EVOLVING SYSTEMS INC
Form 10-K
March 30, 2012
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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, 2011

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: 0-24081

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. x

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 $45.3 million as of June 30, 2011.

The number of shares of Common Stock outstanding was 11,221,534 as of March 22, 2012.

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 2011 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission within 120 days after the close of the 2011 year.

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EVOLVING SYSTEMS, INC.

Annual Report on Form 10-K

For the year ended December 31, 2011

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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 India and Evolving Systems U.K., 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, Inc. is a leading provider of software solutions and services to the wireless, wireline and cable markets. Our customers rely on us to develop, deploy, enhance, maintain and integrate software solutions for a range of Operations Support Systems (OSS). Our products support 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 50 network operator customers are many tier-1 wireless carriers, including two of the world s largest wireless carriers headquartered outside of North America. We offer software products and solutions in four core areas:

- 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 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;

- Connected device solutions 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;

- Billing mediation solutions that support the data collection for service assurance and billing applications.

Our products support traditional and next generation network technologies, convergent service offerings, and advanced wireless and other broadband networks.

We report the operations of our business as two operating segments based on revenue type: license fees 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 11 to our Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

COMPANY BACKGROUND

Founded in 1985, we initially focused on providing custom software development and professional services to telecommunications companies in the United States. In November 2004, we significantly expanded our portfolio of products as a result of the acquisition of Tertio Telecoms Ltd. (Evolving Systems U.K.), a supplier of OSS software solutions for service activation and mediation to communication carriers throughout Europe, the Middle East, Africa and Asia. With this acquisition we expanded our markets beyond North America and added a service activation solution, *Tertio* , and a billing mediation solution, *Evident* , to our product portfolio. The result of this acquisition significantly expanded our product and service capabilities to address a larger portion of our customers OSS application needs with a balanced mix of products and product enhancements, as well as services.

On July 1, 2011, we completed an Asset Purchase Agreement (Purchase Agreement), with NeuStar, Inc., a Delaware corporation (the Buyer). Under the terms of the Purchase Agreement, we agreed to sell our Numbering Solutions Business (the Numbering Business) to the Buyer for $39.4 million in cash and the assumption of certain liabilities to the buyer, subject to increase or decrease in accordance with a post-closing working capital adjustment and the assumption of certain liabilities related to the Numbering Business (the Asset Sale). The Asset Sale included all of our Local Number Portability (LNP) and Number Management solution products. There was no post-closing working capital adjustment.

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As a result of the Asset Sale, our strategy is now focused on service activation as a pure play with the majority of our focus on investments concentrating on the wireless markets in the areas of subscriber activation, SIM card management and activation, and connected device activation. We also continue to support our billing mediation product, *Evident*.

RECENT DEVELOPMENTS

- The market is moving to add a wide array of connected devices to wireless and broadband networks This represents an opportunity for Evolving Systems to leverage our *Dynamic SIM Allocation* (DSA) technology to provide technical solutions for SIM-based devices such as M2M monitors, e-readers, network connected building management systems, network attached health monitoring systems as well as smart meters and wirelessly connected vending machines. We have announced a new product specifically focused on this market segment named *Intelligent M2M Controller* (IMC).

- The arrival and proliferation of 4G and LTE services. As consumers continue to exhibit an appetite for faster network connections to support devices such as smartphones and tablets, operators are investing to increase the bandwidth of their networks. Often carriers call this offering 4G services. This industry direction should provide opportunities for us with our DSA and service activation solutions.

- Many carriers are focusing increasing attention on improving their end-user experience for their wireless subscribers. Both *Tertio* as well as DSA enable carriers to improve the experience a customer has by providing flexible and powerful on-device activation solutions.

INDUSTRY DYNAMICS

The rapid introduction of new technologies such as wireless and broadband services has created a growing market for telecommunications solutions worldwide. This emergence of new technologies in telecommunications networks and end-user devices, consumer electronics, and personal computers, has created an industry that is in the midst of significant change. Carriers not only compete with companies from other industries, such as media and entertainment, but also with companies providing applications and services over the Internet. In such a competitive market, companies are increasingly bundling voice, messaging and data services in order to meet market demand. This bundling of services is just one facet of what is called convergence. In order to facilitate convergence, carriers are implementing a variety of network transformation programs that include: the migration to packet-switching transmission networks based on the Internet protocol (often called all-Internet Protocol (IP) networks); the migration to new service creation and delivery platforms that enable the provision of multimedia services over IP-based networks; and the introduction of one or more broadband access networks over existing wired infrastructure, new fiber deployments, cable access networks, and evolved wireless broadband networks including Global System for Mobile Communication (GSM)/EDGE, 3G/WCDMA/HSPA, and 4G/Long Term Evolution. Along with the continued development of new technologies, carriers are facing increasing levels of competition due to the varying demand in connection types, subscribers and service usage, as well as pricing declines due to competitive and regulatory pressures. Given the increased competitive climate in the telecommunication market, many carriers are pursuing network expansions in order to provide new value-added services (VAS). Carriers are, at the same time, continually looking to reduce operational costs which often leads to the rationalizing of their back office and OSS. This complex and rapidly changing landscape is further affected by the continued consolidation of carriers and their suppliers.

OPERATIONS SUPPORT SYSTEMS (OSS)

OSS encompasses a broad array of software and systems that perform critical functions for telecommunications carriers, such as service fulfillment, service assurance, and billing. Service fulfillment encompasses ordering, provisioning and activation. Ordering and Customer Relationship Management (CRM) systems collect customer information, retrieve current service information, capture and validate new service requests, verify the availability of selected services and transmit completed orders to one or more provisioning OSS. Inventory systems maintain physical and logical views of all the assets a carrier needs to turn up/off/change or add a service. Service assurance systems allow carriers to perform the testing, monitoring and reporting necessary to maintain appropriate network availability and feed operational data to other business systems. Service assurance systems also allow carriers to track and report on service conditions or outages in order to dispatch their large work force for necessary repairs. Carriers use billing systems to collate, manage and report usage information for partner and customer billing. OSS typically operate in a highly available 24x7 environment to support the real-time communication networks that facilitate the carriers service offerings.

Traditionally, as carriers have added new services, such as wireless or Internet-based services, they have either developed their own in-house OSS applications or added new OSS applications from product vendors. These additional OSS can be difficult to integrate into the carriers operations, as they often utilize heterogeneous elements, making interoperability among the systems technically challenging. These OSS are further constrained by the many incremental changes that have been made in order to accommodate new computing and network technologies and new value-added services, such as texting and broadband services. In addition, carriers have had to adapt their OSS to comply with government or regulatory mandates that in some cases change how systems and processes are required to work. Because of these challenges, carriers have difficulty replacing existing OSS due to the large investment and the complicated interoperability environments in which they operate. As a result, carriers often continue to make incremental modifications to these OSS, in some cases further increasing their complexity and making it more difficult for the

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applications to be replaced. However, as packaged OSS software solutions continue to advance, carriers are increasingly looking to replace their legacy OSS environments with OSS software packages designed to meet growing complex processes in the areas of service fulfillment, service assurance and billing.

PRODUCT PORTFOLIO

Dynamic SIM Allocation

In 2007, we announced our DSA solution that offers carriers a new way to provision wireless services by dynamically activating and assigning resources to the wireless device when it is first used. The wireless Subscriber Identity Module (SIM) card is central to the provision of wireless access and services for GSM/EDGE and 3G/WCDMA networks and is specified as part of the next generation 4G LTE technologies. These networks represent the most common type of wireless technology used today by wireless operators world-wide. Typically, SIM cards are either pre-provisioned before they are distributed to the retail environment or are provisioned at the point of sale. Pre-provisioning SIM cards require that network resources are allocated well in advance of the SIM card becoming available for sale. This inevitably leads to poor utilization of network resources such as numbers and other critical identifiers. The result is increased network costs and a poor user experience. Provisioning SIM cards at the point of sale overcomes many of these issues but at a high cost, as retail and back-office infrastructure needs to be in place. Our DSA solution offers carriers the user experience and resource efficiency benefits of provisioning at the point of sale without demanding the retail and back-office infrastructure usually required. The solution offers a number of benefits including:

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

- Easier to personalize: Prepaid subscribers have traditionally been unable to choose their mobile phone number at time of activation. With our solution, prepaid subscribers can choose their number from a database of available numbers, using just their mobile phone. Furthermore, with our solution, carriers can monetize their number inventory by charging for vanity or golden numbers.

- Improve efficiency and utilization: Carriers can experience a high wastage of SIM cards that are never activated for a revenue-generating subscriber. Our solution reduces the cost of this wastage by removing the need for SIM cards to be pre-provisioned in network databases.

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

DSA is an integrated solution comprised of the following components:

- First Use Register a module that interacts with a subscriber s initial activation process;

- Task Management a module that controls the process flow of tasks involved with completing the end user s activation process.;

- Resource Management a component that records and controls the management and assignment of specific network inventory elements and resources;

- Menu User a module that provides carriers with the ability to customize the end user experience on the SIM card. Working with the SIM applet, Menu Server allows the wireless carrier to quickly and easily customize the end user screens on their phones or other devices;

- Mobile Broadband Module this allows our DSA solution to support activation processes not only by a dialogue on the phone screens but also through a browser. This solution enables carriers to offer a customized experience for subscribers who are activating mobile broadband features for their smart phones or a wide variety of other wirelessly connected devices; and

- Operational Dashboard a module that assists carriers in the administration, operations and maintenance of the DSA platform. Operational Dashboard offers our customers a flexible and easy-to-use tool that provides important visibility on the performance of DSA as well as a powerful reporting tool.

<u>Service Activation</u>

Our service activation solution, *Tertio* , is employed 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 and can be used by 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 over 50 networks around the world including two of the world s largest wireless carriers.

Tertio is an integrated solution comprised of the following components:

- Tertio Service Composer a modeling tool that simplifies the creation of new services;
- Tertio Content Connector a tool used for activation of next-generation services;
- Tertio Activation Designer a tool that is designed to speed network feature activation;
- Tertio Service Activation the platform that provides scalability and performance, flexibility and a graphical interface; and
- Tertio Service Verification 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, enabling service providers to better plan, manage and execute the introduction of new services. Tertio allows carriers to introduce new network technologies and eases the burden of integration with existing devices and systems.

Billing Mediation

Our billing mediation product is *Evident* . It enables customers to capture important usage data from the network elements. Billing mediation is the process of collecting network usage data and verifying that usage data is accurate, and is a required pre-condition for generating accurate bills for a carrier s customers. Billing mediation s importance lies in its ability to provide a systematic point of reliability and assurance between network consumption and the billing system input. Our Evident product supports convergent voice, data, and content services. *Evident* software enables the accurate management of data, allowing reconciliation of data inputs and outputs. In addition, it provides support for compliance with relevant regulatory, accounting and data integrity requirements. This product also provides service usage data for business intelligence, revenue assurance, and next-generation billing solutions. Our *Evident* solution can be used by wireline, broadband and wireless carriers and provides carrier-grade support in terms of reliability, performance, and scalability.

PROFESSIONAL AND INTEGRATION SERVICES

Our Professional and Integration Services team provides expert consulting services and advice for the design, customization, integration and deployment of our products. The Professional and Integration Services team works closely with the Product Engineering and Development teams so that our products can meet the requirements of our customers as technologies and business requirements continue to evolve. These services cover all aspects of the project lifecycle including system architecture and design, component design, development and customization, system integration and testing, deployment and production support, program and project level management, and domain and product expertise. Our teams work closely with customers and integration partners and have established close, long-term relationships with operators in the Americas, Europe, the Middle East, Africa and Asia Pacific regions.

PRODUCT DEVELOPMENT

We continue to invest in product development (PD), particularly for new products and/or for enhancements of existing products. PD is expensed as incurred. For the years ended December 31, 2011, 2010 and 2009, we expensed $2.5 million, $2.5 million and $2.2 million, respectively, in PD costs. The majority of PD investments in 2011 have gone into enhancing our core service activation as well as the further development of our DSA solution.

We focus our product development efforts on identifying specific industry and customer business needs as well as market requirements and then developing solutions that leverage our existing product capabilities. Based upon the identified customer business needs, our product development efforts comprise a combination of design and development of new products or features to enhance our existing products, and design and development of new product functionality as identified in our product roadmaps. 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.

SALES AND MARKETING

Our sales force is primarily a field-based organization structured to focus on specific geographical territories: North America, Europe, Middle East and Africa, Russia and the Commonwealth of Independent States, Asia Pacific, and Central and Latin America. Our sales activities cover both direct sales to the end user customers as well as sales through partners such as Gemalto and Oberthur, who include our products as part of a wider SIM-based solution offering.

The primary objective of our marketing organization is to identify markets for our products and to establish an awareness of our offerings in those markets through a combination of direct marketing, web marketing, and through our participation in shows,

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conferences, and industry bodies. The marketing organization also creates electronic and print-based sales collateral to support these activities, as well as maintaining a permanent presence on the web.

Evolving Systems offers a complex product set which lends itself to a high degree of on-site consultative selling with the prospect as part of the sales process. Our sales efforts also cover a large amount of interaction with existing customers where we work to develop incremental revenue streams on existing platforms as well as the introduction of new value propositions. The sales team is responsible for the generation of proactive proposals to prospects, as well as the management and delivery of responses to competitive tenders. This complex, highly involved approach creates a long sales cycle, requiring us to invest a considerable amount of time toward uncertain results.

COMPETITION

The market for telecommunications OSS products is intensely 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 as well as pressures to be competitively priced. 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 than we do. The market for telecommunications OSS software and services is extremely large. And, we currently hold only a small portion of total market share. Our increased focus on activation as well as 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 in service activation are Oracle (as a result of its acquisition of Metasolv), Comptel, Intec and Synchronoss Technologies. In mediation, our competitors include CSG Systems and Comptel. For our DSA solution, we believe we hold a significant leadership position in this emerging market segment, however, we are seeing the arrival of competition from Giesecke & Devrient GmbH, Hewlett-Packard Company and Comptel, as well as some other smaller competitors. In addition, some of the network equipment manufacturers next generation solutions address some of the benefits provided by DSA.

For all of our products, our ability to compete successfully depends on a wide range of factors. We deliver value by offering quality solutions at a competitive price that are tailored specifically to our customers network topography. Once a customer has implemented one of our products, we often receive subsequent orders for enhancements and change requests to add functionality and/or to increase capacity. This follow-on business, and the fact that it is a complicated and expensive process to replace our software, provides an attractive revenue opportunity for us. Furthermore, many of our customer relationships span five years or more. We believe these long-term customer relationships give us a competitive advantage and can be a barrier to entry for our competitors.

SIGNIFICANT CUSTOMERS

For the year ended December 31, 2011, one significant customer (defined as contributing at least 10%) accounted for 10% of revenue from continuing operations. This customer is a large telecommunications operator in Europe. For the years ended December 31, 2010 and 2009, two significant customers accounted for 23% (12% and 11%) and 25% (13% and 12%) of revenue from continuing operations. These customers are large telecommunications operators in Europe and Asia. The loss of any of these customers would have a material adverse effect on our business as a whole.

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 presently have patents pending in the U.S. and other countries on elements of our DSA and IMC products.

BACKLOG

We define backlog as firm non-cancelable sales orders that are anticipated to be delivered and recognized in revenue over the next twelve months. As of December 31, 2011 and 2010, our backlog was approximately $12.6 million and $7.8 million, respectively. Our backlog at December 31, 2011 was comprised of license fees and services of $7.8 million and customer support of $4.8 million compared to license fees and services of $2.8 million and customer support of $5.0 million at December 31, 2010.

EMPLOYEES

As of December 31, 2011, we employed 140 people including 9 in the United States, 56 in the United Kingdom and 75 in Bangalore, India. Of our worldwide staff, 87% are involved in product delivery, development, support and professional services, 7% in sales and marketing, and 6% in general administration.

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AVAILABLE INFORMATION

You can find out more information about us at our Internet website located at www.evolving.com. The information on 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 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.

ITEM 1A. RISK FACTORS

Risks Related to Our Business

Impact of Long Sales Cycle; Sales of our products typically require significant review and internal approval processes by our customers over an extended period of time. Interruptions in such process due to economic downturns, consolidations or otherwise could result in the loss of our sale or deferral of revenue into later periods and adversely affect our financial performance.

Large communications solutions used for enterprise-wide, mission-critical purposes, involve significant capital expenditures and lengthy implementation plans. Prospective customers typically commit significant resources to the technical evaluation of our products and services and require us to spend substantial time, effort and money providing education regarding our solutions. This evaluation process often results in an extensive and lengthy sales cycle, typically ranging between three and twelve months, making it difficult for us to forecast the timing and magnitude of our contracts. For example, customers budgetary constraints and internal acceptance reviews may cause potential customers to delay or forego a purchase. In addition, our TSA and DSA sales opportunities in any given quarter typically include a few high value opportunities. The delay or failure to complete one or more large contracts could materially harm our business, financial condition, results of operations and cash flows and cause our operating results to vary significantly from quarter to quarter and year to year.

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. The delay or failure to complete one or more large contracts, or the loss of a significant customer, could materially harm our business, financial condition, results of operations, or cash flows, and cause our operating results to vary significantly from quarter to quarter and year to year.

Following the sale of our Numbering Business, we are a smaller, less diversified company that will be more adversely affected by sales fluctuations, limited staff and employee turnover.

Our revenue is smaller following the sale of our Numbering Business in July 2011. Consequently, sales fluctuations could have a greater impact on our revenue and profitability on a quarter-to-quarter basis and a delayed contract could cause our operating results to vary significantly from quarter to quarter. In addition, following the sale of our Numbering Business we reduced our staff and as a smaller company we are heavily reliant on certain key personnel. We may not have sufficient staff to effectively operate our business. In addition, 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. Fluctuations in operating results may result in volatility of the price of our common stock. 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;

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- 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.

Personnel costs are a significant component of our budgeted expense levels and, therefore, our expenses are, to a degree, variable based upon our expectations regarding future revenue. As discussed above, our revenue is difficult to forecast and our sales cycle and the size and timing of significant contracts vary substantially among customers. Accordingly, 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.

Based on these factors, we believe our future quarterly and annual operating results may vary significantly from quarter to quarter and year to year. 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 believe that in future reporting periods if our operating results fall below the expectations of public market analysts or investors, it is possible that the market price of our common stock could decrease.

Our results of operations could be negatively impacted if we are unable to manage our liquidity.

Our cash forecast indicates that we will have sufficient liquidity to cover anticipated operating costs for at least the next twelve months, but this could be negatively impacted to the extent we are unable to invoice and collect from our customers in a timely manner, or an unexpected adverse event, or combination of events occurs. Therefore, if the timing of cash generated from operations is insufficient to satisfy our liquidity requirements, we may require access to additional funds to support our business objectives through a credit facility or possibly the issuance of additional equity. Additional financing may not be available at all or, if available, may not be obtainable on terms that are favorable to us and not dilutive.

Because our investments are concentrated in the debt securities of a single issuer, adverse events affecting that issuer are likely to have a greater negative impact on us than would occur if our investments were diversified among a larger group of issuers or securities.

Our investment policy requires investments to be rated B- or better. Currently, all of our investments are concentrated in the debt securities of a single issuer, and as a result, adverse events affecting that issuer are likely to have a greater negative impact on us, including a greater risk of loss of our investment, than would occur if our investments were diversified among a larger group of issuers or securities. Any significant future declines in the market values of that issuer s senior secured debt or common stock, or any significant adverse developments in that issuer s business, industry, operations or financial condition could materially adversely affect the value of our investment, the issuer s ability to repay its obligations under the notes, or our financial condition and operating results. Credit ratings and pricing of these investments can be negatively impacted by liquidity, credit deterioration or losses, financial results, or other factors. As a result, the value or liquidity of our long-term investments could decline and result in a material impairment, which could materially adversely affect our financial condition and operating results. If the issuer defaults on its obligations under the notes, the guarantors may be unable to repay the amounts due and the collateral securing the notes may have insufficient value to allow us to obtain a return of our investment in the notes. The senior secured notes are not publicly traded and the issuer has no obligation to register the notes for resale. As a result, we may not be able to resell the notes at a favorable price, or at all, if and when we wish to do so.

The market for our service activation products is mature and we may not be able to successfully develop new products to remain competitive.

The market for our service activation product is mature and we may not be able to successfully identify new product opportunities. If we are unable to identify new product opportunities, sales and profit growth would be adversely affected.

The market for our DSA product is uncertain and we may not be able to generate sufficient demand for our DSA product and new products to grow our business.

We are still in the process of developing customer demand for our DSA product and the market for enhancements to our DSA product and for new products is uncertain; we are still in the early stages of developing customer demand for these products. Our current strategy is heavily reliant on achieving increased sales of our DSA product, enhancements to our DSA product and new products and if we are unable to achieve market acceptance of these products our sales and profit growth would be adversely affected.

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If we are unable to properly supervise our software development subsidiary in India, or if political or other uncertainties interfere, we may be unable to satisfactorily perform our customer contracts and our business could be materially harmed.

In February 2004, we formed Evolving Systems India, a wholly owned subsidiary of Evolving Systems, Inc. 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.

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

A significant part of our revenue comes from international sales. Our international operations are subject to the risk factors inherent in the conduct of international business, including:

- fluctuations in currency exchange rates;
- compliance with the U.S. Foreign Corrupt Practices Acts and other anti-bribery laws and regulations;
- unexpected changes in regulatory requirements;
- compliance with export regulations, tariffs and other barriers;
- political and economic instability;
- limited intellectual property protection;
- difficulties in staffing and managing foreign operations; and

- potentially adverse tax consequences in connection with repatriating funds.

Approximately half of our revenue is transacted in non- U. S. Dollar denominated currencies (e.g. British Pound Sterling 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, with more than 50% of our operating expenses originating 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 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.

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 communications industry has experienced and continues to experience significant consolidation, both in the United States and internationally. These consolidations have caused us to lose customers and may result in fewer potential customers requiring OSS solutions in the future. In addition, combining companies may re-evaluate their OSS solutions and their capital expenditures and may choose a competitive OSS 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. Because of the uncertainty resulting from these consolidations and the variations in our quarterly operating results, it is extremely difficult for us to forecast our quarterly and annual revenue and we have discontinued providing revenue guidance.

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 could adversely affect our business.

We earn a significant portion of our revenue from a small number of customers in the communications industry. This has been mitigated somewhat by the expansion of our customer base in recent years, but, as noted above, our revenue is smaller following the sale of our Numbering Business and consolidation in the industry continues. 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

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collection of customer receivables could harm our business and operating results to a greater degree than other companies with a broader customer base.

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 may also require rapid deployment of our software solutions, resulting in pressure on us to meet demanding delivery and implementation schedules. Delays in implementation 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.

Many of our products and services are sold on a fixed-price basis. If we incur budget overruns, our margins and results of operations may be materially harmed.

Currently, a large portion of our revenue is from contracts that are on a fixed-price basis. We anticipate that customers will continue to request we provide software and integration services as a total solution on a fixed-price basis. 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 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 industry in which we compete is subject to rapid technological change. If we fail to develop or introduce new, reliable and competitive products in a timely fashion, our business may suffer.

The market for our products and services is subject to rapid technological changes, evolving industry standards, changes in carrier requirements and preferences and frequent new product introductions and enhancements. 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. As a result of the complexities inherent in software development, major new product enhancements and new products can require long development and testing periods before they are commercially released and delays in planned delivery dates may occur. We may not be able to successfully identify new product opportunities or achieve market acceptance of new products brought to market. In addition, products developed by others may cause our products to become obsolete or noncompetitive. If we fail to anticipate or respond adequately to changes in technology and customer preferences, or if our products do not perform satisfactorily, or if we have delays in product development, we may lose customers and our sales may deteriorate.

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 financial, manufacturing, technological, marketing, distribution and other resources, larger installed customer bases and longer-standing relationships with customers than we do. Our principal competitors in activation are Oracle (as a result of its acquisition of Metasolv), Comptel, Intec and Synchronoss Technologies. In mediation, we compete with CSG Systems and Comptel. Our principal competitors in the SIM allocation market include Giesecke & Devrient GmbH, Hewlett-Packard Company and Comptel. Customers also may offer competitive products or services in the future since customers who have purchased solutions

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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 also expect competition may increase in the future from application service providers, existing competitors and from other companies that may enter our existing or future markets with solutions which may be less costly, provide higher performance or additional features or be introduced earlier than our solutions.

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 promotion, announcement or 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 ability to manage future expansion, if any, effectively will require us to retain our current personnel and attract, train, motivate and manage new employees successfully, to integrate new management and employees into our overall operations and to continue to improve our operations, financial and management systems. 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, and litigation related to warranty and product liability claims could be expensive and could negatively affect our reputation and profitability.

Our agreements with our customers typically contain provisions designed to limit our exposure to potential liability for damages arising out of the use of, or defects in, our products. These limitations, however, tend to vary from customer to customer and it is possible that these limitations of liability provisions may not be effective. We currently have errors and omissions insurance, which, subject to customary deductibles, exclusions and limits, covers claims resulting from failure of our software products or services to perform the function or to serve the purpose intended. To the extent that any successful product liability claim is not covered by this insurance, 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. Defending such a suit, regardless of its merits, could be expensive and 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 measures to protect our proprietary technology and other intellectual property rights may not be adequate and if we fail to protect those rights, our business would be harmed.

Our success and ability to compete are dependent to a significant degree on our proprietary technology. 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 patents pending in the U.S. and other countries on elements of our DSA product. 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 a our means of protecting our proprietary right may not be adequate and 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.

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

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In the event that we are infringing upon the proprietary rights of others or violating licenses, we may become subject to infringement or other claims that may prevent us from selling certain products and we may incur significant expenses in resolving these claims.

It is also 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. If we become liable to any third party for infringing its intellectual property rights, we could be required to pay substantial damage awards and to develop non-infringing technology, obtain licenses, or to cease selling the applications that contain the infringing intellectual property. Litigation is subject to inherent uncertainties, and any outcome unfavorable to us could materially harm our business. Furthermore, we do not carry insurance covering infringement claims and we could incur substantial costs in defending against any intellectual property litigation, and these costs could increase significantly if any dispute were to go to trial. Our defense of any litigation, regardless of the merits of the complaint, likely would be time-consuming, costly, and a distraction to our management personnel. Adverse publicity related to any intellectual property litigation also could harm the sale of our products and damage our competitive position.

Certain software developed or used by Evolving Systems, as well as certain software acquired in our acquisition of Evolving Systems U.K., may include so called open source software that is made available under an open source software license.

- Such open source software may be made available under licenses, certain of which may impose obligations on us in the event we were to 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 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.

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 or the responses thereto will result in any long-term commercial disruptions or if such activities or responses 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 recently experienced delays in collecting from one of our 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.

We face special risks associated with doing business in highly corrupt environments.

Our international business operations include projects in developing countries and countries torn by conflict. To the extent we operate outside the U.S., we 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. We may also be subject to anti-bribery laws and regulations of the U.K. and other countries. In particular, we may be held liable for actions taken by our local partners and agents, even though such parties are not always subject to our control. Any determination that we have violated the FCPA (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 the FCPA or other anti-bribery legislation inadvertently and thus negatively impact our business.

Our business and operating results will suffer if our systems or networks are compromised orfail.

Increased sophistication and activities of perpetrators of cyber attacks have resulted in an increase in information security risks in recent years. Our software development and support of our telecommunications customers are increasingly dependent on information technology systems that are complex and vital to continuing operations. 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 a breach, including cyber security breaches, could result in the disclosure or misuse of this information, damage our reputation, increase our costs and/or cause losses. 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, performance and business prospects.

The trading price of our stock has been subject to wide fluctuations and may continue to experience volatility in the future.

The trading price of our common stock has been subject to wide fluctuations in response to quarterly variations in operating results, announcements of technological innovations or new products by us or our competitors, merger and acquisition activity, changes in financial estimates by securities analysts, the operating and stock price performance of other companies that investors may deem comparable to us, general stock market and economic considerations and other events or factors. This may continue in the future.

In addition, the stock market has experienced volatility that has particularly affected the market prices of stock of many technology companies and often has been unrelated to the operating performance of these companies. These broad market fluctuations may negatively impact the trading price of our common stock. As a result of the foregoing factors, our common stock may not trade at or higher than its current price.

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.

We are subject to certain rules and regulations of federal, state and financial market exchange entities, the compliance with which requires substantial amounts of management time and company resources. We identified a material weakness in our financial reporting, and failure to remediate it or any future ineffectiveness of internal controls could adversely affect our business and the price of our common stock.

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 are currently developing additional regulations and requirements in response to laws enacted by Congress, most notably the Sarbanes-Oxley Act of 2002 and the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2011. Our compliance with certain of these rules, such as Section 404 of the Sarbanes-Oxley Act, has required and will continue to require the commitment of significant managerial resources. In addition, establishment of effective internal controls is further complicated because we are now a global company with multiple locations and IT systems and a smaller staff following the sale of our Numbering business.

We continue to review our material internal control systems, processes and procedures for compliance with the requirements of Section 404. Such a review resulted in identification of a material weaknesses in our internal controls and a conclusion that our disclosure controls and procedures and internal control over financial reporting were ineffective as of December 31, 2011, as discussed in Section 9A of this Report on Form 10-K. While we are taking steps to remediate the weakness, there is no guarantee that we will not identify additional material weaknesses in our internal controls in the future. Disclosures of material weaknesses in our SEC reports could cause investors to lose confidence in our financial reporting and may negatively affect the price of our stock.

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Moreover, effective internal controls are necessary to produce reliable financial reports and to prevent fraud. A material weakness in our internal control over financial reporting could negatively impact our business, results of operations and reputation.

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.

On February 11, 2011, our Board of Directors approved an amendment to our stockholders rights agreement (Poison Pill) terminating the agreement on March 1, 2011. However, 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; and

- 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.

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.

Our Chief Executive Officer has entered into an employment agreement with us that contains a change in control provision. This agreement generally provides for acceleration on vesting of options, 50% upon a change in control (as defined in such agreement) if the CEO remains employed with the new entity, or 100% in the event the CEO 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 option 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.

General economic factors, domestically and internationally, that impact the communications industry, could negatively affect our revenue and operating results.

Unsettled financial markets, higher interest rates, inflation, levels of unemployment and other economic factors could adversely affect demand for our products and services as consumers and businesses may postpone spending in response to these conditions, negative financial news and declines in income and asset values. 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;
- customer and reseller financial difficulty and greater difficulty collecting accounts receivable.

We are unable to predict how long the current economic downturn will last and the magnitude of its effect on our business and results of operations. If these conditions continue, or further weaken, our business and results of operations could be materially adversely affected.

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General risk statement

Based on all of the foregoing, we believe it is possible for future revenue, expenses and operating results to vary significantly from quarter to quarter and year to year. As a result, quarter-to-quarter and year-to-year comparisons of operating results are not necessarily meaningful or indicative of future performance. Furthermore, we believe that it is possible that in any given quarter or fiscal year our operating results could differ from the expectations of public market analysts or investors. In such event, or in the event that adverse conditions prevail, or are perceived to prevail, with respect to our business or generally, the market price of our common stock would likely decline.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

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

Location	Square Footage	Lease Expiration
Englewood, Colorado (Headquarters)	24,305	10/31/12
Bath, England	5,100	9/26/15
London, England	2,765	3/24/15
Marlow, England	130	1/31/12
Bangalore, India	12,300	8/18/12
Munich, Germany	538	12/31/12
Kuala Lumpur, Malaysia	1,042	7/14/12

ITEM 3. LEGAL PROCEEDINGS

We are involved in various legal matters arising in the normal course of business. We do not believe that any such matters 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

	For the Years Ended December 31,							
	2011				2010			
	High		Low		High		Low	
First Quarter	$	8.28	$	6.89	$	7.05	$	6.02
Second Quarter	$	7.87	$	6.75	$	7.48	$	6.72
Third Quarter	$	7.44	$	6.06	$	7.64	$	6.55
Fourth Quarter	$	7.65	$	6.24	$	8.35	$	7.40

As of March 22, 2012, there were approximately 33 holders of record of our common stock.

Dividends

During the first, second and third quarter of 2011, our Board of Directors declared a cash dividend of $.05 per share. During the fourth quarter of 2011, our Board of Directors declared a special cash dividend of $2.00 per share. 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, we may enter into a credit facility in the future which may require consent of the financial institution issuing the credit facility to declare a dividend. 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.

Issuer Purchases of Equity Securities

Beginning on May 20, 2011, and continuing through December 31, 2012, we intend to make re-purchases of our common stock at prevailing market prices either in the open market or through privately negotiated transactions up to $5.0 million. The size and timing of such purchases, if any, will be based on market and business conditions as well as other factors. We are not obligated to purchase any shares. Purchases under the program can be discontinued at any time we determine additional purchases are not warranted.

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From the inception of the plan through December 31, 2011, we purchased 178,889 shares of our common stock for $1.3 million or an average price of $6.97 per share. These shares are currently being held in treasury and recorded at cost as a component of stockholders equity.

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 DJ Wilshire MicroCap Software index, and the RDG Software Composite 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 12/31/2006 and its relative performance is tracked through 12/31/2011.

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, 2011, 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,									
	2011		2010		2009		2008		2007	
	(in thousands, except per share amounts)									
Revenue	$	19,023	$	22,816	$	24,739	$	24,215	$	22,465
Costs of Revenue and Operating Expenses:										
Cost of revenue, excluding depreciation and amortization		7,419		8,616		8,402		8,611		9,234
Sales and marketing		6,238		6,410		6,934		7,521		7,414
General and administrative		3,650		4,465		4,743		4,579		4,605
Product development		2,484		2,486		2,244		2,524		979
Depreciation		342		347		287		278		344
Amortization		560		688		696		824		890
Restructuring and other expense		1,100								(4)
Income (loss) from operations		(2,770)		(196)		1,433		(122)		(997)
Interest and other income (expense), net		791		(210)		(1,096)		(419)		(1,284)
Interest and other income (expense), related party, net		619								
Income tax expense (benefit)		(405)		(422)		41		(87)		(1,099)
Income (loss) from continuing operations		(955)		16		296		(454)		(1,182)
Income from discontinued operations, net of tax (4)		33,264		5,337		4,528		3,383		1,780
Net income (loss)	$	32,309	$	5,353	$	4,824	$	2,929	$	598
Basic income per common share - net income	$	2.97	$	0.53	$	0.49	$	0.30	$	0.06
Diluted income per common share - net income	$	2.88	$	0.49	$	0.48	$	0.30	$	0.06
Weighted average basic shares outstanding		10,871		10,174		9,816		9,695		9,599
Weighted average diluted shares outstanding		11,202		10,815		10,145		9,878		9,788
Cash dividend declared per common share	$	2.15	$	0.15	$		$		$	
Working capital (2) (3)	$	11,672	$	11,812	$	4,774	$	1,802	$	1,395
Total assets		75,042		50,451		45,837		45,411		53,727
Long-term debt, net of current portion						1,500		4,883		8,686
Series B convertible redeemable preferred stock (1)										5,587
Stockholders equity	$	44,712	$	35,757	$	28,469	$	19,942	$	17,928

(1) On February 25, 2008, holders of 461,758 shares of Series B Preferred Stock with a carrying value of $5.4 million, or approximately 96% of the outstanding preferred stock, converted their shares of preferred stock into 692,637 shares of our common stock in accordance with the conversion provisions of the Series B Preferred Stock. On March 19, 2008, a holder of 16,992 shares of Series B Preferred Stock with a carrying value of $0.2 million, which represented the remainder of the outstanding preferred stock, converted his shares of preferred stock into 25,488 shares of our common stock in accordance with the conversion provisions of the Series B Preferred Stock. As we previously included the Series B Convertible Preferred Stock as a participating security for basic EPS purposes, these conversions did not change our basic or diluted EPS calculations.

(2) During 2009 we reduced our senior term note by $2.0 million which was classified as a current liability at December 31, 2008.

(3) During 2009, we paid $6.2 million to retire our subordinated notes, including accrued interest. These payments were made from cash on hand and $1.5 million in borrowings on our U.K. revolving credit facility. The subordinated debt payments were unscheduled and reduced balances classified as long-term as of December 31, 2008.

(4) During 2011, we completed the Asset Sale of our Numbering Solutions Business on July 1, 2011 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.

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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 and Evolving Systems U.K., 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

During the third quarter of 2011, we completed the sale of our Numbering Solutions Business (the Numbering Business) to NeuStar, Inc., a Delaware corporation (the Buyer) for $39.4 million in cash and the assumption of certain liabilities related to the Numbering Business. The 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. We reported net income of $32.3 million, $5.4 million and $4.8 million for the years ended December 31, 2011, 2010 and 2009, respectively. The net income of $32.3 million for the year ended December 31, 2011 includes approximately $33.3 million income from gain from the sale of our Numbering Business and discontinued operations net of tax.

Our ending backlog at December 31, 2011 was $12.6 million, consisting of $7.8 million of license and services and $4.8 million of customer support compared to total backlog of $7.8 million at December 31, 2010.

We had several improvements to our balance sheet during 2011. Our cash increased $23.5 million to $34.3 million and we hold $16.4 million in long-term corporate debt securities. During the fourth quarter of 2011, we declared a special dividend of $2.00 per share which was paid on January 3, 2012. We accrued the dividend payable of $22.3 million as of December 31, 2011.

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 2011 and 2010 are a result of the U.S. Dollar strengthening on average versus the British Pound Sterling. The chart below summarizes what 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).

	For the Years Ended December 31,	
	2011 vs. 2010	**2010 vs. 2009**
Revenue	$ 570	$ (293)
Costs of revenue and operating expenses	474	(16)
Operating loss	$ 96	$ (277)

The net effect of our foreign currency translations for the year ended December 31, 2011 was a $0.6 million increase in revenue and a $0.5 million increase in operating expenses versus the year ended December 31, 2010. The net effect of our foreign

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currency translations for the year ended December 31, 2010 was a $0.3 million decrease in revenue and a $16,000 decrease in operating expenses versus the year ended December 31, 2009.

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,		
	2011	2010	Change	2010	2009	Change
Revenue:						
License fees and services	$ 9,772	$ 14,637	$ (4,865)	$ 14,637	$ 17,464	$ (2,827)
Customer support	9,251	8,179	1,072	8,179	7,275	904
Total revenue	19,023	22,816	(3,793)	22,816	24,739	(1,923)
Costs of revenue and operating expenses:						
Costs of license fees and services, excluding depreciation and amortization	5,187	6,015	(828)	6,015	5,500	515
Costs of customer support, excluding depreciation and amortization	2,232	2,601	(369)	2,601	2,902	(301)
Sales and marketing	6,238	6,410	(172)	6,410	6,934	(524)
General and administrative	3,650	4,465	(815)	4,465	4,743	(278)
Product development	2,484	2,486	(2)	2,486	2,244	242
Depreciation	342	347	(5)	347	287	60
Amortization	560	688	(128)	688	696	(8)
Restructuring and other recovery	1,100		1,100			
Total costs of revenue and operating expenses	21,793	23,012	(1,219)	23,012	23,306	(294)
Income (loss) from operations	(2,770)	(196)	(2,574)	(196)	1,433	(1,629)
Interest income	192	13	179	13	25	(12)
Interest income, related party	619		619			
Interest expense	(14)	(102)	88	(102)	(547)	445
Other income	62		62			
Gain on sale of investments	221		221			
Foreign currency exchange gain (loss)	330	(121)	451	(121)	(574)	453
Other income (expense), net	1,410	(210)	1,620	(210)	(1,096)	886
Income (loss) from continuing operations before income taxes	(1,360)	(406)	(954)	(406)	337	(743)
Income tax expense (benefit)	(405)	(422)	17	(422)	41	(463)
Income (loss) from continuing operations	(955)	16	(971)	16	296	(280)
Income from discontinued operations, net of tax	33,264	5,337	27,927	5,337	4,528	809
Net income	$ 32,309	$ 5,353	$ 26,956	$ 5,353	$ 4,824	$ 529

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

	For the Years Ended December 31,		
	2011	2010	2009
REVENUE			
License fees and services	51%	64%	71%
Customer support	49%	36%	29%
Total revenue	100%	100%	100%
COSTS OF REVENUE AND OPERATING EXPENSES			
Costs of license fees and services, excluding depreciation and amortization	27%	26%	22%
Costs of customer support, excluding depreciation and amortization	12%	11%	12%
Sales and marketing	33%	28%	28%
General and administrative	19%	20%	19%
Product development	13%	11%	9%
Depreciation	2%	2%	1%
Amortization	3%	3%	3%
Restructuring and other recovery	5%		
Total costs of revenue and operating expenses	114%	101%	94%
Income (loss) from operations	(14)%	(1)%	6%
Other income (expense)			
Interest income	1%	0%	0%
Interest income, related party	3%		
Interest expense	(0)%	(0)%	(2)%
Other income	0%		
Gain (loss) on extinguishment of debt			
Gain on sale of investments	1%		
Foreign currency exchange gain (loss)	2%	(1)%	(2)%
Other income (expense), net	7%	(1)%	(4)%
Income (loss) from continuing operations before income taxes	(7)%	(2)%	2%
Income tax expense (benefit)	(2)%	(2)%	0%
Income (loss) from continuing operations	(5)%	0%	2%
Income from discontinued operations, net of tax	175%	23%	18%
Net income	170%	23%	20%

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 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 33%, or $4.9 million to $9.8 million for the year ended December 31, 2011 compared to $14.6 million for the year ended December 31, 2010. The decrease is due to declines in Dynamic SIM Allocation (DSA   ), Tertio Service Activation (TSA   ) and billing mediation revenues of $2.8 million, $1.6 million and $0.5 million, respectively.

License fees and services revenue decreased 16%, or $2.9 million to $14.6 million for the year ended December 31, 2010 compared to $17.5 million for the year ended December 31, 2009. This decrease is primarily due to a decline in TSA

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revenue of $4.4 million, partially offset by increased revenue from our DSA solution of $1.1 million and billing mediation revenue of $0.4 million.

Customer Support

Customer support revenue increased 13%, or $1.1 million, to $9.3 million for the year ended December 31, 2011 from $8.2 million for the year ended December 31, 2010. The increase in customer support revenue was primarily the result of the increase in our DSA installed customer base as well as increased revenue from TSA.

Customer support revenue increased 12%, or $0.9 million, to $8.2 million for the year ended December 31, 2010 from $7.3 million for the year ended December 31, 2009. The increase in customer support revenue was primarily the result of the increase in our DSA installed customer base as well as increased revenue from TSA.

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 $7.4 million, $8.6 million and $8.4 million for the years ended December 31, 2011, 2010 and 2009, respectively.

Costs of License Fees and Services, excluding depreciation and amortization

Costs of revenue for license fees and services decreased 14%, or $0.8 million, to $5.2 million for the year ended December 31, 2011 from $6.0 million for the year ended December 31, 2010. The decrease in costs was primarily the result of reduced staff, subcontractors and third party software expense, all a result of lower revenue. As a percentage of license fees and services revenue, costs of license fees and services, excluding depreciation and amortization, increased to 53% for the year ended December 31, 2011 from 41% for the year ended December 31, 2010. The increase in costs as a percentage of licenses fees and services revenue is primarily related to lower revenue during the period.

Costs of revenue for license fees and services increased 9%, or $0.5 million, to $6.0 million for the year ended December 31, 2010 from $5.5 million for the year ended December 31, 2009. As a percentage of license fees and services revenue, costs of license fees and services, excluding depreciation and amortization, increased to 41% for the year ended December 31, 2010 from 31% for the year ended December 31, 2009.The increase in costs and as a percentage of license fees and services revenue was primarily the result of increased effort and on site presence on projects as well as lower revenue during the period.

Costs of Customer Support, excluding depreciation and amortization

Costs of revenue for customer support decreased 14%, or $0.4 million, to $2.2 million for the year ended December 31, 2011 from $2.6 million for the year ended December 31, 2010. The decrease in costs is related to fewer hours spent on support projects. As a percentage of customer support revenue, costs of customer support revenue, excluding depreciation and amortization, decreased to 24% for the year ended December 31, 2011 from 32% for the year ended December 31, 2010. The decrease in costs as a percentage of customer support revenue is due primarily to the aforementioned decrease in costs as well as increased revenue during the period.

Costs of revenue for customer support decreased 10%, or $0.3 million, to $2.6 million for the year ended December 31, 2010 from $2.9 million for the year ended December 31, 2009. The decrease was primarily due to increased reliance on our less expensive Indian labor. As a percentage of customer support revenue, costs of customer support revenue, excluding depreciation and amortization, decreased to 32% for the year ended December 31, 2010 from 40% for the year ended December 31, 2009. The decrease as a percentage of customer support revenue was primarily due to decreased employee costs, which includes an increased reliance on our less expensive Indian workforce as well as increased revenue 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 decreased 3%, or $0.2 million, to $6.2 million for the year ended December 31, 2011 from $6.4 million for the year ended December 31, 2010. The decrease in costs is primary related to lower marketing expenses related to cost control initiatives. As a percentage of total revenue, sales and marketing expenses for the year ended December 31, 2011 increased to 33% from 28% for the year ended December 31, 2010. These increase as a percentage of revenue is primarily due to lower revenue during the period.

Sales and marketing expenses decreased 8%, or $0.5 million, to $6.4 million for the year ended December 31, 2010 from $6.9 million for the year ended December 31, 2009. The decrease in expenses was primarily due to lower incentive compensation costs as a result of lower sales orders and revenue during the year. As a percentage of total revenue, sales and marketing expenses for the year ended December 31, 2010 and December 31, 2009 remained constant at 28%.

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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 decreased 18%, or $0.8 million, to $3.6 million for the year ended December 31, 2011 from $4.4 million for the year ended December 31, 2010. The decrease in costs was primarily due to lower incentive compensation, equity compensation and professional fees. As a percentage of total revenue, general and administrative expenses decreased to 19% for the year ended December 31, 2011 from 20% for the year ended December 31, 2010. The decrease in expenses as a percentage of revenue is primarily related to the aforementioned decreased expenses, partially offset by lower revenue during the period.

General and administrative expenses decreased 6%, or $0.3 million, to $4.4 million for the year ended December 31, 2010 from $4.7 million for the year ended December 31, 2009. The decrease in costs was primarily due to decreased incentive compensation expenses due to lower revenue and decreased professional fees. As a percentage of total revenue, general and administrative expenses increased to 20% for the year ended December 31, 2010 compared to 19% for the year ended December 31, 2009. The increase in costs as a percentage of revenue is primarily due to decreased revenue during the period, partially offset by the aforementioned decreased costs.

Product Development

Product development expenses consist primarily of employee-related costs for product development. Product development expenses remained at $2.5 million for the years ended December 31, 2011 and the year ended December 31, 2010. As a percentage of total revenue, product development expenses increased to 13% in 2011 from 11% in 2010. The increase as a percentage of total revenue is due to lower revenue during the period.

Product development expenses increased 11%, or $0.2 million, to $2.5 million for the year ended December 31, 2010 from $2.2 million for the year ended December 31, 2009. As a percentage of total revenue, product development expenses increased to 11% in 2010 from 9% in 2009. The increased investment in product development was primarily from increased investment in DSA.

Depreciation

Depreciation expense consists of depreciation of long-lived property and equipment. Depreciation expenses stayed approximately $0.3 million for the years ended December 31, 2011 and 2010. This decrease was a result of certain assets becoming fully depreciated. As a percentage of revenue, depreciation expense remained at 2% for the years ended December 31, 2011 and 2010.

Depreciation expenses increased 21% or $60,000, to $347,000 for the year ended December 31, 2010 from $287,000 for the year ended December 31, 2009. As a percentage of revenue, depreciation expense was 2% and 1%, respectively for the years ended December 31, 2010 and 2009.

Amortization

Amortization expense consists of amortization of identifiable intangibles related to our acquisitions of Evolving Systems U.K. Amortization expenses decreased 19%, to $0.6 million for the year ended December 31, 2011 from $0.7 million for the year ended December 31, 2010. As a percentage of revenue, amortization expense remained at 3% for the years ended December 31, 2011 and 2010. The decrease in amortization expense was due to purchased software assets of Evolving Systems UK becoming fully amortized during 2011.

Amortization expenses stayed approximately $0.7 million for the years ended December 31, 2010 and December 31, 2009. As a percentage of revenue, amortization expense was 3% for the years ended December 31, 2010 and 2009. The decrease in amortization expense was due to the effects of the conversion of the British Pound Sterling to the US Dollar.

Interest Income

Interest income includes interest income earned on cash, cash equivalents and long-term investments. Interest income increased 6139%, or $0.8 million, to $0.8 million for the year ended December 31, 2011 from $13,000 for the year ended December 31, 2010. The increase was due to interest from long-term investments.

Interest income decreased 48%, or $12,000, to $13,000 for the year ended December 31, 2010 from $25,000 for the year ended December 31, 2009. The decrease was a result of lower rates of return earned on our cash balances.

Interest Expense

Interest expense includes interest expense on our long-term debt and capital lease obligations as well as amortization of debt issuance costs. Interest expense for the year ended December 31, 2011 decreased 86% or $88,000 to $14,000 as compared to $0.1 million for the year ended December 31, 2010. This decrease was a result of the retirement our senior term loan and revolving credit facility in the first quarter of 2010. The 2011 expense was primarily the interest of a capital lease.

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Interest expense for the year ended December 31, 2010 decreased 81% or $0.4 million to $0.1 million as compared to $0.5 million for the year ended December 31, 2009. This decrease was a result of lower debt balances due to the early retirement of our subordinated debt and accrued interest during 2009 and the retirement of our senior term loan and revolving credit facility in the first quarter of 2010.

Gain on sale of investments

Gain on the sale of investments for the year ended December 31, 2011 is $0.2 million. The gain is a result of the sale of long-term investments. There were no long-term investments for the years ended December 31, 2010 and 2009.

Gain (Loss) on Foreign Exchange Transactions

Gain (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. Foreign currency transaction gain of $0.3 million for the year ended December 31, 2011 compared to a $0.1 million loss for the year ended December 31, 2010 for a year over year improvement of 373% or $0.4 million. The gain and loss were generated through the re-measurement of certain non-functional currency denominated financial assets and liabilities of our Evolving Systems U.K. and India subsidiaries.

Foreign currency transaction expense decreased $0.5 million to a foreign currency loss of $0.1 million for the year ended December 31, 2010 compared to a $0.6 million foreign currency loss for the year ended December 31, 2009. These losses were primarily generated by Evolving Systems U.K. transactions denominated in currencies other than its functional currency (mainly U.S. Dollars), which caused losses as the British Pound Sterling strengthened during 2010.

Income Tax Expense

We recorded income tax expense (benefit) of ($0.4) million, ($0.4) million and $41,000 for the years ended December 31, 2011, 2010 and 2009, respectively. The net benefit during year ended December 31, 2011 consisted of current income tax expense of $0.2 million offset by a net deferred tax benefit of $0.6 million. The current tax expense consists primarily of income tax from our U.K.-based operations and income tax related to our operations in India and alternative minimum tax (AMT). The majority of the U.K. income tax expense is related to unrecoverable foreign withholding taxes. 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 partial release of our valuation allowance on our domestic deferred tax assets during the second quarter of 2011 as a result of the anticipated gain on Number Solutions Business which closed in the third quarter of 2011. We also had a deferred tax benefit related to the release of our valuation allowance on our tax asset from our Indian operations as we began to utilize minimum alternate tax (MAT) payments made during our tax holiday. These MAT payments can be applied toward future taxes payable since the tax holiday expired on March 31, 2011. In addition, we had a tax benefit related to intangible assets from our U.K.-based operations. The income tax benefit of $0.4 during the year ended December 31, 2010 consisted of current tax expense of $0.3 million offset by a deferred tax benefit of $0.7 million. The current tax expense consists of income tax from our U.K.-based operations, unrecoverable foreign withholding tax in the U.S. and MAT from our Indian operations. The deferred tax benefit was related to intangible assets from our U.K.-based operations and losses from continuing operations in the U.S.

The income tax expense for the year ended December 31, 2009 of $41,000 consisted of current tax expense of $0.2 million partially offset by a deferred tax benefit of $0.2 million. The current tax expense for the year ended December 31, 2009 was primarily related to our U.K.-based operations and non-recoverable foreign withholding tax and AMT in the U.S. The deferred tax benefit was related to the intangible assets related to our U.K.-based operations.

In conjunction with the acquisition of Evolving Systems U.K., we recorded certain identifiable intangible assets. Since the amortization of these identifiable intangibles is not deductible for income tax purposes, we established a long-term deferred tax liability of $4.6 million at the acquisition date for the expected difference between what would be expensed for financial reporting purposes and what would be deductible for income tax purposes. As of December 31, 2011 and 2010, this deferred tax liability was $0.1 million and $0.3 million, respectively. The deferred tax liability relates to Evolving Systems U.K. and has no impact on our ability to recover the U.S. based deferred tax assets. This deferred tax liability will be recognized as the identifiable intangibles are amortized.

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, 2011 and 2010, 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.

Discontinued Operations

On July 1, 2011, we completed the sale of our Number Solutions business for $39.4 million. During the third quarter of 2011, we recorded a $30.5 million gain on the asset disposition, net of taxes. The results of continuing operations were reduced by the revenue and costs associated with the business which are included in the Income from Discontinued Operations, net of tax, in our Consolidated Statements of Operations.

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FINANCIAL CONDITION

Our working capital position of $11.7 million at December 31, 2011 reflects a slight decrease of $0.1 million from our working capital position of $11.8 million at December 31, 2010. Our working capital position decreased minimally at December 31, 2011 despite an accrual of $22.3 million for a special cash dividend net of treasury stock, $2.2 million cash used to pay cash dividends and $1.3 million to buy back 178,889 shares of treasury stock pursuant to our stock repurchase program, which are currently being held as treasury stock.

LIQUIDITY AND CAPITAL RESOURCES

We have historically financed operations through cash flows from operations as well as debt and equity transactions. At December 31, 2011, our principal sources of liquidity were $34.3 million in cash and cash equivalents and $4.5 million in contract receivables, net of allowances.

Net cash provided by operating activities for the year ended December 31, 2011, 2010 and 2009 was $4.9 million, $5.8 million and $3.6 million, respectively. The decrease in cash provided by operating activities for the year ended December 31, 2011 was due to decrease in accounts payable and accrued liabilities and an increase in prepaid and other assets, partially offset by an increase in contract receivables. Net cash provided by (used in) continuing operating activities was ($1.4) million, $14,000 and ($1.7) million for the years ended December 31, 2011, 2010 and 2009, respectively. The decrease in cash provided by continuing operating activities for the year ended December 31, 2011 was primarily due to a decrease in accounts payable and accrued liabilities and an increase in prepaid and other assets, partially offset by an increase in contract receivables.

The increase in cash provided by operating activities during the year ended December 31, 2010 compared to 2009 was related to optional pre-payments of accrued interest on our subordinated debt, which is classified as other long-term obligations and the change in the timing of our unearned revenue billings.

Net cash provided by (used in) investing activities was $20.1 million, ($0.4) million and ($0.5) million for the years ended December 31, 2011, 2010 and 2009, respectively. The increase in cash provided by investing activities for the year ended December 31, 2011 was related to the Asset Sale partially offset by the purchase of investments. During 2011, 2010 and 2009, we purchased $90,000, $0.3 million and $0.4 million in property and equipment to support operations, respectively. Historically, capital expenditures have been financed by cash from operating activities.

Net cash provided by (used in) financing activities was ($1.4) million, $0.1 million and ($4.3) million for the years ended December 31, 2011, 2010 and 2009, respectively. The net cash used in financing activities is primarily due to payments of $2.2 million for common stock dividends and $1.2 million for the purchase of treasury stock, partially offset by $2.0 million of proceeds from the exercise of stock options. The net cash provided by financing activities during 2010 was primarily the result of cash received from the exercise of stock options of $3.0 million, offset by net payments of $1.8 million to retire our senior term notes and pay off our U.K. revolving credit facility, and $1.0 million for common stock dividends. The net cash used in financing activities during 2009 was primarily the result of $6.6 million of principal payments on long-term debt, partially offset by borrowings on our U.K. revolving credit facility of approximately $1.5 million and $0.8 million of proceed 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 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, 2011 of $34.3 million;

- Our working capital balance of $11.7 million;

- Our demonstrated ability to generate positive operating cash flows;

- The declaration of our quarterly cash dividends of $0.05 per share for the first three quarters of 2011, the special cash dividend of $2.00 per share and the possibility of future dividends;

- Our treasury share purchases and the possibility of future purchases;

- Our backlog of approximately $12.6 million, including $7.8 million in license fees and services and $4.8 million in customer support at December 31, 2011; and

- Our planned capital expenditures of less than $1.0 million during 2012.

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, 2011, 2010 and 2009, the effect of exchange rate changes resulted in a ($59,000), ($43,000) and $0.7 million increase (decrease) 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.

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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, 2011, which are comprised of a capital lease and operating leases (in thousands).

	Payments due by period				
	Total	**2012**	**2013**	**2014**	**2015 and thereafter**
Capital lease	$ 8	$ 8	$	$	$
Operating leases	1,282	743	212	212	115
Total commitments	$ 1,290	$ 751	$ 212	$ 212	$ 115

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 January 3, 2012, 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.

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 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

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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 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. 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. As of December 31, 2011 and 2010, 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.

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, 2011, which we had $16.9 million of goodwill included the following reporting units, License and Services (L&S) UK of $7.6 million and Customer Support (CS) UK of $9.3 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 2011 goodwill impairment analysis, the fair value of each reporting unit exceeded its carrying value. Therefore the second step was not necessary. A hypothetical 5% decrease in the estimated fair value of our CS-UK reporting unit still result in the estimated fair value exceeding its carrying value. However, a hypothetical 5% decrease

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in the estimated fair value of our L&S-UK reporting unit would result in its carrying value exceeding its estimated fair value and therefore require the second step, which could result in impairment for that reporting unit.

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 purchase of Tertio Telecoms Ltd. (Evolving Systems U.K.). 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. Factors that we consider important which could trigger an impairment review include the following:

- Significant under-performance relative to historical or projected future operating results;
- Significant changes in the manner of use of the acquired assets or the strategy of the overall business;
- Significant negative industry or economic trends; and/or
- Significant decline in our stock price for a sustained period.

If, as a result of the existence of one or more of the above indicators of impairment, 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.

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, 2011, 2010, or 2009. In addition, we did not have any capitalized internal software development costs included in our December 31, 2011 and 2010 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.

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Interest Rate Risks

Our cash balances are subject to interest rate fluctuations and as a result, interest income amounts may fluctuate from current levels.

Market Risks

Our exposure to market risk relates primarily to our investment portfolio. Any significant future declines in their market values could have a material adverse affect our financial condition and operating results. When evaluating the investments for other-than-temporary impairment, we review factors such as the length of time and extent to which fair value has been below cost basis, the financial condition of the issuer and any changes thereto, and our intent to sell, or whether it is more likely than not we will be required to sell the investment before recovery of the investment s amortized cost basis. Our investment policy requires investments to be rated B- or better. Marketable debt securities have been classified and accounted for as available-for-sale. Management determines the appropriate classification of its investments at the time of purchase and reevaluates the available-for-sale designations as of each balance sheet date. We classify our marketable debt securities as either short-term or long-term based on each instrument s underlying contractual maturity date. Marketable debt securities with maturities of 12 months or less are classified as short-term and marketable debt securities with maturities greater than 12 months are classified as long-term.

As of December 31, 2011, we had approximately $16.4 million in long-term investments. All of our corporate debt security investments are concentrated within the senior secured notes of a single issuer. Any significant adverse developments in that issuer s business, industry, operations or financial condition could have a disproportionately adverse impact on the value of our investment, our receipt of interest and principal payments under the notes, or our financial condition and operating results.

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.

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, 2011	December 31, 2010
British pound sterling	0.64701	0.64638
Indian rupee	54.52563	45.55809

	For the Years Ended December 31,		
Average rates:	2011	2010	2009
British pound sterling	0.62347	0.64675	0.64138
Indian rupee	47.21531	45.96229	48.44708

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 Shareholders

Evolving Systems, Inc.

We have audited the accompanying consolidated balance sheets of Evolving Systems, Inc. (a Delaware corporation) and subsidiaries (collectively, the Company) as of December 31, 2011 and 2010, and the related consolidated statements of operations, changes in stockholders equity and comprehensive income (loss), and cash flows for each of the three years in the period ended December 31, 2011. These financial statements are the responsibility of the Company s management. 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Evolving Systems, Inc. and subsidiaries as of December 31, 2011 and 2010, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2011 in conformity with accounting principles generally accepted in the United States of America.

/s/ GRANT THORNTON LLP

Denver, Colorado

March 30, 2012

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EVOLVING SYSTEMS, INC.

CONSOLIDATED BALANCE SHEETS

(in thousands except share data)

(unaudited)

		December 31, 2011		December 31, 2010
ASSETS				
Current assets:				
Cash and cash equivalents	$	34,290	$	10,801
Short-term restricted cash		50		
Contract receivables, net of allowance for doubtful accounts of $52 and $520 at December 31, 2011 and December 31, 2010, respectively		4,540		5,502
Unbilled work-in-progress		1,361		1,519
Prepaid and other current assets		1,259		1,251
Interest receivable, long-term investments, related parties		357		
Current assets of discontinued operations				7,374
Total current assets		41,857		26,447
Long-term investments, related party		16,448		
Property and equipment, net		369		625
Amortizable intangible assets, net		584		1,123
Goodwill		15,782		15,797
Long-term restricted cash		2		50
Other long-term assets				2
Long-term assets of discontinued operations				6,407
Total assets	$	75,042	$	50,451
LIABILITIES AND STOCKHOLDERS EQUITY				
Current liabilities:				
Current portion of capital lease obligations	$	8	$	13
Accounts payable and accrued liabilities		3,657		3,586
Income taxes payable		848		
Dividends payable		22,271		532
Deferred income taxes				21
Unearned revenue		3,401		2,863
Current liabilities of discontinued operations				7,620
Total current liabilities		30,185		14,635
Long-term liabilities:				
Capital lease obligations, net of current portion				4
Deferred income taxes		145		51
Long-term liabilities of discontinued operations				4
Total liabilities		30,330		14,694
Commitments and contingencies (Note 10)				
Stockholders equity:				
Preferred stock, $0.001 par value; 2,000,000 shares authorized; no shares issued and outstanding as of December 31, 2011 and December 31, 2010				
Common stock, $0.001 par value; 40,000,000 shares authorized; 11,314,493 shares issued and 11,135,604 outstanding as of December 31, 2011 and 10,651,431 shares issued and outstanding as of December 31, 2010		11		11

Additional paid-in capital		90,062		87,435
Treasury stock 178,889 and 0 shares as of December 31, 2011 and December 31, 2010, respectively, at cost		(1,253)		
Accumulated other comprehensive loss		(4,247)		(3,704)
Unrealized losses on investments, related parties, net of tax		(284)		
Accumulated deficit		(39,577)		(47,985)
Total stockholders equity		44,712		35,757
Total liabilities and stockholders equity	$	75,042	$	50,451

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

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EVOLVING SYSTEMS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands except per share data)

	For the Years Ended December 31, 2011	2010	2009
REVENUE			
License fees and services	$ 9,772	$ 14,637	$ 17,464
Customer support	9,251	8,179	7,275
Total revenue	19,023	22,816	24,739
COSTS OF REVENUE AND OPERATING EXPENSES			
Costs of license fees and services, excluding depreciation and amortization	5,187	6,015	5,500
Costs of customer support, excluding depreciation and amortization	2,232	2,601	2,902
Sales and marketing	6,238	6,410	6,934
General and administrative	3,650	4,465	4,743
Product development	2,484	2,486	2,244
Depreciation	342	347	287
Amortization	560	688	696
Restructuring and other recovery	1,100		
Total costs of revenue and operating expenses			