EVOLVING SYSTEMS INC
Form 10-K
March 15, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the fiscal year ended December 31, 2015

OR

o **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: 001-34261

EVOLVING SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**84-1010843** (I.R.S. Employer Identification Number)
9777 Pyramid Court, Suite 100, Englewood, Colorado (Address of principal executive offices)	**80112** (Zip Code)

(303) 802-1000

(Registrant s telephone number, including area code)

Securities registered under Section 12(b) of the Act:

Common Stock, Par Value $0.001 Per Share (Title of Class)	**The Nasdaq Capital Market** (Name of exchange on which registered)

Securities registered under Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes o No x

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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. o

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

Large accelerated filer o	Accelerated filer o
Non-accelerated filer o	Smaller reporting company x

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

The aggregate market value of the Common Stock held by non-affiliates of the registrant, based upon the last sale price of the Common Stock reported on the Nasdaq Capital Market, was approximately $71.1 million as of June 30, 2015.

The number of shares of Common Stock outstanding was 11,795,331 as of March 9, 2016.

DOCUMENTS INCORPORATED BY REFERENCE

The information required by Part III (Items 10, 11, 12, 13 and 14) is incorporated by reference to portions of the registrant s definitive proxy statement for the 2016 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission within 120 days after the close of the 2015 year. Except as expressly incorporated by reference, the Proxy Statement shall not be deemed to be a part of this report on Form 10-K.

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EVOLVING SYSTEMS, INC.

Annual Report on Form 10-K

For the year ended December 31, 2015

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FORWARD-LOOKING STATEMENTS

Except for the historical information contained in this document, this report contains forward-looking statements that have been made pursuant to the provisions of the Private Securities Litigation Reform Act of 1995, including estimates, projections, statements relating to our business plans, objectives and expected operating results and assumptions. These forward-looking statements generally are identified by the words believes, goals, projects, expects, anticipates, estimates, intends, strategy, plan, variations of these words and similar expressions. Forward-looking statements are based on current expectations, estimates, projections and assumptions regarding product, services, and customer support revenue; our expectations associated with Evolving Systems Labs, Evolving Systems India, Evolving Systems U.K. and Evolving Systems NC, Inc., and short- and long-term cash needs, and are subject to risks and uncertainties which may cause our actual results to differ materially from those discussed here. Factors that could cause or contribute to such differences include, but are not limited to those discussed in the sections entitled Business, Management s Discussion and Analysis of Financial Condition and Results of Operations and Risk Factors. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

PART I

ITEM 1. BUSINESS

INTRODUCTION

Evolving Systems is a provider of software solutions for service enablement, on-device activation and management of services for connected devices for network operators around the world. Our customers rely on us to develop, deploy, integrate, enhance and maintain software solutions supporting their traditional and next generation network technologies, convergent service offerings, and advanced wireless and other broadband networks. We maintain long-standing relationships with many major carriers worldwide. Included among our more than 75 network operator customers are many tier-1 wireless carriers.

We offer software products and solutions in five core areas:

- Mobile Analytics, Engagement and Advertising enables carrier marketing departments to innovate, execute and manage highly-personalized and contextually-relevant, interactive campaigns that engage consumers in real time;
- Service activation solutions used to activate complex bundles of voice, video and data services for traditional and next generation wireless, wireline and cable networks;
- SIM (Subscriber Identity Module) card activation and management solutions that improve the end user experience and dynamically allocate and assign resources to a wireless device when it is first used;

- <u>Connected device solutions</u> used to manage and activate machine-to-machine or M2M devices, such as e-readers, smart meters, gaming consoles, as well as other SIM-based industry specific devices;

- <u>Number inventory and management solutions</u>, used by telecom operators to manage the receipt of number ranges from regulatory bodies, efficient allocation of numbers to subscribers, and rapid recycling of unused numbers.

We generate revenue by licensing, and supporting our software products to customers in either a traditional premise-based implementation or through a cloud-based software-as-a-service (SaaS) solution as well as via a managed service offering. We report the operations of our business as two operating segments based on revenue type: license and services revenue and customer support revenue. We report geographic information based upon revenue and long-lived assets in the United States, United Kingdom and all other foreign countries as a group. Further information regarding our operating segments and geographical information is contained in Note 12 to our Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

COMPANY BACKGROUND

Evolving Systems was founded in 1985 to provide software and services to the U.S. telecommunications industry. During our early years our product focus was on solutions that supported number management and number porting. In November 2004, we expanded our product set and geographical reach with the acquisition of Tertio Telecoms Ltd. (Evolving Systems U.K.), a supplier of Operations Support Systems (OSS) software solutions for service activation and mediation to communication carriers throughout Europe, the Middle East, Africa and Asia. With this acquisition we not only expanded our markets beyond North America, we also added service activation and billing mediation solutions to our product portfolio. The acquisition significantly expanded our product and service capabilities, allowing us to address a larger portion of our customers OSS application needs with a balanced mix of products as well as services. We currently focus primarily on the wireless markets in the areas of mobile marketing analytics, subscriber activation, SIM card management and activation, self service mobile applications, data enablement solutions, connected device activation and management of services.

On July 1, 2011, we sold our numbering solutions business to NeuStar, Inc. for $39.4 million in cash and the assumption of certain liabilities (the Asset Sale). As a result of the Asset Sale we no longer sell local number portability or number management solution products in North America.

On October 24, 2013 we acquired privately held Telespree Communications (Telespree), now known as Evolving Systems Labs, Inc. (Evolving Systems Labs), for an initial payment of approximately $1.6 million, comprised of approximately $0.8 million in cash and approximately $0.8 million in stock. There is an earn-out provision whereby we may potentially make additional payments in cash on the achievement of certain financial targets for the period from October 25, 2013 through October 24, 2016. In addition, there is a final payment of $0.5 million to be made subject to reduction for certain claims. The final payment has not been made as of the date of this Form 10-K was filed. The acquisition included technology used in the delivery and management of mobile data services and a portfolio of SaaS based solutions.

On September 30, 2015, we acquired privately held RateIntegration, Inc. d/b/a Sixth Sense Media (SSM), now known as Evolving Systems NC, Inc. (Evolving Systems NC) for an initial cash payment totaling approximately $9.75 million, plus customary working capital adjustments, and we agreed to make a payment of $250,000 on the one year anniversary of the transaction, with such payment being available to secure SSM s representations and warranties under the acquisition agreement. The acquisition included SSM s software solution, Real-time Lifecycle Marketing (RLM), a platform which enables carrier marketing departments to innovate, execute and manage highly-personalized and contextually-relevant, interactive campaigns that engage consumers in real time.

INDUSTRY DYNAMICS

The market for mobile marketing analytics, communications activation and provisioning solutions is constantly changing. Several key factors are driving carrier demand for next generation solutions, supporting growth for specific products within the sector:

- Carriers seeking to further monetize their customer relationships and associated demographic, behavioral, location and contextual information to up-sell their network services and open new channels for optimized and personalized third-party service revenues;

- Rapid adoption of smart phones and network-attached devices, driving increased usage of mobile data;

- On-going network investment to provide vastly improved delivery speeds and capacity (Long Term Evolution, or LTE /4G);

- Pricing pressure within the telecom industry driven by relatively flat subscriber growth, network upgrade costs, subscriber churn, and increased competition from traditional and new market entrants such as Over-the-Top (OTT) services both in the developed and emerging markets; and

- Adoption of the connected device and M2M markets.

Today, carriers are compelled to offer a growing array of services to deliver personalized and differentiated user experiences, reduce subscriber churn and maintain or grow market share. These value-added services have to be delivered to the market in ever shorter windows as competitive pressure has increased the velocity at which carriers deliver new products and services. To achieve these objectives, operators are increasingly reliant on flexible service enablement solutions that offer a myriad of options for their subscribers.

As network migrations to 4G/LTE accelerate and subscribers continue to drive growth in mobile solutions, the SIM card has emerged as a vital link in the telecom value chain. Capability, such as that provided by Evolving Systems Dynamic SIM Allocation (DSA) solution for dynamically activating and managing the SIM card, is becoming an important component in the operators infrastructure, both to reduce operating costs associated with the provisioning of SIM cards, as well as to improve the end-user experience.

We are a pioneer and leader in this market and believe we are well-positioned to maintain our leadership role in this emerging growth segment. To date our DSA solution has activated almost half a billion SIM cards, and in 2015 alone we activated in excess of 170 million SIM cards, providing enhanced functionality and significant operator savings. Our Mobile Marketing solution is installed in 15 carriers connecting with over 250 Million subscribers around the world.

PRODUCT PORTFOLIO

Real-Time Lifecycle Marketing

Our ***Real-time Lifecycle Marketing*** platform empowers marketing departments to create and deploy highly personalized, location and contextually relevant, interactive customer engagement campaigns. The platform monitors customer events and

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behavioural patterns in real-time, building a profile of each subscriber. When the right conditions are met, the platform pushes the best match or a personalized offer or ad to the customer.

Compared with many other marketing campaign management systems, RLM more accurately targets marketing messages and campaigns that drive incremental revenue more quickly.

The RLM solution is comprised of a number of components:

- ***The Profiling Engine*** of the RLM platform supports static as well as ongoing dynamic profiling of subscribers. It fully supports any real-time or micro segmentation requirements as needed by the business. The Profile Engine is a rules-driven flexible aggregator of subscriber baseline and usage data. It has been designed to handle any data model, including any data representation that may be available within the carrier s legacy billing and Customer Relationship Management (CRM) environment.

- ***The Campaign Manager*** fulfills the RLM platform s campaign and offering requirements. It includes a business friendly dashboard allows for rapidly configuring, testing and launching new business campaigns. Through the dashboard the business user can target specific subscribers, define offers and rewards, and create the personalized messages per campaign, interaction and subscriber. The dashboard provides a real-time view on each campaign s effectiveness and impact.

- ***Campaign Modules*** provide predefined templates for specific types of real-time mobile marketing tactics, including marketing and loyalty for digital services such as mobile money and content, data package upsell and top-up accelerators.

Dynamic SIM Allocation

We introduced our ***Dynamic SIM Allocation*** solution, or DSA, in 2007. DSA offers carriers a dramatically improved alternative to the inefficient traditional SIM distribution and activation practices.

The SIM card is central to the provisioning of wireless access and services for most networks used today by wireless operators world-wide, as well as next generation 4G LTE technologies. Typically, SIM cards are pre-provisioned before they are distributed to the retail environment. Pre-provisioning SIM cards requires that network resources (e.g., mobile numbers) be allocated well in advance of the wireless device becoming available for sale. This leads to poor utilization of numbers and other network resources, increases unnecessary network costs, and delivers a poor user experience.

DSA s core technological innovation, on which we have several US patents, enables new SIM cards that have not been pre-provisioned to be detected on first use, triggering an efficient, dynamic provisioning process and eliminating the need for pre-provisioning and thus lowering the operator s costs. The SIM activation occurs only when a SIM card is first used.

During the activation process, the solution enables an on-device interaction with the end-user, delivering a differentiated user-experience, reducing customer churn and boosting revenue for the carrier.

The DSA solution offers a number of benefits including:

- ***Increased revenue and market share:*** Our DSA solution supports the search, selection and payment for vanity numbers and allows a carrier the opportunity to monetize these numbers where, for example, each number can have a different price. Allowing new subscribers to select their number is a market differentiator that will attract more subscribers. In addition, subscribers who select their own number are more likely to keep the number, which may result in greater subscriber lifespan and reduced churn.

- ***Improved user experience at lower cost***: Carriers have various customer care processes, like those for mobile number portability, or replacing lost or stolen SIM cards. These processes can be inefficient and have high operational costs. Our DSA solution helps carriers provide more customer self-care for an improved user experience at lower costs.

- ***Choice and Personalization on the device***: Prepaid subscribers have traditionally been offered few choices at time of activation. With our solution, prepaid subscribers have an on-device language choice, a choice of product, package or tariff, the ability to select a number from a database of available numbers, including vanity number search and free or chargeable numbers, and the ability to select from a carrier s promotions and value added services. In addition, on-device

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personalization is not limited to the point of first use. Using our DSA solution, subscribers can make changes to their service at any time.

- ***Improved efficiency and utilization***: SIM cards that are never activated for a revenue-generating subscriber result in increased costs and waste. Activating SIM cards dynamically on first use makes the SIM distribution process more efficient and flexible. SIM cards are not linked with any product or region until they are first used, allowing SIM stock to be moved freely to meet demand. The number of SIM types a carrier has to support is greatly reduced, resulting in less packaging cost and waste. Finally, by removing the need for SIM cards to be pre-provisioned, costly resources, such as numbers and network database capacity, are used only when needed.

- ***Availability to meet demand***: Carriers can find it difficult to effectively and reliably manage their SIM inventory, especially when multiple SIM card variants and profiles are needed. Our DSA solution helps carriers to ensure new SIM cards and numbers are always available to meet demand.

DSA is an integrated solution comprised of several components:

- ***First Use Register (FUR)*** is responsible for the integration with the network, via SS7/SIGTRAN for 3G networks and DIAMETER for LTE. It detects the first use of a SIM card, enabling the update of the card, and facilitating any optional dialogue with the subscriber in a highly secure manner. It triggers the provisioning process, including the allocation of a definitive International Mobile Subscriber Identity, or IMSI, and the Mobile Subscriber Integrated Services Digital Network-Number, or MSISDN . The IMSI identifies the SIM, while the MSISDN is used for routing calls to the subscriber.

- ***Task Management*** is a module that controls the process flow of tasks involved with completing the subscriber s activation process. The module orchestrates the overall process, providing robust capabilities for processing high volume, low latency, and mission critical transactions.

- ***Resource Management*** is a component that records and controls the management and assignment of specific inventory elements and resources. The component allocates the resources used by the DSA solution, including IMSI and MSISDN values.

- ***Menu Server*** is a module that defines and controls the menu dialogue with a subscriber. The Menu Server provides carriers with the ability to customize the end user experience on the device. Working with a SIM applet, Menu Server allows the wireless carrier to quickly and easily customize the end user screens on their phones or other devices.

- ***Smartphone Welcome Portal*** allows DSA to support activation processes through a rich browser-based dialogue, as well as a dialogue through menus on a phone screen. With the Mobile Broadband Module, carriers can offer a customized experience for subscribers who are activating new SIM cards in smart phones and/or a wide variety of connected devices. As part of this experience, DSA can promote smartphone apps on behalf of the network operator or third parties, offering a new way to acquire app users in markets where SIM-only sales are dominant.

- ***Promotions Engine*** enables DSA to offer dynamic promotions to end users as part of the on-device activation experience. Dynamic promotions are those which are selected as relevant to a specific user based on their device type, location, the time/date they activate their SIM, and other choices they make during the activation process.

- ***In-Life Interaction Engine*** enables many of the personalization options such as number and tariff choice, or promotions, to be offered to users via their device after first use, as well as during the first use period.

- ***Operational Dashboard*** is a module that assists operators in the administration, operation, and maintenance of the DSA platform. Operational Dashboard offers carriers a powerful reporting tool and a flexible, easy-to-use tool that provides visibility into the performance of DSA.

- ***Direct Authentication*** is an extension module to the First Use Register which can generate Global System for Mobile Communication, or GSM SIM and Universal Mobile Telecommunications System, or UMTS SIM authentication. This removes the need to dedicate an Authentication Center (AUC) to perform this function for the First Use Register.

- ***SIM Reservation Portal*** extends the personalization capabilities of DSA to more of an operator s customers. Working alongside DSA s on-device personalization, it offers personalization in advance of SIM purchase, through a web portal that can be deployed on the public internet, or in a store kiosk.

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- ***Smart Dealer*** provides SIM retailers with a tool set that enables them to sell SIM cards efficiently and effectively. With Smart Dealer, the operator is able to communicate and guide dealers towards using the latest promotions, enabling instant reactions to competitor activities. New offers can be trialed through split-testing, varying offers by region, time, day, or device. Smart Dealer captures subscriber details for Know Your Customer prepaid registration using standard, low cost devices.

Tertio Service Activation

Our service activation solution, ***Tertio***®, is used by carriers to activate a new subscriber or to add a new service to an existing subscriber. Our Tertio product provides a flexible operating environment for carriers to manage their voice, data, and content service needs for both their traditional and broadband IP networks. Our solution is deployed as the service activation engine for approximately 30 networks around the world, including two of the world s largest wireless carriers.

Tertio Service Activation is an integrated, scalable and flexible solution with a graphical interface and is comprised of several components:

- ***Tertio Service Composer*** is a modeling tool that simplifies the creation of new services.

- ***Tertio Content Connector*** is a tool used for activation of next-generation services.

- ***Tertio Activation Designer*** is a tool designed to speed network feature activation.

- ***Tertio Service Verification*** is a module that allows carriers to verify that the services implemented in the network match those that were in the original service order. By providing this capability, carriers can continually check the accuracy of their order/activation processes.

Our Tertio solution addresses the entire service lifecycle, allowing carriers to introduce new network technologies and easing the burden of integration with existing devices and systems. Service providers who use our Tertio solution can better plan, manage and execute the introduction of new services.

Number Inventory and Management

Our number inventory solution, ***Total Number Management*** (TNM), is a scalable and fully automated solution that enables operators to reliably and efficiently manage their telephone numbers (i.e. SIMs, MSISDNs, IMSIs, Integrated Circuit Card Identifiers (ICCIDs) and Internet Protocols (IPs) as well as other communication identifiers such as Uniform Resource Locators or (URLs) and email addresses. TNM focuses on the automation of all number resource management processes, allowing operators to adhere to regulatory requirements and effectively manage the lifecycle of telephone numbers, as well as benefit from time savings and reduced costs.

The major components of TNM are:

- ***Number management***: TNM maintains a clean number resource inventory, ensuring accurate status information and avoiding number conflicts.

- ***Vanity/Golden number support***: TNM provides the capability to mark numbers as Golden or Vanity numbers based on user defined criteria. Golden numbers are then protected from the general assignment rules and may only be allocated when specifically requested.

- ***SIM management***: TNM provides full lifecycle SIM management to include a standardized SIM card profile and templates, as well as an automated interface to the SIM manufacturer s system, which reduces cumbersome processes associated with sending orders.

PROFESSIONAL AND INTEGRATION SERVICES

Our Professional and Integration Services team provides expert consulting services and advice for the customization, integration and deployment of our products. The team works closely with our Product Development and Engineering teams to ensure that our deployed products meet our customers requirements and that our products continue to evolve to meet future requirements. Our services cover all aspects of the project lifecycle, including system architecture, design, software development and customization, system integration, testing, live deployment and production support, program and project level management, post-implementation maintenance and domain and product expertise. We also provide managed services. Our teams work closely with customers and

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integration partners and have established long-term relationships with operators in the Americas, Europe, the Middle East, Africa and Asia Pacific regions.

ON-PREMISE OR SAAS IMPLEMENTATIONS

Our applications are available through the purchase of an on-premises software license or via subscription to our SaaS offerings that we host, manage and support. Regardless of the deployment model selected, our solutions are designed to reduce risk, cost and complexity while supporting customer choice with flexible deployment models that readily enable agility, compatibility and extendibility.

PRODUCT DEVELOPMENT

We develop most of our products and services internally, conducting research to identify specific industry and customer business needs as well as market requirements and we use that information to determine our investment in product development (PD). We evaluate the market for new products and we leverage our existing product capabilities with enhancements of existing products. Our product roadmap helps us identify which modifications and enhancements are most important and when they should be implemented. We build investment plans for our principal product areas and we make other investments in tools and product extensions to accelerate the development, implementation and integration process for customer solutions.

PD is expensed as incurred. For the years ended December 31, 2015, 2014 and 2013, we expensed $3.8 million, $3.6 million and $3.0 million, respectively, in PD costs. The majority of PD investments in 2015 went into the further development and enhancement of our DSA solution.

SALES AND MARKETING

Our sales force is primarily a field organization structured to focus on specific geographical territories around the world: The Americas (North, Central and South), Europe, Middle East and Africa, the Commonwealth of Independent States (comprised of Russia and other former Soviet Republics) and Asia Pacific. Our sales activities cover both direct sales to carrier customers as well as sales through partners such as Gemalto, Oberthur, and Ericsson, who include our products as part of their wider solution offerings, and systems integrators such as Accenture and IBM who license our technology to customers as part of their delivery engagements.

Our solutions and our customers infrastructures are complex, and require a high degree of consultative selling which often results in a long sales cycle in excess of twelve months. In addition, our business relies on incremental revenue from existing customers, which requires regular interaction with customers to discuss enhancements to our existing solutions as well as the introduction of new features and functionality. The sales team is also responsible for making proactive proposals to prospects, as well as managing and delivering responses to competitive tenders. This complex, highly interactive approach results a long sales cycle, requiring us to invest a considerable amount of time developing business opportunities without guaranteed sales.

Our marketing organization supports our sales activities by identifying markets for our products and establishing an awareness of our offerings in those markets through a combination of direct marketing, web marketing, and participation in shows, conferences, and industry bodies. The marketing organization is responsible for maintaining our web site and creating electronic and print-based sales collateral to support our sales activities.

COMPETITION

The market for telecommunications OSS products and mobile analytics and advertising is competitive and is subject to rapid technological change, changing industry standards, regulatory developments and consolidation. We face increasing demand for improved product performance, enhanced functionality, rapid integration capabilities coupled with pricing pressures. Our existing and potential competitors include many large domestic and international companies that often have substantially greater financial, technological, marketing, distribution and other resources, larger installed customer bases and longer-standing relationships with telecommunications customers. The market for telecommunications OSS software and services is extremely large and we currently hold only a small portion of total market share. We believe our work to establish the dynamic SIM allocation market has resulted in our achieving a measurable and reasonable market share in those areas.

Our principal competitors for our Tertio Service Activation solution are Comptel, Amdocs and Oracle. In the area of dynamic SIM allocation, we believe we hold a significant leadership position; however, we see occasional competition from Giesecke & Devrient GmbH and HP, as well as a few other smaller regional competitors. In addition, some of the network equipment manufacturers next generation solutions address some of the benefits provided by our DSA solution. For our TNM solution competition comes from a variety of billing vendors and vendors such as Telcordia/Ericsson. Competitors for our RLM solution

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include specialist vendors such as Knowesis, Pontis and Business Logic Systems, as well as some products in general CRM suites from vendors such as SAS and Oracle.

For all of our products, our ability to compete successfully depends on a wide range of factors. We deliver value by offering competitively priced quality solutions, tailored specifically to our customers network topography. After a customer implements our products, we often receive subsequent orders for enhancements to add functionality or increase capacity. Complex solutions tailored to customers needs are expensive and time consuming to replace our software, thus providing us with an incumbent advantage. Furthermore, many of our customer relationships span five years or more. We believe all of these factors give us a competitive advantage and can be a barrier to entry for potential competitors.

SIGNIFICANT CUSTOMERS

For the year ended December 31, 2015, no significant customer exceeded the threshold (defined as contributing at least 10%) of revenue from continuing operations. For the year ended December 31, 2014, two significant customers accounted for 24% (13% and 11%) of revenue from continuing operations. These customers are large telecommunications operators in Europe and Mexico. For the year ended December 31, 2013 one significant customer accounted for 12% of revenue from continuing operations. This customer is a large telecommunications operator in Europe.

INTELLECTUAL PROPERTY

We rely on a combination of patents, copyright, trademark and trade secret laws, as well as confidentiality agreements and licensing arrangements, to establish and protect our proprietary rights. We have patents in the U.S. on elements of our DSA and mobile broadband enablement products and patents pending in other countries on elements of our DSA and other products.

BACKLOG

We define backlog as sales orders that are anticipated to be delivered and recognized in revenue over the next twelve months. As of December 31, 2015 and 2014, our backlog was approximately $12.1 million and $10.6 million, respectively. Our backlog at December 31, 2015 was comprised of license fees and services of $6.1 million and customer support of $6.0 million compared to license fees and services of $5.6 million and customer support of $5.0 million at December 31, 2014.

EMPLOYEES

As of December 31, 2015, we employed 242 people including 32 in the United States, 50 in the United Kingdom and 160 in India. Of our worldwide staff, 83% are involved in product delivery, development, support and professional services, 10% in sales and marketing, and 7% in general administration.

AVAILABLE INFORMATION

You can find out more information about us at our Internet website located at www.evolving.com. The information on or accessible through our website is not incorporated into this Annual Report on Form 10-K. Our Annual Reports on Form 10-K, our Quarterly Reports on Form 10-Q, and our Current Reports on Form 8-K and any amendments to those reports are available free of charge on our Internet website as soon as reasonably practicable after we electronically file or furnish such material with the SEC. Additionally, these reports are available at the SEC s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549 or on the SEC s website at www.sec.gov. Information on the operation of the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330.

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ITEM 1A. RISK FACTORS

General Risk Statement

Our operations and financial results are subject to various risks and uncertainties, many of which are driven by factors we cannot control or predict. An investment in our common stock involves a high degree of risk. The risks that we have highlighted here represent the material risks known to us, but they are not the only ones that we face. If any of the risks actually occur, our business, financial condition, results of operation and cash flows could be negatively affected. You should carefully consider these risks and uncertainties before investing in our securities.

Risks Related to Our Business and Industry

We operate a global business that exposes us to currency, economic, regulatory and tax risks.

A substantial portion of our revenue comes from international sales and our growth strategy is largely focused on emerging markets. Our success delivering solutions and competing in international markets is subject to our ability to manage various risks and difficulties, including, but not limited to:

- our ability to effectively staff and manage operations in multiple countries;
- fluctuations in currency exchange rates;
- timely collecting of accounts receivable from customers located outside of the U.S.;
- our ability to repatriate cash from foreign locations;
- trade restrictions, political instability, disruptions in financial markets, and deterioration of economic conditions;

- compliance with the U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act and other anti-bribery laws and regulations;

- variations and changes in laws applicable to our operations in different jurisdictions, including enforceability of intellectual property and contract rights;

- compliance with export regulations, tariffs and other barriers;

- our ability to provide sufficient levels of technical support in different locations; and

- potentially adverse tax consequences in connection with repatriating funds.

Approximately 40% of our revenue is transacted in non-U.S. dollar denominated currencies (e.g. British Pound Sterling, Swiss Franc and Euro). As a result, when the U.S. dollar strengthens, our revenue, when converted to U.S. dollars, is reduced. At the same time, approximately 70% of our operating expenses originate overseas, the strengthening dollar conversely lowers expenses outside of the U.S. Although this has provided some defense against currency fluctuations for our bottom line results, we may not be able to maintain this ratio of revenue to expense in the future. In addition, we may not be able to sustain or increase our international revenue or repatriate cash without incurring substantial risks involving floating currency exchange rates, our ability to recover or apply withholding taxes remitted to foreign governments, and income tax expenses. Any of the foregoing factors may have a material adverse impact on our international operations and, therefore, our business, financial condition and results of operations. In addition, there have been proposals to change U.S. tax laws that would significantly impact how U.S. multinational corporations are taxed on foreign earnings. Although we cannot predict whether or in what form any proposed legislation may pass, if enacted it could have a material adverse impact on our tax expense and cash flow.

Our revenue, earnings and profitability are affected by the length of our sales cycle, and a longer sales cycle could adversely affect our results of operations and financial condition.

Our business is impacted by the length of our sales cycles. Our customers have relatively complex businesses and the purchase of large communications solutions used for enterprise-wide, mission-critical purposes, involve significant capital expenditures and lengthy implementation plans. Prospective customers often take a long period of time to evaluate our products and services and require us to spend substantial time, effort and money educating them about our solutions. The purchase of the types of products and services we offer typically also requires coordination and agreement across many departments within a potential customer s organization. This process often results in a lengthy sales cycle, typically ranging between three and twelve months. The lengthening of our sales cycle could reduce growth in our revenue and contribute to an increased cost of sales, thereby reducing our profitability.

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Mergers and acquisitions of large communications companies, as well as the formation of new alliances, have resulted in a constantly changing marketplace for our products and services. Purchasing delays and pricing pressures associated with these changes are common. In addition, many of the companies in the communications industry have kept capital expenditures at historically low levels in response to changes in the communications marketplace; some companies have declared bankruptcy, cancelled contracts, delayed payments to their suppliers or delayed additional purchases.

We depend on a limited number of significant customers for a substantial portion of our revenue, and the loss of one or more of these customers, or a delay in a large order, could adversely affect our business.

We earn a significant portion of our revenue from a small number of customers in the communications industry. The loss of any significant customer, delays in delivery or acceptance of any of our products by a customer, delays in the performance of services for a customer, or delays in collection of customer receivables could harm our business and operating results to a greater degree than other companies with a broader customer base.

Customers budgetary constraints and internal acceptance reviews may cause potential customers to delay or forego a purchase, making it difficult for us to forecast the timing and size of our contracts. In addition, our sales opportunities in any given quarter and year typically include a few high value opportunities. The delay or failure to close one or more large orders could have a material adverse effect on our results of operations and financial condition and cause our results to vary significantly from quarter to quarter and year to year.

We incurred debt in connection with our recent acquisition of SSM which could adversely affect our financial condition and restrict our operating flexibility.

In connection with our acquisition of SSM in September 2015, we entered into a Third Amendment with East West Bank, increasing our revolving credit facility from $5.0 million to $10.0 million (the Revolving Facility) and we used the full amount of the Revolving Facility to fund the acquisition. The Revolving Facility is secured by substantially all of the Company s assets, including a pledge, subject to certain limitations with respect to stock of foreign subsidiaries, of the stock of the existing and future direct subsidiaries of the Company. There is no mandated borrowing required against the Revolving Facility. To take an advance under the Revolving Facility, the Company must have a balance of $4.0 million in cash on deposit with East West Bank, a minimum current ratio and a specified ratio of Total Liabilities to Tangible Net Worth, which are both as defined in the Revolving Facility. The Revolving Facility requires the Company to pay monthly payments of interest, with the unpaid balance due on October 22, 2016.

On February 29, 2016, we entered into the Fifth Amendment to the Loan and Security Agreement with East West Bank to enter into a Term Loan (the Term Loan) for $6.0 million. The $6.0 million will bear interest at a floating rate equal to the U.S. Prime Rate plus 1.0%. The Term Loan is secured by substantially all of the assets of Evolving Systems, including a pledge, subject to certain limitations with respect to stock of foreign subsidiaries, of the stock of the existing and future direct subsidiaries of Evolving Systems. Interest shall accrue from the date the Term Loan is made at the aforementioned rate and shall be payable monthly. The Term Loan shall be repaid in 36 equal monthly installments of principal, plus accrued but unpaid interest, commencing on January 1, 2017 and continuing on the first day of each month thereafter through and including January 1, 2020. On the Term Loan maturity date, the outstanding principal amount of the Term Loan and all accrued and unpaid interest thereon shall be immediately due and payable. The Term Loan, once repaid, may not be reborrowed. We must maintain a minimum current ratio, a specified ratio of Total Liabilities to EBITDA and a minimum fixed charge coverage ratio which are as defined in the Term Loan. The Term Loan requires us to pay two annual credit facility fees of $18,750 and legal fee equal to $1,000. The Term Loan agreement required us to use the term loans proceeds and $4.0 million from our cash balances to pay off the two existing Revolving Facilities totaling $10.0

million. The Term Loan matures on January 1, 2020.

The Revolving Facility includes negative covenants that place restrictions on the Company s ability to, among other things: incur additional indebtedness; create liens or other encumbrances on assets; make loans, enter into letters of credit, guarantees, investments and acquisitions; sell or otherwise dispose of assets; cause or permit a change of control; merge or consolidate with another entity; make negative pledges; enter into affiliate transactions; and change the nature of its business materially. Outstanding amounts under the Revolving Facility may be accelerated by notice from East West Bank upon the occurrence and continuance of certain events of default, including without limitation: payment defaults, breach of covenants beyond applicable grace periods, breach of representations and warranties, bankruptcy and insolvency defaults, and the occurrence of a material adverse effect (as defined). Acceleration is automatic upon the occurrence of certain bankruptcy and insolvency defaults.

Our debt and related obligations, including interest payments, covenants and restrictions, could have important consequences, including the following:

- reserving cash in order to satisfy the obligations relating to our debt could adversely affect the amount or timing of investments to grow our business, impairing our ability to invest in and successfully grow our business;

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- our existing debt could limit our ability to obtain additional financing on satisfactory terms to fund our working capital requirements, capital expenditures, acquisitions, debt obligations and other general corporate requirements;

- our debt may increase our vulnerability to general economic downturns, competition and industry conditions, which could place us at a competitive disadvantage compared to our competitors that are less leveraged and therefore we may be unable to take advantage of opportunities that our leverage prevents us from exploiting; and

- the Revolving Facility imposes restrictions on the manner in which we conduct our business, including restrictions on our ability to pay dividends, incur additional debt and sell assets.

The occurrence of any one of these events could have an adverse effect on our business, financial condition, operating results or cash flows and ability to satisfy our obligations under our indebtedness. Our failure to comply with the covenants under the Revolving Facility could result in an event of default and the acceleration of any debt then outstanding. Any declaration of an event of default could significantly harm our business and prospects and could cause our stock price to decline. Insufficient funds may require us to delay, scale back, or eliminate some or all of our activities.

Acquisitions present many risks and we may not realize the financial and strategic goals that were contemplated at the time of a transaction.

We recently acquired SSM and we expect to continue making acquisitions or entering into strategic alliances as part of our long-term business strategy. We cannot be sure that these transactions will ultimately enhance our products or strengthen our competitive position. These transactions involve significant challenges and risks, including that the transaction does not advance our business strategy, that we get no satisfactory return on our investment, that we have difficulty integrating operations, new technologies, products or employees, or that the transaction distracts management and employees from our other businesses. Furthermore, we may fail to identify or assess the magnitude of certain liabilities, shortcomings or other circumstances prior to acquiring a company or technology, which could result in unexpected litigation or regulatory exposure, unfavorable accounting treatment, unexpected increases in taxes due, a loss of anticipated tax benefits or other adverse effects on our business, operating results or financial condition. The success of these transactions will depend in part on our ability to leverage them to enhance our existing products and services or develop compelling new ones. It may take longer than expected to realize the full benefits from these transactions, such as increased revenue, enhanced efficiencies, or increased market share, or the benefits may ultimately be smaller than we expected. In addition, future acquisitions could result in potentially dilutive issuances of equity securities, the reduction of cash available for operations and the incurrence of debt. The occurrence of any of these risks could have a material adverse effect on our business, results of operations, financial condition or cash flows, particularly in the case of a larger acquisition or several concurrent acquisitions.

Our periodic workforce restructurings can be disruptive.

We have in the past restructured our workforce in response to management changes, acquisitions, product changes, performance issues or other considerations. These types of restructurings have resulted in increased restructuring costs and temporary reduced productivity while our staff adjusted to their new roles and responsibilities. There is no certainty that we will achieve the expected cost savings benefits of these restructurings, or do so within the expected timeframe. These effects could recur in connection with future acquisitions and other adjustments to our business and our revenues and other results of operations could be negatively affected.

Our products are complex and have a lengthy implementation process; unanticipated difficulties or delays in the customer acceptance process could result in higher costs and delayed payments.

Implementing our solutions can be a relatively complex and lengthy process since we typically customize these solutions for each customer s unique environment. Often our customers also require rapid deployment of our software solutions, resulting in pressure on us to meet demanding delivery and implementation schedules. Inability to meet these demanding schedules, or quality issues resulting from accelerated delivery schedules, may result in customer dissatisfaction and/or damage our reputation, which could materially harm our business.

The majority of our existing contracts provide for acceptance testing by the customer, which can be a lengthy process. Unanticipated difficulties or delays in the customer acceptance process could result in higher costs, delayed payments, and deferral of revenue recognition. In addition, if our software contains defects or we otherwise fail to satisfy acceptance criteria within prescribed times, the customer may be entitled to liquidated damages or to cancel its contract and receive a refund of all or a portion of amounts paid or other amounts as damages, which could exceed related contract revenue and which could result in a future charge to earnings. Any failure or delay in achieving final acceptance of our software and services could harm our business, financial condition, results of operations and cash flows.

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The success of our business depends on continued growth in the wireless services industry and growth in demand for connected devices and mobile advertising.

The future success of our business depends upon continued new subscriber growth and growth in demand for connected devices. If there is a slowdown in subscriber growth in the wireless services industry or the demand for connected devices were to stabilize or decline, our business and results of operations may be adversely affected.

We are a relatively small company with a limited number of products and staff. Sales fluctuations and employee turnover may adversely affect our business.

We are a relatively small company. Consequently, compared to larger companies, sales fluctuations could have a greater impact on our revenue and profitability on a quarter-to-quarter and year-to-year basis and a delayed contract could cause our operating results to vary significantly from quarter to quarter and year-to-year. In addition, as a small company we have limited staff and are heavily reliant on certain key personnel to operate our business. If a key employee were to leave the company it could have a material impact on our business and results of operations as we might not have sufficient depth in our staffing to fill the role that was previously being performed. A delay in filling the vacated position could put a strain on existing personnel or result in a failure to satisfy our contractual obligations or to effectively implement our internal controls, and materially harm our business.

Because our quarterly and annual operating results are difficult to predict and may fluctuate, the market price for our stock may be volatile.

Our operating results have fluctuated significantly in the past and may continue to fluctuate significantly in the future from quarter-to-quarter and year-to-year. These quarterly and annual fluctuations may result from a number of factors, including:

- the size of new contracts and when we are able to recognize the related revenue;
- our rate of progress under our contracts;
- foreign exchange fluctuations;
- budgeting cycles of our customers;

- changes in the terms and rates related to the renewal of support agreements;
- the mix of products and services sold;
- the timing of third-party contractors delivery of software and hardware;
- level and timing of expenses for product development and sales, general and administrative expenses;
- changes in our strategy;
- general economic conditions.

As a result, quarter-to-quarter and year-to-year comparisons of operating results are not necessarily meaningful nor do they indicate what our future performance will be. Furthermore, we base our operating expenses and capital investment budgets on expected sales and revenue and many of our expenses, such as lease expenses and personnel costs, are relatively fixed in the short term. Variations in the rate and timing of conversion of our sales prospects into actual revenue could cause us to plan or budget inaccurately and we may be unable to adjust spending in a timely manner to compensate for any unexpected shortfall in revenue. Any significant shortfall from anticipated levels of demand for our products and services could adversely affect our business, financial condition, results of operations and cash flows and the market price of our common stock.

The market for our service activation products is mature and the markets for our DSA and RLM products are evolving. The industry in which we compete is subject to rapid technological change and if we do not adapt to rapid technological change, we could lose customers or market share.

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The market for our service activation product is mature. Customer demand for our DSA and RLM products and enhancements to these products are evolving. Our industry is characterized by rapid technological change, evolving industry standards, changes in carrier requirements and preferences and frequent new service offerings. The introduction of products that incorporate new technologies and the emergence of new industry standards can make existing products obsolete and unmarketable. To compete successfully, we must continue to design, develop and sell enhancements to existing products and new products that provide higher levels of performance and reliability in a timely manner, take advantage of technological advancements and changes in industry standards and respond to new customer requirements. Developing new technologies is complex and time-consuming. It can require long development and testing periods. Significant delays in new releases or significant problems in creating new products or services could adversely affect our revenue.

Our cloud strategy, or Software as a Service (SaaS), and our managed services offerings may not be successful.

We offer some of our products as a SaaS implementation or a managed service and we intend to offer more of our solutions in this manner in the future. Our cloud and managed services strategies will continue to evolve and we may not be able to compete effectively, generate significant revenues or maintain profitability. Whether we are successful in providing our solutions as cloud solutions or as managed services depends on our execution in a number of areas, which may or may not be within our control, including continuing to innovate and bring to market compelling cloud-based and managed services offerings, continued growth and demand for cloud-based and managed services offerings and ensuring that our services meet the reliability expectations of our customers and maintain the security of their data. Our cloud and managed services strategies also may fail to achieve success if other companies offering cloud-based and managed services experience data loss, security breaches or service reliability issues that cause consumers to become less willing to accept cloud-based and managed services in general.

If we are unable to properly supervise our software development staff in India, or if political or other uncertainties interfere, we may be unable to satisfactorily perform our customer contracts.

In 2004, we formed Evolving Systems India, a wholly owned subsidiary of Evolving Systems, Inc. and as a result of our 2015 acquisition of SSM, we acquired two additional Indian subsidiaries. We have experienced a high level of turnover with our Indian development staff as a result of strong competition for technology-based personnel in India. In addition, salary levels in India are steadily increasing, reducing the competitive advantages associated with offshore labor. If we are unable to effectively manage the Evolving Systems India development staff and/or we continue to experience high levels of staff turnover, we may fail to provide quality software in a timely fashion, which could negatively affect our ability to satisfy our customer contracts. Furthermore, political changes and uncertainties in India could negatively impact the business climate there. As a result, we may be unable to satisfactorily perform our customer contracts and our business, financial condition and results of operations could be materially harmed.

Changes or challenges to the regulations of the communication industry could hurt the market for our products and services.

Our customers may require, or we may find it necessary or advisable, to modify our products or services to address actual or anticipated changes in regulations affecting our customers. This could materially harm our business, financial condition, results of operations, and cash flows. We are also subject to numerous regulatory requirements of foreign jurisdictions. Any compliance failures or changes in such regulations could, likewise, materially harm our business, financial condition, results of operations and cash flows.

Consolidation in the communications industry may impact our financial performance.

The global communications industry has experienced and continues to experience significant consolidation. These consolidations have caused us to lose customers and may result in fewer potential customers requiring our solutions in the future. In addition, combining companies may re-evaluate their solutions and their capital expenditures and may choose a competitive solution used by one of the combining companies. As our customers become larger, they generally have stronger purchasing power, which can result in reduced prices for our products, lower margins on our products and longer sales cycles. All of these factors can have a negative impact on our financial performance, particularly in any fiscal quarter.

Many of our products and services are sold on a fixed-price basis. If we incur budget overruns this may reduce our profitability.

A large portion of our revenue currently is, and historically has been, derived from fixed-price contracts and we expect this will continue. These contracts specify certain obligations and deliverables we must meet regardless of the actual costs we incur. Projects done on a fixed-price basis are subject to budget overruns. On occasion, we have experienced budget overruns, resulting in

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lower than anticipated margins. We may incur similar budget overruns in the future, including overruns that result in losses on these contracts. If we incur budget overruns, our margins may be harmed, thereby affecting our overall profitability.

Percentage-of-completion accounting used for most of our projects can result in overstated or understated profits or losses.

The revenue for most of our contracts is accounted for on the percentage-of-completion method of accounting. This method of accounting requires us to calculate revenue and profits to be recognized in each reporting period for each project based on our predictions of future outcomes, including our estimates of the total cost to complete the project, project schedule and completion date, the percentage of the project that is completed and the amounts of any probable unapproved change orders. Our failure to accurately estimate these often subjective factors could result in reduced profits or losses for certain contracts.

The communications industry is highly competitive and if our products do not satisfy customer demand for performance or price, our customers could purchase products and services from our competitors.

Our primary markets are intensely competitive and we face continuous demand for improved product performance, new product features and reduced prices, as well as intense pressure to accelerate the release of new products and product enhancements. Our existing and potential competitors include many large domestic and international companies, including some competitors that have substantially greater resources, larger installed customer bases and longer-standing relationships with customers than we do. In addition, some network equipment manufacturers next generation solutions address some of the benefits provided by our DSA solution.

Customers also may offer competitive products or services in the future since customers who have purchased solutions from us are not precluded from competing with us. Many telecommunications companies have large internal development organizations, which develop software solutions and provide services similar to the products and services we provide.

We believe that our ability to compete successfully depends on numerous factors, including the quality and price competitiveness of our products and services compared to those of our competitors, the emergence of new industry standards and technical innovations and our ability to respond to those changes. Some of these factors are within our control, and others are not. A variety of potential actions by our competitors, including a reduction of product prices or increased marketing and promotion, accelerated introduction of new or enhanced products, or cooperative relationships among competitors and their strategic partners, could negatively impact the sales of our products and we may have to reduce the prices we charge for our products. Revenue and operating margins may consequently decline. We may not be able to compete successfully with existing or new competitors or to properly identify and address the demands of new markets. This is particularly true in new markets where standards are not yet established. Our failure to adapt to emerging market demands, respond to regulatory and technological changes or compete successfully with existing and new competitors would materially harm our business, financial condition, results of operations and cash flows.

Our business depends largely on our ability to attract and retain talented employees.

Our business is based on successfully attracting and retaining talented employees and the market for skilled workers in our industry is very competitive. We may not be able to retain personnel or to hire additional personnel on a timely basis, if at all. Because of the complexity of our software solutions, a significant time lag exists between the hiring date of technical and sales personnel and the time when they become fully productive. We have at times experienced high employee turnover and difficulty in recruiting and retaining technical personnel. Our failure to retain personnel or to hire qualified personnel on a timely basis could adversely affect our business by impacting our ability to develop new products, to complete our projects and secure new contracts.

Our products are complex and may have errors that are not detected until deployment. Resolving warranty and product liability claims could be expensive and could negatively affect our reputation and profitability.

The provisions of our agreements with our customers are designed to limit our exposure to potential liability for damages arising out of the use of, or defects in, our products, which vary from customer to customer. It is possible that the nature of the damages is not subject to limitations or that these limitations of liability provisions are not effective. Although we carry errors and omissions insurance, to the extent that any successful product liability claim is not covered by our errors and omissions insurance or exceeds the coverage under our policy, we may be required to pay for a claim. This could be expensive, particularly since our software products may be used in critical business applications. As we may subcontract the development of deliverables under customer contracts, we could also be required to indemnify customers for work performed by our subcontractors. We may be able to recover from a subcontractor the amounts we are required to pay to customers due to the subcontractor s failure to perform but there is no guarantee that we will be able to do so. Defending against a product liability claim, regardless of its merits, could be expensive and

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require the time and attention of key management personnel, either of which could materially harm our business, financial condition and results of operations. In addition, our business reputation could be harmed by product liability claims, regardless of their merit or the eventual outcome of these claims.

Our business practices with respect to handling personal information or disclosure of confidential information could give rise to liabilities.

During the course of providing our products and services we may collect names, addresses, telephone numbers, credit card data and other personal identification information, or PII . This could give rise to potential risks related to data collection and use as regulatory focus on privacy issues continues to increase and worldwide laws and regulations concerning the handling of personal information become more complex. We strive to limit the amount of PII we collect and/or store and we have implemented steps designed to protect against unauthorized access to such information but because of the inherent risks and complexities involved in protecting this information, particularly if we store such information in a cloud implementation, the steps we have taken may not be sufficient to prevent the misappropriation or improper disclosure of such PII. In addition, third party vendors that we engage to perform services for us may unintentionally release PII or otherwise fail to comply with applicable laws and regulations. Some countries have passed or are considering passing legislation that requires data to remain localized in their boundaries and are also imposing monetary fines for privacy violations. This imposes financial costs if we are required to implement special operational processes and store data in jurisdictions not of our choosing. Any failure by us to comply with laws and regulations regulating privacy, data security, or consumer protection could result in lost or restricted business, actions or fines brought against us or levied by governmental entities or others, or could adversely affect our business and harm our reputation.

Our measures to protect our intellectual property may not be adequate.

Our success and ability to compete are dependent to a significant degree on our proprietary technology. Protecting our global intellectual property rights is difficult. We rely on a combination of patent, copyright, trademark and trade secret laws, as well as confidentiality agreements and licensing arrangements, to establish and protect our proprietary rights. We have 16 patents in the U.S. on elements of our DSA and mobile broadband enablement products and patents pending in other countries on elements of our DSA and IMC products. In addition, we have registered or filed for registration of certain of our trademarks. Our patent portfolio is relatively small and given the cost of obtaining patent protection, we may choose not to patent certain inventions that later become important. There is also the possibility that our means of protecting our proprietary rights may not be adequate; a third party may copy or otherwise obtain and use our products or technology without authorization or may develop similar technology independently or design around our patents. In addition, the laws of some foreign countries may not adequately protect our proprietary rights.

We may not be able to protect our source code from copying if there is an unauthorized disclosure of source code. Source code, the detailed program commands for our software programs, is critical to our business. If a significant portion of our source code leaks, we might lose future trade secret protection for that source code. It may become easier for third parties to compete with our products by copying functionality.

If our intellectual property protection proves inadequate, we may lose our competitive advantage and our future financial results may suffer.

Third parties may claim we are infringing their intellectual property rights, or that we have not complied with their license requirements and we may incur significant expenses in resolving these claims.

It is possible that our business activities may infringe upon the proprietary rights of others, or that other parties may assert infringement claims against us. Those claims may involve patent holding companies or other adverse patent owners who have no relevant product revenue of their own, and against whom our own patents may provide little or no deterrence. We could incur substantial costs in defending against any infringement claim and we could be required to develop non-infringing technology, obtain licenses, or to cease selling the applications that contain the infringing intellectual property. Adverse publicity related to any intellectual property litigation also could harm the sale of our products and damage our competitive position.

Certain software we develop or use may include so called open source software made available under a license which may impose obligations on us in the event we distribute derivative works based on the open source software. Certain licenses impose obligations that could require us to make source code for a derivative work available to the public or license the derivative work under a particular type of open source software license, rather than the license terms we customarily use to protect our software.

There is little or no legal precedent for interpreting the terms of certain of these open source licenses, including the terms addressing the extent to which software incorporating open source software may be considered a derivative work subject to these licenses. We believe we have complied with our obligations under the various applicable open source licenses. However, if the

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owner of any open source software were to successfully establish that we had not complied with the terms of an open source license for a particular product that includes such open source software, we may be forced to release the source code for that derivative work to the public or cease distribution of that work.

Cyber-attacks and security vulnerabilities could lead to reduced revenue, increased costs, liability claims, or harm to our competitive position.

Increased sophistication and activities of perpetrators of cyber-attacks have resulted in an increase in information security risks in recent years. Hackers develop and deploy viruses, worms, and other malicious software programs that attack products and services and gain access to networks and data centers. A substantial portion of our software development and customer support is provided out of our India facility, which may be subject to increased risk of power loss, telecommunications failure, terrorist attacks and similar events. If we were to experience difficulties maintaining existing systems or implementing new systems, we could incur significant losses due to disruptions in our operations. Additionally, these systems contain valuable proprietary and confidential information and may contain personal data of our customers subscribers and a security breach could result in disruptions of our internal systems and business applications, impairment of our ability to provide services to our customers, product development delays, harm to our competitive position from the compromise of confidential business information, or subject us to liability under laws that protect personal data. Although we believe that we have robust information security procedures and other safeguards in place, many of our services do not have fully redundant systems or a formal disaster recovery plan, and we may not have adequate business interruption insurance to compensate us for losses that occur from a system outage. As cyber threats continue to evolve, we may be required to expend additional resources to continue to enhance our information security measures and/or to investigate and remediate any information security vulnerabilities. Any of these consequences would adversely affect our revenue and margins.

Disruptions from terrorist activities, geopolitical conditions or military actions may disrupt our business.

The continued threat of terrorism within the U.S. and throughout the world and acts of war may cause significant disruption to commerce throughout the world. Abrupt political changes and armed conflict pose a risk of economic disruption in affected countries, which may increase our operating costs and add uncertainty to the timing and budget for technology investment decisions by our customers. Our business and results of operations could be materially and adversely affected to the extent that such disruptions result in delays or cancellations of customer orders, delays in collecting cash, a general decrease in corporate spending on information technology, or our inability to effectively market, manufacture or ship our products. We are unable to predict whether war, political unrest and the threat of terrorism will result in any long-term commercial disruptions or if such activities will have any long-term material adverse effect on our business, results of operations, financial condition or cash flows.

We face risks associated with doing business through local partners.

In some countries, because of local customs and regulations or for language reasons, we do business with our customers through local partners who resell our products and services, with or without value-added services. This can cause delays in closing contracts because of the increased complexity of having another party involved in negotiations. In addition, where the local partner provides additional software, hardware and/or services to the end-user customer, our products and services may only be a small portion of the total solution. As a result, payments made to us, as well as conditions surrounding acceptance, may be impacted by factors that are out of our control. There may also be delays in getting payments made by the end-user customer through the reseller. We have experienced delays in closing contracts through partners and collecting from resellers and this situation may arise again in the future, negatively impacting our cash flows. Doing business through local partners may also increase our risks under anti-bribery regulations, discussed below.

Our international operations subject us to potential liability under anti-corruption laws and regulations.

Our international business operations are subject to the Foreign Corrupt Practices Act (FCPA), which generally prohibits U.S. companies and their intermediaries from paying or offering anything of value to foreign government officials for the purpose of obtaining or keeping business, or otherwise receiving discretionary favorable treatment of any kind. To the extent we do business through Evolving Systems UK, we are also subject to the U.K. Bribery Act of 2010. In addition, many countries in which we do business have their own anti-bribery rules and regulations. Under these regulations, we may be held liable for actions taken by our local partners and agents, even if such parties act without our knowledge. Any determination that we have violated the FCPA or the Bribery Act of 2010 (whether directly or through acts of others, intentionally or through inadvertence) or other anti-bribery legislation could result in sanctions that could have a material adverse effect on our business. While we have procedures and controls in place to monitor compliance, situations outside of our control may arise that could potentially put us in violation of anti-bribery legislation inadvertently and thus negatively impact our business.

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Sales of large blocks of our stock may result in the reduction in the market price of our stock and make it more difficult to raise funds in the future.

If our stockholders sell substantial amounts of our common stock in the public market, the market price of our common stock could fall. The perception among investors that such sales will occur could also produce this effect. We currently have several stockholders who own large percentages of our stock. To the extent we continue to have one or more stockholders who own a large percentage of our stock and those stockholders chose to liquidate their holdings, it may have a dramatic impact on the market price of our stock. These factors also could make it more difficult to raise funds through future offerings of common stock.

As a result of operating as a smaller public company, we may experience challenges in complying with rules and regulations of federal, state and financial market exchange entities, and our management is required to devote substantial time to comply with new and ongoing regulatory initiatives.

Because our common stock is publicly traded, we are subject to certain rules and regulations of federal, state and financial market exchange entities charged with the protection of investors and the oversight of companies whose securities are publicly traded. These entities, including the Public Company Accounting Oversight Board, the SEC and NASDAQ, have issued requirements and regulations and continue to adopt additional regulations and requirements in response to laws enacted by Congress. Establishment of effective internal controls is further complicated because we are a relatively small company with global operations, and multiple locations and IT systems. Our management and other personnel have, and will continue to devote a substantial amount of time to these compliance initiatives.

Changes in, or interpretations of, accounting principles or tax rules and regulations, could adversely affect our results of operations.

We prepare our consolidated financial statements in conformity with U.S. generally accepted accounting principles (GAAP). It is possible that future requirements could change our current application of U.S. GAAP, resulting in a material adverse impact on our financial positions or results of operation. In addition, our future effective tax rates could be unfavorably affected by changes in tax laws or the interpretation of tax laws or by changes in the valuation of our deferred tax assets and liabilities. We regularly assess our implementation of applicable accounting principles and the adequacy of our provision for income taxes, but we are a relatively small company and our business is complex; the final determination of any tax authority, upon examination of our income tax returns, could have an adverse effect on our operating results and financial position.

Certain provisions of our charter documents, employment arrangements and Delaware law may discourage, delay or prevent an acquisition of us, even if an acquisition would be beneficial to our stockholders, and may prevent attempts by our stockholders to replace or remove our current management.

Provisions of our amended and restated certificate of incorporation and bylaws, as well as provisions of Delaware law, could continue to make it difficult for a third party to acquire us, even if doing so would benefit our stockholders. In addition, these provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace members of our board of directors. Because our board of directors is responsible for appointing the members of our management team, these provisions could in turn affect any attempt by our stockholders to replace current members of our management team. These provisions include the following:

- our stockholders cannot take action by written consent;
- we have advance notice requirements for nominations for election to the Board of Directors or for proposing matters that can be acted upon at stockholder meetings;
- our stockholders can only remove directors without cause by supermajority vote; and
- our stockholders can only amend our bylaws or certain Board of Directors-related provisions of our amended and restated certificate of incorporation by a supermajority vote.

In addition, we are subject to the anti-takeover provisions of Section 203 of Delaware General Corporation Law, which prohibit us from engaging in a business combination with an interested stockholder for a period of three years after the date of the transaction in which the person became an interested stockholder, unless the business combination is approved in the prescribed manner. The application of Section 203 and certain provisions of our restated certificate of incorporation may have the effect of delaying or preventing changes in control of our management, which could adversely affect the market price of our common stock by discouraging or preventing takeover attempts that might result in the payment of a premium price to our stockholders.

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Our named executive officers have entered into agreements with us that contain a change in control provision. These agreements generally provide for acceleration on vesting of options, 50% upon a change in control (as defined in such agreement) if the executive officer remains employed with the new entity, or 100% in the event the executive officer s employment is terminated. The acceleration of vesting of options upon a change in control may be viewed as an anti-takeover measure and may have the effect of discouraging a merger proposal, tender offer or other attempt to gain control of us.

Our Amended and Restated Stock Option Plan provides for acceleration of vesting under certain circumstances. Upon certain changes in control of us, vesting on some options awarded to directors may be accelerated. In addition, the successor corporation may assume outstanding stock awards or substitute equivalent stock awards. If the successor corporation refuses to do so, such stock awards will become fully vested and exercisable for a period of 15 days after notice from us but the options will terminate if not exercised during that period. As noted above, the acceleration on vesting of options upon a change in control may be viewed as an anti-takeover measure.

Adverse economic or market conditions may harm our business**.**

Unsettled financial markets, higher interest rates, inflation, levels of unemployment and worsening economic conditions could adversely affect demand for our products and services as consumers and businesses may postpone spending in response to these conditions. Challenging economic and market conditions may also result in:

- difficulty forecasting, budgeting and planning due to limited visibility into the spending plans of current or prospective customers;
- pricing pressure that may adversely affect revenue and gross margin;
- lengthening sales cycles and slowing deployments;
- increased competition for fewer projects and sales opportunities;
- increased risk of charges relating to write off of goodwill and other intangible assets; and
- customer and reseller financial difficulty and greater difficulty collecting accounts receivable.

We may not continue to pay dividends on our common stock, and cash used to pay dividends will not be available for other corporate purposes

In 2015, our Board of Directors declared quarterly dividends of $0.11 per share. The decision to pay dividends in the future will depend on general business conditions, the impact of such payment on our financial condition and other factors our Board of Directors may consider to be relevant. In addition, our revolving credit facility limits our ability to pay dividends by establishing a maximum amount that can be paid per quarter and prohibiting payment of dividends when an event of default has occurred. If we elect to pay future dividends, this could reduce our cash reserves to levels that may be inadequate to fund expansions to our business plan or unanticipated contingent liabilities.

Our stock price could become more volatile and your investment could lose value.

All of the factors discussed in this section could affect our stock price. A significant drop in our stock price could also expose us to the risk of securities class actions lawsuits, which could result in substantial costs and divert management s attention and resources, which could adversely affect our business.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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ITEM 2. PROPERTIES

We lease office space at various locations which are shown below.

Location	Square Footage	Lease Expiration
Englewood, Colorado (Headquarters)	5,092	11/30/17
Durham, North Carolina	2,860	7/31/18
Bath, England	2,751	9/26/20
London, England	2,200	3/02/20
Bangalore, India	12,300	8/18/18
Kolkata, India	1,575	10/31/18
Kolkata, India	2,708	10/14/18
Kuala Lumpur, Malaysia	1,042	7/14/16
Bucharest, Romania	732	9/30/16

We believe that our facilities are adequate for our current and near-term needs, and that we will be able to locate additional facilities as needed.

ITEM 3. LEGAL PROCEEDINGS

From time to time, we are involved in various legal matters arising in the normal course of business. We do not believe that any such matters, either individually or in the aggregate, will have a material impact on our results of operations and financial position.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is traded on the Nasdaq Capital Market under the symbol EVOL. The following table sets forth the high and low sale prices of our common stock for the periods indicated.

	For the Years Ended December 31,			
	2015		2014	
	High	Low	High	Low
First Quarter	$ 9.45	$ 8.01	$ 11.11	$ 8.42
Second Quarter	$ 9.98	$ 8.44	$ 9.28	$ 7.78
Third Quarter	$ 9.27	$ 5.30	$ 10.50	$ 8.99
Fourth Quarter	$ 6.17	$ 5.32	$ 11.38	$ 8.94

As of March 11, 2016, there were approximately 69 holders of record of our common stock.

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Dividends

Our Board of Directors declared a cash dividend of $0.11 per share during each of the four quarters of 2015. In 2014, our Board of Directors declared a cash dividend of $0.10 per share during the first and second quarters and a cash dividend of $0.11 per share during the third and fourth quarters. There can be no guarantee that we will continue to pay dividends. The decision to declare dividends in the future will depend on general business conditions, the impact of such payment on our financial condition and other factors our Board of Directors may consider to be relevant. In addition, our revolving credit facility limits our ability to pay dividends by establishing a maximum amount that can be paid per quarter and prohibiting payment of dividends when an event of default has occurred. Payment of future dividends can also affect our business as this could reduce our cash reserves to levels that may be inadequate to fund expansions to our business plan or unanticipated contingent liabilities.

Stock Performance Graph

The following graph compares the cumulative 5-year total return provided to shareholders on Evolving Systems, Inc.   s common stock relative to the cumulative total returns of the NASDAQ Composite index, the RDG Software Composite index and the DJ US MicroCap Total Stock Market Software index. An investment of $100 (with reinvestment of all dividends) is assumed to have been made in our common stock and in each index on 12/31/2010 and its relative performance is tracked through 12/31/2015.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among Evolving Systems, Inc., the NASDAQ Composite Index, the RDG Software Composite Index, and DJ US MicroCap Total Stock Market Software Index

ITEM 6. SELECTED FINANCIAL DATA

The selected financial data set forth below for each of the years in the five-year period ended December 31, 2015, has been derived from our consolidated financial statements. The following selected financial data should be read in conjunction with Item 7 - Management s Discussion and Analysis of Financial Condition and Results of Operations , the consolidated financial statements and the notes thereto and other financial information included elsewhere in this Annual Report on Form 10-K.

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	For the Years Ended December 31,				
	2015	2014	2013	2012	2011
	(in thousands, except per share amounts)				
Revenue	$ 25,576	$ 29,680	$ 25,093	$ 26,247	$ 19,023
Costs of Revenue and Operating Expenses:					
Cost of revenue, excluding depreciation and amortization	6,449	7,648	7,164	8,236	7,419
Sales and marketing	5,844	5,734	5,364	5,070	6,238
General and administrative	4,003	3,638	3,644	3,613	3,650
Product development	3,847	3,643	2,956	3,069	2,484
Depreciation	314	246	155	268	342
Amortization	266	95	211	400	560
Restructuring and other expense	533	237	558		1,100
Income (loss) from operations	4,320	8,439	5,041	5,591	(2,770)
Interest and other income (expense), net	(109)	(34)	39	842	791
Interest and other income, related parties, net				532	619
Income tax expense (benefit)	915	2,797	1,274	1,401	(405)
Income (loss) from continuing operations	3,296	5,608	3,806	5,564	(955)
Income from discontinued operations, net of tax (1)					33,264
Net income	$ 3,296	$ 5,608	$ 3,806	$ 5,564	$ 32,309
Basic income per common share - net income	$ 0.28	$ 0.48	$ 0.33	$ 0.49	$ 2.97
Diluted income per common share - net income	$ 0.28	$ 0.47	$ 0.32	$ 0.48	$ 2.88
Weighted average basic shares outstanding	11,693	11,642	11,459	11,278	10,871
Weighted average diluted shares outstanding	11,935	11,926	11,756	11,529	11,202
Cash dividend declared per common share (2) (3)	$ 0.44	$ 0.42	$ 0.36	$ 2.00	$ 2.15
Working capital (4)	$ 3,656	$ 15,794	$ 14,699	$ 13,894	$ 11,672
Total assets	50,429	44,232	43,184	36,593	75,042
Stockholders equity	$ 32,162	$ 34,052	$ 32,735	$ 30,836	$ 44,712

(1) On July 1, 2011, we completed the Asset Sale of our Numbering Solutions Business for $39.4 million in cash and the assumption of certain liabilities to the buyer. The Asset Sale qualified for treatment as discontinued operations during the second quarter of 2011 upon receipt of shareholder approval at a special meeting of shareholders on June 23, 2011. This divested business is reflected in these consolidated financial statements as discontinued operations and historical information related to the divested business has been reclassified accordingly.

(2) On November 10, 2011, our Board of Directors declared a special cash dividend of $2.00 per share or approximately $22.3 million in total, net of treasury stock, payable on January 3, 2013, to stockholders of record December 12, 2011. The dividend was accrued as of December 31, 2011 for $22.3 million and paid on January 3, 2012. During 2011, our Board of Directors declared and paid a first, second and third quarter cash dividend of $.05 per share each.

(3) During 2012, our Board of Directors declared and paid a first, third and fourth quarter cash dividend of $0.05 per share each and a second and fourth quarter special cash dividend of $1.70 and $0.15 per share, respectively. There were no accrued dividends as of December 31, 2012. In addition, the special cash dividend declared in the fourth quarter 2011 of $2.00 per share was paid in January 2012.

(4) On September 30, 2015, we completed the acquisition of SSM for an initial cash payment totaling approximately $9.75 million, plus customary working capital adjustments, and we agreed to make a payment of $250,000 on the one year anniversary of the transaction, with such payment being available to secure SSM s representations and warranties under the acquisition agreement. The initial payment was financed through our revolving line of credit, which requires monthly payments of interest, with the unpaid balance due on October 22, 2016. As this debt is due in twelve months, it reduced our

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working capital as of December 31, 2015 by $10.0 million. On February 29, 2016, we entered into the Fifth Amendment to the Loan and Security Agreement to enter into a Term Loan for $6.0 million. Interest shall accrue from the date the Term Loan is made and shall be payable monthly. The Term Loan shall be repaid in 36 equal monthly installments of principal, plus accrued but unpaid interest, commencing on January 1, 2017 and continuing on the first day of each month thereafter through and including January 1, 2020. The Term Loan agreement required us to use the term loans proceeds and $4.0 million from our cash balances to pay off the two existing Revolving Facilities totaling $10.0 million. The Term Loan matures on January 1, 2020. Due to the Term Loan, our working capital balances will increase in 2016 as a result of paying off the two existing Revolving Facilities totaling $10.0 million.

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

FORWARD-LOOKING STATEMENTS

This Management s Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that have been made pursuant to the provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on current expectations, estimates, and projections about Evolving Systems industry, management s beliefs, and certain assumptions made by management. Forward-looking statements include our expectations regarding product, services, and customer support revenue; our expectations associated with Evolving Systems India, Evolving Systems U.K. and Evolving Systems NC and short- and long-term cash needs. In some cases, words such as anticipates , expects , intends , plans , believes , estimates , variations of these words, and similar expressions are intended to identify forward-looking statements. The following discussion should be read in conjunction with, and is qualified in its entirety by, the consolidated financial statements and the notes thereto included elsewhere in this Annual Report on Form 10-K. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth in this section and in Item 1A - Risk Factors.

OVERVIEW

Evolving Systems, Inc. is a leading provider of software solutions and services to the wireless, wireline and cable markets. We maintain long-standing relationships with many of the largest wireline, wireless and cable companies worldwide. Our customers rely on us to develop, deploy, enhance, maintain and integrate complex, reliable software solutions for a range of Operations Support Systems (OSS). Our activation solution is the leading packaged solution for activation in the wireless industry.

We recognize revenue in accordance with the prescribed accounting standards for software revenue recognition under generally accepted accounting principles. As a result, our license fees and services revenue fluctuate from period to period as a result of the timing of revenue recognition on existing projects.

RECENT DEVELOPMENTS

We reported net income of $3.3 million, $5.6 million and $3.8 million for the years ended December 31, 2015, 2014 and 2013, respectively. Our ending backlog at December 31, 2015 was $12.1 million, consisting of $6.1 million of license and services and $6.0 million of customer support compared to total backlog of $10.6 million at December 31, 2014.

On September 30, 2015 we acquired privately held SSM, now known as Evolving Systems NC, Inc., a provider of real time analytics and marketing solutions to wireless carriers, for an initial payment of approximately $9.75 million and a $0.5 million working capital adjustment. We also agreed to make a payment on the one year anniversary of the transaction of $250,000, with such payment being available to secure SSM s representations and warranties in the agreement. SSM s software solution platform, RLM, enables carriers marketing departments to innovate, execute and manage highly-personalized and contextually-relevant, interactive campaigns that engage consumers in real time. RLM is included as a component of our Mobile Marketing Solutions (MMS) product suite in license fees and service revenue and customer support revenue.

We declared and paid a $0.11 cash dividend per share in each of the four quarters of 2015.

We have operations in foreign countries where the local currency is used to prepare the financial statements which are translated into our reporting currency, U.S. dollars. Changes in the exchange rates between these currencies and our reporting currency are partially responsible for some of the changes from period to period in our financial statement amounts. The majority of the changes in 2015 and 2014 are a result of the U.S. dollar strengthening on average versus the British Pound Sterling. The chart below summarizes what the effects on our revenue and expenses would be on a constant currency basis. The constant currency basis assumes that the exchange rate was constant for the periods presented (in thousands).

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	For the Years ended December 31,	
	2015 vs. 2014	2014 vs. 2013
Revenue	$ (954)	$ 404
Costs of revenue and operating expenses	(1,219)	460
Operating gain (loss)	$ 265	$ (56)

The net effect of our foreign currency translations for the year ended December 31, 2015 was a $1.0 million decrease in revenue and a $1.2 million decrease in operating expenses versus the year ended December 31, 2014. The net effect of our foreign currency translations for the year ended December 31, 2014 was a $0.4 million increase in revenue and a $0.5 million increase in operating expenses versus the year ended December 31, 2013 due to a weaker U.S. dollar on average during the year 2014.

RESULTS OF OPERATIONS

The following table presents our consolidated statements of operations in comparative format.

	For the Years Ended December 31,			For the Years Ended December 31,		
	2015	2014	Change	2014	2013	Change
REVENUE						
License fees and services	$ 15,584	$ 19,738	$ (4,154)	$ 19,738	$ 15,998	$ 3,740
Customer support	9,992	9,942	50	9,942	9,095	847
Total revenue	25,576	29,680	(4,104)	29,680	25,093	4,587
COSTS OF REVENUE AND OPERATING EXPENSES						
Costs of license fees and services, excluding depreciation and amortization	4,881	5,782	(901)	5,782	5,565	217
Costs of customer support, excluding depreciation and amortization	1,568	1,866	(298)	1,866	1,599	267
Sales and marketing	5,844	5,734	110	5,734	5,364	370
General and administrative	4,003	3,638	365	3,638	3,644	(6)
Product development	3,847	3,643	204	3,643	2,956	687
Depreciation	314	246	68	246	155	91
Amortization	266	95	171	95	211	(116)
Restructuring	533	237	296	237	558	(321)
Total costs of revenue and operating expenses	21,256	21,241	15	21,241	20,052	1,189
Income (loss) from operations	4,320	8,439	(4,119)	8,439	5,041	3,398
Interest income	18	19	(1)	19	11	8
Interest expense	(121)	(17)	(104)	(17)	(20)	3
Other income (expense)		(27)	27	(27)	87	(114)
Foreign currency exchange loss	(6)	(9)	3	(9)	(39)	30
Other (expense) income, net	(109)	(34)	(75)	(34)	39	(73)
Income before income taxes	4,211	8,405	(4,194)	8,405	5,080	3,325
Income tax expense	915	2,797	(1,882)	2,797	1,274	1,523
Net income	$ 3,296	$ 5,608	$ (2,312)	$ 5,608	$ 3,806	$ 1,802

The following table presents our consolidated statements of operations reflected as a percentage of total revenue.

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	For the Years Ended December 31,		
	2015	2014	2013
REVENUE			
License fees and services	61%	67%	64%
Customer support	39%	33%	36%
Total revenue	100%	100%	100%
COSTS OF REVENUE AND OPERATING EXPENSES			
Costs of license fees and services, excluding depreciation and amortization	19%	19%	22%
Costs of customer support, excluding depreciation and amortization	6%	6%	6%
Sales and marketing	23%	19%	21%
General and administrative	16%	12%	15%
Product development	15%	12%	12%
Depreciation	1%	1%	1%
Amortization	1%	0%	1%
Restructuring and other recovery	2%	1%	2%
Total costs of revenue and operating expenses	83%	70%	80%
Income from operations	17%	30%	20%
Other income (expense)			
Interest income	0%	0%	0%
Interest expense	(1)%	(0)%	(0)%
Other (expense) income	%	(1)%	0%
Foreign currency exchange loss	(0)%	(0)%	(0)%
Other (expense) income, net	(1)%	(1)%	0%
Income before income taxes	16%	29%	20%
Income tax expense	3%	10%	5%
Net income	13%	19%	15%

Revenue

Revenue is comprised of license fees and services and customer support. License fees and services revenue represent the fees we receive from the licensing of our software products and those services directly related to the delivery of the licensed product as well as integration services, SaaS services and time and materials work. Customer support revenue includes annual support fees, recurring maintenance fees, minor product upgrades and warranty fees. Warranty fees are typically bundled with a license sale and the related revenue, based on Vendor Specific Objective Evidence (VSOE), is deferred and recognized ratably over the warranty period.

License Fees and Services

License fees and services revenue decreased 21%, or $4.1 million to $15.6 million for the year ended December 31, 2015 compared to $19.7 million for the year ended December 31, 2014. The decrease in license fee and services revenue is due to less MMS revenue primarily related to decreased First User Activations (FUAs) and lower revenue from our Tertio Service Activation (TSA) products.

License fees and services revenue increased 23%, or $3.7 million to $19.7 million for the year ended December 31, 2014 compared to $16.0 million for the year ended December 31, 2013. The increase in license fee and services revenue is due to an increase in DSA revenue primarily related to increased FUAs and revenue generated from Evolving Systems Labs, which we acquired in October 2013.

Customer Support

Customer support revenue increased 1%, or $50,000, to $10.0 million for the year ended December 31, 2015 from $9.9 million for the year ended December 31, 2014. The increase in customer support revenue is primarily due to the acquisition of Evolving Systems NC in the third quarter of 2015 offset by a decline in our TSA customer support revenue.

Customer support revenue increased 9%, or $0.8 million, to $9.9 million for the year ended December 31, 2014 from $9.1 million for the year ended December 31, 2013. The increase in customer support revenue is primarily due to an increase in our installed customer base for DSA.

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Costs of Revenue, excluding depreciation and amortization

Costs of revenue consist primarily of personnel costs, facilities costs, the costs of third-party software and all other direct costs associated with these personnel. Costs of revenue, excluding depreciation and amortization were $6.4 million, $7.6 million and $7.2 million for the years ended December 31, 2015, 2014 and 2013, respectively.

Costs of License Fees and Services, excluding depreciation and amortization

Costs of revenue for license fees and services decreased 16%, or $0.9 million, to $4.9 million for the year ended December 31, 2015 from $5.8 million for the year ended December 31, 2014. The decrease in costs was primarily the result of lower embedded software expense, fewer service project hours, incentive compensation and travel, all of which resulted from a decline in revenue partially offset by expenses related to Evolving Systems NC, which was acquired on September 30, 2015. As a percentage of license fees and services revenue, costs of license fees and services, excluding depreciation and amortization, increased to 31% for the year ended December 31, 2015 from 29% for the year ended December 31, 2014. The increase in costs as a percentage of license fees and services revenue is primarily related to the decreased revenue during the period.

Costs of revenue for license fees and services increased 4%, or $0.2 million, to $5.8 million for the year ended December 31, 2014 from $5.6 million for the year ended December 31, 2013. The increase in costs was primarily the result of increases in travel, subcontractor and incentive compensation, all of which resulted from revenue growth. As a percentage of license fees and services revenue, costs of license fees and services, excluding depreciation and amortization, decreased to 29% for the year ended December 31, 2014 from 35% for the year ended December 31, 2013. The decrease in costs as a percentage of license fees and services revenue is primarily related to the increased revenue during the period.

Costs of Customer Support, excluding depreciation and amortization

Costs of revenue for customer support decreased 16%, or $0.3 million, to $1.6 million for the year ended December 31, 2015 from $1.9 million for the year ended December 31, 2014. The decrease in costs is related to embedded software maintenance and fewer customer support project hours partially offset by expenses related to Evolving Systems NC. As a percentage of customer support revenue, costs of customer support revenue, excluding depreciation and amortization, decreased to 16% for the year ended December 31, 2015 from 19% for the year ended December 31, 2014. The decrease in costs as a percentage of customer support revenue is due primarily to the aforementioned reduction in costs during the period.

Costs of revenue for customer support increased 17%, or $0.3 million, to $1.9 million for the year ended December 31, 2014 from $1.6 million for the year ended December 31, 2013. The increase in costs is related to embedded software maintenance and subcontracted support services. As a percentage of customer support revenue, costs of customer support revenue, excluding depreciation and amortization, increased slightly to 19% for the year ended December 31, 2014 from 18% for the year ended December 31, 2013. The increase in costs as a percentage of customer support revenue is due primarily to the aforementioned increase in costs during the period.

Sales and Marketing

Sales and marketing expenses primarily consist of compensation costs, including incentive compensation and commissions, other employee related costs, travel expenses, advertising and occupancy expenses. Sales and marketing expenses increased 2%, or $0.1 million, to $5.8 million for the year ended December 31, 2015 from $5.7 million for the year ended December 31, 2014. The increase in costs is primarily related to partner fees and Evolving Systems NC sales and marketing costs, offset by lower travel expenses due to more regional sales representatives. As a percentage of total revenue, sales and marketing expenses for the year ended December 31, 2015 increased to 23% from 19% for the year ended December 31, 2014. The increase as a percentage of revenue is due to the aforementioned increased expenses and lower revenue.

Sales and marketing expenses increased 7%, or $0.3 million, to $5.7 million for the year ended December 31, 2014 from $5.4 million for the year ended December 31, 2013. The increase in costs is primarily related to increased headcount and travel expenses. As a percentage of total revenue, sales and marketing expenses for the year ended December 31, 2014 decreased to 19% from 21% for the year ended December 31, 2013. The decrease as a percentage of revenue is due to increased revenue.

General and Administrative

General and administrative expenses consist principally of employee related costs, professional fees and occupancy costs for the following departments: facilities, finance, legal, human resources and executive management. General and administrative expenses increased 10%, or $0.4 million, to $4.0 million for the year ended December 31, 2015 from $3.6 million for the year ended

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December 31, 2014. The increase for the year ended December 31, 2015 was due primarily to higher professional fees and additional general and administrative costs relating to the acquisition of Evolving Systems NC offset by lower incentive compensation. As a percentage of total revenue, general and administrative expenses increased to 16% for the year ended December 31, 2015 from 12% for the year ended December 31, 2014. The increase in expenses as a percentage of revenue is related to the aforementioned increase of expenses and lower revenue during the period.

General and administrative expenses for each of the years ended December 31, 2014 and 2013, was $3.6 million. Expenses for the year ended December 31, 2014 were affected primarily by higher incentive compensation but were offset by decreased professional fees. As a percentage of total revenue, general and administrative expenses decreased to 12% for the year ended December 31, 2014 from 15% for the year ended December 31, 2013. The decrease in expenses as a percentage of revenue is related to the increased revenue during the period.

Product Development

Product development expenses consist primarily of employee-related costs for product development. Product development expenses increased 6%, or $0.2 million, to $3.8 million for the year ended December 31, 2015 from $3.6 million for the year ended December 31, 2014. The increase in costs was related to additional hours spent on research and development projects and Evolving Systems NC product development expenses offset by lower incentive compensation. As a percentage of total revenue, product development expenses increased to 15% for the year ended December 31, 2015 from 12% for the year ended December 31, 2014. The increase in expenses as a percentage of revenue is related to the aforementioned increase of expenses and lower revenue during the period.

Product development expenses increased 23%, or $0.6 million, to $3.6 million for the year ended December 31, 2014 from $3.0 million for the year ended December 31, 2013. The increase in costs was related to additional hours spent on research and development projects and higher incentive compensation. As a percentage of total revenue, product development expenses were 12% for the years ended December 31, 2014 and 2013.

Depreciation

Depreciation expense consists of depreciation of long-lived property and equipment. Depreciation expenses increased 28%, or $0.1 million, to $0.3 million for the year ended December 31, 2015 from $0.2 million for the year ended December 31, 2014. The increase of expense was due to capital improvements on internal systems in 2015. As a percentage of revenue, depreciation expense remained at 1% for the years ended December 31, 2015 and 2014.

Depreciation expenses were $0.2 million for the years ended December 31, 2014 and 2013. As a percentage of revenue, depreciation expense remained at 1% for the years ended December 31, 2014 and 2013.

Amortization

Amortization expense consists of amortization of identifiable intangibles related to our acquisitions of Evolving Systems U.K., Evolving Systems Labs and Evolving Systems NC. Amortization expense increased 180%, to $0.3 million for the year ended December 31, 2015 from $0.1 million for the year ended December 31, 2014. The increase in amortization expense was due to intangible assets relating to the acquisition of Evolving Systems NC on September 30, 2015. As a percentage of revenue, amortization expense increased to 1% for the year ended December 31, 2015 from less than 1% for the year ended December 31, 2014. The increase of amortization expense as a percentage of total revenue is due to the aforementioned increase of expense.

Amortization expense decreased 55%, to $0.1 million for the year ended December 31, 2014 from $0.2 million for the year ended December 31, 2013. The decrease in amortization expense was due to intangible assets relating to the acquisition of Evolving Systems U.K. becoming fully amortized as of June 30, 2013. As a percentage of revenue, amortization expense decreased to less than 1% for the year ended December 31, 2014 from 1% for the year ended December 31, 2013. The decrease of amortization expense as a percentage of total revenue is due increased revenue and to the aforementioned decrease of expense.

Restructuring

Restructuring expense includes the costs associated with a reduction in workforce involving the termination of employees. Restructuring increased to $0.5 million for the year ended December 31, 2015 from $0.2 million for the year ended December 31, 2014. Restructuring expense for the year ended December 31, 2015 related to the acquisition of Evolving Systems NC and for the year ended December 31, 2014 was a result of the acquisition of Evolving Systems, Labs. As a percentage of revenue, restructuring expense increased to 2% for the year ended December 31, 2015 from 1% for the year ended December 31, 2014. The increase of restructuring expense as a percentage of total revenue is due the aforementioned increase of expense and lower revenue.

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Restructuring decreased to $0.2 million for the year ended December 31, 2014 from $0.6 million for the year ended December 31, 2013. Restructuring expense for both years was a result of the acquisition of Evolving Systems, Labs. As a percentage of revenue, restructuring expense decreased to 1% for the year ended December 31, 2014 from 2% for the year ended December 31, 2013. The decrease of restructuring expense as a percentage of total revenue is due increased revenue and to the aforementioned decrease of expense.

Interest Income

Interest income includes interest income earned on cash, cash equivalents and long-term investments. Interest income decreased 5%, or $1,000, to $18,000 for the year ended December 31, 2015 from $19,000 for the year ended December 31, 2014.

Interest income increased 73%, or $8,000, to $19,000 for the year ended December 31, 2014 from $11,000 for the year ended December 31, 2013.

Interest Expense

Interest expense includes interest expense on our revolving line of credit and capital lease obligations as well as amortization of debt issuance costs. Interest expense for the year ended December 31, 2015 increased 612%, or $0.1 million, to $0.1 million as compared to $17,000 for the year ended December 31, 2014. This increase was due to the interest expense from our revolving line of credit for the initial payment of the acquisition of Evolving Systems NC. Refer to Note 5, Revolving Line of Credit, of our Consolidated Financial Statements included elsewhere in this Annual Report on Form 10-K for more information regarding the Revolving Line of Credit.

Interest expense for the year ended December 31, 2014 decreased 15%, or $3,000, to $17,000 as compared to $20,000 for the year ended December 31, 2013. This decrease was primarily due to the amortized costs related to our Loan and Security Agreement and interest expense from our capital leases. Refer to Note 5, Revolving Line of Credit, of our Consolidated Financial Statements included elsewhere in this Annual Report on Form 10-K for more information regarding the Loan and Security Agreement.

Loss on Foreign Exchange Transactions

Loss on foreign exchange transactions consists of realized and unrealized foreign currency transaction gains and losses. Foreign currency transaction gains and losses result from transactions denominated in a currency other than the functional currency of the respective subsidiary. The foreign currency transaction loss of $6,000 for the year ended December 31, 2015 compared to a $9,000 loss for the year ended December 31, 2014 resulted in a year over year gain of 33% or $3,000. The net loss was generated through the re-measurement of certain non-functional currency denominated financial assets and liabilities of our Evolving Systems U.K. and India subsidiaries.

The foreign currency transaction loss of $9,000 for the year ended December 31, 2014 compared to a $39,000 loss for the year ended December 31, 2013 resulted in a year over year decrease of 77% or $30,000. The net loss was generated through the re-measurement of certain non-functional currency denominated financial assets and liabilities of our Evolving Systems U.K. and India subsidiaries.

Income Tax Expense

We recorded income tax expense of $0.9 million, $2.8 million and $1.3 million for the years ended December 31, 2015, 2014 and 2013, respectively. The net expense during year ended December 31, 2015 consisted of current income tax expense of $2.0 million and a net deferred tax benefit of ($1.1) million. The current tax expense consists primarily of income tax from our U.S., U.K. and India based operations and unrecoverable foreign withholding tax in the U.K. U.S. income taxes payable of $0.8 million were offset due to realization of Net Operating Losses (NOL) comprised of windfall tax benefits related to stock-based compensation. Unused windfall tax benefits may not be recorded as an asset on our Consolidated Balance Sheets but are recorded as a reduction to our taxes payable when realized, with a corresponding credit to additional paid in capital. The deferred tax benefit was related primarily to foreign tax credits incurred for the years 2012 through 2014 which we recorded as a deferred tax asset in the amount of $3.7 million offset by a partial valuation allowance. Refer to Note 6, Income Taxes, of our Consolidated Financial Statements included elsewhere in this Annual Report on Form 10-K for more information regarding the foreign tax credit.

The net expense during year ended December 31, 2014 consisted of current income tax expense of $3.1 million and a net deferred tax benefit of ($0.3) million. The current tax expense consists primarily of income tax from our U.S., U.K. and India based operations, Alternative Minimum Tax (AMT) and unrecoverable foreign withholding tax in the U.S. U.S. income taxes payable of $1.4 million were offset due to realization of NOL comprised of windfall tax benefits related to stock-based compensation. Unused windfall tax benefits may not be recorded as an asset on our Consolidated Balance Sheets but are recorded as a reduction to our taxes payable when realized, with a corresponding credit to additional paid in capital. The deferred tax benefit was related primarily to the

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increase of certain net deferred tax assets in the U.S. In addition, we had a deferred tax expense from our U.K.-based operations and Evolving Systems Labs related to a decrease in net deferred tax assets including intangible assets.

The net expense during year ended December 31, 2013 consisted of current income tax expense of $1.6 million and a net deferred tax benefit of ($0.3) million. The current tax expense consists primarily of income tax from our U.S., U.K. and India based operations, AMT and unrecoverable foreign withholding tax in the U.S. and U.K. U.S. income taxes payable of $0.4 million were offset due to realization of NOL comprised of windfall tax benefits related to stock-based compensation. Unused windfall tax benefits may not be recorded as an asset on our Consolidated Balance Sheets but are recorded as a reduction to our taxes payable when realized, with a corresponding credit to additional paid in capital. The foreign withholding taxes are typically used to offset our income tax liability, but we did not have enough taxable income to utilize the foreign withholding taxes during the year. The deferred tax benefit was related primarily to the increase of certain net deferred tax assets in the U.S. and the utilization of Minimum Alternative Tax (MAT) assets in India. In addition, we had a tax benefit related to intangible assets from our U.K.-based operations and Evolving Systems Labs.

Our effective tax rates for the years ended December 31, 2015, 2014 and 2013 were 22%, 33% and 25%, respectively. The effective tax rate decreased during 2015 due to the aforementioned foreign tax credits and lower profits. The effective tax rate increased in 2014 primarily attributable to higher profits from our U.K. subsidiary.

In conjunction with the acquisition of Evolving Systems Labs in October 2013, we recorded certain identifiable intangible assets of $0.7 million. These assets are amortizable for both book and tax purposes. Identifiable intangible assets in the amount of $4.6 million were recorded in conjunction with the acquisition of Evolving Systems NC. These assets are amortizable for book purposes but not tax purposes.

The Company has the intent and current ability to indefinitely reinvest profits of Evolving Systems India for the year ended December 31, 2015. Undistributed foreign earnings for the year ended December 31, 2015 are approximately $1.0 million. Repatriation to the U.S. in the form of dividend distributions from the India controlled foreign subsidiary would give rise to taxation.

We use a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. As of December 31, 2015 and 2014, we had no liability for unrecognized tax benefits. We do not believe there will be any material changes to our unrecognized tax positions over the next twelve months.

FINANCIAL CONDITION

Our working capital position of $3.7 million at December 31, 2015 reflects a decrease of $12.1 million from our working capital position of $15.8 million at December 31, 2014. The decrease is primarily related to the $10.0 million borrowed on our short term revolving line of credit to fund the initial payment of the acquisition of Evolving Systems NC and decreases in our accounts receivable and unbilled work-in-progress offset by a decrease in our deferred revenue and tax liabilities.

LIQUIDITY AND CAPITAL RESOURCES

We have historically financed operations through cash flows from operations as well as debt and equity transactions. At December 31, 2015, our principal sources of liquidity were $8.4 million in cash and cash equivalents and $7.7 million in contract receivables, net of allowances.

Net cash provided by (used in) operating activities for the year ended December 31, 2015, 2014 and 2013 was $2.2 million, ($0.4) million and $8.6 million, respectively. The increase in cash provided by operating activities for the year ended December 31, 2015 was primarily due to a decrease in contract receivables and unbilled work-in-progress partially offset by decreases in accounts payable and accrued liabilities and unearned revenue.

The decrease in cash provided by operating activities for the year ended December 31, 2014 compared to 2013 was primarily due to a decrease in unearned revenue and an increase unbilled work-in-progress and contract receivables.

Net cash used in investing activities was $9.2 million, $0.6 million and $0.6 million for the years ended December 31, 2015, 2014 and 2013, respectively. Cash used in investing activities for the year ended December 31, 2015 was related to the acquisition of Evolving Systems NC and purchase of property and equipment. During 2015, 2014 and 2013, we purchased $0.2 million, $0.6 million and $0.3 million in property and equipment to support operations, respectively. Historically, capital expenditures have been financed by cash from operating activities. Refer to Note 2, Acquisition, of our Consolidated Financial Statements included elsewhere in this Annual Report on Form 10-K for more information regarding the acquisition.

Net cash used in investing activities for the year ended December 31, 2014 was $0.6 million compared to net cash used in the year ended December 31, 2013 of $0.6 million. The 2014 use of cash related to the purchase of property and equipment. An initial payment of $0.4 million, net of cash received was paid in 2013 for the acquisition of Evolving Systems Labs.

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Net cash provided by (used in) financing activities was $5.9 million, ($3.2) million and ($3.2) million for the years ended December 31, 2015, 2014 and 2013, respectively. The net cash provided by financing activities as of December 31, 2015 is due to proceeds from the revolving line of credit of $10.0 million for the initial payment of the acquisition of Evolving Systems NC, $0.8 million in windfall tax benefits from stock-based compensation and $0.3 million in proceeds from the exercise of stock options offset by payments of $5.1 million for dividends.

In 2014, the net cash used in financing activities is due primarily to payments of $4.9 million in dividends offset by a $1.4 million in windfall tax benefits from stock-based compensation and $0.3 million in proceeds from the exercise of stock options. The net cash used in financing activities during 2013 is due to payments of $4.1 million in dividends offset by a $0.4 million in windfall tax benefits from stock-based compensation and $0.5 million in proceeds from the exercise of stock options.

We believe that our current cash and cash equivalents, together with anticipated cash flow from operations will be sufficient to meet our working capital, debt extinguishment and capital expenditure requirements for at least the next twelve months. In making this assessment, we considered the following:

- Our cash and cash equivalents balance at December 31, 2015 of $8.4 million;
- Our working capital balance of $3.7 million;
- Our ability to historically generate positive operating cash flows;
- The declaration of our quarterly cash dividends of $0.11 per share during 2015 and the possibility of future dividends;
- Our backlog of approximately $12.1 million, including $6.1 million in license fees and services and $6.0 million in customer support at December 31, 2015; and
- Our planned capital expenditures of less than $1.0 million during 2016.
- The repayment of our Revolving Credit Facility with a long term debt facility.

We are exposed to foreign currency rate risks which impact the carrying amount of our foreign subsidiaries and our consolidated equity, as well as our consolidated cash position due to translation adjustments. For the years ended December 31, 2015, 2014 and 2013, the effect of exchange rate changes resulted in a ($0.3) million decrease, $0.2 million increase and a $0.2 million increase to consolidated cash, respectively. We do not currently hedge our foreign currency exposure, but we closely monitor the rate changes and may hedge our exposures in the future.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements that have a material current effect, or that are reasonably likely to have a material future effect, on our financial condition, changes in financial condition, revenue or expenses, results of operations, liquidity, capital expenditures, or capital resources.

Contractual Obligations and Commercial Commitments

The following summarizes our significant contractual obligations as of December 31, 2015, which are comprised of a capital lease and operating leases (in thousands).

	Payments due by period					
	Total	**2016**	**2017**	**2018**	**2019**	**2020**
Capital lease	$ 7	$ 6	$ 1	$	$	$
Operating leases	2,019	656	626	438	243	56
Total commitments	$ 2,026	$ 662	$ 627	$ 438	$ 243	$ 56

CRITICAL ACCOUNTING POLICIES

Our significant accounting policies are disclosed in Note 1 of our Consolidated Financial Statements included elsewhere in this Annual Report on Form 10-K. The following discussion addresses our most critical accounting policies, which are those that are

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both important to the portrayal of our financial condition and results of operations and that require significant judgment or use of complex estimates.

Revenue Recognition

We recognize revenue when an agreement is signed, the fee is fixed or determinable and collectability is reasonably assured. We recognize revenue from two primary sources: license fees and services, and customer support. The majority of our license fees and services revenue is generated from fixed-price contracts, which provide for licenses to our software products and services to customize such software to meet our customers use. When the customization services are determined to be essential to the functionality of the delivered software, we recognize revenue using the percentage-of-completion method of accounting. In these types of arrangements, we do not typically have vendor specific objective evidence (VSOE) of fair value on the license fee/services portion (services are related to customizing the software) of the arrangement due to the large amount of customization required by our customers; however, we do have VSOE for the warranty/maintenance services based on the renewal rate of the first year of maintenance in the arrangement. The license/services portion is recognized using the percentage-of-completion method of accounting and the warranty/maintenance services are separated based on the renewal rate in the contract and recognized ratably over the warranty or maintenance period. We estimate the percentage-of-completion for each contract based on the ratio of direct labor hours incurred to total estimated direct labor hours and recognize revenue based on the percent complete multiplied by the contract amount allocated to the license fee/services. Since estimated direct labor hours, and changes thereto, can have a significant impact on revenue recognition, these estimates are critical and we review them regularly. If the arrangement includes a customer acceptance provision, the hours to complete the acceptance testing are included in the total estimated direct labor hours; therefore, the related revenue is recognized as the acceptance testing is performed. Revenue is not recognized in full until the customer has provided proof of acceptance on the arrangement. Generally, our contracts are accounted for individually. However, when certain criteria are met, it may be necessary to account for two or more contracts as one to reflect the substance of the group of contracts. We record amounts billed in advance of services being performed as unearned revenue. Unbilled work-in-progress represents revenue earned but not yet billable under the terms of the fixed-price contracts. All such amounts are expected to be billed and collected within 12 months.

We may encounter budget and schedule overruns on fixed-price contracts caused by increased labor or overhead costs. We make adjustments to cost estimates in the period in which the facts requiring such revisions become known. We record estimated losses, if any, in the period in which current estimates of total contract revenue and contract costs indicate a loss. If revisions to cost estimates are obtained after the balance sheet date but before the issuance of the interim or annual financial statements, we make adjustments to the interim or annual financial statements accordingly.

In arrangements where the services are not essential to the functionality of the delivered software, we recognize license revenue when a license agreement has been signed, delivery and acceptance have occurred, the fee is fixed or determinable and collectability is reasonably assured. Where applicable, we unbundle and record as revenue fees from multiple element arrangements as the elements are delivered to the extent that VSOE of fair value of the undelivered elements exist. If VSOE for the undelivered elements does not exist, we defer fees from such arrangements until the earlier of the date that VSOE does exist on the undelivered elements or all of the elements have been delivered.

We recognize revenue from fixed-price service contracts using the proportional performance method of accounting, which is similar to the percentage-of-completion method described above. We recognize revenue from professional services provided pursuant to time-and-materials based contracts and training services as the services are performed, as that is when our obligation to our customers under such arrangements is fulfilled.

We recognize revenue from our Mobile Data Enablement (MDE) contracts based on the number of transactions per month multiplied by a factor based on a unique table for transaction volumes relating to each account at a rate for the particular Tier level attained.

We recognize customer support, including maintenance revenue, ratably over the service contract period. When maintenance is bundled with the original license fee arrangement, its fair value, based upon VSOE, is deferred and recognized during the periods when services are provided.

Allowance for Doubtful Accounts

We make judgments related to our ability to collect outstanding accounts receivable and unbilled work-in-progress. We provide allowances for receivables when their collection becomes doubtful by recording an expense. We determine the allowance based on our assessment of the realization of receivables using historical information and current economic trends, including assessing the probability of collection from customers. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments owed to us, an increase in the allowance for doubtful accounts would be required. We evaluate the adequacy of the allowance regularly and make adjustments accordingly. Adjustments to the allowance for doubtful accounts could materially affect our results of operations.

Income Taxes

Significant judgment is required in determining our provision for income taxes. We assess the likelihood that our deferred tax asset will be recovered from future taxable income, and to the extent we believe that recovery is not likely, we establish a valuation allowance. We consider future taxable income projections, historical results and ongoing tax planning strategies in assessing the recoverability of deferred tax assets. However, adjustments could be required in the future if we determine that the amount to be realized is less or greater than the amount that we recorded. Such adjustments, if any, could have a material impact on our results of our operations.

We use a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. The Company uses the incremental approach to recognizing excess tax benefits associated with equity compensation.

Goodwill

Goodwill is the excess of acquisition cost of an acquired entity over the fair value of the identifiable net assets acquired. Goodwill is not amortized, but tested for impairment annually or whenever indicators of impairment exist. These indicators may include a significant change in the business climate, legal factors, operating performance indicators, competition, sale or disposition of a significant portion of the business or other factors. Application of the goodwill impairment test requires judgment, including the identification of reporting units, assignment of assets and liabilities to reporting units, assignment of goodwill to reporting units, and determination of the fair value of each reporting unit.

We performed our annual goodwill impairment test as of July 31, 2015, at which time we had $17.0 million of goodwill included in the following reporting units, License and Services (L&S) - U.S. of $1.1 million, U.K. of $7.2 million and Customer Support (CS) - U.K. of $8.7 million. The fair value of each reporting unit was estimated using both market and income based approaches. Specifically, we incorporated observed market multiple data from selected guideline public companies and values arrived at through the application of discounted cash flow analyses which in turn were based upon our financial projections as of the valuation date. We believe that a market participant would weigh both possibilities without a bias to one or the other. Consequently, we gave equal consideration to both. This analysis requires significant judgments, including estimation of future cash flows, which is dependent on internal forecasts, estimation of the long-term rate of growth for our business, estimation of the useful life over which cash flows will occur, and determination of our weighted average cost of capital. Changes in these estimates and assumptions could materially affect the determination of fair value and goodwill impairment for each reporting unit. If the carrying value of a reporting unit were to exceed its fair value, we would then compare the fair value of the reporting unit s goodwill to its carrying amount, and any excess of the carrying amount over the fair value would be charged to operations as an impairment loss. If the projected future performance of either of our segments as estimated in the income valuation approach is adjusted downward or is lower than expected in the future, we could be required to record a goodwill impairment charge. As a result of the first step of the 2015 goodwill impairment analysis, the fair value of each reporting unit exceeded its carrying value. Therefore the second step was not necessary.

As a result of the acquisition of Evolving Systems NC, Inc., $6.9 million of goodwill was acquired during the period, of which $5.4 million was assigned to the license and service segment and $1.5 million was assigned to the customer support segment. We will perform a goodwill impairment test of Evolving Systems NC, Inc. s goodwill during our annual test as of July 31, 2016.

Intangible Assets

Amortizable intangible assets consist primarily of purchased software and licenses, customer contracts and relationships, trademarks and tradenames, and business partnerships acquired in conjunction with our acquisition of Evolving Systems U.K., Evolving Systems Labs and Evolving Systems NC. These definite life assets are amortized using the straight-line method over their estimated lives.

We assess the impairment of identifiable intangibles if events or changes in circumstances indicate that the carrying value of the asset may not be recoverable.

If we determine that the carrying value of intangibles and/or long-lived assets may not be recoverable, we compare the estimated undiscounted cash flows expected to result from the use of the asset and its eventual disposition to the asset s carrying amount. If an amortizable intangible or long-lived asset is not deemed to be recoverable, we recognize an impairment loss representing the excess of the asset s carrying value over its estimated fair value.

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Capitalization of Internal Software Development Costs

We expend amounts on product development, particularly for new products and/or for enhancements of existing products. For internal development of software products that are to be licensed by us, we expense the cost of developing software prior to establishing technological feasibility and those costs are capitalized once technological feasibility has been established. Capitalization ceases upon general release of the software. The determination of whether internal software development costs are subject to capitalization is, by its nature, highly subjective and involves significant judgments. This decision could significantly affect earnings during the development period. Further, once capitalized, the software costs are generally amortized on a straight-line basis over the estimated economic life of the product. The determination of the expected useful life of a product is highly judgmental. Finally, capitalized software costs must be assessed for impairment if facts and circumstances warrant such a review.

We did not capitalize any internal software development costs during the years ended December 31, 2015, 2014, or 2013. In addition, we did not have any capitalized internal software development costs included in our December 31, 2015 and 2014 Consolidated Balance Sheets. We believe that during these periods no material internal software development costs were required to be capitalized. Our conclusion is primarily based on the fact that the feature-rich, pre-integrated, and highly-scalable nature of our products requires that our development efforts include complex design, coding and testing methodologies, which include next generation software languages and development tools. Development projects of this nature carry a high degree of development risk.

Substantially all of our internal software development efforts are of this nature, and therefore, we believe the period between achieving technological feasibility and the general release of the software to operations is so short that any costs incurred during this period are not material.

Stock-based Compensation

We account for stock-based compensation by applying a fair-value-based measurement method to account for share-based payment transactions with employees and directors and record compensation cost for all stock awards granted after January 1, 2006 and awards modified, repurchased, or cancelled after that date. We record compensation costs associated with the vesting of unvested options on a straight-line basis over the vesting period. Stock-based compensation is a non-cash expense because we settle these obligations by issuing shares of our common stock instead of settling such obligations with cash payments. We use the Black-Scholes model to estimate the fair value of each option grant on the date of grant. This model requires the use of estimates for expected term of the options and expected volatility of the price of our common stock.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

In the ordinary course of business, we are exposed to certain market risks, including changes in foreign currency exchange rates and interest rates. Uncertainties that are either non-financial or non-quantifiable such as political, economic, tax, other regulatory, or credit risks are not included in the following assessment of market risks.

Interest Rate Risks

Our cash balances are subject to interest rate fluctuations and as a result, interest income amounts may fluctuate from current levels. As of December 31, 2015 we had $10 million outstanding under our revolving credit facility, which under the facility bears interest at variable rates.

Foreign Currency Risk

We are exposed to fluctuations of the U.S. dollar (our functional currency) against the currencies of our operating subsidiaries. Any increase (decrease) in the value of the U.S. dollar against any foreign currency that is the functional currency of one of our operating subsidiaries will cause the parent company to experience unrealized foreign currency translation losses (gains) with respect to amounts already invested in such foreign currencies. In addition, we and our operating subsidiaries are exposed to foreign currency risk to the extent that we enter into transactions denominated in currencies other than our respective functional currencies, such as revenue and related accounts receivable (including intercompany amounts) that are denominated in a currency other than their own functional currency. Changes in exchange rates with respect to these items will result in unrealized (based upon period-end exchange rates) or realized foreign currency transaction gains and losses upon settlement of the transactions. In addition, we are exposed to foreign exchange rate fluctuations related to our operating subsidiaries monetary assets and liabilities and the financial results of foreign subsidiaries and affiliates when their respective financial statements are translated into U.S. dollars for inclusion in our consolidated financial statements. We record cumulative translation adjustments in accumulated other comprehensive income (loss) as a separate component of equity. As a result of foreign currency risk, we may experience economic loss and a negative impact on earnings and equity with respect to our holdings solely as a result of foreign currency exchange rate fluctuations.

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The relationship between the British Pound Sterling, Indian rupee and the U.S. dollar, which is our functional currency, is shown below, per one U.S. dollar:

Spot rates:	**December 31, 2015**	**December 31, 2014**
British pound sterling	0.67495	0.64169
Indian rupee	66.15844	63.13131

	For the Years Ended December 31,		
Average rates:	**2015**	**2014**	**2013**
British pound sterling	0.65442	0.60724	0.63921
Indian rupee	64.14862	61.14301	58.62059

At the present time, we do not hedge our foreign currency exposure or use derivative financial instruments that are designed to reduce our long-term exposure to foreign currency exchange risk. We continually monitor our foreign currency exchange risk and we may consider various options to reduce this risk in the future.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders

Evolving Systems, Inc.

We have audited the accompanying consolidated balance sheets of Evolving Systems, Inc. (a Delaware corporation, the Company) as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, changes in stockholders equity, and cash flows for each of the three years in the period ended December 31, 2015. Evolving Systems, Inc. s management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Evolving Systems, Inc. as of December 31, 2015, and 2014, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2015 in conformity with accounting principles generally accepted in the United States of America.

/s/ FRIEDMAN LLP

East Hanover, New Jersey

March 15, 2016

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EVOLVING SYSTEMS, INC.

CONSOLIDATED BALANCE SHEETS

(in thousands except share data)

	December 31, 2015	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$ 8,400	$ 9,781
Contract receivables, net of allowance for doubtful accounts of $83 and $43 at December 31, 2015 and December 31, 2014, respectively	7,727	9,182
Unbilled work-in-progress, net of allowance of $0 and $306 at December 31, 2015 and December 31, 2014, respectively	4,158	4,995
Prepaid and other current assets	1,459	1,331
Deferred income taxes		80
Total current assets	21,744	25,369
Property and equipment, net	560	659
Amortizable intangible assets, net	4,983	608
Goodwill	23,142	17,010
Long-term deferred income taxes		586
Total assets	$ 50,429	$ 44,232
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Current portion of capital lease obligations	$ 5	$ 5
Revolving Line of credit	10,000	
Accounts payable and accrued liabilities	4,429	4,460
Income taxes payable	324	1,227
Unearned revenue	3,330	3,883
Total current liabilities	18,088	9,575
Long-term liabilities:		
Capital lease obligations, net of current portion	1	7
Contingent earn-out obligation	178	178
Unearned revenue - Long term		420
Total liabilities	18,267	10,180
Commitments and contingencies:		
Stockholders equity:		
Preferred stock, $0.001 par value; 2,000,000 shares authorized; no shares issued and outstanding as of December 31, 2015 and December 31, 2014		
Common stock, $0.001 par value; 40,000,000 shares authorized; 11,970,731 shares issued and 11,791,842 outstanding as of December 31, 2015 and 11,843,564 shares issued and 11,664,675 outstanding as of December 31, 2014	12	12
Additional paid-in capital	97,418	96,005
Treasury stock 178,889 shares, at December 31, 2015 and December 31, 2014, at cost	(1,253)	(1,253)
Accumulated other comprehensive loss	(5,999)	(4,534)
Accumulated deficit	(58,016)	(56,178)
Total stockholders equity	32,162	34,052
Total liabilities and stockholders equity	$ 50,429	$ 44,232

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

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EVOLVING SYSTEMS, INC.

CONSOLIDATED STATEMENTS OF INCOME

(in thousands except per share data)

	For the Years Ended December 31, 2015	2014	2013
REVENUE			
License fees and services	$ 15,584	$ 19,738	$ 15,998
Customer support	9,992	9,942	9,095
Total revenue	25,576	29,680	25,093
COSTS OF REVENUE AND OPERATING EXPENSES			
Costs of license fees and services, excluding depreciation and amortization	4,881	5,782	5,565
Costs of customer support, excluding depreciation and amortization	1,568	1,866	1,599
Sales and marketing	5,844	5,734	5,364
General and administrative	4,003	3,638	3,644
Product development	3,847	3,643	2,956
Depreciation	314	246	155
Amortization	266	95	211
Restructuring	533	237	558
Total costs of revenue and operating expenses	21,256	21,241	20,052
Income from operations	4,320	8,439	5,041
Other income (expense)			
Interest income	18	19	11
Interest expense	(121)	(17)	(20)
Other (expense) income		(27)	87
Foreign currency exchange loss	(6)	(9)	(39)
Other (expense) income, net	(109)	(34)	39
Income before income taxes	4,211	8,405	5,080
Income tax expense	915	2,797	1,274
Net income	$ 3,296	$ 5,608	$ 3,806
Basic income per common share - net income	$ 0.28	$ 0.48	$ 0.33
Diluted income per common share - net income	$ 0.28	$ 0.47	$ 0.32
Cash dividends declared per common share	$ 0.44	$ 0.42	$ 0.36
Weighted average basic shares outstanding	11,693	11,642	11,459
Weighted average diluted shares outstanding	11,935	11,926	11,756

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

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EVOLVING SYSTEMS, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

	For the Years Ended December 31, 2015	2014	2013
Net income	$ 3,296	$ 5,608	$ 3,806
Other comprehensive income:			
Foreign currency translation gain (loss)	(1,465)	(1,518)	281
Comprehensive income	$ 1,831	$ 4,090	$ 4,087

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

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EVOLVING SYSTEMS, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

(in thousands, except share data)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Accumulated (Deficit)	Total Stockholders Equity
Balance at December 31, 2012	**11,387,220**	**$ 11**	**$ 91,957**	**$ (1,253)**	**$ (3,297)**	**$ (56,582)**	**$ 30,836**
Stock option exercises	123,179	1	487				488
Common Stock issued pursuant to the Employee Stock Purchase Plan	1,582		6				6
Stock-based compensation expense			288				288
Issuance of common stock related to acquisition	71,387		741				741
Excess tax benefits from stock-based compensation			416				416
Restricted stock issuance, net of cancellations	17,250						
Common stock cash dividends						(4,127)	(4,127)
Net income						3,806	3,806
Foreign currency translation adjustment					281		281
Balance at December 31, 2013	**11,600,618**	**$ 12**	**$ 93,895**	**$ (1,253)**	**$ (3,016)**	**$ (56,903)**	**$ 32,735**
Stock option exercises	56,186		245				245
Common Stock issued pursuant to the Employee Stock Purchase Plan	7,352		55				55
Stock-based compensation expense			401				401
Issuance of common stock related to acquisition	1,832		19				19
Excess tax benefits from stock-based compensation			1,390				1,390
Restricted stock issuance, net of cancellations	(1,313)						
Common stock cash dividends						(4,883)	(4,883)
Net income						5,608	5,608
Foreign currency translation adjustment					(1,518)		(1,518)
Balance at December 31, 2014	**11,664,675**	**$ 12**	**$ 96,005**	**$ (1,253)**	**$ (4,534)**	**$ (56,178)**	**$ 34,052**
Stock option exercises	99,897		243				243
Common Stock issued pursuant to the Employee Stock Purchase Plan	8,302		57				57
Stock-based compensation expense			317				317

Excess tax benefits from stock-based compensation			796				796
Restricted stock issuance, net of cancellations	18,968						
Common stock cash dividends						(5,134)	(5,134)
Net income						3,296	3,296
Foreign currency translation adjustment					(1,465)		(1,465)
Balance at December 31, 2015	**11,791,842**	**$ 12**	**$ 97,418**	**$ (1,253)**	**$ (5,999)**	**$ (58,016)**	**$ 32,162**

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

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EVOLVING SYSTEMS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	For the Years Ended December 31, 2015	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 3,296	$ 5,608	$ 3,806
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation	314	246	155
Amortization of intangible assets	266	95	211
Amortization of debt issuance costs	14	15	18
Stock based compensation	317	401	288
Unrealized foreign currency transaction losses, net	6	9	39
Provision for doubtful accounts	41		
Provision for unbilled work-in-progress allowance			114
Benefit from deferred income taxes	(1,123)	(282)	(257)
Change in operating assets and liabilities:			
Contract receivables	2,202	(3,398)	(1,514)
Unbilled work-in-progress	721	(2,977)	2,444
Prepaid and other assets	(120)	(214)	(28)
Accounts payable and accrued liabilities	(2,305)	985	(204)
Unearned revenue	(1,404)	(888)	3,543
Net cash provided by (used in) operating activities	2,225	(400)	8,615
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment	(198)	(588)	(270)
Business combinations, net of cash	(9,014)		(412)
Restricted cash		24	53
Net cash used in investing activities	(9,212)	(564)	(629)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Capital lease payments	(5)	(8)	(5)
Proceeds from revolving line of credit	10,000		
Common stock cash dividends	(5,143)	(4,883)	(4,127)
Excess tax benefits from stock-based compensation	797	1,390	416
Proceeds from the issuance of stock	300	300	494
Net cash provided by (used in) financing activities	5,949	(3,201)	(3,222)
Effect of exchange rate changes on cash	(343)	161	177