

EVOLVING SYSTEMS INC  
Form 10-Q  
November 13, 2006

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

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

**For the quarterly period ended September 30, 2006**

**OR**

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

**For the transition period from            to**

**Commission File Number: 0-24081**

**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 No.)

**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)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer: in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

As of October 31, 2006 there were 16,233,646 shares outstanding of Registrant's Common Stock (par value \$0.001 per share).

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**EVOLVING SYSTEMS, INC.**  
**Quarterly Report on Form 10-Q**  
**September 30, 2006**  
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Signature

## PART I FINANCIAL INFORMATION

## Item 1. Financial Statements

**EVOLVING SYSTEMS, INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(in thousands except share data)  
(unaudited)

|                                                                                                                                                                                     | September 30,<br>2006 | December 31,<br>2005 |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|----------------------|
| <b>ASSETS</b>                                                                                                                                                                       |                       |                      |
| Current assets:                                                                                                                                                                     |                       |                      |
| Cash and cash equivalents                                                                                                                                                           | \$ 4,521              | \$ 3,883             |
| Current portion of restricted cash                                                                                                                                                  | 300                   |                      |
| Contract receivables, net of allowance of \$69 at September 30, 2006 and \$48 at December 31, 2005                                                                                  | 5,936                 | 10,766               |
| Unbilled work-in-progress                                                                                                                                                           | 1,325                 | 1,147                |
| Deferred foreign income taxes                                                                                                                                                       | 12                    | 5                    |
| Prepaid and other current assets                                                                                                                                                    | 1,632                 | 1,335                |
| Total current assets                                                                                                                                                                | 13,726                | 17,136               |
| Property and equipment, net                                                                                                                                                         | 1,395                 | 1,775                |
| Amortizable intangible assets, net                                                                                                                                                  | 6,321                 | 13,350               |
| Goodwill                                                                                                                                                                            | 25,127                | 34,073               |
| Long-term restricted cash                                                                                                                                                           |                       | 300                  |
| Other long-term assets                                                                                                                                                              | 498                   | 764                  |
| Total assets                                                                                                                                                                        | \$ 47,067             | \$ 67,398            |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>                                                                                                                                          |                       |                      |
| Current liabilities:                                                                                                                                                                |                       |                      |
| Current portion of capital lease obligations                                                                                                                                        | \$ 36                 | \$ 34                |
| Current portion of long-term debt                                                                                                                                                   | 1,750                 | 1,000                |
| Accounts payable and accrued liabilities                                                                                                                                            | 5,041                 | 6,001                |
| Unearned revenue                                                                                                                                                                    | 7,496                 | 9,654                |
| Total current liabilities                                                                                                                                                           | 14,323                | 16,689               |
| Long-term liabilities:                                                                                                                                                              |                       |                      |
| Capital lease obligations, net of current portion                                                                                                                                   | 43                    | 71                   |
| Other long-term obligations                                                                                                                                                         | 574                   | 83                   |
| Long-term debt, net of current portion                                                                                                                                              | 11,870                | 14,373               |
| Deferred foreign income taxes                                                                                                                                                       | 1,163                 | 2,777                |
| Total liabilities                                                                                                                                                                   | 27,973                | 33,993               |
| Commitments and contingencies (Note 9)                                                                                                                                              |                       |                      |
| Series B convertible redeemable preferred stock                                                                                                                                     | 11,281                | 11,281               |
| Stockholders' equity:                                                                                                                                                               |                       |                      |
| Preferred stock, \$0.001 par value; 2,000,000 shares authorized; 966,666 shares of Series B issued and outstanding (shown above)                                                    |                       |                      |
| Common stock, \$0.001 par value; 25,000,000 shares authorized; 16,212,716 and 16,137,821 shares issued and outstanding as of September 30, 2006 and December 31, 2005, respectively |                       |                      |
| Additional paid-in capital                                                                                                                                                          | 16                    | 16                   |
| Accumulated other comprehensive income (loss)                                                                                                                                       | 68,624                | 67,891               |
| Accumulated deficit                                                                                                                                                                 | 334                   | (2,417)              |
| Accumulated deficit                                                                                                                                                                 | (61,161)              | (43,366)             |
| Total stockholders' equity                                                                                                                                                          | 7,813                 | 22,124               |
| Total liabilities and stockholders' equity                                                                                                                                          | \$ 47,067             | \$ 67,398            |

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

**EVOLVING SYSTEMS, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(in thousands except per share data)  
(unaudited)

|                                                                             | Three Months Ended<br>September 30, |          | Nine Months Ended<br>September 30, |           |
|-----------------------------------------------------------------------------|-------------------------------------|----------|------------------------------------|-----------|
|                                                                             | 2006                                | 2005     | 2006                               | 2005      |
| <b>REVENUE</b>                                                              |                                     |          |                                    |           |
| License fees and services                                                   | \$ 3,990                            | \$ 4,821 | \$ 11,855                          | \$ 14,643 |
| Customer support                                                            | 4,677                               | 4,749    | 13,180                             | 14,691    |
| Total revenue                                                               | 8,667                               | 9,570    | 25,035                             | 29,334    |
| <b>COSTS OF REVENUE AND OPERATING EXPENSES</b>                              |                                     |          |                                    |           |
| Costs of license fees and services, excluding depreciation and amortization | 1,991                               | 2,285    | 5,523                              |           |