787
Accounts receivable, net of reserves of \$418 in 2000 and \$5 in 1999	793	2,647
Employee receivable	60	--
Inventories, net	1,096	592
Prepaid expenses, deposits and other current assets	471	124
Total Current Assets	6,949	8,150
PROPERTY AND EQUIPMENT, net	963	874
GOODWILL	104	--
SOFTWARE DEVELOPMENT COSTS, net of accumulated amortization of \$9,704 in 2000 and \$9,526 in 1999	--	178
LONG TERM INVESTMENT	1,758	1,000
TOTAL ASSETS	\$ 9,774	\$ 10,202
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 545	\$ 917
Payroll-related liabilities	561	525
Taxes (other than payroll and income)	5	35
Customers' deposits and deferred revenue	395	3,052
Total Current Liabilities	1,506	4,529
MINORITY INTEREST	--	--
STOCKHOLDERS' EQUITY		
Preferred Stock, \$.01 par value per share, 5,000 shares authorized, none issued and outstanding		
Common Stock, \$.001 par value per share, 30,000 shares authorized, 2,292 shares issued and outstanding in 2000 and 2,282 in 1999	23	23
Additional paid-in capital	29,976	29,933
Accumulated deficit	(21,731)	(24,283)
Total Stockholders' Equity	8,268	5,673
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 9,774	\$ 10,202

The accompanying footnotes are an integral part of these consolidated financial statements.

CELLULAR TECHNICAL SERVICES COMPANY, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In 000's, except per share amounts)

	Year Ended December 31,		
	2000	1999	1998
REVENUES			
Phonecards	\$ 18,033	\$ 19	\$ --
Services	7,232	8,580	7,540
Systems	708	1,642	4,415
Total Revenues	25,973	10,241	11,955
COSTS AND EXPENSES			
Cost of phonecards, services and systems	20,532	3,745	14,402
Sales and marketing	1,373	685	857
General and administrative	2,063	2,137	2,625
Research and development	1,480	1,593	4,542
Total Costs and Expenses	25,448	8,160	22,426
INCOME (LOSS) FROM OPERATIONS	525	2,081	(10,471)
OTHER INCOME (EXPENSE), net	1,669	274	(482)
INTEREST INCOME, net	416	275	93
INCOME (LOSS) BEFORE INCOME TAXES	2,610	2,630	(10,860)
PROVISION FOR INCOME TAXES	58	31	--
NET INCOME (LOSS)	\$ 2,552	\$ 2,599	\$(10,860)
EARNINGS (LOSS) PER SHARE:			
Basic	\$ 1.12	\$ 1.14	\$ (4.76)
Diluted	\$ 1.09	\$ 1.13	\$ (4.76)
WEIGHTED AVERAGE SHARES OUTSTANDING:			
Basic	2,287	2,282	2,281
Diluted	2,339	2,292	2,281

The accompanying footnotes are an integral part of these consolidated financial statements.

CELLULAR TECHNICAL SERVICES COMPANY, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In 000's)

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total
	Shares	Amount			
Balance, January 1, 1998	2,279	\$ 23	\$ 29,889	\$ (16,022)	\$ 13,890
Common Stock exchanged for assets	2	--	42	--	42
Net loss	--	--	--	(10,860)	(10,860)
Balance, December 31, 1998	2,281	23	29,931	(26,882)	3,072
Exercise of stock options	1	--	2	--	2
Net income	--	--	--	2,599	2,599
Balance, December 31, 1999	2,282	23	29,933	(24,283)	5,673
Exercise of stock options	10	--	43	--	43
Net income	--	--	--	2,552	2,552
Balance, December 31, 2000	2,292	\$ 23	\$ 29,976	\$ (21,731)	\$ 8,268

The accompanying footnotes are an integral part of these consolidated financial statements.

CELLULAR TECHNICAL SERVICES COMPANY, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In 000's)

	Year Ended December 31,		
	2000	1999	1998
OPERATING ACTIVITIES			
Net income (loss)	\$ 2,552	\$ 2,599	\$ (10,860)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization of property and equipment	516	848	1,454
Amortization of software development costs	178	357	3,426
(Gain) Loss on disposal of assets	(36)	230	482
Changes in operating assets and liabilities:			
Decrease in accounts receivable, net	1,854	213	330
(Increase) in employee receivable	(60)	--	--
(Increase) decrease in inventories, net	(504)	422	5,456
(Increase) in goodwill	(104)	--	--
(Increase) decrease in prepaid expenses, deposits	(347)	61	115
(Decrease) in accounts payable and accrued liabilities	(372)	(441)	(1,441)
Increase (decrease) in payroll-related liabilities	36	55	(322)
(Decrease) in taxes (other than payroll and income)	(30)	(93)	(421)
(Decrease) increase in deferred revenue and customers' deposits	(2,657)	(22)	383
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	1,026	4,229	(1,398)
INVESTING ACTIVITIES			
Purchase of property and equipment	(684)	(25)	(179)
Proceeds from sale of assets	115	14	266
Capitalization of software development costs	--	--	(570)
Purchase of long-term investment	(758)	(1,000)	--
NET CASH USED IN INVESTING ACTIVITIES	(1,327)	(1,011)	(483)
NET CASH PROVIDED BY FINANCING ACTIVITIES (Stock option exercises.)	43	2	--
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(258)	3,220	(1,881)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	4,787	1,567	3,448
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 4,529	\$ 4,787	\$ 1,567
Supplemental disclosure of cash flow information			
Cash paid during the period for:			
Interest	\$ --	\$ 8	\$ 24
Income taxes	\$ 45	\$ 40	\$ --
Supplemental schedule of non-cash investing activities			
Conversion of note receivable to common stock investment	\$ 1,000	\$ --	\$ --

The accompanying footnotes are an integral part of these consolidated financial statements.

CELLULAR TECHNICAL SERVICES COMPANY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE A - NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES:

Nature of Operations and Organization

Cellular Technical Services Company, Inc. ("CTS") is primarily engaged in the design, development, marketing, installation and support of integrated information processing and information management systems for the domestic wireless communications industry, and through CTS' majority-owned subsidiary, Isis Tele-Communications, Inc. ("Isis"), in the domestic wireline phone card industry primarily as a distributor and a reseller. Isis commenced operations in December 1999. CTS acquired all of the outstanding shares of Communications Information Services, Inc. ("CISI") in August 2000. CISI had no revenue or expenses during 2000. Unless the context otherwise requires, all references to the "Company" herein include Cellular Technical Services Company, Inc. and any entity over which it has or shares operational control.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. All inter-company accounts and transactions have been eliminated in consolidation.

Estimates and Assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Company considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents.

Fair Values of Financial Instruments

At December 31, 2000, the Company has the following financial instruments: cash and cash equivalents, accounts receivable, long-term stock investment, accounts payable and accrued liabilities. The carrying value of cash and cash equivalents, accounts receivable, stock investment, accounts payable and accrued liabilities approximates their fair value based on the liquidity of these financial instruments or based on their short-term nature.

Diversification of Credit Risk

The Company is subject to concentrations of credit risk primarily from cash investments and accounts receivable. Credit risk from cash investments is managed by diversification of cash investments among institutions and by the purchase of investment-grade commercial paper securities. The estimated fair values of the securities approximate cost. Credit risk associated with trade receivables is subject to ongoing credit evaluations. The Company does not typically require collateral for receivables. Reserves for potential losses, if any, are maintained where appropriate.

Inventories

As of December 31, 2000 the Company determined that the remaining balance of telecommunications equipment of approximately \$175,000 will be utilized only as repair parts in conjunction with its maintenance agreements servicing its installed customer base and will not be available for sale. The balance in inventory at December 31, 2000 was transferred to prepaid expenses and is being amortized over the expected remaining maintenance contract lives of 12 months.

Phone card inventories are stated at the lower of cost or market value, with cost determined on a first-in, first-out basis. The Company monitors inventory for obsolescence and considers factors such as turnover, technical obsolescence and pricing. Reserves for slow-moving and obsolete inventory are maintained where appropriate.

Property and Equipment

Property and equipment, including leasehold improvements, are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization commences at the time assets are placed into service and is computed using the straight-line method over the shorter of estimated useful lives of the assets of two to five years or terms of the associated leases. The Company capitalizes expenditures that significantly increase the life of the related assets, while maintenance and repairs are charged to operations. Gain or loss is reflected in results of operations upon the retirement or sale of assets.

Software Development Costs

Software development costs consist primarily of internally developed software. Capitalization of software development costs begins upon the establishment of technological feasibility and ceases when products are completed. Amortization begins when products are available for general release. Amortization of capitalized software development costs is the greater of the amount computed using the ratio that current gross revenues for a product bear to the total of current and anticipated future gross revenues for that product, or the straight-line method over the remaining estimated economic life of the product, generally twenty-four months. At December 31, 2000, the Company's capitalized software costs were fully amortized.

Long-Lived Assets

Long-lived and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment is measured by comparing the carrying value of the long-lived assets to the estimated future cash flows expected to result from use of the assets and their ultimate disposition. In circumstances where impairment is determined to exist, the Company will write down the asset to its fair value based on the present value of estimated expected future cash flows.

Revenue Recognition

The Company generates revenues through three sources: (1) prepaid phone card sales, (2) systems revenues, consisting primarily of bundled hardware and software products, and (3) services revenues, consisting primarily of hardware and software maintenance and related support services.

Phone card revenues are recognized upon shipment, net of estimated returns. Costs of goods sold for phone cards include related shipping and handling costs.

Systems revenues are recognized when all of the following conditions are met:

- (i) Persuasive evidence of an arrangement exists.
- (ii) Delivery has occurred. Delivery also includes satisfaction of contract criteria and that there are no additional undelivered elements essential to the functionality of the delivered products. Revenues are

deferred for undelivered non-essential elements based on vendor specific objective evidence ("VSOE") of the fair value for all elements of the arrangement.

(iii) The amount is fixed and determinable.

(iv) Collectability is probable.

VSOE is typically based on the price charged when an element is sold separately, or, in the case of an element not yet sold separately, the price established by authorized management, if it is probable that the price, once established, will not change before market introduction. Elements included in multiple element arrangements could consist of software products, upgrades, enhancements, customer support services, or consulting services.

Service revenues are recognized ratably over the period that maintenance coverage is provided. Prepaid or allocated maintenance and services are recorded as deferred revenues.

Segment Reporting

The Company's operations consist of two segments, integrated information processing and information management systems for the wireless communications industry, and phone-card distribution.

Income Taxes

The Company follows the deferred method of accounting for income taxes whereby deferred tax assets and liabilities are determined based on differences between financial reporting basis and tax basis of assets and liabilities and are measured using the enacted tax rates and laws that are expected to be in effect when the differences are expected to reverse. The Company provides a valuation allowance for deferred tax assets that cannot be currently recognized due to the cumulative losses incurred by the Company.

Net Earnings or Loss Per Share

Basic earnings or loss per share is computed by dividing net earnings or loss by the weighted average number of common shares outstanding for the period. Diluted earnings or loss per share reflects the potential dilution of securities by including other common stock equivalents (i.e. stock options) in the weighted average number of common shares outstanding for a period, if dilutive.

Other Comprehensive Income

The Company has no items of comprehensive income or loss.

Stock-Based Compensation

The Company evaluates stock-based compensation in accordance with SFAS No. 123, "Accounting for Stock-Based Compensation" ("Statement 123"). As provided for by Statement 123, the Company has chosen to measure stock-based compensation cost under the intrinsic-value method prescribed under Accounting Principles Board Opinion No. 25 and has adopted only the disclosure provisions of Statement 123. As the Company issues options with exercise prices equal to market value on the date of grant, compensation expense is not recognized.

Recent Accounting Pronouncements

During June 1999, the FASB issued SFAS No. 137, Accounting for Derivative Instruments and Hedging Activities-Deferral of the Effective Date of SFAS 133. SFAS 137 defers the effective date of SFAS 133 to fiscal 2001. During June 2000, the FASB issued SFAS 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities, which amends certain provisions of SFAS 133. The Company will adopt SFAS 138

concurrently with SFAS 133 on January 1, 2001. SFAS 133 establishes accounting and reporting standards that require every derivative instrument be in the balance sheet as either an asset or liability measured at its fair value. SFAS 133 also requires that changes in the fair value be recognized in earnings unless specific hedge accounting criteria are met. Because the Company has never used nor currently intends to use derivatives, management does not anticipate the adoption of this new standard will have a significant effect on the Company's financial position, results of operations or liquidity.

In December 1999, the SEC issued Staff Accounting Bulletin Number 101 ("SAB 101"), Revenue Recognition in Financial Statements. SAB 101 provides guidance related to revenue recognition based on interpretations and practices recommended by the SEC. SAB 101 was effective for the year ended December 31, 2000, and required companies to report any changes in revenue recognition as a cumulative change in accounting principle. The adoption of SAB 101 did not have a significant impact on the Company's financial position, results of operations or liquidity.

Risks and Uncertainties

Management of the Company believes that the risks and uncertainties discussed below, whether viewed individually or combined, will not result in a significant unfavorable impact to the Company. However, there can be no assurance that any unfavorable outcome of the risks and uncertainties discussed below will not have a material adverse effect on the Company's financial position, results of operations or liquidity.

Limited customer base; Reliance on significant customers: The Company's potential customer base is relatively limited due to the significant concentration of ownership and/or operational control of wireless communication markets. The nature of the Company's business is such that a single customer and its affiliates will account for more than 10% of the Company's phone card, product and service revenues during a given fiscal year. Sales to customers aggregating 10% or more, either individually or combined as affiliates due to common ownership, were concentrated as follows: one customer whose purchases represented 24% of consolidated 2000 sales, four customers whose purchases represented 46%, 21%, 14% and 12% of consolidated 1999 sales, and three customers whose purchases represented 41%, 20% and 19% of 1998 sales. The aggregate sales to these customers represented 24% and 93% of the Company's consolidated phone card, systems and service revenues in 2000 and 1999, respectively, and 80% of the Company's total systems and service revenues in 1998. There can be no assurances that such customers will continue to maintain business relationships with the Company. Accordingly, the loss of one or more major customers could have a material adverse effect on the Company.

Limited vendor base; Reliance on small number of vendors: The Company purchases its phone cards from a limited number of long distance providers and is reliant on these providers to provide service for its customers. Three of its vendors filed for bankruptcy protection during 2000. Management has continually upgraded the quality of its phone card vendors, however, there can be no assurance that all of the vendors will continue to provide the level of service the Company requires.

Liquidity; Possible need for financing: Going forward into 2001, the Company has continued to reduce its fixed operating costs. The Company has contracts for its recurring Blackbird service revenue extending through 2001. Management believes that under its current business plans, its current cash balances and cash flows expected to be generated from operations are sufficient to fund its operations and capital requirements through the next twelve to eighteen months. However, the Company's inability to successfully generate sufficient cash flow from operations would have a material adverse impact on the Company's financial position, liquidity or results of operations and may require the Company to reduce its expenditures further or curtail certain operations to enable it to continue its operations for that period.

Legal proceedings: From time to time, the Company could be subject to involvement with legal actions and claims which arise in the ordinary course of business which management believes will be resolved without a material adverse effect on the Company's business, financial condition or results of operations.

Reclassifications

Certain reclassifications have been made to the prior year financial statements to conform to the current period's presentation.

NOTE B - INVENTORIES:

Inventory reflects phonecards sold through the Company's phonecard business. Prior to December 31, 2000 the inventory included parts used in the systems and service business. At December 31, 2000, the net remaining systems and service parts inventory of \$175,000 has been reclassified to other current assets, as it is no longer held for resale. The value of the items is being amortized over the shorter of the estimated remaining service lives of the parts or the underlying maintenance contract terms. Included in phone card inventory at December 31, 2000 is \$87,000 related to 2000 sales that have been accounted for on consignment basis and \$259,000 related to sales returns reserves. Inventory consists of the following (in 000's):

	December 31,	
	2000	1999
Inventory, primarily service parts	\$ --	\$ 1,589
Phonecards	1,123	--
Less reserves	(27)	(997)
	\$ 1,096	\$ 592

NOTE C - PROPERTY AND EQUIPMENT:

Property and equipment consist of the following (in 000's):

	December 31,	
	2000	1999
Computer equipment and software	\$ 3,339	\$ 3,518
Furniture, fixtures and office equipment	466	588
Leasehold improvements	248	181
	4,053	4,287
Less accumulated depreciation and amortization	(3,090)	(3,413)
	\$ 963	\$ 874

NOTE D -LONG TERM INVESTMENT:

In November 1999, the Company invested in a one-year, \$1.0 million 10% convertible note of KSI, Inc. ("KSI"). The Company also received warrants to purchase KSI common stock in connection with this investment. All of the outstanding stock of KSI, Inc. was acquired by TruePosition, Inc., (a subsidiary of Liberty Media Corporation) in August 2000. Prior to the acquisition, the convertible note was exchanged for KSI common stock. The Company exercised warrants and purchased additional KSI common stock in 2000 aggregating a total of \$758,000. The KSI common stock was exchanged for TruePosition, Inc. common stock on the date of the acquisition.

NOTE E - COMMITMENTS AND CONTINGENCIES:

Leases:

The Company leases office space under non-cancelable operating leases with expiration dates in ranging from 2001 to 2003. The Company also leases equipment and telecommunication lines and services under non-cancelable operating leases expiring through 2001. In addition, the Company leases office space, equipment and telecommunication lines and services under various rental agreements with initial terms ranging from one to twelve months.

Amounts charged to operations under all lease and rental agreements totaled \$0.4 million, \$0.7 million and \$0.9 million in 2000, 1999 and 1998, respectively. Future minimum annual lease payments at December 31, 2000, under those agreements with initial terms greater than one year are as follows (in 000's):

2001	\$	0.3
2002		0.3
2003		0.2

	\$	0.8
	=====	

Employment Agreements:

At December 31, 2000, the Company has one employment agreement with an employee of its Isis Tele-Communications, Inc. subsidiary that expires August 15, 2002. The agreement, which was a part of the acquisition of New England Telecom, Inc., provides for annual salary of \$90,000 and contingent payouts of 50% of net profits of the former business, as defined in the agreement, with a maximum contingent total payout of \$1.5 million. A total of \$104,000 was accrued in contingent payouts during 2000. This amount has been capitalized as goodwill and will be amortized over four years.

ISIS Management Equity Agreement:

The Company incorporated its ISIS Tele-Communications, Inc. subsidiary in November 1999. In January 2000 three founder-employees of ISIS entered into a Management Equity Agreement with ISIS. This agreement provided that the founder-employees would purchase a total of 20% of the outstanding stock of ISIS, subject to restrictions as defined in the agreement. One-half of the initial shares were restricted and due to vest upon ISIS meeting certain defined financial objectives in either 2000 or 2001. At December 31, 2000 the objectives had not been met and vesting did not occur. The agreement also provided for stock appreciation rights (SARs) that allow for an additional 10% of ISIS' stock to be granted to the founder-employees based upon ISIS meeting financial objectives as defined in the agreement in either 2000 or 2001, and also allows for a cash payout option. At December 31, 2000, the SAR objectives had not been met and no accrual or expense had been recorded.

NOTE F - EMPLOYEE RETIREMENT SAVINGS PLAN:

The Company has adopted an Employee Retirement Savings Plan covering substantially all employees who have been employed for at least one month and meet certain age and eligibility requirements. Each eligible employee may contribute up to 15% of his or her compensation per year, subject to a maximum limit imposed by federal tax law, into various funds. Under current plan provisions, matching contributions are made by the Company equaling two-thirds of the employee's contribution, subject to a maximum of 6% of compensation contribution by the employee. Company contributions charged to costs and expenses totaled \$0, \$63,000 and \$133,000 during 2000, 1999 and 1998, respectively.

NOTE G - OTHER INCOME:

During 2000 the Company received a \$1.5 million settlement, net of legal fees, as a result of litigation involving a supplier of its Isis Tele-Communications, Inc. subsidiary.

NOTE H - INCOME TAXES:

At December 31, 2000, the Company had available for federal income tax purposes net operating loss carryforwards of approximately \$48.8 million and research and development tax credits of approximately \$1.2 million that begin to expire in 2007. The federal income tax net operating loss carryforwards exceed the retained deficit, primarily due to the differences between financial reporting and tax treatment of certain amounts on exercise of stock options. A portion of the net operating loss carryforward (approximately \$28 million) is attributed to the stock option deduction, the tax effect of which will be credited to additional paid-in capital when realized. Certain net operating loss carryforwards of the Company are subject to limitations imposed by Section 382 of the Internal Revenue Code because there was an ownership change of greater than 50% in the Company during 1991.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax liabilities and assets are as follows (in 000's):

	December 31,		
	2000	1999	1998
Deferred tax assets:			
Net operating loss carryforwards	\$ 16,584	\$ 17,068	\$ 17,688
Research and development credits	1,223	1,207	1,158
AMT credits	65	27	--
Reserves and allowances on financial statements in excess of tax returns	98	1,113	977
Depreciation on tax returns lower than financial statements	43	22	0
Capitalized software development costs	81	28	0
	-----	-----	-----
Total deferred tax assets	18,094	19,465	19,823
Deferred tax liabilities:			
Depreciation on tax returns lower than financial statements	--	--	90
Capitalized software development costs	--	--	125
	-----	-----	-----
Total deferred tax liabilities	--	--	215
	-----	-----	-----
Net deferred tax assets	18,094	19,465	19,608
Valuation allowance	(18,094)	(19,465)	(19,608)
	=====	=====	=====
Net	\$ --	\$ --	\$ --
	=====	=====	=====

The Company was placed in an Alternative Minimum Tax (AMT) position for 2000 and 1999. This has created an AMT credit of approximately \$65,000 to be utilized in future tax periods against any regular federal tax liability.

The Company has provided a valuation allowance of 100% of the net deferred income tax asset related to the operating loss carryforward and temporary differences. The net changes in the valuation allowance for deferred tax assets were approximately (\$1.3) million, (\$0.1) million and \$4.0 million and were primarily attributable to the net income in 2000 and 1999 and the net operating losses incurred by the Company during 1998, respectively.

The reconciliation of income tax computed at the U.S. federal statutory tax rate to income tax expense is as follows (in 000's):

	Year Ended December 31,		
	2000	1999	1998
Income tax provision (benefit) at statutory rate of 34%	\$ 874	\$ 894	\$(3,692)
Utilization of net operating loss carryforwards	(874)	(894)	0
(Income) losses producing no current tax benefit	0	0	3,692
Alternative minimum tax provision	38	31	0
Provision for income taxes, current	\$ 38	\$ 31	\$ 0

NOTE I - STOCKHOLDERS' EQUITY:

Stock Options

Pursuant to the Company's 1991 Qualified Stock Option and 1991 Non-Qualified Stock Option Plans, as amended, the Company was authorized to grant options to: (i) purchase up to 280,000 shares of Common Stock to its officers and key employees, at a price not less than the fair market value per share of Common Stock on the date of grant; and (ii) purchase up to 120,000 shares of Common Stock to its directors, officers, key employees and others who rendered services to the Company at such price as fixed by the Compensation and Stock Option Committee, respectively. Options granted under both the 1991 Qualified Plan and 1991 Non-Qualified Plan generally vest to the respective option holders at the rate of 20% per year commencing on the first anniversary date of the grant. No new grants may be made under the 1991 Plans.

The Company's 1993 Non-Employee Director Stock Option Plan allows the Company to grant options to purchase up to 70,000 shares of Common Stock. Each non-employee director is to be granted options to purchase: (i) 2,000 shares of Common Stock upon initial appointment as a director of the Company; and (ii) an additional 1,200 shares, in recurring annual increments, at a price equal to the fair market value per share of Common Stock on the date of grant. Options under the Non-Employee Director Plan vest to the respective option holder after one year and have a term of ten years.

The Company's 1996 Stock Option Plan authorizes the grant of both incentive ("ISO") and non-qualified stock options up to a maximum of 335,000 shares of the Company's Common Stock to employees (including officers and directors who are employees) of and consultants to the Company. The exercise price, term and vesting provision of each option grant is fixed by the Compensation and Stock Option Committee with the provision that the exercise price of an ISO may not be less than the fair market value of the Company's Common Stock on the date of grant, and the term of an ISO may not exceed ten years.

The Company has chosen to measure stock-based compensation cost under the intrinsic-value method of Accounting Principles Board Opinion No. 25 (APB 25) and related interpretations. Under APB 25, if the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized.

Pro forma information regarding net income (loss) and earnings (loss) per share is required by Statement 123 and has been determined as if the Company had accounted for its employee stock options under the fair value method of that Statement. In that regard, the fair value for options granted during 2000, 1999 and 1998 was estimated at the date of grant using a Black-Scholes option-pricing model with the following weighted-average assumptions for 2000, 1999 and 1998:

	2000	1999	1998
	-----	-----	-----
Risk-free interest rate	5.5%	6.4%	4.7%
Dividend yield	0.0%	0.0%	0.0%
Volatility factor	1.56	1.36	0.79
Expected life of the options (years)	5.0	5.0	4.8
Fair value of options granted during the year	\$7.70	\$2.79	\$10.57

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The Company's pro forma information follows (in 000's, except per share amounts):

	2000	1999	1998
	-----	-----	-----
Net Income (loss) - as reported	\$ 2,552	\$ 2,599	\$ (10,860)
Net Income (loss) - pro forma	\$ 2,210	\$ 2,353	\$ (11,248)
Basic earnings (loss) per share - as reported	\$ 1.12	\$ 1.14	\$ (4.76)
Basic earnings (loss) per share - pro forma	\$ 0.97	\$ 1.03	\$ (4.93)
Diluted earnings (loss) per share - as reported	\$ 1.09	\$ 1.13	\$ (4.76)
Diluted earnings (loss) per share - pro forma	\$ 0.95	\$ 1.03	\$ (4.93)

Information with respect to the Company's stock options is as follows (in 000's except per share amounts):

	Shares Under Option	Option Prices		Weighted Ave. Exercise Price	
	=====	=====	=====	=====	
Balance, January 1, 1998	247	\$ 10.00	-	\$ 199.40	\$ 77.96
Granted	91	3.44	-	29.69	10.83
Exercised	--		-		
Canceled	(151)	5.00	-	199.38	74.42

Balance, December 31, 1998	187	3.44	-	188.75	48.10
Granted	83	1.91	-	7.88	3.13
Exercised	(1)	5.00	-	5.00	5.00
Canceled	(60)	2.06	-	178.75	35.14

Balance, December 31, 1999	209	1.91	-	188.75	34.07
Granted	187	6.56	-	13.75	8.29
Exercised	(10)	2.63	-	5.00	4.28
Canceled	(85)	2.63	-	178.75	23.78

Balance, December 31, 2000	301	\$ 1.91	-	\$ 188.75	\$ 21.96
	=====				
Exercisable at December 31, 2000	102				
	=====				
Available for grant at December 31, 2000	157				
	=====				
Common Stock reserved for future issuance	458				
	=====				

The following table summarizes information concerning outstanding and exercisable stock options as of December 31, 2000 (in 000's except per share amounts):

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
\$ 1.91 - \$ 6.56	57	8.47	\$ 3.44	21	\$ 2.96
8.00 - 8.00	142	9.47	8.00	--	--
8.09 - 29.69	33	6.59	12.66	13	14.70
60.00 - 188.75	69	3.62	70.44	68	70.53
	-----			-----	
\$ 1.91 - \$188.75	301	7.62	\$ 21.96	102	\$49.57
	=====			=====	

Shares exercisable at December 31, 1999 and 1998 were 98 and 103, respectively.

NOTE J - EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is as follows (in 000's, except per share amounts):

	Year Ended December 31,		
	2000	1999	1998
Net Income (loss) (A)	\$ 2,552	\$ 2,599	\$ (10,860)
Weighted average number of shares outstanding (B)	2,287	2,282	2,281
Stock options	52	10	*12
Weighted average number of shares outstanding (C)	2,339	2,292	2,281
Earnings (loss) per share:			
Basic (A)/(B)	\$ 1.12	\$ 1.14	\$ (4.76)
Diluted (A)/(C)	\$ 1.09	\$ 1.13	\$ (4.76)

* Excluded from the computation of diluted earnings per share given the effects were anti-dilutive.

NOTE K- ACQUISITION OF NEW ENGLAND TELECOM, INC.

On August 10, 2000, the Company announced the acquisition of substantially all of the assets of New England Telecom, Inc. ("NET") through Isis Tele-Communications, Inc. ("Isis") the Company's majority-owned subsidiary. The agreement included the purchase of approximately \$135,000 in inventory of prepaid phone cards, an employment agreement with the principal NET shareholder and a two-year earn-out period. The earn-out is calculated on a quarterly basis whereby the former shareholder can earn up to 50% of net profits of the former business, as defined in the agreement, with a maximum contingent total payout of \$1.5 million. The transaction is being accounted for using the purchase method of accounting, and, accordingly, the results of NET's operations

have been included in the Company's consolidated financial statements from the date of acquisition. The cash purchase price represented the value of the inventory assets purchased. Any future purchase price payments made contingent upon net profit during the earn-out period, as defined in the agreement, will be capitalized as goodwill and amortized over four years. The former shareholder through December 31, 2000 earned a total of \$104,000 of the \$1.5 million maximum amount. Should Isis terminate the employee without cause, as defined in the agreement, or should ISIS cease to sell pre-paid phonecards prior to the end of the two-year earn-out period, ISIS will be liable for any unpaid contingent compensation up to a total of \$1.5 million. The agreement also provides for 20,000 stock options of its ISIS subsidiary to be granted to the employee over a three-year period, as defined in the agreement. At December 31, 2000, there were 1,620,000 shares of ISIS common stock outstanding, and 200,000 shares authorized for issuance in its stock option plan. There were no liabilities assumed in the transaction.

If the Company's results had been combined with the results of NET, revenue and net income would have been as follows:

In 000's	Revenue	Net Income
Year ended December 31, 1999		
-----	-----	-----
CTS, as previously reported	\$10,241	\$ 2,599
NET, unaudited	18,329	19
	-----	-----
Pro-Forma Combined	\$28,570	\$ 2,618
Earnings per pro-forma share:		
Basic		\$ 1.15
Diluted		\$ 1.14
Year ended December 31, 2000		
CTS, as reported	\$25,973	\$ 2,552
NET, unaudited	12,176	364
	-----	-----
Pro-Forma Combined	\$38,149	\$ 2,916
Earnings per pro-forma share:		
Basic		\$ 1.28
Diluted		\$ 1.25

NOTE L - SETTLEMENT OF LITIGATION AND ACQUISITION OF COMMUNICATIONS INFORMATION SERVICES, INC.

On July 28, 2000, the Company announced the settlement of a patent infringement lawsuit originally brought in 1998 by Communications Information Services, Inc. ("CISI") against the Company and AirTouch Communications, Inc. ("AirTouch"). The settlement, in which no liability or fault was admitted by the Company or AirTouch, provided for the Company's acquisition of all of the capital stock of CISI, including certain patent license rights for a one-time cash payment of \$500,000. There were no other assets or liabilities of CISI. The transaction was accounted for using the purchase method. The accounting for the purchase was finalized during the fourth quarter of 2000 with the payment of \$500,000 being offset against a previously established accrual for the use of the technology. No pro-forma information is presented for 1999 or 2000, as CISI had no sales or net income during those periods.

NOTE M- SEGMENT INFORMATION

The Company has two reportable business segments the year ended December 31, 2000 which offer distinctive products and services marketed through different channels: (i) the Company's Blackbird'r' Platform product line, which includes the Blackbird'r' Platform, PreTect™ cloning-fraud prevention application, No Clone Zone™ roaming-fraud prevention service, and related application products and services; and (ii) the Company's prepaid long-distance phone card business, which is conducted through its majority-owned subsidiary, Isis Tele-

Communications, Inc. Management evaluates segment performance based upon segment profit or loss before income taxes. The difference in the pretax segment income of \$2,610,000 and net income of \$2,552,000 for the year ended December 31, 2000 is attributable to income tax expense of \$58,000. There were no inter-company sales of products between the segments. The Company's phone card business segment was not in operation in 1998, and had sales of \$19,000 in 1999.

Year ended December 31, 2000

(In 000's)

	Segments		Consolidated Totals
	Blackbird Platform	Phonecards	
Revenue from external customers	\$7,940	\$18,033	\$25,973
Inter-segment revenue	--	--	--
Depreciation and amortization expense	681	13	694
Pretax segment profit	2,876	(266)	2,610
Income tax expense	58	--	58
Expenditures for segment assets	623	61	684
Segment assets	7,707	2,067	9,774

NOTE N- QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

The following table sets forth the Company's unaudited quarterly financial information for the years ended December 31, 2000 and 1999 (in thousands, except per share date):

2000	March 31	June 30	September 30	December 31
Net sales	\$4,917	\$6,398	\$8,041	\$6,617
Gross profit	1,762	1,782	701	1,197
Net income (loss)	666	1,845	65	(24)
Earnings (loss) per share:				
Basic	\$0.29	\$0.81	\$0.03	\$ (0.01)
Diluted	\$0.28	\$0.79	\$0.03	\$ (0.01)
1999	March 31	June 30	September 30	December 31
Net sales	\$2,764	\$2,791	\$2,576	\$2,110
Gross profit	1,686	1,756	1,690	1,364
Net income (loss)	515	694	784	607
Earnings (loss) per share:				
Basic	\$0.23	\$0.30	\$0.34	\$0.27
Diluted	\$0.23	\$0.30	\$0.34	\$0.26

SIGNATURES

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

Cellular Technical Services Company, Inc.

By: /s/ Stephen Katz

Stephen Katz, Chairman of the Board
of Directors and Chief Executive Officer
March 29, 2001

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

/s/ Stephen Katz

Stephen Katz, Chairman of the Board of Directors and
Chief Executive Officer
(Principal Executive Officer)
March 29, 2001

/s/ Henry B. Ellis

Henry B. Ellis, Director
March 29, 2001

/s/ Bruce R. York

Bruce R. York
Vice President, Chief Financial Officer and Secretary
(Principal Financial and Accounting Officer)
March 29, 2001

/s/ James Porter

James Porter, Director
March 29, 2001

/s/ Lawrence Schoenberg

Lawrence Schoenberg, Director
March 29, 2001

CELLULAR TECHNICAL SERVICES COMPANY, INC.
 SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
 (In 000's)

	(In 000's)			
	Balance at Beginning of Period	Additions	Deductions	Balance at End of Period
	-----	-----	-----	-----
INVENTORY RESERVES				
Year ended December 31, 1998	\$ 2,097	\$ 4,590	\$ 3,886	\$ 2,801
	=====	=====	=====	=====
Year ended December 31, 1999	\$ 2,801	\$ 255	\$ 2,059	\$ 997
	=====	=====	=====	=====
Year ended December 31, 2000	\$ 997	\$ 426	\$ 1,396	\$ 27
	=====	=====	=====	=====
SALES AND RECEIVABLE ALLOWANCES				
Year ended December 31, 1998	\$ 187	\$ (44)	\$ 71	\$ 72
	=====	=====	=====	=====
Year ended December 31, 1999	\$ 72	\$ 0	\$ 67	\$ 5
	=====	=====	=====	=====
Year ended December 31, 2000	\$ 5	\$ 618	\$ 205	\$ 418
	=====	=====	=====	=====

STATEMENT OF DIFFERENCES

 The trademark symbol shall be expressed as.....'TM'
 The registered trademark symbol shall be expressed as.....'r'
 The service mark symbol shall be expressed as.....'sm'

BAY VISTA OFFICE BUILDING
LEASE AGREEMENT

Landlord: Bay Vista Office Investors, LLC,
a Delaware Limited Liability Company
By: ASA Properties, Inc.,
a Washington corporation
Its: Managing Member

Tenant: Cellular Technical Services Company, Inc.,
a Delaware corporation

OFFICE LEASE
BASIC LEASE INFORMATION

Date of Lease July _11_, 2000

Landlord: Bay Vista Office Investors, LLC,
a Delaware Limited Liability Company

Tenant: Cellular Technical Services Company, Inc.,
a Delaware corporation

Name and Location of Building: Bay Vista Office Building
[Paragraph 1(a)] 2815 Second Avenue, Suite 100
Seattle, Washington 98121

Net Rentable Area of Premises: 11,728rsf (includes a 12% load factor 10,471 usable sq.ft.)
[Paragraph 1(b)]

Base Year: 2000
[Paragraph (c)]

Tenant's Percentage Share: 9.81% (0.0981)
[Paragraph 2]

Net Rentable Area of Building: 115,069 rsf
[Paragraph 2]

Term Commencement: September 1, 2000
[Paragraph 4]

Initial Term Expiration: August 31, 2003, subject to option renewals.
[Paragraph 4] Rents below based on rentable square
footage. However, the load
factor is established as an
agreed upon market rate
load factor not subject to
modifications or
challenges.

Basic Rent:
[Paragraph 5]

Year 1 - \$234,560/yr.	19,546.67/mo.
Year 2 - \$246,288/yr.	20,524.00/mo.
Year 3 - \$258,016/yr.	21,501.33/mo

First option period

Year 4 - \$269,744/yr.	22,478.67/mo.
Year 5 - \$281,472/yr.	23,456.00/mo.

Security Deposit: \$20,000.00
[Paragraph 32]

Tenant's Address for Notices: 2815 2nd Avenue, Suite 100
[Paragraph 37] Seattle, Washington 98121
Attention: Legal Department

Landlord's Address for Notices: 8805 148th Ave. NE
[Paragraph 37] Redmond, WA 98052

Exhibits: A,B, C, D & E
[Paragraph 45]

Additional Provisions: Tenant to pay the first month's basic
[Paragraph 46] rent and security deposit in advance at
the execution of this Lease by Tenant.

The provisions of the Lease identified above in brackets are those provisions where reference to particular Basic Lease Information appear. Such bracketed references are provided for informational purposes only. In the event of any conflict between any Basic Lease Information and the Lease, the latter shall control.

TENANT	LANDLORD
Cellular Technical Services Company, Inc., a Delaware corporation	Bay Vista Office Investors, LLC, a Delaware Limited Liability Company

Please Initial: _____

Please Initial: _____

TABLE OF CONTENTS

1. Definitions	4
2. Additional Rental for Operating Expenses	4
3. Premises	5
4. Term	6
5. Rent	6
6. Taxes and Assessments	6
7. Operation Expenses	7
8. Maintenance by Landlord	7
9. Alterations Repairs, & Maintenance by Tenant	7
10. Estimated Payments	7
11. Common Areas	8
12. Use	8
13. Liens	9
4. Damage and Destruction	9
5. Indemnification	10
6. Insurance	10
7. Condemnation	11
8. Compliance with Legal Requirements	12
9. Assignment and Subletting	12
20. Rules and Regulations	14
210. Landlord's Access	14
22. Default	14
23. Landlord's Right to Cure Default	16
11. Attorneys' Fees	16
12. Subordination	16
13. No Merger	17
14. Sale by Landlord	17
15. Estoppel Certificate	17
16. Holdover Tenancy	17
30. Building Security	17
31. Parking	17
32. Security Deposit	18
33. No Partnership	18
17. Recording	18
18. Modification and Financing Conditions	18
19. Waiver	18
20. Notices and Consents	19
21. Complete Agreement	19
22. Corporate Authority	19
40. Limits to Tenant's Remedy	19
41. Arbitration	19
42. Brokers	19
43. No Light and Air Easement	19
44. Miscellaneous	19
45. Basic Lease Information and Exhibits	20
46. Additional Provisions	20
47. Building Transportation Program	20
48. Governing Law	20

EXHIBITS

Exhibit A - Description of the Building	21
Exhibit B - Description of the Premises (Final Space Plan)	22
Exhibit C - Rules and Regulations/Parking Rules and Regulations	23
Exhibit D - Other Conditions	27
Exhibit E - Application of Operating Expenses	29

OFFICE LEASE

THIS LEASE, DATED as of July __, 2000 for purposes of reference only, is made and entered into by and between Bay Vista Office Investors, LLC, a Delaware Limited Liability Company ("Landlord") and Cellular Technical Services Company, Inc., a Delaware corporation ("Tenant").

WITNESSETH:

Landlord hereby leases to Tenant, and Tenant hereby leases from Landlord the premises described in paragraph 1(b) below for the term and subject to the terms, covenants, agreements and conditions hereinafter set forth, to each and all of which Landlord and Tenant hereby mutually agree.

1. Definitions. Unless the context otherwise specifies or requires, the following terms shall have the meanings herein specified:

(a) The term "Building" shall mean the parcel of real property described on Exhibit A attached hereto, situated in the location and commonly know by the name specified in the Basic Lease Information, which name Landlord may change at any time, and all other improvements on or appurtenances to such parcel.

(b) The term "premises" or "premises" shall mean that portion of a floor of the Building outlined in red on the diagrams attached hereto as Exhibit B. The premises contain the net rentable area specified in the Basic Lease Information.

2. Additional Rental for Operating Expenses. This is a "triple-net" lease. In addition to the Basic Rental provided in the Basic Lease Information above and Section 5 below, Tenant agrees to pay Landlord "Additional Rental" for Operating Expenses during each Lease Year based upon Tenant's percentage share of the total dollar amount of Operating Expenses incurred by Landlord in each Lease Year related to the Premises and the Building. Tenant's percentage share of such Operating Expenses shall be the ratio that the floor area of the Premises (10,471 net rentable square feet) bears to the total rentable square footage of the Building (115,069 net rentable square feet) (9.10%). The Operating Expenses are currently applied as listed on Exhibit E. The percentage share of Operating Expenses shall be adjusted when the final rentable square footage of the Premises and the Building is determined, and Landlord shall deliver written notice to Tenant a statement upon commencement of the Lease Term confirming such amounts if different than those stated herein. Landlord reserves the right to modify and adjust Tenant's percentage share of the Building and/or the Premises in the event the Premises or the Building shall be changed in size or remeasured which results in a change of 1% or greater of that stated herein. Such written notice shall be delivered to Tenant on or before January 15th of the ensuing calendar year. Such modification or adjustment shall apply beginning as of January 15th of the ensuing calendar year and shall not be applied retroactively.

The term "Operating Expenses" means all costs of ownership, management, operation, and maintenance of the Building, including, without limitation, the following: wages and salaries of employees; janitorial, cleaning, landscaping, irrigation, storm water, guard and other services; gas, electricity, water, sewer, waste disposal, and other utilities; heating, ventilation and air-conditioning; window-washing; materials and supplies; painting, repairs, and other maintenance; parking lot resurfacing and restriping; maintenance, repair, replacement, service of equipment and service agreements of any kind, elevator equipment, and other equipment; reserves for any common area improvements; costs of independent contractors; management fees; insurance of any kind; Condominium and/or Building association fees, taxes, assessments and other governmental and utility charges of any kind; the cost of any repair, renovation, alteration, and improvement required to be made by Landlord under any governmental law, rule or regulation; and any other expense or charge which in accordance with generally accepted accounting and management principles which are consistently applied would be considered a cost of ownership, management, operation, and maintenance of the Building. Restrictions to Operating Expenses are as follows: Wages and salaries of employees are limited to a level at or below the property manager; Gas, electricity, water, sewer, and other utilities should be limited to those supplied to common areas only (and not other tenants which may be billed separately); Management fees should be limited to a maximum of 5%; and the costs of repairs, renovations, alteration and improvements "required to be made by Landlord under any governmental law" are limited to laws enacted after the date of this Lease. Subject to the arbitration procedure for disputes set forth in subparagraph 41, the determination of Operating Expenses and their allocation to all the tenants of the Building shall be made by Landlord in its sole and absolute discretion. Notwithstanding other statements contained herein to the contrary, Tenant is responsible for the entire cost of maintenance, repairs, replacements of HVAC systems, alarm systems and other electrical items related to its Premises, provided that such cost items are not prorated to other tenants of the Building. Payment of these direct cost items shall be made by Tenant immediately as such cost items are incurred. Landlord warrants that the HVAC system, fire alarm system and other electrical items related to the Premises are in proper working order at the commencement of this Lease.

Prior to commencement of each Lease Year, or as soon thereafter as practicable, Landlord shall give Tenant notice of its estimate of amounts payable under this section for the ensuing Lease Year. On the first day of each month during the ensuing Lease Year, Tenant shall pay to Landlord 1/12th of such

estimated amounts, provided, that if such notice is not given prior to the commencement of such ensuing Lease Year, Tenant shall continue to pay on the basis of the prior Lease Year's estimate until the month after such notice is given. If at any time or times it appears to Landlord that the amounts payable under this section for the current Lease Year will vary from its estimate, Landlord may, by notice to Tenant, revise its estimate for such Lease Year, and subsequent payments by Tenant for such Lease Year shall be based upon such revised estimate.

Within ninety (90) days after the close of each Lease Year or as soon after such 90-day period as practicable, Landlord shall deliver to Tenant a statement of amounts payable under this section for such Lease Year and such statement shall be final and binding upon Landlord and Tenant. If such statement shows an amount owing by Tenant that is less than the estimated payments for such Lease Year previously made by Tenant, it shall be accompanied by a refund of the excess. If such statement shows an amount owing by Tenant that is more than the estimated payments for such Lease Year previously made by Tenant, Tenant shall pay the deficiency to Landlord within thirty (30) days after delivery of the statement. Tenant shall be entitled at its expense to review at Landlord's offices the records on which the statement of amounts payable is based.

In determining the amount of Operating Expenses, for the purpose of this Section 6: (a) if less than one hundred percent (100%) of the Building shall have been occupied by tenants and fully used by them at any time, Operating Expenses shall be increased to an amount equal to the like operating expenses which would normally be expected to be incurred had such occupancy been ninety-five percent (95%) and had such full utilization by tenants been made during the entire period; and (b) if the Landlord is not furnishing any particular work or service (the cost of which if performed by the Landlord would constitute an Operating Expense) to a tenant who has undertaken to perform such work or service in lieu of the performance thereof by the Landlord, Operating Expenses shall be deemed for the purposes of this Section 2 to be increased by an amount equal to the additional Operating Expense which would reasonably have been incurred during such period by the Landlord if it had at its own expense furnished such work or service to such tenant.

Tenant shall pay as rent monthly, in addition to the Basic Rental and Additional Rental during the term of this Lease such "Special Building Operating Expenses" as are required and incurred as a result of Tenant's occupancy and use of the Premises, or any part thereof, and which are in addition to normal business office expenses, which Special Building Operating Expenses shall include but not be limited to unusual utility costs; unusual heat, air conditioning or water requirements; increase in insurance premiums attributable to the Tenant's business and/or use or occupancy of the Premises; and the like.

"Lease Year" shall mean calendar year. If this Lease commences or terminates on a day other than the first or last day of a calendar year, the amount of additional rental payable by Tenant applicable to the Lease Year in which such commencement or termination occurs shall be prorated on the basis of a 365-day year.

3. Premises.

(a) Tenant hereby acknowledges that, except as set forth herein, the premises shall be delivered in an "as is" condition and that Landlord, except as may be expressly agreed by Landlord in writing as specified herein and in Exhibit D attached hereto, has no obligation to alter, repair, renovate, or render fit for Tenant's occupancy, any part of the premises. Landlord reserves to itself the use of the roof, exterior walls and the area above and beneath the premises, together with the right to install, maintain, use, repair and replace plumbing, telephone facilities, equipment, machinery, connections, pipes, ducts, conduits, and wires leading through the premises and serving other parts of the Building in a manner and in locations which will not unreasonably interfere with Tenant's use.

(b) In the event Landlord determines to permit early occupancy of the premises and, therefore, informs Tenant in writing that the premises are ready for occupancy prior to the date set forth in the Basic Lease Information for the commencement of the term of the Lease, Tenant shall have the right to take early occupancy of the premises on such date as Landlord and Tenant shall agree, and notwithstanding the provisions of paragraph 4 below, the term of the Lease shall commence upon such occupancy.

(c) The occupancy by Tenant of the premises shall constitute an acknowledgment by Tenant that the premises are then in good, sanitary and tenantable condition and repair. Notwithstanding the foregoing, Landlord represents and warrants, to the best of its knowledge without inquiry, to Tenant that, as of the Commencement Date, the Premises, including any improvements made by Landlord, shall be in compliance with all laws and regulations, and built in a good and workmanlike manner with good materials and the equipment and Building services serving the Premises shall be in good working order.

4. Term. The initial term of this Lease shall commence and, unless renewed or sooner terminated in accordance with this Lease, shall end on the date respectively specified in the Basic Lease Information. If Landlord for any reason cannot deliver possession of the premises to Tenant, in condition reasonably

satisfactory to Tenant and in accordance with the space plan attached hereto as Exhibit B, by the date specified for term commencement, this Lease shall not be void or voidable in that event, provided that the delay is not occasioned by the act or omission of Tenant, rental shall be waived for the period between the commencement of such term and the date when possession is delivered substantially complete.

Provided, however, if Landlord has not delivered the premises to Tenant substantially completed within sixty (60) days of the Term Commencement, then Tenant shall have the right to terminate this Lease upon written notice to Landlord, without liability to either party, so long as such failure is not due to a delay caused by the act of omission of Tenant.

5. Rent. Tenant shall pay to Landlord as rental for the use and occupancy of the premises, at the times and in the manner hereinafter provided, the following sums of money:

(a) Tenant shall pay to Landlord basic rent in the amount specified in the Basic Lease Information per year, payable in equal monthly installments in advance on the commencement of the term hereof and on or before the first day of each and every successive calendar month during the term hereof. If the term commences on other than the first day of a calendar month, the first payment of rent shall be appropriately prorated on the basis of a 30-day month.

(b) Tenant shall pay, as additional rent, all sums of money required to be paid to Landlord as stated above and all other sums of money or charges required to be paid by Tenant hereunder in addition to basic rent, whether or not the same are designated "additional rent". If such amounts or charges are not paid at the time provided in this Lease, they shall nevertheless be collectible as additional rent with the next installment of minimum rental thereafter falling due, but nothing herein contained shall be deemed to suspend or delay the payment of any amount of money or charge at the time the same becomes due and payable hereunder, or limit any other remedy of Landlord. All amounts of money payable by Tenant to Landlord under this Lease, if not paid when due, shall bear interest from the due date until paid at the rate of the greater of 15% per annum or the prime rate publicly announced by the Bank of America at (Seattle Washington office) or its successor or its equivalent size competitor in the Seattle market place should Bank of America cease to exist, but not to exceed the maximum rate of interest permitted by law ("Default Interest"). All payments due from Tenant to Landlord hereunder shall be made to Landlord without deduction or offset in lawful money of the United States of America at Landlord's address for notices hereunder, or to such other person at such other place as Landlord may from time to time designate in writing to Tenant.

(c) Tenant hereby acknowledges that late payment by Tenant to Landlord of rent and other sums due hereunder after the expiration of any applicable grace period will cause Landlord to incur costs not contemplated by this Lease, the exact amount of which will be extremely difficult to ascertain. Such costs include, but are not limited to, processing and accounting charges, and late charges which may be imposed on Landlord by the terms of any mortgage or trust deed covering the premises. Accordingly, if any installment of rent or any other sums due from Tenant shall not be received by Landlord within 10 days after the due date, Tenant shall pay to Landlord a late charge equal to 6% of such overdue amount. The parties hereby agree that such late charge represents a fair and reasonable estimate of the costs Landlord will incur by reason of late payment by Tenant. Acceptance of such late charge by Landlord shall in no event constitute a waiver of Tenant's default as provided above, or prevent Landlord from exercising any of the other rights and remedies available to Landlord hereunder or at law.

6. Taxes and Assessments. In addition to the monthly rental and other charges to be paid by Tenant hereunder, Tenant shall reimburse Landlord upon demand for any and all taxes, assessments, condominium and/or Building associations fees, levies, fees, charges and impositions whatsoever levied or imposed or assessed by any authority having the direct or indirect power to tax, including, without limitation, any city, county, state or federal government or any improvement or other assessment district, whether or not consented to or joined in by Landlord, payable by Landlord (other than income taxes, measured by the net income of Landlord from all sources), whether or not now customary or within the contemplation of the parties hereto on the date of this Lease: (a) upon, measured by or reasonably attributable to the cost or value of Tenant's equipment, furniture, fixtures and other personal property located in the premises or by the cost or value of any leasehold improvements made in or to the premises by or for Tenant, other than building standard tenant improvements made by Landlord, regardless of whether title to such improvements shall be in Tenant or Landlord; (b) upon or measured by the rental payable hereunder, including without limitation any gross income tax or excise tax levied by any city, county, state, federal or other governmental body with respect to the receipt of such rental; (c) upon or with respect to the possession, leasing, operation, management, maintenance, improvement, alteration, repair, use or occupancy by Tenant of the premises or any portion thereof; (d) upon this transaction or any document to which Tenant is a party creating or transferring an interest or an estate in the premises. In the event that it shall not be lawful for Tenant so to reimburse Landlord, the monthly rental payable to Landlord under this Lease shall be revised to net Landlord the same net rental after such imposition as would have been payable to Landlord prior to such imposition.

7. Operation Expenses-Utilities and Other Services by Landlord. Landlord agrees that there will be available at the Premises the following utilities and services:

Electricity (a minimum power available to the Premises of 200 amps/220-240 and 110-120 volts for the duration of the Lease), hot and cold water suitable for drinking, restroom and office janitorial/cleaning service, , gas, and the other utilities and services described in the definition of Operating Expenses described in this Lease.

All such utilities and services shall be paid for by Tenant as Additional Rental for Operating Expenses pursuant to Section 2. Landlord does not warrant the adequacy of such utilities for Tenant's needs or that any of the foregoing utilities and services will be free from interruption due to causes outside of the reasonable control of Landlord. Interruption of utilities or services shall not be deemed an eviction or excuse performance of any of Tenant's obligations under this Lease or render Landlord liable for damages (except if due to causes within the reasonable control of Landlord). If separate metering is necessary due to Tenant's excessive use thereof, Tenant shall be charged the installation cost of such meters. Other than the utilities and services required to be provided by Landlord in this Lease, Tenant shall, at Tenant's expense, provide all other utilities and other services to the Premises required by Tenant, and shall pay for the same when due. Tenant has had the opportunity to have an electrician determine that there is adequate power to the building for Tenant's use in the Premises.

8. Maintenance by Landlord. Landlord shall maintain in good condition (normal wear and tear excepted) the structural and exterior components of the Building. Landlord, with cost shared on a pro rata basis to all tenants of the Building, shall repair and replace, when necessary, light fixtures (including replacement of light bulbs and fluorescent tubes) and shall maintain in good condition and repair the underground plumbing and the electrical system in the Building. However, Landlord shall not be obligated to repair or replace any fixtures or equipment installed by Tenant and Landlord shall not be obligated to make any repair or replacement occasioned by any act or omission of Tenant, its employees, agents, invitees, or licensees. Landlord is responsible for all repairs, cleaning and maintenance to electrical, lighting, lightbulbs, and plumbing from the inside of exterior wall, or middle of the demising wall, as the case may be, to the opposite inside of the exterior wall, or middle of the demising wall of the Premises. Tenant is responsible to pay for any and all such cost on a pro-rata basis as defined in section 2.

Tenant's installed personal equipment is not considered part of the real property to the extent it is attached to the Premises as long as Tenant removes such personal property prior to the expiration of this Lease and repairs the Premises to a similar condition which the Premises were in prior to any such equipment being attached thereto.

9. Alterations, Repairs, and Maintenance by Tenant. Tenant shall make no changes, improvements, or alterations to the Premises without the prior consent of Landlord. Except as stipulated in Section 14 below, all such changes, improvements, and alterations and repairs, if any, made by Tenant shall remain on the Premises and shall become the property of Landlord upon the expiration or sooner termination of this Lease. Tenant shall keep the Premises in a neat, clean, and sanitary condition, and shall keep the Premises and all items therein installed by Tenant in good condition, except only for reasonable wear and tear. Tenant may install operating equipment of legal intent within the Premises such as additional electrical service, plumbing fixtures, roof vents, gas lines, telephones and computer network cabling as are customary to its business and in compliance with all City of Seattle codes, ordinances and zoning.

10. Estimated Payments. Unless otherwise expressly designated herein, all monetary amounts payable to Landlord pursuant to this Lease shall be payable as follows:(a) During December of each Lease Year or as soon thereafter as practicable, Landlord shall give Tenant notice of its estimate of amounts payable hereunder for the ensuing Lease Year. On or before the first day of each month during the ensuing Lease Year, Tenant shall pay to Landlord 1/12 of such estimated amounts, provided that if such notice is not given in December Tenant shall continue to pay on the basis of the prior year's estimate until the month after such notice is given. If, at any time or times, it appears to Landlord that the amounts payable for the current Lease Year will vary from its estimate by more than 5%, Landlord shall, by notice to Tenant, revise its estimate for such year, in which case subsequent payments by Tenant for such year shall be based upon such revised estimate.

(b) Within 90 day after the close of each Lease Year or as soon after such 90-day period as practicable, Landlord shall deliver to Tenant a statement of amounts payable for such Lease Year. If on the basis of such statement Tenant owes an amount that is less than the estimated payments for such Lease Year previously made by Tenant and Tenant is not in default hereunder, Tenant shall receive a credit in the amount if such excess against the installments due under Section 2 hereof prorated over the balance of the remaining calendar year. If on the basis of such statement Tenant owes an amount that is

more than the estimated payments for such Lease Year previously made by Tenant, Tenant shall pay the deficiency to Landlord within 30 days after delivery of the statement.

(c) If this Lease shall terminate on other than the last day of a calendar year, the adjustment in rent applicable to the Lease Year in which such termination shall occur shall be prorated on the basis which the number of days from the commencement of such Lease Year to and including such expiration date bears to 365. If the adjustment in rent is not determined until after the termination of this Lease, any excess amounts due Tenant or deficiency amounts due Landlord shall be paid in cash within 30 days after delivery of the statement setting forth such adjustment determination.

(d) Notwithstanding the foregoing, if, at any time, Landlord incurs for any item actual costs or expenses which are reimbursable in whole or in part by Tenant pursuant to this Lease and such costs or expenses are in excess of the estimated amount budgeted for such item and otherwise payable by Tenant, then, upon written demand from Landlord accompanied by a statement of such costs of expenses, Tenant shall immediately pay to Landlord the full amount of any excess reimbursable costs or expenses within 30 days of being billed.

11. Common Areas.

(a) The use and occupation by Tenant of the Premises shall include a right to the use in common with others entitled thereto of the common areas and other facilities as may be designated from time to time by Landlord, subject, however, to the terms and conditions of this Lease. All common areas and facilities not within the Premises, which Tenant may be permitted to use and occupy pursuant to this paragraph, are to be used and occupied under a revocable license. If the measure of such areas is diminished by Landlord, Landlord shall not be subject to any liability nor shall Tenant be entitled to any compensation or diminution or abatement of rent, nor shall such diminution of such areas be deemed constructive or actual eviction.

(b) Landlord shall at all times during the term of this Lease have the following rights with respect to the common area and other facilities:

(1) Landlord shall have the right from time to time to alter and modify the common areas and other facilities as it deems desirable in its sole discretion;

(2) Landlord may discontinue the existence of the common area subject to the requirements of laws and ordinances applicable thereto;

(3) Landlord may uniformly promulgate and enforce such rules and regulations relating to the use of the common areas and other facilities as Landlord deems necessary or desirable.

Landlord shall exercise the foregoing rights in such a manner as to minimize the interference with Tenant's beneficial enjoyment of the premises.

(c) Notwithstanding anything to the contrary, during the term of this Lease, Landlord shall at all times operate and maintain the restrooms adjacent to the Premises (as depicted in the attached Exhibit B) and Tenant shall have continuous right of access and use of such restrooms. Landlord represents, warrants and covenants that such restrooms, including any improvements made by Landlord, shall be in compliance with all laws and regulations, and built in a good and workmanlike manner with good materials, and the equipment and Landlord services serving such restrooms shall be in good working order.

12. Use.

(a) The premises shall be used solely for general office purposes and no other, except services that are permitted under codes for the City of Seattle. Tenant shall not use or permit the premises to be used for any other purpose without Landlord's prior written consent. Landlord and Tenant hereby further acknowledge that the identity of Tenant, the specific character of Tenant's business and anticipated use of the premises and the relationship between such use and other uses within the Building has been a material consideration to Landlord's entry into this Lease. Any material change in the character of Tenant's business or its financial condition or use shall constitute a default under this Lease.

(b) Tenant shall not do or permit to be done in, on or about the premises, nor bring or keep or permit to be brought or kept therein, anything which is prohibited by or will in any way conflict with any law, statute, ordinance or governmental rule or regulation now in force or which may hereafter be enacted or promulgated, or which is prohibited by the standard form of fire insurance policy or will in any way increase the existing rate of or affect any fire or other insurance upon the Building, or cause a cancellation of any insurance policy covering the Building or any part thereof of any of its contents.

Tenant shall not do or permit anything to be done in or about the premises which will in any way obstruct or interfere with the rights of other tenants of the Building, or injure or annoy them, or use or allow the premises to be used for any improper, immoral, unlawful or objectionable purpose. Nor shall Tenant cause, maintain or permit any nuisance in, or about the premises or commit or suffer to be committed any waste in or upon the premises.

c) Except for normal office and janitorial supplies in customary quantities, Tenant shall not cause or permit any Hazardous Material to be brought upon, kept or used in or about the premises or the Building. If Tenant breaches the obligations stated in the preceding sentence, or if the presence of Hazardous Material on the premises or the Building caused or permitted by Tenant results in contamination of the premises or the Building the Tenant shall indemnify, defend and hold Landlord harmless for, from and against any and all claims, judgments, damages, penalties, fines, costs, liabilities or losses (including, without limitation, diminution in value of the Building, damages for the loss or restriction on use of rentable or usable space or of any amenity of the Building, damages arising from any adverse impact on marketing of space in the Building, and sums paid in settlement of claims, reasonable attorneys' fees, consultant fees and expert fees) which arise during or after the Lease Term as a result of such contamination. This indemnification of Landlord by Tenant includes, without limitation, costs incurred in connection with any investigation of site conditions or any cleanup, remedial, removal or restoration work required by any federal, state or local governmental agency or political subdivision because of hazardous Material present in or about any part of the Building, including, without limitation, the soil or ground water under the Building.

As use herein, the term "Hazardous Material" means any hazardous or toxic substance, material or waste which is or becomes regulated by any federal, state or other local governmental authority, including, without limitation, any material or substance which is designated as a "hazardous substance" pursuant to Section 311 of the Federal Water Pollution Control Act (33 U.S.C. '1317), defined as a "hazardous waste" pursuant to Section 1004 of the Federal Resource Conservation and Recovery Act, (42 U.S.C. 6901 et seq.), or defined as a "hazardous substance" pursuant to Section 101 of the Comprehensive Environmental Response, Compensation and Liability Act (42 U.S.C. ' 9601 et seq.).

13. Liens. Tenant shall keep the premises and the Building free from any liens arising out of any work performed, materials furnished or obligations incurred by Tenant. In the event that Tenant shall not, within 10 days following the imposition of any such lien, cause the same to be released of record, Landlord shall have, in addition to all other remedies provided herein and by law, the right but not the obligation to cause the same to be released by such means as it shall deem proper, including payment of the claim giving rise to such lien. All sums paid by Landlord for such purpose, and all expenses incurred by it in connection therewith including, without limitation, any attorneys fees, court costs, and expenses of litigation, together with Default interest thereon, shall be payable to Landlord by Tenant on demand. Nothing in this Lease shall be construed in any way as constituting the consent or request of the Landlord, expressed or imposed, by inference or otherwise, to any contractor, subcontractor, laborer, or materialmen, for the performance of any labor, or the furnishing of any materials for any specific improvement, alteration and repair of or to the premises or as giving Tenant the right, power or authority, to contract for or permit the rendering of any service or the furnishing of any material that would give rise to the filing of any mechanic's liens against the Premises. Landlord shall have the right to post and keep posted on the premises any notices, that may be provided by law or which Landlord may deem to be proper for the protection of Landlord, the Premises and the Building from such liens, and Tenant shall give Landlord at least 5 days' prior notice of the date of commencement of any construction on the Premises in order to permit the posting of such notices.

14. Damage and Destruction. (a) If the premises or the portion of the Building necessary for Tenant's occupancy should be damaged or destroyed during the term hereof by any casualty insurable under standard fire and extended coverage insurance policies, Landlord shall (except as hereafter provided) repair or rebuild the premises to substantially the condition in which the premises were immediately prior to such destruction.

(b) Landlord's obligation under this paragraph shall in no event exceed the lesser of (1) with respect to the premises, the scope of building standard improvements installed by Landlord in the original construction of the premises, or (2) the extent of proceeds received by Landlord or any insurance policy maintained by Landlord pursuant to paragraph 17(a) below, unless Landlord nevertheless elects to repair or rebuild the premises.

(c) The minimum rent shall be abated proportionately during any period in which, by reason of any damage or destruction not occasioned by the negligence or willful misconduct of Tenant or Tenant's employees or invitees, there is a substantial interference with the operation of the business of Tenant. Such abatement shall be proportional to the measure of business in the Premises which Tenant may be required to discontinue. The abatement shall continue for the period commencing with such destruction or damage and ending with the completion by the Landlord of such work, repair or reconstruction as Landlord is obligated to do.

(d) Notwithstanding the foregoing, if the premises, or the portion of the Building necessary for Tenant's occupancy should be damaged or destroyed (1) to the extent of 10% or more of the then replacement value of either, (2) in the last year of the term hereof, (3) by a cause or casualty other than those covered by fire and extended coverage insurance, or (4) to the extent that it would take, in Landlord's opinion, in excess of 180 days to complete the requisite repairs, then Landlord or Tenant may either terminate this Lease or elect to repair or restore said damage or destruction, in which event

Landlord shall repair or rebuild the same as provided in subparagraph (a) above. If such damage or destruction occurs and this Lease is not so terminated by Landlord, this Lease shall remain in full force and effect. The parties hereby waive the provisions of any law that would dictate automatic termination or grant either party an option to terminate in the event of damage or destruction. Landlord's election to terminate Landlord's obligation under this paragraph shall be exercised by written notice to Tenant given within 60 days following the damage or destruction. Such notice shall set forth the effective date of the termination of this Lease.

(e) Upon the completion of any such work of repair or restoration by Landlord, Tenant shall forthwith repair and restore all other parts of the premises including without limitation, non-building standard leasehold improvements and all trade fixtures, equipment, furnishings, signs and other improvements originally installed by Tenant, subject to the requirements of subparagraph 12(a) above.

15. Indemnification. Except to the extent caused by the negligence or willful misconduct of Landlord or Landlord's agents, employees or invitees, Landlord shall not be liable to Tenant and Tenant hereby waives all claims against Landlord for any injury to or death of any person or damage to or destruction of property in or about the premises or the Building by or from any cause whatsoever, including, without limitation, acts of other tenants or other third parties, gas, fire, oil, electricity or leakage of any character from the roof, walls, basement or other portion of the premises or the Building. Except to the extent caused by the negligence or willful misconduct of Landlord or Landlord's agents, employees or invitees, Tenant shall hold Landlord and any ground Landlord harmless for, from and against and defend Landlord against any and all claims, liability, damage or loss, and for, from and against all costs and expenses, including reasonable attorneys' fees, arising out of any injury to or death of any person or damage to or destruction of any property, from any cause whatsoever (except any cause resulting solely from the negligence or willful act of Landlord, its authorized agents or employees) to the extent: (i) occurring in or about the Premises, or (ii) occurring on or about any portion of the common areas or elsewhere in or about the Building, but only to the extent that such injury or damage shall be caused in whole or in part by the act, neglect, default or omission of any duty by Tenant, its agents, employees or invitees or otherwise by any conduct or transactions of any of said persons in or about or concerning the premises, including any failure of Tenant to observe or perform any of its obligations hereunder. The provisions of this paragraph 15 shall survive the termination of this Lease with respect to any damage, injury or death occurring prior to such termination for a maximum of one year.

16. Insurance.

(a) Tenant shall procure and maintain in full force and effect during the entire term hereof, at its own expense and in companies acceptable to Landlord, the following policy or policies of insurance.

(1) Comprehensive liability insurance, including property damage, insuring Landlord and the Building, as Landlord may designate, hereinafter called additional designated insured from and against all claims, demands, actions or liability for injury to or death of any persons, and for damage to property arising from or related to the use of occupancy of the premises or the operation of Tenant's business. No deductible shall be carried under this coverage without the prior written consent of Landlord. Such policy shall contain but not be limited to, coverage for premises and operations, products and completed operations, blanket contractual, personal injury, operations, ownership, maintenance and use of owned, non-owned, or hired automobiles, bodily injury and property damage. The policy shall have limits in amounts not less than \$1,000,000 per person and per occurrence, with an aggregate limit of \$2,000,000. This insurance shall carry a contractual coverage endorsement specifically insuring the performance by Tenant of its indemnity agreement contained in paragraph 15 above. If in the opinion of Landlord's insurance advisor, acting reasonably based on a substantial increase in recovered liability claims, the aforesaid amounts of coverage are no longer adequate, then such coverage shall be proportionately increased.

(2) Worker's Compensation Insurance and Employer's Liability Insurance with a limit of no less than that amount required by law, provided that Employer's Liability Insurance shall have a minimum coverage of \$1,000,000 per person and per occurrence.

(3) Fire insurance with standard extended coverage of all risk endorsement, including, without limitation, vandalism and malicious mischief, to extent of 90% of the replacement value of all furnishings, trade fixtures, leasehold improvements, equipment, merchandise and other personal property and leasehold improvements from time to time situated in, on or upon the premises. As long as this Lease is in effect, the proceeds from any such insurance shall be held in trust to be used only for the repair or replacement of the improvements, fixtures and other property so insured.

(b) Landlord may elect to procure and maintain liability insurance and insurance covering fire and such other risks of direct indirect loss or damage as it reasonably deems appropriate, including extended and broad form coverage risks, mudslide, land subsidence, volcanic eruption, flood and earthquake, on leasehold as improvements in the Building. Tenant shall reimburse Landlord for the costs of all such insurance as part of Operating Expenses reimbursable pursuant to paragraph 2. Any insurance coverage herein provided shall be for the benefit of Landlord, Tenant and any additional designated insured, as their

interests may appear, Tenant shall not adjust losses or execute proofs of loss under such policies without Landlord's prior written approval.

(c) Should this Lease be canceled pursuant to the provisions of paragraph 14 above by reason of damage or destruction and Tenant is thus relieved of its obligation to restore or rebuild the improvements on the premises, any insurance proceeds for damage to the premises, including all fixtures and leasehold except Tenant's furnishings, equipment and trade fixtures, improvements thereon, shall belong to Landlord, free and clear of any claims by Tenant.

(d) All policies of insurance described in this paragraph 16 of which Tenant is to procure and maintain, shall be issued by good, responsible companies, reasonably acceptable to Landlord and qualified to do business in the state in which the Building is situated. Executed copies of such policies of insurance or, at Landlord's election, certificates thereof, shall be delivered to Landlord and any additional designated insureds within 10 days after delivery of possession of the premises to Tenant and thereafter within 30 days prior to the termination or expiration of the term of each existing policy. All public liability and property damage policies shall contain the following provisions: (1) Landlord, and any additional designated insureds although named as insured, shall nevertheless be entitled to recovery under said policies for any loss occasioned to them, their servants, agents and employees by reason of the negligence of Tenant, its officers, agents or employees; (2) the company writing such policy shall agree to give Landlord and any additional designated insured not less than 30 days notice in writing prior to any cancellation, reduction or modification of such insurance; and (3) at the election of Landlord's mortgagee, the proceeds of any insurance shall be paid to a trustee or depository designated by Landlord's mortgagee. All public liability, property damage and other casualty policies shall be written as primary policies, not entitled to contribution from, nor contributing with, any coverage which Landlord may carry.

Tenant hereby acknowledges that the late delivery by Tenant to Landlord of the insurance certificates or policies referred to above will cause Landlord to incur costs not contemplated by this lease, the exact amount of which will be extremely difficult to ascertain.

Such costs include, but are not limited to, processing and accounting charges and penalties which may be imposed on Landlord by the terms of any mortgage or trust deed covering the premises. Accordingly, if any insurance certificate or policy required to be delivered by Tenant above shall not be received by Landlord at the time prescribed above, Tenant shall pay to Landlord a charge in the sum of \$300. The parties hereby agree that such charge represents a fair and reasonable estimate of the costs Landlord will incur by reason of late delivery by Tenant, and acceptance of such charge by Landlord shall in no event constitute a waiver of Tenant's default with respect to such late delivery, nor prevent Landlord from exercising any of the other rights and remedies available to Landlord hereunder or at law.

(e) Notwithstanding anything to the contrary contained within this paragraph, Tenant's obligations to carry the insurance provided for herein may be brought within the coverage of the so-called blanket policy or policies of insurance carried and maintained by Tenant; provided, however, that (1) Landlord and such other persons shall be named as additional insureds thereunder as their interests may appear; (2) the coverage afforded to Landlord and such other persons will not be reduced or diminished by reason of the use of such blanket policy of insurance; and (3) all other requirements set forth herein are otherwise satisfied.

(f) If Tenant should fail either to acquire the insurance required pursuant to this paragraph 16 and to pay the premiums therefor or to deliver required certificates or policies, Landlord may in addition to any other rights and remedies available to Landlord, acquire such insurance and pay the requisite premiums therefor, which premiums shall be payable by Tenant to Landlord immediately upon demand.

(g) Landlord and Tenant hereby waive any rights each may have against the other for loss or damage to its property or property in which it may have an interest where such loss is caused by a peril of the type generally covered by fire insurance with extended coverage or arising from any cause which the claiming party was obligated to insure against under this Lease, and each party on behalf of its insurer waives any right of subrogation that the insurer might otherwise have against the other party. The parties agree to cause their respective insurance companies insuring the premises or insuring their property on or in the premises to execute a waiver of any such rights of subrogation.

17. Condemnation.

(a) The term "total taking" means the taking of the fee title or Landlord's master leasehold estate to so much of the premises or a portion of the Building necessary for Tenant's occupancy by right of eminent domain or other authority of law, or a voluntary transfer under the threat of the exercise thereof, that the premises are not suitable for Tenant's intended use. The term "partial taking" means the taking of only a portion of the premises or the Building which does not constitute a total taking as above defined.

(b) If during the term hereof there shall be a total taking then this Lease, and the leasehold estate of Tenant in and to the premises, shall cease and terminate as of the date possession is taken. As used in this paragraph, the phrase date possession is taken means the date of taking actual physical possession thereof by the condemning authority or such earlier date as the

condemning authority gives notice that it shall be deemed to have taken possession.

(c) If during the term hereof there shall be a partial taking of the premises, this Lease shall terminate as to the portion of the premises taken on the date on which actual possession of the portion of the

premises is taken pursuant to the eminent domain proceedings and this Lease shall continue in full force and effect as the remainder of the premises. The minimum rent payable by Tenant for the balance of the term shall be abated in the ratio that the net rentable area of the premises taken bears to the net rentable area of the premises immediately prior to such taking, and Landlord shall make all necessary repairs or alterations to make the remaining premises a complete architectural unit, suitable for Tenant's permitted use hereunder.

(d) All compensation and damages awarded for the taking of the premises, any portion thereof, or the whole or any portion of the common area or Building shall, except as otherwise herein provided, belong to and be the sole property of Landlord, and Tenant shall not have any claim or be entitled to any award for diminution in value of its rights hereunder or for the value of any unexpired term of this Lease; provided, however, that Tenant shall be entitled to make its own claim for, and receive separate award that may be made for Tenant's loss of business or for the taking of or injury to Tenant's improvements, or on account of any cost or loss Tenant may sustain the removal of Tenant's trade fixtures, equipment, and furnishings, or as a result of any alterations, modifications or repairs which may be reasonably required by Tenant in order to place the remaining portion of the premises, and for Tenant's moving relocation expenses not so condemned in a suitable condition for the continuance of Tenant's occupancy. The Tenant's award pursuant to this subparagraph shall not reduce Landlord's award.

(e) If this Lease is terminated pursuant to the provisions of this paragraph 17, then all rentals and other charges payable by Tenant to Landlord hereunder shall be paid up to the date upon which possession shall be taken by the condemning agency and any rentals and other charges paid in advance and allocable to the period after the date possession is taken, and the parties shall thereupon be released from all further liability hereunder.

18. Compliance With Legal Requirements. Tenant shall at its sole cost and expense promptly comply with all laws, statutes, ordinances and governmental rules, regulations or requirements now in force or which may hereafter be in force, with the requirements of any board of fire underwriters or other similar body now or hereafter constituted, with any direction or occupancy certificate issued pursuant to any law by any public officer or officers, as well as the provisions of all recorded documents affecting the premises, as they relate to or affect the condition, use or occupancy of the premises, excluding requirements of structural changes not related to or affected by improvements made by or for Tenant or Tenant's use of the premises.

19. Assignment and Subletting. To the extent tenant occupies the majority of the space within the Premises and is not in default under the Lease, Tenant shall be permitted to sublease a minority of the space within the Premises to subagents and /or clients, without Landlord's prior consent. However, all such permitted sublessees shall abide by and comply with the terms and conditions of this lease.

(a) Except for the aforementioned permitted subletting, Tenant shall not transfer, assign, sublet, enter into license or concession agreements, or hypothecate this Lease or the Tenant's interest in and to the premises without first procuring the written consent of Landlord, which consent shall not unreasonably be withheld, conditioned or delayed. Any such attempted transfer, assignment, subletting license or concession agreement or hypothecation without Landlord's consent shall be void and shall, at the option of Landlord, terminate this Lease. This Lease shall not, nor shall any interest herein, be assignable as to the interest of Tenant by operation of law without the consent of Landlord. Tenant agrees to reimburse Landlord for Landlord's reasonable attorneys' fees incurred in conjunction with the processing and documentation of any such requested transfer, assignment, subletting, licensing or concession agreement, or hypothecation of this Lease or Tenant's interest in and to the premises. As it pertains to this Lease, any overage or other compensation above the base rental established herein paid to Tenant in any sublease or assignment shall belong in its entirety to Landlord.

(b) Before entering into any assignment of this Lease or into a sublease of all or part of the Premises (other than a sublease permitted under this Lease without Landlord's prior consent), Tenant shall give written notice to Landlord identifying the intended assignee or subtenant by name and address and specifying the terms of the intended assignment or sublease. For a period of thirty (30) days after such notice is given, Landlord shall have the right by written notice to Tenant to (i) in the case of a proposed sublease, either (A) sublet from tenant any portion of the premises proposed to be sublet for the term for which such portion is proposed to be sublet but at the same rent as Tenant is required by pay to Landlord under this Lease for the same space, computed on a pro rata square footage basis, or (B) if the proposed subletting is for substantially the remaining period of the term of this Lease, terminate this Lease or terminate this Lease as is pertains to the portion of the premises so proposed by Tenant to be sublet, or (ii) in the case of a proposed assignment, terminate this Lease. If Landlord so terminates this Lease, such termination shall be as of the date specified in Landlord's notice. If Landlord so terminates this Lease, Landlord may, if it elects, enter into a new lease covering the premises or a portion thereof with the intended assignee or subtenant on such terms as Landlord and such person may agree, or enter into a new lease covering the premises or a portion thereof with any other person; in such event, Tenant shall not be entitled to any portion of the profit, if any, which Landlord may realize on account of such termination and reletting. Landlord's exercise of its aforesaid option shall not be construed to impose any

liability upon Landlord with respect to any real estate brokerage commission(s) or any other costs or expenses incurred by Tenant in connection with its proposed subletting or assignment.

(c) If Tenant complies with the provisions of this section and Landlord does not exercise an option provided to Landlord under (b) above, Landlord's consent to a proposed assignment or sublet shall not be unreasonably withheld, conditioned or delayed. Without limiting the other instances in which it may be reasonable for Landlord to withhold its consent to an assignment or subletting, Landlord and Tenant acknowledge that it shall be reasonable for Landlord to withhold its consent in any of the following instances:

(1) the proposed assignee or sublessee is a governmental agency;

(2) in Landlord's reasonable judgment, the use of the premises by the proposed assignee or sublessee would entail any alterations which would lessen the value of the leasehold improvements in the premises, or would require material increased services by Landlord;

(3) in Landlord's reasonable judgment, the financial worth of the proposed assignee or sublessee does not meet the credit standards applied by Landlord for other tenants under leases with comparable terms;

(4) in Landlord's reasonable judgment, the character, reputation or business of tenant is inconsistent with the desired tenant-mix or the quality of other tenancies in the Building;

(5) Landlord has received from any prior lessor to the proposed assignee or subtenant a negative report concerning such prior lessor's experience with the proposed assignee or subtenant;

(6) Landlord has experienced previous defaults by or is in litigation with the proposed assignee or subtenant;

(7) (i) the proposed assignee's or subtenant's anticipated use of the premises involves the generation, storage, use, treatment or disposal of Hazardous Material; (ii) the proposed assignee or subtenant has been required by any prior landlord, lender or governmental authority to take remedial action in connection with Hazardous Material contaminating a property if the contamination resulted from such assignee's or subtenant's actions or use of the property in question; or (iii) the proposed assignee or subtenant is subject to an enforcement order issued by any governmental authority in connection with the use, disposal or storage of a Hazardous Material;

(8) the use of the premises by the proposed assignee or subtenant will violate any applicable law, ordinance or regulation;

(9) the proposed assignment or sublease will create a vacancy elsewhere in the Building;

(10) the proposed assignee or subtenant, or any person that, directly or indirectly, controls, is controlled by, or is under common control with the proposed assignee or subtenant, is then an occupant of the Building;

(11) the proposed assignee or subtenant is a person with whom Landlord is negotiating to lease space in the Building;

(12) the proposed assignment or sublease fails to include all of the terms and provisions required to be included therein pursuant to this paragraph;

(13) Tenant is in default of any obligation of Tenant under this Lease, or Tenant has defaulted under this Lease on three (3) or more occasions during the twelve (12) months preceding the date that Tenant shall request consent; or

(14) in the case of a subletting of less than the entire premises, if the subletting would result in the division of the premises into more than two subparcels or would require access to be provided through space leased or held for lease to another tenant or improvements to be made outside of the premises.

(d) in the case of an assignment, 100% of any sums or other economic consideration received by Tenant as a result of such assignment shall be paid to Landlord after first deducting the unamortized cost of leasehold improvements paid by Tenant, and the cost of any real estate commissions incurred in connection with such assignment. In the case of a subletting, 100% of any sum or economic consideration received by Tenant as a result of such subletting shall be paid to Landlord after first deducting (1) the rental due hereunder, prorated to reflect only rental allocable to the sublet portion of the premises, and (2) the cost of any real estate commissions incurred in connection with such subletting, amortized over the term of the sublease. Upon Landlord's request, Tenant shall assign to Landlord all amounts to be paid to Tenant by any such subtenant or assignee and shall direct such subtenant or assignee to pay the same directly to Landlord.

(e) Notwithstanding the provisions of subparagraphs (a) and (b) above, Tenant may assign this Lease or sublet the premises or any portion thereof, without Landlord's consent, to any corporation which controls, is controlled by or is under common control with Tenant or to any corporation resulting from the merger or consolidation with Tenant so long as there is no change in control of Tenant, provided that said assignee assumes, in full, the obligations of Tenant

under this Lease.

(f) Regardless of Landlord's consent, no subletting, assignment, hypothecation, license or concession shall release Tenant of Tenant's obligation or alter the primary liability of Tenant to pay the rental and to perform all other obligations to be performed by Tenant hereunder. The acceptance of rental by Landlord from any other person shall not be deemed to be a waiver by Landlord of any provision hereof. Consent to one assignment, subletting, hypothecation, license or concession agreement shall not be deemed consent to any subsequent assignment, subletting, hypothecation, license or concession agreement. In

the event of default by any assignee of Tenant or any successor of Tenant in the performance of any of the terms hereof, Landlord may proceed directly against Tenant without the necessity of exhausting remedies against such assignee or successor. Landlord may consent to subsequent assignments or modifications to this Lease, with assignees of Tenant without notifying Tenant or any successor of Tenant, and without obtaining its or their consent thereto and such action shall not relieve Tenant of liability under this Lease.

(g) Each transfer, assignment, subletting, license, concession agreement and hypothecation to which there has been consent or which has been permitted pursuant to subparagraph (e) above, shall be by an instrument in form satisfactory to Landlord and shall be executed by the transferor, assignor, sublessor, licensor, concessionaire, hypothecator or mortgagor and the transferee, assignee, sublessee, licensee, concessionaire or mortgagee in each instance, as the case may be; and each transferee, assignee or sublessee shall agree in writing for the benefit of Landlord to assume, to be bound by, and to perform the terms, covenants and conditions of this Lease to be done, kept and performed by Tenant. One executed copy of such instrument shall be delivered to Landlord. No sublessee other than Landlord shall have the right further to sublet.

(h) In the event Tenant shall assign or sublet the premises or request Landlord's consent to a proposed assignment, subletting, or other act, then Tenant shall pay (i) to Landlord and administrative fee in the sum of \$300 and (ii) Landlord's reasonable attorneys' fees incurred in connection therewith.

(i) For the purpose of this Lease, a transfer of more than (i) 50% of the partnership interest in Tenant if Tenant is a partnership, or (ii) 50% of the outstanding voting stock if Tenant is a corporation, shall constitute an assignment of this Lease. Notwithstanding anything to the contrary in the Lease, the terms of this Section 19 (i) shall not apply to Tenant if Tenant is a publicly traded company. Further, an initial public trading of Tenant's stock shall not constitute an assignment or transfer for purposes of this Section 19 (i).

20. Rules and Regulations. Tenant shall faithfully observe and comply with the rules and regulations attached to this Lease as Exhibit C and, after notice thereof, all reasonable modifications thereof and additions thereto from time to time promulgated in writing by Landlord. Landlord shall not be responsible to Tenant for the nonperformance by any other tenant or occupant of the Building of any of such rules and regulations.

21. Landlord's Access. Landlord may enter the premises at reasonable hours with reasonable advance notice to (1) inspect the same; (2) exhibit the same to prospective purchasers, mortgagees or tenants; (3) determine whether Tenant is complying with all its obligations hereunder; (4) supply any service to be provided by Landlord to Tenant hereunder; (5) post notices of non-responsibility; (6) post "to Lease" signs of reasonable size upon the premises during the last 90 day of the term hereof; and (7) make repairs required of Landlord under the terms hereof or repairs to any adjoining space or utility services or make repairs, alterations or additions to the premises or any other portion of the Building, provided, however, that all such work shall be done as promptly as reasonably possible and so as to cause as little interference to Tenant as reasonably possible and that any repairs, alterations, or additions to the premises shall, when completed, not materially and adversely affect Tenant's use of the premises. Landlord shall at all times have and retain a key with which to unlock all of the doors in, on or about the premises (excluding Tenant's vaults, safes and similar areas designated in writing by Tenant in advance) and Landlord shall have the right to use any and all means which Landlord may deem proper to open such doors in an emergency in order to obtain entry to the premises. Any entry to the premises obtained by Landlord by any of such means shall not under any circumstances be construed or deemed to be a forcible or unlawful entry into or a detainer of the premises or an eviction, actual or constructive, of Tenant from the premises, or any portion thereof.

22. Default. If: (1) Tenant shall fail to pay any rent or other sum payable hereunder for a period of 10 days after written notice from Landlord and the same is due; (2) Tenant shall fail to observe, keep or perform any of the other terms, covenants, agreements or conditions contained herein or in the rules and regulations to be observed or performed by Tenant and such default continues for a period of 30 days after notice by Landlord or beyond the time reasonably necessary for cure if such default is of a nature to require in excess of 30 days to remedy; (3) Tenant shall become bankrupt or insolvent, or make an assignment for the benefit of creditors, or take or have taken against Tenant any proceedings of any kind under any provision of the Federal Bankruptcy Act or under any other insolvency, bankruptcy or reorganization act or, in the event any such proceedings are involuntary, such involuntary proceedings are not dismissed within 60 days thereafter; (4) a receiver is appointed for a substantial part of the assets of Tenant; (5) Tenant shall vacate or abandon the premises; or (6) this Lease or any interest of Tenant hereunder shall be levied upon by any attachment or execution, then any such event shall constitute an event of default by Tenant. Upon the occurrence of any event of default by Tenant hereunder, Landlord may, at its option and without any further notice or demand, in addition to any other rights and remedies given hereunder or by law, do any of the following:

(a) Landlord shall have the right, so long as such default continues, to give notice of termination to Tenant. On the date specified in such notice (which shall not be less than 3 days after the giving of such notice) this Lease shall terminate.

(b) In the event of any such termination of this Lease, Landlord may then or at any time thereafter, re-enter the premises and remove therefrom all persons and property and again repossess and enjoy the premises, without prejudice to any other remedies that Landlord may have by reason of Tenant's default or of such termination.

(c) The amount of damages which Landlord may recover in event of such termination shall include, without limitation, (1) the amount at the time of award of (A) unpaid rental earned and other sums owed by Tenant to Landlord hereunder, as of the time of termination, together with interest thereon as provided on this Lease, (B) the amount by which the unpaid rent which would have been earned during the period from termination until the award exceeds the amount of such rental loss that Tenant proves could be reasonably avoided and (C) the amount by which the unpaid rent for the balance of the term after the time of the award exceeds the amount of such rental loss that Tenant proves could be reasonably avoided (computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of award plus one percent), (2) all legal expenses and other related costs incurred by Landlord following Tenant's default including reasonable attorneys' fees incurred in collecting any amount owed hereunder, (3) all costs incurred by Landlord in restoring the premises to good order and condition, or in remodeling, renovating or otherwise preparing the premises for reletting, and (4) all costs (including without limitation any brokerage commissions) incurred by Landlord in reletting the premises. For the purpose of determining the unpaid rent in the event of a termination of this Lease, the monthly rent reserved in this Lease shall be deemed to be the sum of (1) the minimum rent and (2) the Operating Expense charge and any other amounts last payable by Tenant pursuant to paragraphs 5, 6, 7, 10, 13, and 16 above.

(d) Following the termination of this Lease or Tenant's right of possession hereunder (or upon Tenant's failure to remove its personal property from the premises after the expiration of the term of the Lease), Landlord may remove its personal property from the premises after the expiration of the term of such property in a public or private warehouse or elsewhere at the sole cost and expense of Tenant; such Wholesaler shall have all rights and remedies provided by law against Tenant as the owner of such property. In addition, in the event that Tenant shall not immediately pay the cost of storage of such property after the same has been stored for a period of 30 days or more, Landlord may sell any or all thereof at a public or private sale in such manner and at such times and places as Landlord in its sole discretion may deem proper, without notice to or demand upon Tenant. Tenant waives all claims for damages that may be caused by Landlord's removing or storing or selling the property as herein provided, and Tenants shall indemnify and hold Landlord free and harmless for, from and against any and all losses, costs and damages, including without limitation all costs of court and attorneys' fees of Landlord occasioned thereby.

(e) Landlord shall have the right to cause a receiver to be appointed in any action against Tenant to take possession of the premises and to collect the rents or profits derived therefrom. The appointment of such receiver shall not constitute an election on the part of Landlord to terminate this Lease unless notice of such intention is given to Tenant.

(f) Even though Tenant has breached this Lease and/or abandoned the premises, this Lease shall continue in effect for so long as Landlord does not terminate this Lease, and Landlord may enforce all its rights and remedies under this Lease, including the right to recover the rental in periodic actions as it becomes due under this Lease. In such event, Landlord may re-enter the premises and remove all persons and property if the premises have not been vacated, using any available summary proceedings, without such re-entry or removal being deemed a termination or acceptance of surrender of this Lease. Landlord may then elect to relet the premises for the account of Tenant for a period which may extend beyond the term hereof, and upon such other terms as Landlord may reasonably deem appropriate. Tenant shall reimburse Landlord upon demand for all costs incurred by Landlord in connection with such reletting, including, without limitation, necessary restoration, renovation, or improvement costs, reasonable attorneys' fees and brokerage commissions. The proceeds of such reletting shall be applied first to any sums then due and payable Landlord from Tenant, including the reimbursement described above. In balance, if any, shall be applied to the payment of future rent as it becomes due hereunder.

23. Landlord's Right to Cure Default. All covenants and agreements to be performed by Tenant under any of the terms of this Lease shall be at its sole cost and expense and without any abatement of rent. If Tenant shall fail to pay any sum of money, other than rent, required to be paid by it hereunder or shall fail to perform any other act on its part to be performed hereunder and such failure shall have become an event of default under paragraph 22 above, Landlord may, but shall not be obligated to do so, and without waiving or releasing Tenant from any obligations of Tenant, make any such payment or perform any such other act on Tenant's part to be made or performed as in this Lease provided. All sums so paid by Landlord and all necessary incidental costs shall be deemed additional rent hereunder and shall be payable

to Landlord on demand together with Default Interest from the date of expenditure by Landlord until repaid.

24. Attorneys' Fees. If as a result of any breach or default in the performance of any of the provisions of this Lease or in order to enforce its rights hereunder, Landlord uses the services of an attorney in a nonjudicial action, at trial, or upon an appeal, to secure compliance with such provisions or recover damages therefor, to exercise such rights, or to terminate this Lease or evict Tenant, Tenant shall reimburse Landlord upon demand for any and all reasonable attorneys' fees and expenses so incurred by Landlord if Landlord prevails. If tenant shall be the prevailing party in any legal action brought by Landlord against Tenant, Tenant shall be entitled to recover for the fees of its attorneys in such an amount as the court may adjudge reasonable. Tenant, to the extent permitted by law, does hereby waive any further right to attorneys' fees provided by applicable state or federal law.

25. Subordination.

a) This Lease shall be subject and subordinated at all times to all ground or underlying leases which may hereafter be executed affecting the Building, and the lien of all mortgages and deeds of trust in any amount or amounts whatsoever now or hereafter placed on or against the Building or on or against Landlord's interest or estate therein or on or against all such ground or underlying leases, all without the necessity of having further instruments executed on the part of Tenant to effectuate such subordination. Notwithstanding the foregoing (1) in the event of termination for any reason whatsoever of any ground or underlying lease hereafter executed, this Lease shall not be barred, terminated, cut off or foreclosed nor shall the rights and possession of Tenant hereunder be disturbed if Tenant shall not then be in default in the payment of rental or other sums or be otherwise in default under the terms of this Lease, and Tenant shall attorn to the Landlord of any such ground or underlying Lease, or, if requested, enter into a new lease for the balance of the original or extended term hereof then remaining upon the same terms and provisions as are in this Lease contained; (2) in the event of a foreclosure of any such mortgage or deed of trust hereafter executed or of any other action or proceeding for the enforcement thereof, or of any sale thereunder, this Lease will not be barred, terminated, cut off or foreclosed nor will the rights and possession of Tenant thereunder be disturbed if Tenant shall not then be in default in the payment of rental or other sums or be otherwise in default under the terms of this Lease, and Tenant shall attorn to the purchaser at such foreclosure, sale or other action or proceeding; and (3) Tenant agrees to execute and deliver upon demand such further reasonable instruments, as determined by Landlord and/or lender, evidencing such subordination of this Lease, ground or underlying leases, and to the lien of any such mortgages or deed of trust as may reasonably be required by Landlord. Tenant's covenant to subordinate this Lease to ground or underlying leases, and mortgages or deeds of trust hereafter executed is conditioned upon each such senior instrument containing the commitments specified in the preceding clauses (1) and (2); and (4) Tenant further waives the provisions of any statute of rule of law, now or hereafter in effect, which may give or purport to give Tenant any right or election to terminate or otherwise adversely affect the Lease and the obligations of Tenant hereunder in the event of such foreclosure or sale.

(b) Tenant shall mail by certified or registered post, return receipt requested, or personally deliver to any Landlord under a ground lease or mortgage lender a duplicate copy of any and all notices in writing which Tenant may from time to time give to or serve upon Landlord pursuant of the provisions of this Lease, and such copy shall be mailed or delivered at, or as near as possible to, the same time such notices are given or served by Tenant. No notice by Tenant to Landlord hereunder shall be deemed to have been given unless and until a copy thereof shall have been so mailed or delivered to any ground lease landlord or mortgage lender. Upon the execution of any ground lease or mortgage, Tenant shall be informed in writing of the vesting of the interest evidenced by the ground lease or mortgage.

(c) Should any event of default by Landlord under this Lease occur, any ground lease landlord or mortgage lender shall have 30 days after receipt of written notice from Tenant setting forth the nature of such event of default within which to remedy the default; provided that in the case of a default which cannot with due diligence be cured within such 30-day period, the ground lease landlord or mortgage lender shall have the additional time reasonably necessary to accomplish the cure, provided that (i) it has commenced the curing within such 30 days and (ii) thereafter diligently prosecutes the cure to completion. If the default is such that the possession of the premises may be reasonably necessary to remedy the default, any ground lease landlord or mortgage lender shall have a reasonable additional time after the expiration of such 30-day period within which to remedy such default, provided that (i) it shall have fully cured any default in the payment of any monetary obligations of Landlord under this Lease within 30 day period and shall continue to pay currently such monetary obligations as and when the same are due and (ii) it shall have acquired Landlord's estate or commenced foreclosure or other appropriate proceedings within such period, or prior thereto, and is diligently prosecuting any such proceedings.

26. No Merger. The voluntary or other surrender of this Lease by Tenant, or a mutual cancellation thereof, shall not work a merger, and shall, at the option of Landlord, terminate all or any existing

subleases or subtenancies, or may, at the option of Landlord, operate as a assignment to it of any or all such subleases or subtenancies.

27. Sale by Landlord. In the event the original Landlord hereunder, or any successor owner of the Building, shall sell or convey the Building, all liabilities and obligations on the part of the original Landlord, or such successor owner, under this Lease accruing thereafter shall terminate, and thereupon all such liabilities and obligations shall be binding upon the new owner. Tenant agrees to attorn to such new owner.

28. Estoppel Certificate. At any time from time to time, but on not less than 10 days prior notice by Landlord, Tenant will execute, acknowledge and deliver to Landlord, promptly upon request, a certificate certifying (a) that this Lease is unmodified and in full force and effect (or, if there have been modifications, that his Lease is in full force and effect, as modified, and stating the date and nature of each such modification), (b) the date, if any, to which rental and other sums payable hereunder have been paid, (c) that no notice has been received by tenant of any default which has not been cured, except as to defaults specified in said certificate, and (d) such other matters as may be reasonably requested by Landlord and/or lender. Tenant agrees it shall execute an estoppel certificate which is consistent with the terms and conditions of the lease and which does not modify or lessen Tenant's position in the lease. Tenant hereby appoints Landlord as Tenant's attorney-in-fact to execute, acknowledge and deliver such certificate if Tenant shall fail to do so within the above-prescribed time period. Any such certificate may be relied upon by any prospective purchaser, mortgagee of beneficiary under any deed or trust of the Building.

29. Holdover Tenancy. If, without objection by Landlord, Tenant holds possession of the premises after expiration of the term of this Lease, Tenant shall become a Tenant from month to month upon all of the terms specified in this Lease as applicable immediately prior to expiration of such term, except that minimum rent will be 150% of that applicable immediately prior to expiration of such term. Each party shall give the other notice of its intention to terminate such tenancy at least one month prior to the date of such termination.

30. Building Security.

(a) Landlord shall have the right, but not the obligation, from time to time to adopt such policies, procedures and programs as it shall deem necessary or appropriate for the security of the Building, and Tenant shall cooperate with Landlord in the enforcement of the policies, procedures and programs adopted by Landlord.

(b) Without limiting the generality of subparagraph (a) above, Landlord reserves the right to exclude from the Building between the hours of 6 p.m. and 7 a.m. and at all hours on Saturdays, Sundays and holidays all persons who do not present a valid pass to the Building. If Landlord does elect to adopt such pass system, Landlord shall furnish passes to persons for whom Tenant requests the same in writing, and Tenant shall be responsible for all person for whom it request passes and shall be liable to Landlord for all acts of such persons. Landlord shall in no case be liable for damages for any error with regard to the admission to or exclusion from the Building of any person. In case of invasion, mob, riot, public demonstration or other circumstances rendering such action advisable in Landlord's opinion, Landlord reserves the right to prevent access to the Building during the continuance of the same by such action as Landlord may deem appropriate, including closing doors.

(c) In the event of any picketing, public demonstration or other threat to the security of the Building that is directly attributable to Tenant, Tenant shall reimburse Landlord for any costs incurred by Landlord in connection with such picketing, demonstration or other threat in order to protect the security of the Building.

31. Parking.

(a) Any parking areas appurtenant or within the Building, or designated portions thereof, shall be available for the use of Tenants of the Building, and, to the extent designated by Landlord, the employees, agents, customers and invitees of said tenants, subject to the rules, regulations, charges, and rates as set forth by the Landlord from time to time (see attached); provided, however, that Landlord may restrict to certain portions of the parking areas, parking for Tenant or other tenants of the Building and their employees and agents, and may designate other areas to be used only by customers and invitees of Tenants of the Building.

Notwithstanding anything herein contained, Landlord reserves the right from time to time to make reasonable changes in, additions to, and deletions from parking areas as now or hereafter constituted.

(b) Landlord, or its agents, shall have the right to cause to be removed any cars, trucks, trailers or other motorized or nonmotorized vehicles of tenants, its employees, agents, guests or invitees that are parked in violation hereof or in violation of regulations of the Building, without liability of any kind to Landlord, its agents or employees, and Tenant agrees to hold Landlord harmless from and defend it

against any and all claims, losses, or damages and demands asserted or arising in respect to or in connection with the removal of any such vehicles as aforesaid. Tenant shall from time to time upon request of Landlord supply Landlord with a list of license plate numbers of all vehicles owned by its employees and agents who are to have parking privileges hereunder. Landlord may, as a part of the regulations promulgated by it for the use of the parking areas, require that Tenant cause any identification sticker issued by Landlord to be affixed to the bumpers or other designated location on all vehicles of Tenant and its employees and agents who are authorized to park in the parking areas.

32. Security Deposit. If any security deposit has been made herewith, which sum is specified in the Basic Lease Information (the "Deposit"), Tenant and Landlord shall treat such sum as a security deposit and not a last month's rent. The Deposit shall be held in a co-mingled account by Landlord, as security for the faithful performance by Tenant of all of the provisions of the Lease to be performed or observed by Tenant. If Tenant fails to pay rent or other charges due hereunder, or otherwise defaults with respect to any provision of this Lease, Landlord may use, apply or retain all or any portion of the Deposit for the payment of any rent or other charge in default or for reason of Tenant's default, or compensate Landlord for any loss or damage which Landlord may suffer thereby. If Landlord so uses or applies all or any portion of the Deposit, Tenant shall within ten (10) days after demand therefore deposit cash with Landlord in an amount sufficient to restore the Deposit to the full amount thereof and Tenant's failure to do so shall be a material breach of this Lease.

Landlord shall not be required to keep the Deposit separate from its general accounts. If Tenant performs all of Tenant's obligations hereunder, the Deposit, or so much thereof as has not theretofore been applied by Landlord, shall be returned, without payment of interest or other increment for its use, to Tenant (or, at Landlord's option, to the last assignee, if any, of Tenant's interest hereunder) at the expiration of the Term hereof, and after Tenant has vacated the Premises. No trust relationship is created herein between Landlord and Tenant with respect to the Deposit.

33. No Partnership. It is expressly understood that Landlord does not, in any way or for any purpose, become a partner of Tenant in the conduct of its business, or otherwise, or joint venture or a member of a joint enterprise with Tenant.

34. Recording. Tenant shall not record this Lease without the prior written consent of Landlord.

35. Modification and Financing Conditions. Landlord may have obtained financing and may seek to obtain further financing for the Building, portions thereof, and the operation thereof, secured by mortgages or deeds of trust encumbering the Building. Landlord may also elect to enter into a ground lease of the Building. If any mortgage lender should require, as a condition to such financing, or pursuant to rights of approval set forth in the mortgage or deed of trust encumbering the Building, or if any ground lease should require, as a condition to such ground lease or pursuant to rights of approval set forth therein, any modification of the terms or conditions of this Lease, Tenant agrees to execute such modification or amendment, provided that, such modification or amendment (a) shall not increase the rental or Tenant's share of any costs in addition to minimum rent or increase any other Tenant obligation or reduce any right under the terms hereof which are not provided for hereunder, (b) shall not materially interfere with Tenant's use or occupancy, and (c) if requested by a mortgage lender with a lien on the Building or a ground lessee pursuant to a ground lease effective as of the date hereof, shall have been requested prior to 30 days after the date hereof. If Tenant should refuse to execute any modifications so required within 10 days after receipt of same, Landlord shall have the right by notice to Tenant to cancel this Lease, and upon such cancellation Landlord shall refund any unearned rental or security deposit, and neither party shall have any liability thereafter accruing under this Lease, except as provided in paragraph 15 above.

36. Waiver. The waiver by Landlord of any term, covenant, agreement or condition herein contained shall not be deemed to be a waiver of any other then existing or subsequent breach of the same of any other term, covenant, agreement or condition herein contained. Nor shall any custom or practice which may develop between the parties in the administration of the terms hereof be construed to waive or to lessen the right of the Landlord to insist upon the performance by Tenant in strict accordance with such terms. The subsequent acceptance of rent or any other sum of money or other performance hereunder by Landlord shall not be deemed to be waiver of any preceding breach by Tenant of any term, covenant, agreement or condition of this Lease, other than the failure of Tenant to pay the particular rent or other sum so accepted, regardless of Landlord's knowledge of such preceding breach at the time of acceptance of such rent or other sum or performance.

37. Notices and Consents. All notices, demand, consents or approval which may be given by either party to the other hereunder shall be in writing and shall be deemed to have been fully given when deposited in the United States mail, registered or certified, return receipt requested, postage prepaid, and

addressed as follows: to Tenant at the address specified in the Basic Lease Information, or to such other place as Tenant may from time to time designate in a notice to Landlord; to Landlord at the address specified in the Basic Lease Information, or to such place as Landlord may from time to time designate in a notice to Tenant; or, in case of Tenant, delivered to Tenant at the premises. Tenant hereby appoints as its agent to receive the service of all dispossession or restraint proceedings and notices thereunder and person or persons in charge of our occupying the premises at the time, and, if no person shall be in charge of or occupying the same, then such service may be made by attaching the same on the main entrance of the premises. Notice will also be delivered to 2815 Second Avenue, Suite 100, Seattle, Washington, with a copy to Corporate Headquarters.

38. Complete Agreement. There are no oral agreements between Landlord and Tenant affecting this Lease, and this Lease supersedes and cancels any and all previous negotiation, arrangements, brochures, agreements and understandings, if any, between Landlord and Tenant or displayed by Landlord to Tenant with respect to the subject matter of this Lease or the Building. There are no representations between Landlord and Tenant other than those contained in this Lease and all reliance with respect to any representations is solely upon the representations contained herein. This lease may not be amended or modified in any respect whatsoever except by an instrument in writing signed by Landlord and Tenant.

39. Corporate Authority. If Tenant signs as a corporation, each of the person executing this Lease on behalf of the Tenant does hereby covenant and warrant that Tenant is a duly authorized and existing corporation, that Tenant is qualified to do business in the State in which the Buildings situated, that the corporation has full right and authority to enter into this Lease, and that each person signing on behalf of the corporation is authorized to do so.

40. Limits to Tenant's Remedy. If Landlord should default in the performance of its obligations hereunder, it is understood and agreed that any claims by Tenant against Landlord shall be limited in recourse to Landlord's interest in the Building. Tenant expressly waives any and all other rights to proceed on a recourse basis against Landlord, the individual partners of Landlord, or the officers, directors and shareholders of any corporate partner of Landlord.

41. Arbitration. If there is a dispute between the Landlord and Tenant concerning the payment of any sums under this Lease, the determination of such dispute shall be submitted to binding arbitration upon the written demand of either party delivered to the other party. Such arbitration shall be conducted in accordance with the Commercial Arbitration Rules of the American Arbitration Association then in effect; provided there shall be only one (1) arbitrator who shall be selected by the parties and if the parties cannot agree then who shall be appointed by the Presiding Judge of the King County Superior Court upon motion made by either party. Judgment upon the award may be entered in any court having jurisdiction. The cost and expenses of the arbitration shall be divided equally between the Landlord and Tenant.

42. Brokers. Landlord is paying the commission due pursuant to the listing agreement with CB Richard Ellis. As part of the commission owing, Landlord agrees to pay the commission due to Colliers International in the amount equal to 3% of the aggregate basic rent for the initial 5-year term of this Lease. Tenant shall have no liability for paying commissions to CB Richard Ellis or Colliers International in connection with this Lease. Landlord agrees to defend, indemnify and hold harmless Tenant against any loss, cost expense or liability for any compensation, commission, fee or charge, including reasonable attorney's fees, resulting from any claim of CB Richard Ellis, Colliers International, or any of their respective employees or agents in connection with this Lease or its negotiations. Tenant warrants to Landlord that they have not dealt with any other brokers other than those listed in this paragraph.

43. No Light and Air Easement. No diminution or shutting off of light, air, or view by any structure which may be erected on land adjacent to or in the vicinity of the Building shall in any way affect this Lease or impose any liability on Landlord.

44. Miscellaneous. The words "Landlord" and "Tenant" as used herein shall include the plural as well as the singular. If there be more than one Tenant, the obligations hereunder imposed upon Tenant shall be joint and several. Time is of the essence of this Lease and each and all of its provisions. Submission of this instrument for examination or signature by Tenant does not constitute a reservation of or option for lease, and it is not effective as a lease or otherwise until execution and delivery by both Landlord and Tenant. The terms, covenants, agreements and conditions herein contained shall, subject to the provisions as to assignment, apply to and bind the heirs, successors, executors, administrators and assigns of the parties hereto. If any provisions of this Lease shall be determined to be illegal or unenforceable, such determination shall not affect any other provisions of this Lease and all such other provisions shall remain in full force and effect. Landlord and Tenant agree that each party and its counsel have reviewed this Lease and that the normal rule of construction to the effect that ambiguities are to be

resolved against the drafting party is not appropriate and shall be governed by and construed pursuant to the laws of the State in which the Building is situated.

45. Basic Lease Information and Exhibits. The Basic Lease Information and the exhibit(s), if any, specified in the Basic Lease Information are attached to this Lease and by this reference made a part hereof.

46. Additional Provisions. Except as otherwise provided in Section 42, above, Tenant and Landlord each agree to defend, indemnify and hold harmless the other party against any loss, cost expense or liability for any compensation, commission, fee or charge, including reasonable attorney's fees, resulting from any claim of any broker, agent or finder not otherwise specified in Section 42, above, claiming under or through the indemnifying party in connection with this Lease or its negotiations.

47. Building Transportation Program. Tenant agrees to participate in the Bay Vista Tower Transportation Management Program as outlined in the Memorandum of Agreement between Bay Vista Building, the City of Seattle, and Metro, thus, Tenant shall assume and fulfill Landlord's responsibility to fulfill the obligations outlined in the agreement as it pertains to subsidizing parking for car pools, van pools, and providing free transit passes to Tenant's own employees. A copy of the Memorandum shall be provided by Landlord to Tenant with the delivery of this Lease. By the execution hereof, Tenant acknowledges receipt thereof.

48. Governing Law. This Lease is governed by the laws of King County, State of Washington.

IN WITNESS HEREOF, Landlord and Tenant have caused this instrument to be duly executed, sealed and delivered on the date set forth below.

TENANT

LANDLORD

Cellular Technical Services Company, Inc.,
a Delaware corporation

Bay Vista Office Investors, LLC,
a Delaware Limited Liability Company
By: ASA Properties, Inc.
Its: Managing Member

By: _____

By: _____

Its: _____

Its: _____

Date of Execution

Date of Execution

By Tenant: _____

By Landlord: _____

EXHIBIT A
Description of Building

EXHIBIT B
Description of Premises
(Final Space Plan)

EXHIBIT C
Rules and Regulations

1. The sidewalks, halls, passages, exists, entrances, elevators and stairways of the Building shall not be obstructed by any of the Tenants or used by them for any purpose other than for ingress to and egress from their respective premises. The halls, passages, exists, entrances, elevators, and stairways are not for the general public, and Landlord shall in all cases retain the right to control and prevent access thereto of all persons whose presence in the judgment of Landlord would be prejudicial to the safety, character, reputation and interests of the Building and its Tenants, provided that nothing herein contained shall be construed to prevent such access to persons with whom any Tenant normally deals in the ordinary course of its business, unless such persons are engaged in illegal activities. No Tenant and no employee or invitee of any Tenant shall go upon the roof of the Building.

2. No sign, placard, picture, name, advertisement or notice visible from the exterior of any Tenant's premises shall be inscribed, painted, affixed or otherwise displayed by any Tenant on any part of the Building without the prior written consent of Landlord. Landlord will adopt and furnish to Tenant general guidelines relating to signs inside the Building on the office floors. Tenant agrees to conform to such guidelines, but may request approval of Landlord for modifications, which approval will not be unreasonably withheld. All approved signs or lettering on doors shall be printed, painted, affixed or inscribed at the expense of the Tenant by a person approved by Landlord, which approval will not be unreasonably withheld. Material visible from outside the Building will not be permitted without Landlord's prior approval.

3. No Tenant shall employ any person or persons other than the janitor of Landlord for the purpose of cleaning the premises, unless other wise agreed to by Landlord in writing. Except with the written consent of Landlord, no person or persons other than those approved by Landlord shall be permitted to enter the Building for the purpose of cleaning the same. No Tenant shall cause any unnecessary labor by reason of such Tenant's carelessness or indifference in the preservation of good order and cleanliness. Janitor service will not be furnished on nights when rooms are occupied after 9:30 P.M. unless, by agreement in writing, service is extended to a later hour for specifically designated rooms.

4. The premises shall not be used for lodging or the storage of merchandise held for sale to the public, and unless ancillary to a restaurant or other food service use specifically authorized in the lease of a particular Tenant, no cooking shall be done or permitted by any Tenant on the premises, except that the preparation of coffee, tea, hot chocolate and similar items for Tenants and their employees shall be permitted.

5. Landlord will furnish each Tenant with two keys free of charge. Landlord may make reasonable charge for any additional keys. No Tenant shall have any keys made. No Tenant shall alter any lock or install a new or additional lock or any bolt on any door of its premises without the prior consent of Landlord. Each Tenant shall in each case furnish Landlord with a key for any such lock. Each Tenant upon the termination of its tenancy, shall deliver to Landlord all keys to doors in the Building which shall have been furnished to Tenant. Each Tenant shall see that the doors of its premises are closed and securely locked at such times as Tenant's employees leave the premises.

6. No Tenant shall use or keep in the premises or the Building any kerosene, gasoline or inflammable or combustible fluid or material or use any method of heating or air conditioning other than that supplied by Landlord. No Tenant shall use, keep or permit to be used or kept any foreign or noxious gas or substance in the premises, or permit or suffer the premises to be occupied or used in a manner offensive or objectionable to Landlord or other occupants of the Building by reason of noise, odors, or vibrations, or interfere in any way with other Tenants or those having business therein.

7. In the case of invasion, mob, riot, public excitement, or other circumstances rendering such action advisable in Landlord's opinion, Landlord reserves the right to prevent access to the Building during the continuance of the same by such an action as Landlord may deem appropriate, including closing entrances to the Building.

8. The toilet rooms, toilets, urinals, wash bowls and other apparatus shall not be used for any purpose other than that for which they were constructed and no foreign substance of any kind whatsoever shall be thrown therein. The expense of any breakage, stoppage of damage resulting from the violation of this rule shall be borne by the Tenant who, or whose employees or invitees, shall have caused it. Except with prior consent of Landlord, no Tenant shall sell, or permit the sale in the premises or use or permit the use of any common area for the sale of newspapers, magazines, periodicals, theater tickets or any other goods merchandise or service. Tenant shall not carry on, or permit or allow any employee or other person to carry on the business of stenography, typewriting, or any similar business in or from the premises for the service or accommodation of occupants of any other portion of the Building, nor shall the premises of any Tenant be used for manufacturing of any kind, or any business or activity other than that specifically provided for in such Tenant's lease.

10. Tenant shall not use any advertising media which may be heard outside of the premises and Tenant shall not place or permit the placement of any radio or television, or other communications antenna, loudspeaker, sound amplifier, phonograph, searchlight, flashing light or other device of any nature on the roof or outside of the boundaries of the premises (except for Tenant's approved identification sign or signs) or at any place where the same may be seen or heard outside of the premises.

11. All loading and unloading of merchandise, supplies, materials, garbage and refuse shall be made only through such entryways and elevators and at such times as Landlord shall designate. In its use of the loading areas the Tenant shall not obstruct or permit the obstruction of said loading area and at no time shall park or allow its officers, agents or employees to park vehicles therein except for loading and unloading.

12. Landlord shall have the right, exercisable without notice and without liability to any Tenant, to change the name and street address of the Building.

13. The freight elevator shall be available for use by all Tenants in the Building, subject to such reasonable scheduling as Landlord in its discretion shall deem appropriate. The persons employed to move such equipment in or out of the Building must be acceptable to Landlord. Landlord shall have the right to prescribe the weight, size and position of all equipment, materials, furniture or other property brought into the Building. Heavy objects shall, if considered necessary by Landlord, stand on wood strips of such thickness as is necessary to properly distribute the weight. Landlord will not be responsible for loss of or damage to any such property from any cause, and all damage done to the Building by moving or maintaining such property shall be repaired at the expense of Tenant.

14. The directory of the Building will be provided for the display of the name and location of Tenants and a reasonable number of the principal officers, partners and employees of Tenants, and Landlord reserves the right to exclude any other names therefrom. Any additional name which Tenant shall desire to place upon said bulletin board must first be approved by Landlord, and, if so approved, a charge will be made therefor.

15. No curtains, draperies, blinds, shutters, shades, screens or other coverings, hangings or decorations shall be attached to, hung or placed in, or used in connection with any window of the Building without the prior written consent of Landlord. In any event, with the prior written consent of Landlord, such items shall be installed on the office side of Landlord's standard window covering and shall in no way be visible from the exterior of the Building.

16. No Tenant shall obtain for use in the premises, ice, drinking water, food beverage, towel or other similar services, except at such reasonable hours and under such reasonable regulations as may be fixed by Landlord.

17. Each Tenant shall see that the doors of its premises are closed and locked and that all water faucets, water apparatus and utilities are shut off before Tenant or Tenant's employees leave the premises, so as to prevent waste or damage, and for any default or carelessness in this regard Tenant shall be liable for, and shall indemnify Landlord against and hold Landlord harmless for, from and against all injuries sustained by other tenants or occupants of the Building or Landlord. On multiple-tenancy floors, all Tenants shall keep the doors to the Building corridors closed at all times except for ingress and egress.

18. No Tenant shall use any portion of the common area for any purpose when the premises of such Tenant are not open for business or conducting work in preparation therefore.

19. The requirements of the Tenants will be attended to only upon application by telephone or in person at the office of the Building. Employees of Landlord shall not perform any work or do anything outside of their regular duties unless under special instructions from Landlord.

20. Landlord may waive any one or more of these Rules and Regulations for the benefit of any particular Tenant or Tenants, but no such waiver by Landlord shall be construed as a waiver of such Rules and Regulations in favor of any other Tenant or Tenants, nor prevent Landlord from thereafter enforcing any such Rules and Regulation against any or all of the Tenants of the Building.

21. These Rules and Regulations are in addition to and shall not be construed to in any way modify, alter or amend, in whole or in part, the terms, covenants, agreements and conditions of any Lease of premises in the Building.

22. Landlord reserves the right to make such other and reasonable rules and regulations as in its judgment may from time to time be needed for the safety, care and cleanliness of the Building, and for the preservation of good order herein. Landlord shall uniformly enforce (or not) enforce the Rules and Regulations.

PARKING RULES AND REGULATIONS

THESE PARKING RULES AND REGULATIONS supplement the parking requirements for Bay Vista Office Building. All Tenants, subtenants, employees, guests, invitees and customers of Tenants must conform to these Parking Rules and Regulations.

1. To the extent not designated to individual tenants by clearly marked lettering or numbers on stalls, all uncovered parking spaces are permitted to be used in common with all Tenant's employees, subtenants, invitees, guests and customers within the lot of the building which Tenant leases. Parking is not allowed in areas previously designated for other Tenant use.
2. During the Term hereof Landlord reserves the sole right to institute controls of all the parking areas serving the Building and its lot including, but not limited to, changing the methods by which vehicles are parked, repainting the parking lot, allocating individual space is designated areas for specific license plate numbers or named persons or companies, and allocating visitor only parking, allocating compact car spaces, and issuing parking decals.
3. Tenant's rights and privileges under these Parking Rules and Regulations are conditioned upon the valid existence of the Lease between Landlord and Tenant at the Property. Tenant's rights hereunder are also conditioned upon Tenant not being in default of any provision of said lease nor in default of the any Rules and Regulations which are incorporated therein.
4. Tenant's rights are further subject to the parking rules and regulations as follows:
 - i. Restriction or Removal. Landlord reserves the right to restrict access to the parking areas of the Building, or to have removed from the parking areas, at the vehicle owner's expense, any vehicle which, in the opinion of the Landlord: (a) represents a hazard to the health and welfare of the tenants of the Building or the general public; (b) is not in operable condition; (c) contains explosive cargo (other than gasoline or fuel in the original equipment vehicle tanks); (d) is leaking fluids of any kind, including water; (e) contains illegal goods or contraband; (f) disregards the posted speed limit signs or other posted signage; (g) or any other vehicle normally not considered acceptable in the area of a high quality office park. Landlord shall park only in such areas or spaces as are authorized by Landlord. Landlord reserves the right to remove any vehicle not authorized to park in the classification of parking area in which it is located. Tenant shall ensure strict compliance with parking areas marked for the handicapped.
 - ii. Speed and Traffic Controls. Tenant, its employees, subtenants invitees, guests and customers shall observe all speed and traffic controls established by Landlord from time to time.
 - iii. Violations. The vehicles of Tenant's who violate any of the provisions of these Parking Rules and Regulations may be impounded and/or removed from the parking facilities at the option of the Landlord of the lot, or easement area, being violated at the expense of the Tenant.
 - iv. Changes or Additions to Parking Regulations. Landlord reserves the right to from time to time to amend, modify, expand or change in any way these Parking Rules and Regulations.

5. Landlord reserves the right to refuse access or to exclude or expel from said parking areas, to any individual who fails to observe any of the provisions of these Parking Rules and Regulations.
6. Landlord reserves the right to make such other and reasonable rules and regulations as in its judgment may from time to time be needed for the safety, care and cleanliness of the parking areas, for the preservation of good order herein, and for the common well being of the Building's tenants.
7. Tenant is allocated Eleven (11) parking stalls in the Building on an unreserved basis for the duration of this Lease. Tenant agrees to pay to Landlord the sum of \$150/mo. for each stall it may use in the building subject to increases from time to time imposed by Landlord equally on all stall users in the Building. If the monthly rate is increased by Landlord for parking stall users in the Building, Tenant agrees to pay the increased rate after receiving not less than twenty (20) days prior written notice thereof for the next month's rate.

Landlord's Initials

Tenant's Initials

Exhibit D

Other Conditions

1. Tenant Improvements. Tenant and Landlord agree that Landlord shall make improvements to the Tenant's Premises according to the space plan attached hereto as Exhibit B and by this reference made a part hereof (the "Tenant Improvements"). Landlord agrees to pay up to an allowance of One Hundred Seventy Five Thousand Nine Hundred Twenty Dollars and 00/100 (\$175,920.00) (the "Maximum Allowance") associated with Tenant's Premises (Suite 100) at its sole cost and expense related to such Tenant Improvements. In the event the cost of Tenant Improvements exceed the Maximum Allowance, Tenant hereby agrees to pay promptly when due the cost overage for such Tenant Improvements above the Maximum Allowance, if any, provided Tenant has approved such overage in writing prior to incurring such overage. Landlord agrees to pay the tenant improvement invoices as they become due with Tenant reimbursing Landlord for all amounts over the Maximum Allowance stated above provided Tenant has approved such overage in writing prior to incurring such overage. IT IS EXPRESSLY AGREED TO HEREIN THAT NO WORK WILL BE AUTHORIZED FOR OVER THE MAXIMUM ALLOWANCE WITHOUT PRIOR WRITTEN APPROVAL OF BOTH LANDLORD AND TENANT. Tenant Improvements shall be defined as all costs associated with improving the Premises, as it relates to Exhibit B, including new carpeting and padding (if applicable), general conditions of the contractor (including overhead and profit), wall installation and/or removal, wall preparation, painting, floor plan preparations and review, permits, hard surface floor covering, relites, doors, door jambs, door hardware, Tenant signage, sprinklers, vapor/noise barriers, smoke detectors, fire dampers/stops, light fixtures, code required modifications, electrical installation or reconfiguration, ceiling tiles (new or repainted), ceiling T-grids, securing tenant improvements for earthquake codes, installation of wood work or cabinetry, window blinds repair or replacement, general clean-up, and other items mutually agreed to by Tenant and Landlord, and any applicable sales taxes. In no event shall any of the Maximum Allowance allocation be utilized for furniture, furniture installation, demountable furniture partitions, and other moving costs. All of the furniture related costs are to be at the sole cost of Tenant and are not part of the Maximum Allowance allocation. Landlord shall utilize Landlord's tenant improvement contractor to perform the Tenant Improvement work on the Premises, except for telephone and/or networking cabling which shall be contracted by Tenant.

Once the Tenant improvement work has been completed, and should the total cost associated with the Tenant Improvements and other items permitted herein, total less than the Maximum Allowance amount, any savings in the total cost to improve the Premises shall belong to Landlord. Tenant and Landlord agree that the Base Monthly Rent described in item above is based in part upon Landlord's obligation to pay for Tenant Improvements up to an amount not to exceed the Maximum Allowance specified herein. If, in the event, the cost to install the Tenant Improvements, to which Landlord is obligated to pay and which Tenant and Landlord have mutually approved to include in such cost, is in excess of the Maximum Allowance, Tenant shall pay for all such costs directly. Once the Tenant Improvements are substantially completed in areas where access is desired by Tenant even though other areas may not be substantially completed, prior to the Lease Commencement, Tenant may enter the space for installation of its fixturing, cabling or other furniture installations, to the extent such activities do not interfere with or delay the completion of Tenant Improvements directed by Landlord or its contractors, agents, or employees.

2. Space Planning Allowance. In addition to the Maximum Allowance for Tenant Improvements, Landlord agrees to pay a space planning allowance of One Thousand Six Hundred Dollars and 00/100 (\$1,600.00) associated with Tenant's Premises (Suite 100) at its sole cost and expense. In the event the cost of Tenant's space planning for the Premises exceeds such allowance, Tenant hereby agrees to pay promptly when due the cost overage for such space planning above such allowance, if any, provided Tenant has approved such overage in writing prior to incurring such overage. Landlord agrees to pay the space planning invoices as they become due with Tenant reimbursing Landlord for all amounts over the allowance stated above provided Tenant has approved such overage in writing prior to incurring such overage.
3. Renewal Option. To the extent Tenant is not in material default under the Lease at the date of its intent to exercise this option to renew the Lease, Tenant shall have the right to extend this Lease for two option periods of two years ("the First Option Period") and five years (the second option period") after expiration of the initial term of this Lease under the same terms and conditions set forth in this Lease, by delivering to Landlord written notification of its intent to exercise such option to extend not later than 180 days prior to the initial Lease term expiring, except, the monthly base rent shall be at market rate (equal to the then-current fair market rate for comparable office space in the Denny Regrade/Queen Anne business district) as negotiated between Tenant and Landlord which both agree to be reasonable in such negotiations. Upon receipt by Landlord of written

notification by Tenant that it extends to exercise its option to new its tenancy, Landlord shall have 15 days to respond back to Landlord its acceptance thereof or counter offer. Each party will then have three business days in which to respond to the other's counter-proposals, if required. If, in the event, that a market rate cannot be negotiated between Tenant and Landlord within the proposals and counter proposals, which shall not exceed three (3) in total (three written proposals or counter-proposals from each side), then the market rate shall be determined as follows: (i) within 14 days after expiration of the proposal/counter-proposal procedure discussed above, the parties shall mutually agree on an appraiser who shall determine the fair market rate for the Premises in accordance with this paragraph. If the parties are unable to agree on an appraiser, then each party shall select an appraiser. The two appraisers shall then select a third appraiser who shall determine the fair market rate in accordance with this paragraph. All appraisers selected shall be M.A.I. appraisers with commercial property experience in King County, Washington. Any dispute regarding the market rate shall not affect Tenant's right to renew this Lease. In the event of such dispute, during the term of the Lease renewal, the basic rate shall remain unchanged until such decision is rendered by the appraiser, upon which time the rent shall be adjusted retroactively to the beginning of the renewal period. If, in the event, Tenant assigns (excluding any permitted subleases) its interest in this Lease at any time prior the commencement of the renewal period, or in case of material default of this Lease by Tenant that remains uncured as of the date of Tenant's intent to exercise this option to renew the Lease, this option becomes null and void.

4. Early Termination by Tenant. Tenant shall have a one time right to terminate the lease at the end of the 36th month of the lease term by paying to Landlord a penalty fee in the amount of \$100,000.00. Tenant must provide to Landlord, the payment in advance six (6) months written notice to terminate not later than 180 days prior to the end of the 36th month or the right to terminate the Lease shall lapse.

Landlord's Initials

Tenant's Initials

Exhibit E

Application of Operating Expenses

NOTARY

STATE OF WASHINGTON)
) SS.
COUNTY OF KING)

On this ___ day of _____, 2000, before me, a Notary Public in and for the State of Washington, personally appeared Richard J. Burrell, to me known to be the Vice President, respectively, of ASA Properties, Inc., the corporation that executed the within and foregoing instrument, and acknowledged said Instrument to be the free and voluntary act and deed of said corporation, for the uses and purposes therein mentioned.

Notary Public in and for the State of Washington, residing in County of King.
Commission Expiration: _____

STATE OF WASHINGTON)
) SS.
COUNTY OF KING)

On this ___ day of _____, 2000, before me, a Notary Public in and for the State of Washington, personally appeared Bruce R. York, to me known to be the Chief Financial Officer, respectively, of Cellular Technical Services Company, Inc., the corporation that executed the within and

foregoing instrument, and acknowledged said Instrument to be the free and voluntary act and deed of said corporation, for the uses and purposes therein mentioned.

- - - - -
Notary Public in and for the State of _____, residing in
County of _____ Commission Expiration: _____

AMENDMENT #1 TO LEASE

This Lease Amendment #1 to Lease shall serve to modify and change that Lease dated July 11, 2000, (hereinafter referred to as the "Lease"), by and between BayVista Office Investors, LLC, a Delaware Limited Liability Company, a Delaware Limited liability company with ASA Properties, Inc., as its Managing Member ("Landlord"), and Cellular Technical Services Company, Inc., a Delaware corporation ("Tenant"), for space leased as Suite 100, for approximately 11,728 rentable square feet, at BayVista Office Building, 2815 Second Avenue, Seattle, Washington.

NOW, THEREFORE, the parties agree to the following modifications to the Lease:

1. The Basic Lease Information page and section 2 of the Lease shall be modified to reflect a 13% load factor added to 9,987 usable square feet for the premises to bring the total rentable square feet to 11,285 not 11,728 rentable square feet as previously stated therein. Tenant's percentage share of the Building shall now be 9.81% and not 10.19% as stipulated in section 2 of the Lease.
2. The Lease shall now commence October 1, 2000, and the Lease shall expire on September 30, 2003;
3. The base monthly rent shall be changed from that stated on the Basic Lease Information page of the Lease to that which is stipulated below:

	Monthly Base Rent		Total Base Monthly Rent
	Usable S.F. (9,987 usf)	13% Load (1,298 rsf)	
Oct. 1, 2000-Sept. 30, 2000	16,645.00	2,163.33	\$18,808.33
Oct. 1, 2002-Sept. 30, 2002	17,477.25	2,271.50	\$19,748.75
Oct. 1, 2003-Sept. 30, 2003	18,309.50	2,379.67	\$20,689.17

4. Tenant Improvements: The Maximum Allowance amount specified on Exhibit "D" item #1 in the Lease shall be changed from \$175,920.00 to \$195,920.00.

Except as herein provided, the subject Lease has not been amended and remains in full force and effect.

Agreed to and accepted this _____ day of _____, 2000.

LANDLORD:
 BayVista Office Investors, LLC,
 a Delaware Limited Liability Company
 ASA properties, Inc.,
 a Washington corporation
 Its: Managing Member

TENANT:
 Cellular Technical Services Company, Inc.,
 a Delaware corporation

By: _____

By: _____

Its: _____

Its: _____

EXECUTION COPY

SERVICES AGREEMENT
BETWEEN VERIZON WIRELESS
AND
CELLULAR TECHNICAL SERVICES COMPANY, INC.

CONFIDENTIAL

TABLE OF CONTENTS

ARTICLE I. TERMS AND CONDITIONS APPLICABLE TO THE ENTIRE AGREEMENT.....1

- 1.1 DEFINITIONS.....1
- 1.2 SCOPE.....6
- 1.3 TERM AND TERMINATION.....6
- 1.4 TESTIMONY.....9
- 1.5 PAYMENT.....9
- 1.6 NOTICE.....11
- 1.7 LAWS, RULES AND REGULATIONS.....12
- 1.8 PROFESSIONALISM.....12
- 1.9 INSURANCE.....12
- 1.10 INDEPENDENT CONTRACTOR.....13
- 1.11 VERIZON WIRELESS' PROPERTY.....13
- 1.12 CTS PROPERTY.....14
- 1.13 INFRINGEMENT.....14
- 1.14 PLANT RULES AND SECURITY REQUIREMENTS.....15
- 1.15 USE AND OWNERSHIP OF INFORMATION.....15
- 1.16 PUBLICITY.....16
- 1.17 GOVERNING LAW.....16
- 1.18 LITIGATION EXPENSES.....16
- 1.19 ASSIGNMENT.....16
- 1.20 WAIVER.....17
- 1.21 AUDIT.....17
- 1.22 SUBCONTRACTING.....17
- 1.23 ARTICLE HEADINGS.....17
- 1.24 SEVERABILITY.....17
- 1.25 WARRANTIES.....17
- 1.26 INDEMNIFICATION.....20
- 1.27 FORCE MAJEURE.....21
- 1.28 BUSINESS CONDUCT.....21
- 1.29 NO WAIVER, CUMULATIVE REMEDIES.....21

ARTICLE II. SUPPORT SERVICES.....22

- 2.1 SCOPE OF COVERAGE.....22
- 2.2 TECHNICAL SUPPORT SERVICES.....22
- 2.3 SOFTWARE SUBSCRIPTION SERVICES.....25
- 2.4 CELL SITE HARDWARE MAINTENANCE.....25
- 2.5 BLACKBIRD PLATFORM MONITORING SERVICES.....27
- 2.6 BACKUP & RESTORE SUPPORT SERVICES.....27
- 2.7 ADDITIONAL VERIZON WIRELESS RESPONSIBILITIES.....28

ARTICLE III. ROAMING PROTECTION SERVICES31

- 3.1 THE SERVICE.....31
- 3.2 MAINTENANCE OF CTS NETWORK.....32
- 3.3 ADDITIONAL VERIZON WIRELESS RESPONSIBILITIES.....32

ARTICLE IV. SOFTWARE LICENSE34

- 4.1. LICENSE OF SOFTWARE.....34
- 4.2 SOURCE CODE.....35
- 4.3 PROPRIETARY RIGHTS.....35

ARTICLE V. ENTIRE AGREEMENT.....37
5.1 ENTIRE AGREEMENT.....37
5.2 COUNTERPARTS.....37
5.3 SIGNATURES.....37
LIST OF EXHIBITS.....38
EXHIBIT A.....39
EXHIBIT B40
EXHIBIT C.....41
EXHIBIT D.....45

SERVICES AGREEMENT

This Agreement is entered into as of January 1, 2001, by and between CELLULAR TECHNICAL SERVICES COMPANY, INC., a Delaware corporation ("CTS"), and CELLCO PARTNERSHIP, a Delaware general partnership, doing business as VERIZON WIRELESS ("Verizon Wireless ").

WHEREAS, Verizon Wireless, successor-in-interest to GTE Wireless Service Corporation ("GTE"), and CTS entered into a certain Agreement pursuant to which CTS provided certain services for certain software and hardware to GTE; and

WHEREAS, Verizon Wireless, successor-in-interest to Cellco Partnership, doing business as Bell Atlantic Mobile ("BAM"), and CTS entered into a certain Agreement pursuant to which CTS provided certain services for certain software and hardware to BAM; and

WHEREAS, Verizon Wireless, successor-in-interest to AirTouch Cellular, Inc, ("AirTouch") and CTS entered into a certain Agreement pursuant to which CTS provided certain services for certain software and hardware to AirTouch; and

WHEREAS, Verizon Wireless, successor-in-interest to New Par ("NP"), and CTS entered into a certain Agreement pursuant to which CTS provided certain services for certain software and hardware to NP; and

WHEREAS, Verizon Wireless, successor-in-interest to AirTouch Cellular of Georgia ("ATCG"), and CTS entered into a certain Agreement pursuant to which CTS provided certain services for certain software and hardware to ATCG; and

WHEREAS, CTS and Verizon Wireless desire to enter into a new Agreement to supersede the prior agreements with GTE, BAM, AirTouch, NP and ATCG, each a prior company ("Prior Company") to continue the services provided under the various agreements with the Prior Companies under the terms and conditions stated herein; and

WHEREAS, CTS and Verizon Wireless agree that CTS will provide certain services for certain software and hardware as more fully described in the Agreement on the terms and conditions set forth below.

NOW, THEREFORE, in consideration of the mutual promises and covenants contained herein and for other good and valuable consideration, the receipt and sufficiency of which is hereby mutually acknowledged, CTS and Verizon Wireless hereby agree as follows:

ARTICLE I. TERMS AND CONDITIONS APPLICABLE TO THE ENTIRE AGREEMENT

1.1 DEFINITIONS.

Whenever used in this Agreement with initial letters capitalized, the following terms shall have the following meanings:

1.1.1 "Aggregate Fee" means the monies required to be paid by Verizon Wireless to CTS in connection with the transactions contemplated in this Agreement, as set forth in Section 1.5.3 below.

- 1.1.2 "Agreement" means this Agreement and any attached schedules, together with all amendments and supplements which may be made thereto from time to time by mutual agreement of the parties.
- 1.1.3 "Call Data" means the combination of: (i) the industry standard digital data derived from the radio frequency call event originating from a telecommunications carrier's cellular network; and (ii) the CTS-proprietary digital data resulting from the measuring, processing, and formatting of information derived from such radio frequency call event as performed by a System.
- 1.1.4 "Cell Site" means a cellular radio base station location consisting of radio, antenna, and power equipment: (i) that provides cellular telecommunications service to a particular geographic area; (ii) in which certain Components of a System are installed; (iii) that complies with the Infrastructure and Environmental Requirements; and (iv) in which a direct antenna frame hook-up is provided by Verizon Wireless for the Cell Site Hardware installed therein..
- 1.1.5 "Cell Site Hardware" means the CTS-proprietary Hardware which is supplied by CTS for installation in Cell Sites.
- 1.1.6 "Component" means an individual item of the Hardware or Licensed Programs.
- 1.1.7 "Confidential Information" shall have the same meaning ascribed to such term in the Nondisclosure Agreement.
- 1.1.8 "Connected System" means each System (as defined below) within the United States which is connected to the CTS Network in accordance with the terms of this Agreement and for which CTS provides Service for such System.
- 1.1.9 "CTS Network" means the CTS network that (i) is comprised of CTS proprietary and non-proprietary computer equipment (including without limitation the On-Site Hardware), software, and networking, (ii) performs the Service, and (iii) to which one or more Systems are or will be connected in accordance with this Agreement.
- 1.1.10 "Customization" means any modification, enhancement, or improvement to any Licensed Program that is made by CTS at the request of Verizon Wireless in accordance with this Agreement, and which is not made generally commercially available by CTS to other cellular carrier licensees of CTS in the United States.
- 1.1.11 "Documentation" means CTS's standard user manual(s) for a Licensed Program and all other written documentation for a System that CTS furnishes or has furnished to Verizon Wireless for purposes of this Agreement (as such documentation may be reasonably modified or updated from time to time by CTS with notice to Verizon Wireless). Documentation may include, if applicable, documentation provided to CTS by its suppliers or licensors to the extent CTS is authorized by them to provide such documentation to Verizon Wireless.
- 1.1.12 "Verizon Wireless Facility" means each Regional Processor Complex, Cell Site, or other location within a Licensed Market at which any Component of a System is installed.

- 1.1.13 "Governing Agreements" means this Agreement and all Schedules and attachments to any of the foregoing.
- 1.1.14 "Hardware" means the following with respect to the System installed in a given Licensed Market: (i) the computer equipment and peripherals (including any operating system software bundled with such equipment as supplied by the equipment manufacturer) agreed by CTS and Verizon Wireless to be necessary to operate the configuration of such System as of the date hereof; and (ii) any additional computer equipment and peripherals as CTS and Verizon Wireless may, from time to time, agree in writing to add to such System as Hardware.
- 1.1.15 "Hardware Documentation" means the design specifications setting forth the information required to enable a reasonably skilled hardware manufacturer to make the Cell Site Hardware.
- 1.1.16 "Infrastructure and Environmental Requirements" means the physical, electrical, connectivity, and other infrastructure and environmental requirements described in Documentation furnished by CTS to Verizon Wireless (as the same may be reasonably modified or updated from time to time by CTS with notice to Verizon Wireless), which requirements are to be satisfied by Verizon Wireless at each Verizon Wireless Facility at which any portion of the CTS Network is installed in accordance with this Agreement.
- 1.1.17 "Intellectual Property Rights" means any valid patent, copyright, trade secret, trademark, or other intellectual property right.
- 1.1.18 "License" shall have the meaning ascribed to such term as set forth in Section 3.1.2 and 3.1.3 below, with respect to each Connected System, or the license granted to Verizon Wireless under Section 4.1.1 below.
- 1.1.19 "License Agreement" means Article IV, hereto.
- 1.1.20 "Licensed Market" means for each of the market areas identified in the attached Exhibit B, the aggregate of the corresponding cellular service areas identified in such Exhibit that are covered by a System; and any additional market areas as Verizon Wireless may, from time to time, determine with the prior written approval of CTS.
- 1.1.21 "Licensed Programs" means the following with respect to each System installed in a given Licensed Market: (i) the CTS-owned computer software (including firmware and patches), in object code form only, and any Third-Party Software, in object code form only, described on Exhibit C hereto; (ii) all New Releases, Maintenance Releases, and Customizations provided by CTS to Verizon Wireless for such System; and (iii) any additional software, data tables, and programs as CTS and Verizon Wireless may, from time to time, agree in writing to add to such System as Licensed Programs.
- 1.1.22 "Maintenance Release" means a correction of errors, bugs, or defects in any Licensed Program that is made generally commercially available by CTS to its cellular carrier licensees in the United States, and may also include, at CTS's discretion, any minor modification, enhancement, or improvement to a Licensed Program.

- 1.1.23 "New Release" means any computer program or portion thereof which involves any modification, enhancement, or improvement to any Licensed Program that is: (i) made generally commercially available by CTS to its cellular carrier licensees in the United States; (ii) identified by CTS as either a "major" or "minor" new release; and (iii) not merely a Maintenance Release.
- 1.1.24 "Nondisclosure Agreement" means that certain Nondisclosure Agreement of even date herewith between CTS and Verizon Wireless (the "Current NDA"), and to the extent not inconsistent therewith, includes any other nondisclosure agreements (including any amendments or supplements to such agreements) between CTS and any of the Prior Companies or any affiliate thereof. A copy of the Current NDA is attached hereto as Exhibit D.
- 1.1.25 "Normal Business Hours" means from 6:00 a.m. to 5:00 p.m., Seattle time, Monday through Friday, excluding CTS holidays.
- 1.1.26 "On-Site Hardware" means the following with respect to a Connected System: (i) the equipment and peripherals (including any software bundled with such equipment by CTS or the equipment manufacturer) for each System for which the Service is being provided in such quantities as CTS and Verizon Wireless agree are necessary to enable CTS to perform the Service for such System; and (ii) any additional equipment and peripherals as CTS and Verizon Wireless may, from time to time, agree in writing to add to this Agreement as On-Site Hardware.
- 1.1.27 "Priority 1 Incident" means any condition where (i) a System is completely out of service (i.e., the System is completely down and is not capable of making any counterfeit-valid call decisions and RF fingerprint collections) or where the PreTect Graphical User Interface for a System is completely out of service for more than two (2) consecutive hours, and (ii) the source of the problem is a Regional Processing Complex (RP, AS, Gateway or Cisco Router).
- 1.1.28 "Priority 2 Incident" means any condition where a System is up, but there is partial loss of functionality (i.e., the System is working, but there is partial loss of data communication). For example, any condition where the Cell Site Hardware at any Cell Site is completely out of service is a Priority 2 Incident.
- 1.1.29 "Priority 3 Incident" means all conditions other than Priority 1 Incidents and Priority 2 Incidents that affect a System (i.e., anomalous System condition that does not impact the System's overall ability to collect data, make counterfeit-valid call decisions, or terminate counterfeit calls).
- 1.1.30 "Regional Processor Complex" means each Verizon Wireless location at which regional processors for a System are installed.
- 1.1.31 "Roaming Agreement" means that certain Article III, hereto.
- 1.1.32 "Service User" means a telecommunications carrier which: (i) operates one or more systems comprised of the CTS Blackbird'r' Platform and PreTect™ fraud prevention application, pursuant to a written agreement between such carrier and CTS, and (ii)

has authorized CTS to transmit Call Data to and from such carrier and to otherwise perform the Service, pursuant to a written agreement between such carrier and CTS.

- 1.1.33 "Source Code" means the source code form of the Licensed Programs, in a form suitable for reproduction by computer or photocopy equipment, and all material enhancements, modifications, revisions, and other changes thereto.
- 1.1.34 "Specifications" means the specifications for a System as set forth in the attached Exhibit C.
- 1.1.35 "Support Services" shall have the same meaning ascribed to such term in Section 2.1 below.
- 1.1.36 "Support Services Agreement" means that certain Article II, hereto.
- 1.1.37 "Supported Products" means the following for a given System: (i) the Licensed Programs; (ii) the Cell Site Hardware; and (iii) any CTS-certified Hardware that CTS agrees in writing to support under the terms of this Agreement and the applicable support service terms provided by the manufacturer of such Hardware. Notwithstanding the above, if CTS publishes a New Release, then only that release and the immediately preceding release (and no versions older than the immediately previous release) will be eligible for coverage under this Agreement; provided, that CTS will support the most current release of the Licensed Programs as of the date of this Agreement and each New Release subsequently provided under this Agreement for no less than six (6) months from the date that such release is provided to Verizon Wireless.
- 1.1.38 "Support Contacts" shall have the meaning ascribed to such term in Section 2.7.1 below.
- 1.1.39 "System" shall mean the combination of the Hardware and Licensed Programs configured and installed for use by Verizon Wireless within a designated Licensed Market in accordance with the terms of this Agreement.
- 1.1.40 "Third Party" means any person or entity other than CTS, Verizon Wireless, or a person, association, partnership, corporation or joint stock company or trust that directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with, the Verizon Wireless. For purposes of the above definition, "control" means: (i) ownership of a majority of the voting power of all classes of voting stock; (ii) ownership of a majority of the beneficial interests in income and capital of an entity other than a corporation; (iii) ownership of a general partnership interest in a limited partnership; or (iv) ownership of a managing partnership interest in a general partnership.
- 1.1.41 "Third-Party Software" means the following with respect to a given System: (i) the computer programs described on Exhibit C hereto that are licensed to CTS by Third Parties and that CTS sublicenses to Verizon Wireless, in object code form only, as part of the Licensed Programs, but for which CTS has no source code rights; and (ii) any additional software, data tables, and programs as CTS and Verizon Wireless may, from time to time, agree in writing to add to such System as Third-Party Software.

1.2 SCOPE.

- 1.2.1 CTS will provide the services described in this Agreement on the terms and conditions set forth below ("Services").
- 1.2.2 All Services shall be performed in strict conformity with any oral or written instructions furnished to CTS by Verizon Wireless, provided that such instructions do not conflict with the terms of this Agreement. CTS will devote such time, efforts and resources to the performance of Services as are reasonably necessary to accomplish the tasks specified in this Agreement.

1.2.3 Status of Systems.

CTS and Verizon Wireless agree and acknowledge that (i) the current configuration of each System are defined in the most recent agreement, in each case, between CTS and each of the Prior Companies, and such configuration is incorporated herein, (ii) all Cell Sites and Cell Site Hardware have been paid for and accepted, and (iii) common names for each Licensed Market will be used (e.g., the former BAM-NY market), and that Cell Sites and Regional Processing Centers shall remain in their current locations.

1.2.4 Supply of Hardware.

Verizon Wireless may purchase quantities of CTS-certified Hardware either from CTS or Third Parties approved in advance and in writing by CTS, subject to the terms of this Agreement. Certain CTS-certified Hardware purchased from Third Parties will be subject to an integration fee. Upon request, CTS shall furnish a list of CTS-certified Hardware and may update such list from time to time with written notice to Verizon Wireless. Except as specifically set forth herein, CTS shall have no liability with respect to any Hardware components supplied by any person or entity other than CTS.

1.3 TERM AND TERMINATION.

1.3.1 Term.

The term of this Agreement will commence on the date of this Agreement and will continue thereafter for an initial term ending on December 31, 2001. This Agreement may be extended by Verizon Wireless for a one-year term as follows: such extension (i) shall cover only Verizon Wireless' West Coast markets and shall include a maximum of 600 Cell Sites, (ii) Support Services shall be provided by CTS for a fee of \$1,725,000, which fee shall be due and payable in full on January 1, 2002, (iii) Verizon Wireless must give written notice of its intent to exercise such renewal option no later than September 30, 2001, and (iv) is subject to CTS and Verizon Wireless agreeing on additional reductions in CTS' technical support coverage for the renewed markets. All other terms and conditions hereof shall remain in effect during any renewal term, except as the parties otherwise expressly agree to in writing. CTS and Verizon Wireless agree to negotiate in good faith to expand the coverage to sites in excess of 600 for 2002. Such contract renegotiation (including fees and services to be provided) will take into account geographic and market coverage for all of CTS' Blackbird Verizon Wireless' and CTS' costs of continuing its services for 2002. All

other terms and conditions hereof shall remain in effect during any renewal term, except as the parties otherwise expressly agree to in writing. Notwithstanding the above, this Agreement shall terminate as set forth under Section 1.3.2 below.

1.3.2 Termination

- a. This Agreement may be terminated in the Event of a Default or material breach of this Agreement by CTS. Any of the following shall be considered an "Event of Default":
- o CTS is adjudged bankrupt or insolvent; or
 - o CTS makes a general assignment for the benefit of its creditors; or
 - o A trustee or receiver is appointed for CTS or for any of its property; or
 - o Any petition by or on behalf of CTS is filed to take advantage of any debtor's act or to reorganize under the bankruptcy or similar laws; or
 - o CTS otherwise violates any material provision of this Agreement, as defined in (b), below.
- b. Material Breach after Notice.

Except as otherwise set forth in this Agreement, upon material breach or default under this Agreement by any party (the "breaching party"), if the other party ("non-breaching party") gives written notice of such breach or default and the same is not cured within thirty (30) days after delivery of such notice, then, without limitation of any other remedy available hereunder, the non-breaching party may terminate this Agreement by delivery of a notice of termination at any time thereafter before such breach or default has been cured; provided, that for any breach or default (other than a payment default or a default under Article IV,) that is not reasonably susceptible of cure within thirty (30) days, the breaching party shall have such additional time, up to ninety (90) additional days, as is reasonably necessary to cure the default, so long as such party continuously and diligently pursues such cure. The parties agree that the failure to make payments of the Aggregate Fee or other charges when due hereunder shall constitute a "material breach" of this Agreement.

c. Immediate Termination.

Notwithstanding anything to the contrary, this Agreement and the License may be immediately terminated upon written notice: (i) at the option of CTS in the event that Verizon Wireless violates any of the provisions of Article IV, in any way without the prior written consent of CTS, and Verizon Wireless fails to cure such violation within (3) days after CTS's delivery of notice of breach to Verizon Wireless; or (ii) at the option of either party if the other party materially violates the provisions of the Nondisclosure

Agreement, and such violation cannot be or is not cured in a manner contemplated in the Nondisclosure Agreement.

1.3.3 Effect of Expiration or Termination.

- a. Following the expiration or termination of this Agreement, Verizon Wireless shall have the right to use the Licensed Programs and Documentation as provided under the License with respect to the configuration of Systems installed as of the expiration or termination of this Agreement, until the first to occur of any of the following: (i) if this Agreement is terminated pursuant to Sections 1.3.2 due to a breach or default by Verizon Wireless, then the License shall cease upon termination of this Agreement; or (ii) if this Agreement expires or is terminated pursuant to Section 1.3.2 due to a breach or default by CTS, then the License shall continue under the survival terms described in Section 1.3.5 until breach or default by Verizon Wireless and the expiration of any applicable cure period with respect to such breach or default.
- b. Upon the expiration or termination of this Agreement, Verizon Wireless shall immediately cease use of the Confidential Information of CTS (excluding copies of Licensed Programs and Documentation in Verizon Wireless' possession as of such expiration or termination, which Verizon Wireless may retain and use for the duration of the License pursuant to this Section 1.3.3, for the sole purpose of supporting then-installed Systems) and shall, at CTS's election, either: (i) return to CTS the original and all copies of the same, in whole or in part, in any form, including partial copies and modifications, and any related materials received from CTS, or (ii) furnish to CTS a certified executed document stating that the same has been destroyed. Upon the termination of the License, Verizon Wireless shall immediately return or destroy all copies of Licensed Programs and Documentation retained for use pursuant to this Section 1.3.3 in accordance with the procedures set forth in this subsection.
- c. Upon the expiration or termination of this Agreement, CTS shall immediately cease use of the Confidential Information of Verizon Wireless (except as the parties otherwise expressly agree to in writing) and shall, at Verizon Wireless' election, either: (i) return to Verizon Wireless the original and all copies of the same, in whole or in part, in any form, including partial copies and modifications, and any related materials received from Verizon Wireless, or (ii) furnish to Verizon Wireless a certified executed document stating that the same has been destroyed.

1.3.4 Duties Upon Termination.

- a. All accrued and unpaid Fees and other charges hereunder shall be immediately due and payable upon termination of this Agreement. Termination of this Agreement shall not be construed to waive or release any claim which a party is entitled to assert at the time of such termination, and the applicable provisions of this Agreement shall continue to apply to such claim until it is resolved.

- b. Following the expiration or termination of this Agreement, CTS shall promptly remove all components of the CTS Network located at Verizon Wireless Facilities, and Verizon Wireless shall cooperate with CTS and provide CTS with such access to Verizon Wireless Facilities as CTS reasonably requires for the purpose of removal of all such components.

1.3.5 Survival Terms.

Upon termination of this Agreement, all obligations of the parties hereunder shall cease, except those obligations described in Sections 1.3.2, 1.3.3, 1.3.4, 1.4, 1.5, 1.18, 1.25.9, 1.25.10, 1.26, 4.1.2 and 5.1, which provisions shall survive the termination of this Agreement. Termination of this Agreement shall not be construed to waive or release any claim which a party is entitled to assert at the time of such termination, and the applicable provisions of this Agreement shall continue to apply to such claim until it is resolved.

1.4 TESTIMONY.

Matters relating to this Agreement may be in issue before various regulatory or judicial bodies. CTS agrees to have appropriate members of its firm, including senior members, willing to testify at appropriate times and reasonable fees regarding any aspect of this Agreement as known to CTS.

1.5 PAYMENT.

- 1.5.1 The cost to Verizon Wireless for the performance of the Services shall be payable in accordance with the terms of Sections 1.5.3 and 1.5.4, below.

- 1.5.2 All invoices from CTS to Verizon Wireless shall be sent to Verizon Wireless at the address indicated in this Agreement and must include the Contract number. CTS's last invoice submitted shall be marked "FINAL."

1.5.3 Aggregate Fee.

- a. In consideration for the services provided by CTS hereunder, including all Base Support Fees, Blackbird Platform Monitoring Services Fees, Backup & Restore Support Services Fees and Frame Relay Fees as selected on Exhibit A, and under the License Agreement and the Roaming Agreement, Verizon Wireless hereby agrees to pay the amount of \$4,275,000, which Aggregate Fee shall be invoiced as follows: \$2,275,000 due upon execution of this Agreement, and \$2,000,000 due June 1, 2001. Verizon Wireless will also pay CTS for re-marketed HP and Cisco support services as defined in Section 2.4.2(d), below.
- b. Verizon Wireless shall provide to CTS an executed blanket purchase order in the amount of \$20,000. Such purchase order may be used by CTS to cover the cost of non-returned replacement parts as described in , Section 2.4.2(c), and additional services that may be requested by Verizon Wireless and

approved in advance by Verizon Wireless HQ Fraud Prevention & Strategy Department during the term of this Agreement and that are not covered by the Aggregate Fee (e.g., reconfiguration of markets, additional renaming of sites as described in Section 2.2.1(a), below, off-hours calls, Verizon Wireless-requested training programs and other special projects). Such charges shall be governed in accordance with Section 1.5.4(b), below.

1.5.4 Standard Terms.

- a. In addition to the Aggregate Fee and any other charges required to be paid by Verizon Wireless to CTS hereunder, Verizon Wireless shall pay (or, at CTS's election, reimburse CTS) for all federal, state, and local taxes and withholding requirements in connection with the transactions contemplated by this Agreement (excluding taxes based on CTS's net income or its authority to do business within a given state). Such taxes specifically include, without limitation: (i) excise, sales, use and royalty taxes, withholding taxes and related requirements, value-added taxes, all similar taxes and charges now in effect or enacted in the future; and (ii) all interest and penalties which may result from the failure to pay any of such taxes or charges. If CTS receives any notice of deficiency with respect to any such taxes or charges, CTS will promptly deliver notice thereof to Verizon Wireless so that Verizon Wireless may have a reasonable opportunity to contest such taxes and any related interest and penalties.
- b. Verizon Wireless will pay CTS for all services requested and authorized by Verizon Wireless in writing which are not specifically covered under the Aggregate Fee at CTS's then-current rates for labor (presently \$210 per hour), parts, and materials, plus all reasonable expenses incurred by CTS or its subcontractors in providing such services (including without limitation travel, lodging, per diem expenses, long distance telephone charges, and similar expenses). Verizon Wireless will be charged a minimum of two hours of service for the performance of any such services, subject to a 1.5 multiplier applied for overtime work and a 2.0 multiplier applied for Sunday and holiday work.
- c. Except as otherwise expressly set forth in this Agreement or any schedule hereto: (i) CTS will invoice Verizon Wireless for amounts to be paid hereunder, and Verizon Wireless will pay the amounts described in each invoice within forty-five (45) days after receipt of the applicable invoice; (ii) Verizon Wireless shall not be entitled to the return or reimbursement of any compensation paid to CTS pursuant to this Agreement; and (iii) the Aggregate Fee and any other charges hereunder shall be paid to CTS in immediately available funds in United States Dollars.
- d. If Verizon Wireless fails to pay any sum when due and payable in excess of forty-five (45) days, CTS reserves the right to invoice Verizon Wireless for interest at a rate of one percent (1%) per month, or the maximum rate permitted by applicable law if lower, accruing from the due date of such payment until paid. If CTS is entitled to the sums sought to be collected, it

may also be entitled to receive all costs expended by CTS in collecting those sums, including without limitation reasonable attorneys' fees.

- e. If termination occurs prior to June 1, 2001, when the second payment of the Aggregate Fee is due, no further payments will be due to CTS. If such termination occurs after the second payment is due, CTS will refund Verizon Wireless one sixth (1/6) of the second payment for every month of service not provided. The beginning date for calculation of refund will be the date that the incident causing material breach occurred.

1.6 NOTICE.

- 1.6.1 Any notice to be given hereunder by either party to the other shall be in writing and shall be valid and sufficient if dispatched by:
 - (a) registered or certified mail, return receipt requested, postage prepaid in any post office in the United States;
 - (b) hand delivery;
 - (c) recognized overnight courier prepaid; or
 - (d) via facsimile transmission upon electronic confirmation of receipt.

- 1.6.2 Notices to Verizon Wireless shall be addressed to:

Verizon Wireless
One Verizon Place
Alpharetta, GA 30004
Attention: Jeffrey Schaulin, Associate Director
- Fraud Prevention and Strategies
Mail Code; GA1A2FPS

With a copy to:

Verizon Wireless
One Verizon Place
Alpharetta, GA 30004
Attention: Allen Edenfield, Manager - Contracts
Mail Code; GA2A1PRO

With a copy to:

Verizon Wireless
180 Washington Valley Road
Bedminster, New Jersey 07921
Attention: S. Mark Tuller, Esq. General Counsel

Notices to CTS shall be addressed to:

2815 Second Avenue, Suite 100
Seattle, Washington 98121
Attention: Legal Department
Telefax: (206) 269-1404

- 1.6.3 If either party changes its address during the term hereof, it shall so advise the other party in writing and any notice thereafter required to be given shall be sent to such new address.

1.7 LAWS, RULES AND REGULATIONS.

If required by federal law, CTS shall comply, at its own expense, with the provisions of the Fair Labor Standards Act of 1938, as amended, and all other applicable state and municipal requirements and those of state and federal laws applicable to CTS as an employer of labor or otherwise.

1.8 PROFESSIONALISM.

- 1.8.1 The services to be provided by CTS under this Agreement shall proceed with promptness and diligence and shall be executed in accordance with the highest professional standards in the field, to Verizon Wireless' reasonable satisfaction.
- 1.8.2 CTS shall replace, at Verizon Wireless' request, any employee, agent or consultant, furnished by CTS who, in Verizon Wireless' reasonable opinion, is incapable, uncooperative or otherwise unacceptable in the execution of the services to be provided under this Agreement.
- 1.8.3 Verizon Wireless shall have the option to require CTS to correct any deficiencies in its work product or services, at no additional cost to Verizon Wireless. Deficiencies are to be determined by generally accepted professional standards, including the use of peer review.

1.9 INSURANCE.

- 1.9.1 CTS shall secure and maintain at its expense during the Term, or Renewal Term as applicable, the following: (i) workers' compensation insurance as required by Statute, and Employer's Liability insurance with limits of not less than \$1,000,000. per occurrence; (ii) commercial general liability insurance (including, but not limited to, premises-operations, broad form property damage, products/completed operations, contractual liability, independent contractors, personal injury) with limits of at least \$2,000,000 combined single limit for each occurrence (iii) commercial automobile liability with limits of at least \$2,000,000 combined single limit for each occurrence; (iv) professional liability (Errors and Omissions) with limits of not less than \$1,000,000 per claim; and (v) excess liability insurance in the umbrella form with a combined single limit of \$5,000,000.
- 1.9.2 Verizon Wireless shall be named as additional insured on all policies of insurance purchased by CTS. CTS shall furnish certificates evidencing such insurance to Verizon Wireless upon the execution of this Agreement and thereafter on each anniversary of the Effective Date or upon written request of Verizon Wireless. Each insurance policy shall state by endorsement that such policy shall not be canceled or materially changed without at least ten (10) days prior written notice to Verizon Wireless by mail, and shall immediately notify Verizon Wireless of any reduction or possible reduction in the limits of any such policy where such reduction, when added to any previous reductions, would exceed twenty-five (25%) percent of the limits.

1.10 INDEPENDENT CONTRACTOR.

1.10.1 Neither CTS nor its officers, directors, employees or consultants, shall be deemed to be employees or agents of Verizon Wireless, it being understood that CTS is an independent contractor for all purposes and at all times; and CTS shall be solely responsible for the safety and supervision of its consultants as well as for the withholding and payment of all federal, state and local personal income taxes, social security, unemployment and sickness disability insurance and other payroll taxes with respect to its employees, including contributions from them when and as required by law. CTS shall timely pay such taxes or charges to the appropriate governmental agencies with respect to its officers, directors, employees or consultants. CTS shall be liable for all workers' compensation benefits, premiums and other similar charges with respect to its officers, directors, employees or consultants .

1.10.2 CTS shall indemnify and hold harmless Verizon Wireless for any taxes, interest, penalties, damages, costs, charges, expenses or other sums incurred by Verizon Wireless, including, but not limited to, charges or assessments from any revenue authority, arising from any claim against Verizon Wireless or any of its affiliates, by such authority based on the services provided under this Agreement or compensation therefor.

1.11 VERIZON WIRELESS' PROPERTY.

1.11.1 Title to all property owned by Verizon Wireless and furnished to CTS shall remain in Verizon Wireless.

1.11.2 Any property owned by Verizon Wireless and in CTS's possession or control shall be used only in the performance of this Agreement unless authorized in writing by Verizon Wireless. CTS shall adequately protect such property, and shall deliver or return it to Verizon Wireless or otherwise dispose of it as directed by Verizon Wireless.

1.11.3 CTS shall be responsible for any loss of or damage to property owned by Verizon Wireless and in CTS's possession or control.

1.12 CTS PROPERTY

1.12.1 Title to all property owned by CTS and furnished to Verizon Wireless shall remain in CTS.

1.12.2 Any property owned by CTS and in Verizon Wireless' possession or control shall be used only in the performance of this Agreement unless authorized in writing by CTS. Verizon Wireless shall adequately protect such property, and shall deliver or return it to CTS or otherwise dispose of it as directed by CTS.

1.12.3 Verizon Wireless shall be responsible for any loss of or damage to property owned by CTS and in Verizon Wireless' possession or control.

1.12.4 CTS Facilities. CTS shall maintain CTS Facilities in compliance with the Infrastructure and Environmental Requirements at all times during the term of this

Agreement. If, upon inspection, Verizon Wireless determines that the Infrastructure and Environmental Requirements are not met, Verizon Wireless will promptly notify CTS, and CTS shall cure the Infrastructure and Environmental Requirements defects within three (3) business days of receipt of Verizon Wireless' notice.

1.13 INFRINGEMENT.

- 1.13.1 The following terms apply to any infringement, suit for or claim or allegation of infringement of any patent, trademark, copyright, trade secret or other proprietary interest (collectively referred to as "IP Claim") based on the manufacture, use, sale, or importation into the United States of any material, equipment, product, program or service ("Product or Service") furnished to Verizon Wireless under or in contemplation of this Agreement. CTS shall indemnify and hold harmless Verizon Wireless and any of its affiliates, customers, officers, directors, employees, assigns and successors for any loss, damage, expense, cost (including, but not limited to, any attorney's fees incurred in the enforcement of this indemnity) or liability that may result by reason of any such IP Claim, and CTS shall defend or settle, at its own expense, any such IP Claim against Verizon Wireless.
- 1.13.2 Verizon Wireless shall provide CTS with prompt written notice of any IP Claim that identifies a Product or Service provided to Verizon Wireless hereunder and tender to CTS sole control of any such action or settlement negotiations to the extent covered by the indemnification provided herein. CTS shall keep Verizon Wireless advised of the status of any such IP Claim and of its defense and/or negotiation efforts and shall afford Verizon Wireless reasonable opportunity to review and comment on significant actions planned to be taken by CTS on behalf of Verizon Wireless. If any such IP Claim involves other vendors of Verizon Wireless, CTS shall cooperate as reasonably necessary to effectively defend Verizon Wireless. Verizon Wireless shall, at CTS's expense, reasonably cooperate with CTS in the defense of Verizon Wireless. The omission of Verizon Wireless to provide notice to CTS of any such action shall not relieve CTS from any liability in respect of such action which it may have to Verizon Wireless on account of the indemnity agreement contained in this Section 1.13, except to the extent CTS may have been prejudiced by the failure to give notice.
- 1.13.3 If the use, manufacture, sale, or importation in the United States of any Product or Service furnished hereunder becomes subject to an IP Claim, CTS shall, at Verizon Wireless' option and at no expense to Verizon Wireless, (i) by license or other release from claim of infringement obtain for Verizon Wireless and Verizon Wireless' customers the right to make, use, sell and/or import into the United States the Product or Service, as appropriate; or (ii) substitute an equivalent non-infringing Product or Service reasonably acceptable to Verizon Wireless, which meets the specifications for the Product or Service, and extend this indemnity thereto; or (iii) modify such Product or Service to make it non-infringing but continue to meet the specifications therefore, and extend this indemnity thereto; or (iv) accept the return of the Product or Service and reimburse Verizon Wireless the purchase price therefore, less a reasonable charge for reasonable wear and tear, and release Verizon Wireless from all future payments under this Agreement.

1.14 PLANT RULES AND SECURITY REQUIREMENTS.

CTS and all Consultants shall, while on Verizon Wireless' premises, comply with all plant rules and regulations in effect at such premises, including security requirements. CTS's rights of entry shall be subject to applicable governmental security laws.

1.15 USE AND OWNERSHIP OF INFORMATION.

- 1.15.1 CTS shall execute the "Non-Disclosure Agreement" in the form appended hereto as Exhibit D. All employees and consultants shall be provided a copy of the executed "Non-Disclosure Agreement" and shall execute an "Acknowledgment" in the form attached to the "Non-Disclosure Agreement" as Attachment A of Exhibit D.
- 1.15.2 While CTS and/or its Consultants are engaged in the performance of services hereunder, inventions may be made or conceived of for the first time reduced to practice by said Consultants, either solely or jointly with others, in the course of, or as a result of, such performance of services. In consideration of the payment by Verizon Wireless to CTS of the amounts specified for the performance of services hereunder, CTS hereby does assign and will assign to Verizon Wireless all right, title and interest in and to such inventions, discoveries and improvements, and any patents, copyrights or other forms of legal protection that may be granted thereon in any country. CTS further agrees, without charge to Verizon Wireless, but at Verizon Wireless' expense, to execute, acknowledge and deliver all such papers as may be necessary to obtain patents for such inventions in any and all countries of the world and to vest title thereto in Verizon Wireless, its successors and assigns. CTS shall have and acquire from its Consultants such assignments and rights as to assure that Verizon Wireless shall receive all of the rights provided for in this Agreement. CTS shall provide a copy of all documents to show that all Work and intellectual property developed by it and its Consultants have been transferred to CTS.

1.16 PUBLICITY.

CTS shall not issue or release for publication any articles or advertising or publicity matter relating to the work performed hereunder or mentioning or implying the name of Verizon Wireless or any of its partners, affiliates or personnel, unless prior written consent is granted by Verizon Wireless.

Either party may make public announcements concerning the terms of this Agreement or the existence of this Agreement without such express written consent of the other party if: (i) the announcement is necessary for such party to comply with the requirements of the United States Securities and Exchange Commission, any other governmental agency, any court of competent jurisdiction, or applicable law or regulation; or (ii) the subject matter of such announcement had been previously disclosed in accordance with the requirements of this subsection.

1.17 GOVERNING LAW.

This Agreement shall be governed by the laws of the State of New York without reference to its provisions on conflict of laws.

1.18 LITIGATION EXPENSES.

In any controversy, claim or dispute arising out of, or relating to, this Agreement or the method and manner of performance thereof or the breach thereof, the prevailing party may be entitled to recover from the other party, in addition to any other relief, all of its reasonable costs and expenses, including without limitation reasonable attorneys' fees, incurred in connection with such controversy, claim, or dispute. If neither party wholly prevails, the party that substantially prevails may be awarded all of its reasonable costs and expenses, including without limitation reasonable attorneys' fees, incurred in connection with such controversy, claim, or dispute.

1.19 ASSIGNMENT.

Any assignment of this Agreement, in whole or in part, or any other interest hereunder without Verizon Wireless' written consent, except an assignment confined solely to monies due or to become due, shall be void. It is expressly agreed that any such assignment of monies shall be void to the extent that it attempts to impose upon Verizon Wireless obligations to the assignee additional to the payment of such monies, or to preclude Verizon Wireless from dealing solely and directly with CTS in all matters pertaining hereto, including the negotiation of amendments or settlements of amounts due. It is further agreed that Verizon Wireless, upon written notice to CTS, may assign this Agreement, in whole or in part, or any of its rights, duties and obligations under this Agreement to its parent, an affiliate or affiliates of Verizon Wireless or to a partnership or partnerships in which Verizon Wireless or an affiliate has an interest.

This Agreement shall inure to the benefit of, and shall be binding upon the parties hereto and their respective successors and permitted assigns.

1.20 WAIVER.

No provision of this Agreement shall be deemed waived, amended, or modified by either party, unless such waiver, amendment or modification be in writing and signed by the party against whom it is sought to enforce the waiver, amendment or modification.

1.21 AUDIT.

CTS shall maintain complete records of all costs payable by Verizon Wireless under the terms of this Agreement for three (3) years after termination of Agreement. Such records shall specifically include, but are not limited to, timesheets. All such records shall be maintained in accordance with recognized accounting practices. Verizon Wireless shall have the right, through its authorized representatives, to examine and audit such records at all reasonable times. The correctness of CTS's billing shall be determined by such audits.

1.22 SUBCONTRACTING.

CTS shall not, without the prior written consent of Verizon Wireless, subcontract any portion of the work covered by this Agreement. Any subcontractor consented to must agree to all the terms and condition of this Agreement and CTS shall be liable for the conduct of such subcontractor to the same extent as CTS's liability under this Agreement.

1.23 ARTICLE HEADINGS.

The headings of the several Articles are inserted for convenience of reference only and are not intended to be a part of or to affect the meaning or interpretation of this Agreement.

1.24 SEVERABILITY.

If any provision, or portion thereof of this Agreement is invalid under applicable statute or rule of law, it is only to that extent to be deemed omitted, and such unenforceability shall not affect any other provision of this Agreement, but this Agreement shall then be construed as if such unenforceable provision or provisions had never been contained herein.

1.25 WARRANTIES.

1.25.1 CTS represents and warrants to Verizon Wireless and its assigns that all services performed under this Agreement shall be performed in a professional and workmanlike manner, free from material faults and defects and in conformity with the reasonable trade practices in the industry. This warranty shall be in addition to, and not in limitation of, any other warranty or remedy provided by law.

1.25.2 CTS represents and warrants that no portion of the material prepared for Verizon Wireless or services rendered to Verizon Wireless under this Agreement is derived from or includes any copyrighted or similarly protected material, other than such material as CTS has provided a license or other evidence from such owner of the ability to do so.

1.25.3 CTS represents and warrants to Verizon Wireless, to the best of its knowledge and belief, that any software provided to Verizon Wireless by CTS does not contain or will not contain any Self-Help Code nor any Unauthorized Code (defined below).

1.25.4 As used in this Agreement, "Self-Help Code" means any back door, "time bomb", drop dead device, or other software routine designed to disable a computer program automatically with the passage of time or under the positive control of a person other than a licensee of the program. Self-Help Code does not include software routines in a computer program, if any, designed to permit the licensor of the computer program (or other person acting by authority of the licensor) to obtain access to a licensee's computer system(s) (e.g., remote access via modem) for purposes of maintenance or technical support.

1.25.5 As used in this Agreement, "Unauthorized Code" means any virus, Trojan horse, worm, or any other software routines or hardware components designed to permit unauthorized access to disable, erase, or otherwise harm software, hardware, or data or to perform any other such actions. The term Unauthorized Code does not include Self-Help Code.

1.25.6 CTS shall remove promptly any such Self-Help Code or Unauthorized Code in the software of which it is notified or may discover.

1.25.7 In addition to the warranties stated above, CTS agrees to provide the following warranties:

a. Roaming Service Warranty.

CTS warrants that any service outage of the CTS Network will not exceed twenty-four (24) hours in duration for so long as Verizon Wireless has a Connected System, provided that CTS shall have no liability under this section to the extent that the service outage or any delay in CTS meeting its obligations under this section is due, in whole or part, to any cause beyond CTS's reasonable control or any cause that is not attributable to the CTS Network. If CTS breaches the foregoing warranty, then, as Verizon Wireless' exclusive remedy for such breach, CTS shall provide Verizon Wireless with a credit equal to \$450.00 per 24-hour period for each additional 24-hour period that the service outage continues after the initial 24 hours of the service outage.

b. Intellectual Property Rights.

CTS hereby warrants to Verizon Wireless that, subject to the provisions of Section 4.1 below, each Licensed Program (not including any Third-Party Software), if used by Verizon Wireless in accordance with the terms of this Agreement, is free of any valid claim by a Third Party that such Licensed Program (not including any Third-Party Software) infringes an existing United States Intellectual Property Right of such Third Party. Verizon Wireless' exclusive remedy for breach of the warranty set forth in this Section 1.25.7(b), is set forth in Section 1.26, below.

c. Software Performance.

For each System, CTS hereby warrants to Verizon Wireless that the Licensed Programs (not including any Third-Party Software), when used in conjunction with the Hardware necessary for operation of such System and with Verizon Wireless' cellular network operating in a normal manner, and when all relevant Infrastructure and Environmental Requirements are satisfied, will materially perform in accordance with their Specifications for so long as the Support Services Agreement is in full force and effect. Verizon Wireless' exclusive remedy for breach of such warranty shall be correction by CTS, at no additional charge to Verizon Wireless, of any errors or malfunctions in such Licensed Programs found not to be in compliance with such warranty, in accordance with the terms of the Support Services Agreement; provided, that CTS shall have no obligation to make such corrections if Verizon Wireless is in breach or default under this Agreement and is notified, in writing, of such breach or default, or if Verizon Wireless fails to notify CTS in writing within a reasonable time of discovery of such errors or malfunctions. If a correction of an error or malfunction is commercially impractical, CTS may provide Verizon Wireless with a commercially reasonable circumvention of such error or malfunction. For Third-Party Software supplied by CTS, CTS will pass through to Verizon Wireless the warranties that CTS receives from its vendor for such Third-Party Software, to the extent that such vendor will honor such warranties.

d. Emergency 911 Calls.

For each System, CTS hereby warrants to Verizon Wireless that the CTS-proprietary Licensed Programs, when used in conjunction with the Hardware necessary for operation of such System and with Verizon Wireless' cellular network operating in a normal manner, and when all relevant Infrastructure and Environmental Requirements are satisfied, will not interdict "911" or "*911" call destinations initiated within Verizon Wireless' cellular network; provided, that CTS shall have no liability under this Section 1.25.7(d) if: (i) the System, at Verizon Wireless' request, is configured to potentially interdict such call destinations; or (ii) the System's failure to perform as required hereunder is due to any cause or condition beyond CTS's reasonable control.

1.25.8 Limitation of Warranty.

EXCEPT AS EXPRESSLY SET FORTH IN THIS SECTION 1.25.8, CTS MAKES NO REPRESENTATIONS, WARRANTIES, OR GUARANTIES OF ANY KIND, EITHER EXPRESS OR IMPLIED, ORAL OR WRITTEN, WITH RESPECT TO THE SUPPORT SERVICES OR TO ANY SYSTEM, HARDWARE, LICENSED PROGRAMS, DOCUMENTATION, OR ANY OTHER ITEMS OR SERVICES COVERED BY OR FURNISHED UNDER THIS AGREEMENT, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTY (I) OF MERCHANTABILITY, (II) OF FITNESS FOR A PARTICULAR PURPOSE, OR (III) ARISING FROM COURSE OF PERFORMANCE, COURSE OF DEALING, OR USAGE OF TRADE.

1.25.9 Limitation of Liability

Except for indemnification obligations for third-party claims or infringement claims made by either party to this agreement, neither party shall be responsible or held liable to the other, its employees, subcontractors and/or agents, or any third party, for any indirect, incidental, special, consequential or punitive damages or lost profits for any Claim or demand of any nature or kind, arising out of or in connection with this Contract or the performance or breach thereof. Notwithstanding anything that may appear to the contrary herein, and except for indemnification obligations for third-party claims or infringement claims made by either Party, in no event shall either Party be liable in the aggregate for more than the amount actually invoiced/received under this Agreement.

1.26 INDEMNIFICATION.

- 1.26.1 CTS shall defend, indemnify and hold harmless Verizon Wireless, its parents, subsidiaries and affiliates, and its and their respective directors, officers, partners, employees, agents, successors and assigns ("Indemnified Parties") from any claims, demands, lawsuits, damages, liabilities, judgments and settlements of every kind ("Claims") that may be made in connection with CTS's obligations under this Agreement: (a) by anyone for injuries (including death) to persons or damage to property, including theft, resulting from the acts or omissions of CTS or those persons furnished by CTS, including its subcontractors (if any); or (b) by persons furnished by CTS and its subcontractors (if any) under Worker's Compensation or similar acts. The foregoing indemnification shall apply whether CTS or an

Indemnified Party defends such Claim and whether the Claim arises or is alleged to arise out of the acts or omissions of the CTS (and/or any subcontractor of CTS) or out of the concurrent acts or omissions of CTS (and/or any subcontractor of CTS) whether negligent or otherwise.

1.26.2 CTS shall defend Verizon Wireless at Verizon Wireless' request, against any such liability, claim or demand. The foregoing indemnification shall apply whether CTS or Verizon Wireless defends such suit or claim and whether the death, injury or property damage is caused by the sole acts or omissions of CTS or by the concurrent acts or omissions of Verizon Wireless or CTS hereunder. Verizon Wireless agrees to notify CTS promptly of any written claim or demands against Verizon Wireless for which CTS is responsible hereunder. CTS shall have the right to defend any such claim with counsel reasonably acceptable to Verizon Wireless.

1.26.3 The supplied software, hardware and related services provided hereunder (i) shall perform on and after January 1, 2000 in as good a manner as before such date, and (ii) shall at all times manage, manipulate and report data involving dates (including the year 2000, dates before and after the year 2000, and single-century and multi-century formulas) without generating incorrect values or dates or causing an abnormally-ending scenario within an application. CTS shall indemnify Verizon Wireless and Verizon Wireless' customers for any loss, cost, or damages sustained because of CTS's Year 2000 noncompliance.

1.27 FORCE MAJEURE.

In no event shall either party have any liability for any failure to comply with this Agreement, if such failure results from the occurrence of any contingency beyond the reasonable control of the party, including without limitation, strike or other labor disturbance, riot, theft, flood, fire, lightning, storm, any act of God, power failure, war, national emergency, interference by any government or governmental agency, embargo, seizure, or enactment of any law, statute, ordinance, rule or regulation.

1.28 BUSINESS CONDUCT.

Both Parties shall take all reasonable measures necessary to ensure that the other and/or its Consultant(s) shall conduct themselves in accordance with the highest standards of honesty, integrity and fair dealing including, but not limited to, compliance with any ethical codes promulgated by Verizon Wireless and applicable to parties providing consulting services.

1.29 NO WAIVER, CUMULATIVE REMEDIES

No consent or waiver, express or implied, by any party to or of any breach or default by the other in the performance by the other of its obligations hereunder shall be deemed or construed to be a consent or waiver to or of any other breach or default in the performance by such other party of the same or any other obligations of such party hereunder. Except where contrary to the express terms herein, the rights and remedies herein are cumulative to those that exist at law or in equity and there shall be no implied waiver of such rights and remedies.

ARTICLE II. SUPPORT SERVICES

2.1 SCOPE OF COVERAGE.

2.1.1 Support Services Options.

- a. Base Support Services. CTS hereby offers the following support services (collectively, the "Base Support Services") to Verizon Wireless for the Supported Products of each System, subject to the terms and conditions set forth in this Agreement:
 - i. Technical Support Services: CTS will provide the technical support services described in Section 2.2 below.
 - ii. Software Subscription Services: CTS will provide software subscription services for New Releases of the Licensed Programs supported under this Agreement, as more fully described in Section 2.3 below.
 - iii. Cell Site Hardware Maintenance: CTS will provide on-site maintenance of Cell Site Hardware as more fully described in Section 2.4 below.
- b. Blackbird Platform Monitoring Services. CTS hereby offers its Blackbird Platform Monitoring Services described in Section 2.5 below (the "Blackbird Platform Monitoring Services"), subject to the terms and conditions set forth in this Agreement.
- c. Backup & Restore Support Services. CTS hereby offers support services for its Backup & Restore product as described in Section 2.6 below (the "Backup & Restore Support Services"), subject to the terms and conditions set forth in this Agreement.

2.1.2 Selection by Verizon Wireless.

Verizon Wireless shall select the desired support services as indicated in Exhibit A for each System from the available support services specified in Section 2.1.1, above, and which are more fully described elsewhere in this Agreement (collectively, the "Support Services"). Verizon Wireless' selections for each market shall be reflected on Exhibit A hereto, and may be modified by the mutual written agreement of CTS and Verizon Wireless. Services requested that are not specifically included in Exhibit A will be agreed in advance by the parties and charged as set forth in Section 1.5.4(b), above.

2.2 TECHNICAL SUPPORT SERVICES.

For each System for which such services were selected on Exhibit A, CTS will perform the Support Services described in this Section 2.2 with respect to the Supported Products for such System.

2.2.1 CTS Technical Support Hotline.

- a. General. CTS will maintain a technical support hotline to respond to all technical problems with respect to the System. The current technical support hotline number is (206) 727-6353, and is subject to change with notice to Verizon Wireless. Automatic call distribution will route calls to an available CTS technical analyst. If a technical analyst is not available, the caller will be either routed to a voice mailbox, or asked to hold via a wait queue. Depositing a message in the voice mailbox activates an internal paging system, and the next available technical analyst will promptly return the call during the applicable hours of coverage. Except as otherwise provided under Section 2.7.2 below, CTS technical analysts will be able to access to the System via a 56 Kbps connection, and will be able to query the System while a Support Contact is on line. If CTS determines at any time that any CTS on-site technical support is necessary due to the nature of a particular condition or recurring similar conditions, then CTS will make available such personnel as CTS deems appropriate to respond to the condition, so long as Verizon Wireless provides CTS with adequate facilities for such personnel as required by Section 2.7.4 below. Support services include CTS standard automated daily reports; disc space allocation and maintenance; VDD, NPA/NXX, gold list updates and fingerprint database reconciliations based on files sent from Verizon Wireless to CTS in the specified formats; event log maintenance; DCC and Control Channel updates at the RPC as requested by the Verizon Wireless; and Sybase upgrades. Support services also include renaming cell sites performed one day during each quarter of 2001 in a bundled fashion up to 25 sites each quarter. Verizon Wireless will provide CTS with the complete rename information one week in advance of the day the renames are to be performed. Requests for renaming sites on additional dates or in excess of 25 per quarter will be charged in accordance with Section 1.5.4(b).
- b. Commencement of Support. CTS's responsibility to address conditions that affect the System will commence upon CTS's receipt of a telephone call from a Support Contact (via the technical support hotline) identifying the condition to CTS. The CTS technical analyst responding to the call will perform the following during the applicable hours of coverage: (i) identify the condition; and (ii) assess whether the condition is a Priority 1 Incident, Priority 2 Incident, or Priority 3 Incident. Once the above factors are identified, CTS will respond to and resolve the condition as described in Section 2.2.2 below.
- c. Hours of Coverage. CTS technical analysts will be available during Normal Business Hours to provide the technical support described in this Section 2.2.

2.2.2 Response and Resolution Procedures.

- a. CTS's response and resolution procedures for conditions that affect the System are determined by the severity of the condition (i.e., Priority 1 Incident, Priority 2 Incident, and Priority 3 Incident), as described in this Section 2.2.2. Response to a condition will involve an initial period for identification of the source of the problem, which may require Verizon

Wireless' assistance, including, without limitation, assistance with inspecting the condition of Hardware, cooperative troubleshooting with respect to network connectivity, and providing sufficient examples of any anomalies reported with System data or functioning.

- b. Priority 1 Incident. If CTS determines that a Priority 1 Incident has occurred, CTS will begin working to identify the source of the problem within one (1) normal business hour after commencement of CTS support (as described in Section 2.2.1(b)) for the Priority 1 Incident and will continue to work on identifying the source of the problem during Normal Business Hours until the problem is identified. If the problem is identified as a problem with any Supported Product, CTS will work to correct the problem as follows:
- i. Problem identified with Licensed Programs: CTS will work to correct the problem during Normal Business Hours until (i) a reasonably satisfactory correction is achieved or (ii) CTS determines that a correction is commercially impractical, in which case CTS will then work to provide Verizon Wireless with a commercially reasonable circumvention of the problem.
 - ii. Problem identified with Hardware: CTS's responsibilities for correcting Hardware problems will be determined by the type of Hardware and Verizon Wireless' selection of hardware maintenance.

If a Priority 1 Incident, (a) occurs in Los Angeles, San Francisco, Sacramento or Atlanta, or (b) occurs in any two markets simultaneously, then CTS shall have ten (10) business days from the time it is notified to resolve such Priority 1 Incident. Otherwise, CTS will be deemed to have materially breached this Agreement. , CTS shall have no liability under this Section to the extent that (a) the condition or any delay in CTS meeting its obligations under this Section is due in whole or in part, to any cause beyond CTS's reasonable control or cause that is not attributable to any System, or (b) the condition pertains to the CTS-Certified Hardware described in Section 2.4.2(d), below. In the event such cause is out of CTS's reasonable control, CTS shall provide Verizon Wireless written notice of such cause and shall seek Verizon Wireless approval/waiver of this provision, such approval will not be unreasonably withheld by Verizon Wireless.

- c. Priority 2 Incident. If CTS determines that a Priority 2 Incident has occurred, CTS will begin working to identify the source of the problem within nine (9) normal business hours after commencement of CTS support (as described in Section 2.2.1.(b)) for the Priority 2 Incident and will continue to work on identifying the source of the problem during CTS's Normal Business Hours until the problem is identified. If the problem is identified as a problem with any Supported Product, CTS will work to correct the problem as set forth in Section 2.2.2(b) above.
- d. Priority 3 Incident. If CTS determines that a Priority 3 Incident has occurred, CTS will begin working to identify the source of the problem within ten normal business days during CTS's Normal Business Hours. If the problem

is identified as a problem with any Supported Products, CTS will work to correct the problem as set forth in Section 2.2.2(b) above.

2.2.3 Maintenance Releases.

CTS may provide Maintenance Releases to Verizon Wireless for such System at no additional charge, so long as Verizon Wireless is not in default of its payment obligations hereunder. Maintenance Releases, if provided, will be delivered to each site, either via tape, diskette media, or network connection, as determined by CTS in consultation with Verizon Wireless.

2.2.4 Changes in Condition.

If the severity of a condition requiring Support Services hereunder changes (e.g., a Priority 2 Incident becomes a Priority 1 Incident due to a change in relevant circumstances), then the timeframes governing CTS's response and resolution of the problem will be modified accordingly to comport with the timeframes for the new level of priority as outlined in Section 2.2.2 above. The applicable new timeframes will be measured from the time at which CTS receives notification of the change in condition.

2.3 SOFTWARE SUBSCRIPTION SERVICES.

CTS will provide New Releases to Verizon Wireless for such System at no additional charge, so long as Verizon Wireless is not in default of its payment obligations hereunder. New Releases, if provided, will be delivered to each site, either via tape, diskette media, or network connection, as determined by CTS in consultation with Verizon Wireless. If Verizon Wireless does not pay CTS the Aggregate Fee as set forth in Section 1.5.3, above, then CTS, in its discretion, may provide New Releases for such System to Verizon Wireless on such terms and conditions and for such fees as the parties may mutually agree to in writing.

2.4 CELL SITE HARDWARE MAINTENANCE.

2.4.1 CTS On-Site Maintenance.

a. Maintenance. For those markets shown on Exhibit A in which Verizon Wireless has selected CTS On-Site Maintenance, CTS will perform the Support Services described in this Section 2.4.1 with respect to the Cell Site Hardware for a System. CTS's responsibilities for such Support Services are determined by the severity of the condition that affects the System (i.e., Priority 1 Incident, Priority 2 Incident and Priority 3 Incident). CTS will staff the on-site maintenance from Seattle and will schedule trips in advance to service the selected Systems with adequate frequency to provide repairs on a timely basis while keeping costs as low as possible. CTS and Verizon Wireless agree that the frequency and level of on-site service provided during the calendar year 2000 under the agreements with the Prior Companies has been satisfactory and is expected to be maintained during the term of this Agreement.

b. Repair and Replacement Procedures. Arrangements for the repair or replacement of Cell Site Hardware will be arranged and scheduled through the CTS technical support hotline. CTS will determine in its discretion whether Cell Site Hardware requires repair or replacement. All Systems will have replacement parts (RMA parts) for Cell Site Hardware components supplied by CTS at no charge. Replacements for Cell Site Hardware components will be new or serviceable used parts equivalent to new in performance. Replacement parts will be shipped via air carrier to the relevant site, and all costs of shipping Cell Site Hardware components to and from Verizon Wireless and risk of loss during each shipment will be the responsibility of CTS. Verizon Wireless shall return the replaced parts in the shipping materials used by CTS within fifteen (15) business days of receipt of the replacement parts.

2.4.2 CTS Support for Verizon Wireless On-Site Maintenance.

a. General. Verizon Wireless On-Site Maintenance is selected by Verizon Wireless for a System in which CTS On-Site Maintenance is not selected on Exhibit A, and the following provisions shall apply: (i) Verizon Wireless will be responsible for the repair or replacement of affected Cell Site Hardware components according to the procedure set forth below; and (ii) CTS will be responsible for providing maintenance Documentation and telephone technical assistance, as described below.

b. Telephone Technical Assistance. During the applicable hours of coverage, CTS will provide technical assistance for Verizon Wireless On-Site Maintenance through the CTS technical support hotline. Arrangements for such technical assistance will be arranged and scheduled through the CTS technical support hotline at least two (2) business days in advance.

c. Repair and Replacement Procedures; Spare Parts. Verizon Wireless shall perform repair or replacement of affected Cell Site Hardware components in full compliance with this Agreement and the terms of all maintenance Documentation supplied by CTS. CTS will supply spare parts to Verizon Wireless on an as needed basis for the direct repair or replacement of Cell Site Hardware. CTS will determine in its discretion whether Cell Site Hardware requires repair or replacement. Replacements for Cell Site Hardware components will be new or serviceable used parts equivalent to new in performance. Arrangements for the shipment of spare parts will be made through the CTS technical support hotline. CTS will use commercially reasonable efforts to process the shipment of spare parts on an expedited basis to the relevant Verizon Wireless Facility. All components removed from Cell Site Hardware shall be shipped by Verizon Wireless via air carrier to CTS's facilities in Seattle, Washington, or to other facilities designated by CTS, within fifteen (15) business days after Verizon Wireless' receipt of the corresponding replacement component from CTS, and will become the property of CTS upon receipt. In the event that such replaced parts are not returned to CTS within 30 days following receipt of the replacement parts, CTS shall charge Verizon Wireless for the cost of the replacement parts in accordance with its current price list for such parts. Such charge may be made pursuant to the blanket purchase order referred to in Section 1.5.3(b). CTS

will provide reasonable detailed notice to Verizon Wireless of any charges posted against the blanket purchase order. All costs of shipping spares, repaired or replacement components, or exchanged components from the relevant Verizon Wireless Facility, the risk of loss during each shipment, and the proper storage of components at Verizon Wireless facilities will be the responsibility of Verizon Wireless. All costs of shipping spares or repaired or replacement components to the relevant Verizon Wireless Facility and the risk of loss during each shipment will be the responsibility of CTS.

- d. HP and Cisco Maintenance. For CTS-Certified Hardware. Verizon Wireless elects to have CTS renew its existing HP and Cisco maintenance contracts for support services with respect to Verizon Wireless' CTS-Certified hardware for those markets indicated in Exhibit A. CTS will be Verizon Wireless' point of contact for all support required in all markets. CTS will then coordinate with either Verizon Wireless and/or the third-party hardware manufacturer as necessary. Verizon Wireless will pay CTS fees for such re-marketed support services. The fees for 2001 for Cisco are \$40,756 and for HP are \$137,000. These fees are due and payable to CTS January 31, 2001.

2.5 BLACKBIRD PLATFORM MONITORING SERVICES.

For those markets shown on Exhibit A in which Verizon Wireless has selected Blackbird Platform Monitoring Services, then CTS will perform periodic remote monitoring of the status and condition of such System during Normal Business Hours. Such Blackbird Platform Monitoring Services consist of monitoring the status and condition of Supported Products and network connections, and include the monitoring of: (i) the functionality of major software processes; and (ii) the connectivity among Supported Products and between Supported Products and Verizon Wireless' network. If, in the performance of Blackbird Platform Monitoring Services, CTS detects a condition that negatively affects the System, CTS will respond to and resolve such condition in accordance with the applicable support service options selected by Verizon Wireless for such System under this Agreement.

2.6 BACKUP & RESTORE SUPPORT SERVICES.

For those markets shown on Exhibit A in which Verizon Wireless has selected Backup & Restore Support Services, then CTS will perform the following services:

2.6.1 CTS-Proprietary Components.

CTS will perform Base Support Services for the CTS-proprietary components of the Backup & Restore product supplied by CTS for such System. Such services include the Technical Support Services described in Section 2.2 above, but do not include the provision of New Releases or CTS On-Site Maintenance for such software. Backup & Restore Support Services shall be provided only during Normal Business Hours.

2.6.2 Third-Party Components.

With respect to the third-party components of the Backup & Restore product supplied by CTS for such System, CTS support service will be limited to passing

through to Verizon Wireless the support and maintenance terms that CTS is allowed to pass through to Verizon Wireless by the applicable CTS supplier.

2.7 ADDITIONAL VERIZON WIRELESS RESPONSIBILITIES.

2.7.1 Support Contacts.

Verizon Wireless shall designate, and will provide CTS with the name, address, and telephone number of at least one (1) primary and one (1) back-up support contact for each applicable System (collectively, the "Support Contacts"). Such Support Contacts will: (a) contact Verizon Wireless' trained in-house technical support personnel who will conduct preliminary problem identification/troubleshooting for any condition identified by Verizon Wireless which affects such System, which includes performing the troubleshooting/problem identification procedures set forth in the Documentation; and (b) notify CTS (via the CTS technical support hotline) within one (1) hour after the detection of any condition affecting such System. If Verizon Wireless does not have in-house technical support personnel to provide the required preliminary problem identification/troubleshooting, then CTS may perform such work and Verizon Wireless will pay CTS for same at CTS's then-current rates. In addition to the technical support personnel described above, Verizon Wireless shall designate and maintain technical subject matter experts, to whom technical problems can be escalated for resolution. Such experts shall include at least one networking engineer, responsible for administration of Verizon Wireless' network infrastructure with which the System interfaces.

2.7.2 WAN Access to System.

Verizon Wireless will, at its expense, provide CTS with access to each System through a 56 Kbps network connection to enable CTS to perform its obligations under this Agreement. This network connection can be the same network connection required under Section 3.3.4 below.

2.7.3 Verizon Wireless' Network.

Verizon Wireless acknowledges that data relevant to System performance will be transmitted through a portion of Verizon Wireless' network. Verizon Wireless will be responsible for maintaining and continuously monitoring such portion of its network. If, in the performance of such monitoring, Verizon Wireless detects any condition that may affect a System, Verizon Wireless will promptly notify CTS of such condition and coordinate with CTS in the troubleshooting and resolution of such network condition.

2.7.4 Facilities and Supplies; On-Site Representatives.

Verizon Wireless will provide CTS with such access to Supported Products as CTS deems necessary to perform its Support Services during the hours of coverage specified in this Agreement. In addition, Verizon Wireless will promptly provide at no cost to CTS: (i) adequate and safe working facilities which, in the opinion of CTS, are necessary or appropriate in connection with the performance of this Agreement; (ii) operating supplies and consumables at the relevant site; and (iii) electrical work

external to the Supported Products. Upon CTS's written request, Verizon Wireless will make available an experienced and properly qualified representative of Verizon Wireless at the relevant site and at the relevant times during which services are being performed by CTS's personnel or subcontractors.

2.7.5 Data.

Verizon Wireless is and shall at all times continue to be responsible for maintaining a procedure external to each System for the back up of files, data, programs, and other information used as part of the System, and for the restoration and reconstruction of any loss or alteration of such files, data, programs, or information. Except as expressly set forth in this Agreement, CTS shall have no responsibility or liability for any loss or alteration of files, data, programs, or other information used as part of a System.

2.7.6 Relocation.

Verizon Wireless will not relocate or reinstall any Supported Products, unless: (i) CTS is provided with written notice of any relocation or reinstallation within a particular site or building at least forty-eight (48) hours before such relocation or reinstallation; (ii) CTS is provided written notice of any other relocation or reinstallation at least fourteen (14) days before such relocation or reinstallation; (iii) the Supported Products are relocated or reinstalled at a site which is located within any "Licensed Market," as such term is defined in the License Agreement, and which meets all of the Infrastructure and Environmental Requirements; and (iv) the Supported Products are installed at such site by CTS or a CTS-certified installer. Only Supported Products which are relocated or reinstalled at another site in accordance with this subsection will continue to be serviced under this Agreement and continue to be subject to any applicable warranties provided for such Supported Products under the License Agreement. Verizon Wireless will be responsible for all fees, costs, expenses, and damages incurred in connection with any relocation of Supported Products, except that Verizon Wireless will not be responsible for CTS's costs or expenses in connection therewith if the relocation is necessary due to the fault of CTS.

2.7.7 Causes Beyond CTS's Control.

Verizon Wireless will be responsible for any support services required due to any of the following: (i) improper use or neglect; (ii) support or use of the Licensed Programs or Hardware in a manner contrary to that specified in this Agreement, or Documentation provided by CTS; (iii) work performed by personnel other than CTS personnel or subcontractors or other persons certified by CTS to perform such work pursuant to the appropriate CTS training program; (iv) site conditions that do not conform to the Infrastructure and Environmental Requirements; or (v) any other cause beyond CTS's control. If support or maintenance of any Supported Product is required to return it to eligibility for coverage under this Agreement, CTS will offer to perform such maintenance on a time and materials basis at its then-current rates prior to placing the Supported Product under this Agreement.

ARTICLE III. ROAMING PROTECTION SERVICES

3.1 THE SERVICE.

3.1.1 Commencement of Service.

Verizon Wireless hereby agrees to retain CTS to perform the Service, as defined herein, and CTS hereby agrees to perform such Service for Verizon Wireless, subject to payment of the Aggregate Fee and other terms and conditions set forth in this Agreement. CTS and Verizon Wireless will agree on the commencement of Service for a given System pursuant to the selections made on Exhibit A to the Services Agreement. "Service" shall be defined as the transmission of Call Data through the CTS Network for subscribers roaming in other CTS Blackbird markets: (i) between Connected Systems, or (ii) between a Connected System and another system within the United States connected to the CTS Network with CTS's written approval.

3.1.2 License Regarding Non-Verizon Wireless Call Data.

Subject to the terms of this Agreement, CTS hereby: (i) grants to Verizon Wireless a non-exclusive, non-transferable right and license (the "License") to use the portion of Call Data owned by other Service Users or CTS solely for the purpose of detecting and preventing cellular roaming cloning fraud by operation of each Connected System; and (ii) agrees to provide such Call Data to Verizon Wireless for such limited purpose. Such License and agreement to provide Call Data shall be effective with respect to a Connected System for so long as CTS provides Service for such System during the term of this Agreement. The License sets forth the entirety of Verizon Wireless' rights in connection with the portion of Call Data owned by other Service Users or CTS. Accordingly, Verizon Wireless shall not use, or permit any Third Party to use or have access to, such Call Data for any purpose other than as expressly set forth in this section, without the express prior written approval of CTS.

3.1.3 License Regarding Verizon Wireless Call Data.

Verizon Wireless hereby: (i) grants to CTS and each Service User a non-exclusive, non-transferable, and royalty-free right and license to use the portion of Call Data owned by Verizon Wireless solely for the purpose of detecting and preventing cellular roaming cloning fraud by operation of one or more systems comprised of the CTS Blackbird(R) Platform and PreTect(TM) fraud prevention application; and (ii) agrees to provide such Call Data to CTS and each Service User for such limited purpose. Such license and agreement to provide Call Data shall be effective with respect to Call Data transmitted from a Connected System to the CTS Network for so long as CTS provides Service for such System during the term of this Agreement. Such license sets forth the entirety of CTS's rights in connection with the portion of Call Data owned by Verizon Wireless (which portion shall expressly exclude the CTS-proprietary information described in Section 1.1.3(ii), above). Accordingly, CTS shall not use, or permit any third party to use or have access to, the portion of Call Data owned by Verizon Wireless for any purpose other than as expressly set forth in this subsection, without the express prior written approval of Verizon Wireless.

3.2 MAINTENANCE OF CTS NETWORK.

CTS shall be responsible for maintaining all aspects of the CTS Network, including all components of the CTS Network located at Verizon Wireless Facilities (but not including maintaining the site conditions required under the Infrastructure and Environmental Requirements, which is the responsibility of Verizon Wireless). CTS shall have the exclusive right, in its discretion, to inspect, service, repair, replace, modify, or enhance any aspect of the CTS Network at any time during the term of this Agreement, subject to the provisions of Section 3.3 below. CTS reserves the right to suspend Service for a planned service outage caused by scheduled maintenance or planned enhancements or modifications to the CTS Network; provided, that if necessary, at Verizon Wireless' request, such planned service outage shall occur outside Verizon Wireless' high volume service hours. CTS will notify Verizon Wireless of a planned service outage in advance. Support for the Service will be provided during Normal Business Hours.

3.3 ADDITIONAL VERIZON WIRELESS RESPONSIBILITIES.

3.3.1 Access.

Verizon Wireless shall at all times cooperate with CTS and provide CTS with such access to Verizon Wireless Facilities as CTS reasonably requires for the purpose of installation, inspection, maintenance, service, repair, replacement, modification, enhancement, relocation, and/or removal of any or all components of the CTS Network located at Verizon Wireless Facilities and for the purpose of performing any other actions contemplated by this Agreement; provided, that if necessary, at Verizon Wireless' request, such access shall occur outside Verizon Wireless' high volume service hours.

3.3.2 Prohibited Actions.

Verizon Wireless shall not, internally or in conjunction with any other person or entity, and shall not permit or assist any person or entity to, do or attempt to do any of the following without the express prior written approval of CTS: (i) remove, obscure, conceal, or alter any notices or legends appearing in or on any component of the CTS Network indicating CTS's ownership of such component; (ii) tamper with, modify, alter, repair, replace, relocate, disconnect, connect anything to, or remove any component of the CTS Network; (iii) obtain access to or modify, alter, or destroy any Call Data of any other Service User, by or through any means or devices whatsoever, for any reason whatsoever; or (iv) use any other means or devices to circumvent the purposes of this Agreement or to obtain Service with the intent to avoid payment, in whole or in part, of additional applicable fees for the Service and the License. Verizon Wireless shall promptly notify CTS in writing of any facts of which Verizon Wireless is aware which might constitute a violation of this subsection.

3.3.3 Relocation.

If CTS approves any relocation of components of the CTS Network, as required by Section 3.2 above, then such relocation shall be conducted by CTS, except as the parties otherwise agree to in writing. The site at which such components are

relocated shall be within the same Licensed Market and shall meet all of the Infrastructure and Environmental Requirements. Verizon Wireless shall be responsible for all fees, costs, expenses, and damages incurred in connection with any relocation of components of the CTS Network performed at Verizon Wireless' request.

3.3.4 WAN Access.

Verizon Wireless will, at its expense, provide CTS with access to each Connected System through a 56 Kbps network connection to enable CTS to perform its obligations under this Agreement. This network connection can be the same network connection required under Section 2.7.2 above.

ARTICLE IV. SOFTWARE LICENSE

4.1. LICENSE OF SOFTWARE.

4.1.1 Grant of License.

Subject to the terms of this Agreement, CTS hereby grants to Verizon Wireless a non-exclusive, non-transferable license (the "License") to use the Licensed Programs and Documentation for the purpose of operating a System for its intended use, as described in the Specifications, within each Licensed Market. The term of the License granted above shall be perpetual for all Licensed Programs and Documentation licensed and furnished hereunder for the purpose of operating Systems installed prior to the expiration or termination of this Agreement, subject to the terms of Section 1.3.3, above.

4.1.2 License Limitations.

- a. The License sets forth the entirety of Verizon Wireless' rights in connection with the Licensed Programs, Documentation, and all Intellectual Property Rights in connection with the Licensed Programs and Documentation. Accordingly, Verizon Wireless shall not: (i) use the Licensed Programs or Documentation for any purpose other than as expressly set forth in Section 4.1.1 above; or (ii) permit any Third Party to use or have access to any Licensed Programs or Documentation without the express prior written approval of CTS (except for Verizon Wireless' representatives who are authorized by Verizon Wireless to use Licensed Programs and Documentation in accordance with this Agreement and for whom Verizon Wireless is responsible under the Nondisclosure Agreement).
- b. Without limiting the generality of the foregoing, Verizon Wireless shall not directly or indirectly do any of the following (except as expressly set forth in this Agreement or other written agreement between CTS and Verizon Wireless): (i) sublicense any rights under the License; (ii) print or copy the Licensed Programs, other than such number of copies as authorized by CTS in the Documentation for use solely by Verizon Wireless in accordance with this Agreement; (iii) print or copy the Documentation, other than copies for use solely by Verizon Wireless in accordance with this Agreement and subject to the Nondisclosure Agreement; (iv) modify or prepare derivative works of the Licensed Programs or Documentation; (v) reverse engineer, decompile, disassemble, or otherwise create, or attempt to create, or assist others to create, the source code form of any Licensed Programs or a product functionally equivalent to the System or any Licensed Programs, unless created without the use of any Licensed Programs or other Confidential Information of CTS; or (vi) remove, obscure, or alter any Intellectual Property Right or confidentiality notices or legends appearing in or on any Licensed Programs or Documentation. In addition, with respect to the notices and legends described above, Verizon Wireless shall: (a) ensure that each copy or reproduction of all or any portion of the Licensed Programs or Documentation includes all such notices and legends; and (b) upon CTS's reasonable prior written notice, provide CTS with reasonable access to

Verizon Wireless' records and facilities for the limited purpose of auditing and verifying Verizon Wireless' compliance with the terms of this Section 4.1.2(b).

4.1.3 New Releases, Maintenance Releases, and Customizations.

- a. New Releases. CTS will provide any New Releases for each System in operation as of the date hereof to Verizon Wireless at no additional charge, so long as this Agreement remains in full force and effect and Verizon Wireless is not in breach or default under this Agreement or any the Support Services Agreement. Otherwise, CTS, in its discretion, may provide New Releases for such System to Verizon Wireless on such terms and conditions and for such additional fees as the parties may mutually agree to in writing. The parties acknowledge that New Releases may require the purchase of new or additional hardware or software.
- b. Maintenance Releases. CTS may provide any Maintenance Releases for each initial System in operation as of the date hereof to Verizon Wireless at no additional charge, so long as Verizon Wireless so long as the Support Services Agreement remains in full force and effect and Verizon Wireless is not in breach or default under this Agreement or the Support Services Agreement. Otherwise, CTS, in its discretion, may provide Maintenance Releases for such System to Verizon Wireless on such terms and conditions and for such additional fees as the parties may mutually agree to in writing.
- c. Customizations. Verizon Wireless may, from time to time, wish to have certain features of the Licensed Programs customized to its specifications. CTS shall have the exclusive right to make and deliver such Customizations. All Customizations will be performed pursuant to one or more separate, written agreements between CTS and Verizon Wireless, which shall specify the deliverables, milestones, compensation, confidentiality requirements, use restrictions, and other terms, conditions, and procedures as CTS and Verizon Wireless may mutually agree to with respect to such Customizations.

4.2 SOURCE CODE.

In the event CTS becomes insolvent, ceases to carry on business on a regular basis or fails to perform its maintenance obligations herein, CTS shall furnish the latest version of Software source code, operating and design documentation, training material and any other necessary information to enable Verizon Wireless to maintain and enhance such Software or to contract with others for such work

4.3 PROPRIETARY RIGHTS.

- 4.3.1 The License shall not transfer any title to or ownership in the Licensed Programs or Documentation, or any Intellectual Property Rights in connection with the Licensed Programs and/or Documentation, from CTS to Verizon Wireless. Accordingly, subject only to the License, all right, title, and interest in and to the Licensed Programs and Documentation, and all Intellectual Property Rights in connection with the Licensed Programs and/or Documentation, are and shall at all times remain the

exclusive property of CTS or its licensor(s). CTS may use, sell, assign, transfer and license rights relating to the Licensed Programs and/or Documentation to any Third Party for any purpose free from any claim of Verizon Wireless.

- 4.3.2 CTS and Verizon Wireless each own certain trade names, logos, trademarks, and service marks used in identifying and marketing their respective technology, products, and services (collectively, "Trademarks"). Each party recognizes and consents for all purposes that all Trademarks of the other party, whether or not registered, constitute the exclusive property of such other party and will not be used except as approved by such other party in advance and in writing, nor shall either party use any confusingly similar Trademarks of the other party. Nothing contained in this Agreement shall be construed as conferring any additional rights upon either party to use in advertising, publicity, or other promotional activities any Trademark of the other party.

ARTICLE V. ENTIRE AGREEMENT

5.1 ENTIRE AGREEMENT.

5.1.1 This Agreement, together with all attachments, constitutes the entire agreement between Verizon Wireless and CTS with respect to the subject matter hereof and supersedes any prior or contemporaneous oral or written representations with regard to the subject matter. This Agreement may not be amended or modified without specific written provision to that effect, signed by both parties.

5.1.2 The parties agree that by the execution of this Agreement, the following agreements by and among CTS and GTE Wireless Services Corporation be and hereby are terminated: (i) the Master Purchase and License Agreement dated as of August 1, 1999, (ii) the Support Services Agreement dated as of August 1, 1999, (iii) the Roaming Protection Services Agreement dated as of August 1, 1999, (iv) the Source Code Escrow Agreement dated as of August 1, 1999, and (v) all Market Purchase Agreements dated as of August 1, 1999; and all exhibits, schedules, addenda, amendments, and supplements to, and restatements of, the foregoing agreements.

5.1.3 Upon termination of this Agreement each Party hereby releases the other from all obligations under any prior agreements.

5.2 COUNTERPARTS.

This Agreement may be signed in one or more counterparts, each of which shall be considered an original and which shall, taken together, constitute this Agreement.

5.3 SIGNATURES

IN WITNESS WHEREOF, CTS and Verizon Wireless have caused this Agreement to be signed and delivered by their duly authorized officers, all as of the date first written above.

CELLCO PARTNERSHIP,
d.b.a. VERIZON WIRELESS:

Cellular Technical Services
COMPANY, Inc:

By: _____

By: _____

Name: Lowell C. McAdam

Name: Bruce R. York

Title: Executive Vice President and COO

Title: Chief Financial Officer

Date: Date:

Exhibit 21.1 Subsidiaries of the Registrant

Name of Subsidiary -----	State of Incorporation -----	Name Under Which Subsidiary Is Doing Business -----
Isis Tele-Communications, Inc.	Delaware	Isis Tele-Communications, Inc.
Communications Information Services, Inc.	Florida	Communications Information Services, Inc

Exhibit 23.1 Consent of Ernst & Young LLP, Independent Auditors

We consent to the incorporation by reference in the Registration Statements (Form S-8) pertaining to the 1991 Qualified Stock Option Plan, 1991 Nonqualified Stock Option Plan, 1993 Non-Employee Director Stock Option Plan, and 1996 Stock Option Plan of our report dated March 12, 2001, with respect to the financial statements and schedule of Cellular Technical Services Company, Inc. in the Annual Report (Form 10-K) for the year ended December 31, 2000.

/s/ Ernst & Young LLP

Seattle, Washington
March 29, 2001