

EVOLVING SYSTEMS INC

Form 10-Q

November 08, 2016

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2016

OR

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

For the transition period from to

Commission File Number: 001-34261

EVOLVING SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

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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 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 No

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

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

As of November 3, 2016 there were 11,907,391 shares outstanding of Registrant's Common Stock (par value \$0.001 per share).

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Quarterly Report on Form 10-Q
September 30, 2016
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Table of Contents**PART I FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****EVOLVING SYSTEMS, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS**

(in thousands, except share data)

(unaudited)

	September 30, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 6,941	\$ 8,400
Contract receivables, net of allowance for doubtful accounts of \$74 at September 30, 2016 and \$83 at December 31, 2015	5,904	7,727
Unbilled work-in-progress	3,725	4,158
Prepaid and other current assets	1,792	1,459
Total current assets	18,362	21,744
Property and equipment, net	359	560
Amortizable intangible assets, net	4,396	4,983
Goodwill	21,269	23,142
Total assets	\$ 44,386	\$ 50,429
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Current portion of capital lease obligations	\$ 3	\$ 5
Revolving line of credit		10,000
Term loan - current	1,492	
Accounts payable and accrued liabilities	4,332	4,607
Income taxes payable	579	324
Unearned revenue	4,284	3,330
Total current liabilities	10,690	18,266
Long-term liabilities:		
Capital lease obligations, net of current portion		1
Term loan, net of current portion	4,500	
Total liabilities	15,190	18,267
Commitments and contingencies		
Stockholders equity:		
Preferred stock, \$0.001 par value; 2,000,000 shares authorized; no shares issued and outstanding as of September 30, 2016 and December 31, 2015		
Common stock, \$0.001 par value; 40,000,000 shares authorized; 12,085,702 shares issued and 11,906,813 outstanding as of September 30, 2016 and 11,970,731 shares issued and 11,791,842 outstanding as of December 31, 2015	12	12

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Additional paid-in capital	97,681	97,418
Treasury stock 178,889 shares as of September 30, 2016 and December 31, 2015, at cost	(1,253)	(1,253)
Accumulated other comprehensive loss	(8,780)	(5,999)
Accumulated deficit	(58,464)	(58,016)
Total stockholders' equity	29,196	32,162
Total liabilities and stockholders' equity	\$ 44,386	\$ 50,429

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

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EVOLVING SYSTEMS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share data)

(unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2016	2015	2016	2015
REVENUE				
License fees and services	\$ 3,557	\$ 3,228	\$ 10,616	\$ 11,177
Customer support	2,546	2,545	8,045	7,327
Total revenue	6,103	5,773	18,661	18,504
COSTS OF REVENUE AND OPERATING				
Costs of license fees and services, excluding depreciation and amortization	961	1,043	2,968	3,458
Costs of customer support, excluding depreciation and amortization	298	396	1,003	1,116
Sales and marketing	1,236	1,336	3,807	4,435
General and administrative	952	1,010	2,774	2,943
Product development	697	913	2,485	2,887
Depreciation	57	97	205	277
Amortization	196	24	587	71
Restructuring	3		1,007	
Total costs of revenue and operating expenses	4,400	4,819	14,836	15,187
Income from operations	1,703	954	3,825	3,317
Other income (expense)				
Interest income	1	5	4	14
Interest expense	(74)	(3)	(265)	(9)
Foreign currency exchange loss	(261)	(244)	(508)	(218)
Other expense, net	(334)	(242)	(769)	(213)
Income from operations before income taxes	1,369	712	3,056	3,104
Income tax expense	428	142	908	894
Net income	\$ 941	\$ 570	\$ 2,148	\$ 2,210
Basic income per common share	\$ 0.08	\$ 0.05	\$ 0.18	\$ 0.19
Diluted income per common share	\$ 0.08	\$ 0.05	\$ 0.18	\$ 0.19
Cash dividend declared per common share	\$	\$ 0.11	\$ 0.22	\$ 0.33
Weighted average basic shares outstanding	11,873	11,687	11,824	11,677
Weighted average diluted shares outstanding	11,979	11,927	11,967	11,938

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

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EVOLVING SYSTEMS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in thousands)

(unaudited)

	For the Three Months Ended September 2016		For the Three Months Ended September 2015		For the Nine Months Ended September 30, 2016		For the Nine Months Ended September 30, 2015	
Net income	\$	941	\$	570	\$	2,148	\$	2,210
Other comprehensive loss:								
Foreign currency translation loss		(753)		(975)		(2,781)		(909)
Comprehensive income (loss)	\$	188	\$	(405)	\$	(633)	\$	1,301

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

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EVOLVING SYSTEMS, INC.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(in thousands, except share data)

(unaudited)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders Equity
Balance at December 31, 2015	11,791,842	\$ 12	\$ 97,418	\$ (1,253)	\$ (5,999)	\$ (58,016)	\$ 32,162
Stock option exercises	111,785		50				50
Common stock issued pursuant to the Employee Stock Purchase Plan	3,186		15				15
Stock-based compensation expense			198				198
Common stock dividends declared						(2,596)	(2,596)
Net income						2,148	2,148
Foreign currency translation adjustment					(2,781)		(2,781)
Balance at September 30, 2016	11,906,813	\$ 12	\$ 97,681	\$ (1,253)	\$ (8,780)	\$ (58,464)	\$ 29,196

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

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EVOLVING SYSTEMS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	For the Nine Months Ended September 30,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 2,148	\$ 2,210
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	205	277
Amortization of intangible assets	587	71
Amortization of debt issuance costs	27	8
Stock based compensation	198	229
Unrealized foreign currency transaction loss, net	508	218
Provision for deferred income taxes	(18)	(25)
Change in operating assets and liabilities:		
Contract receivables	735	(137)
Unbilled work-in-progress	9	1,604
Prepaid and other assets	(389)	(183)
Accounts payable and accrued liabilities	202	(934)
Unearned revenue	1,326	(439)
Net cash provided by operating activities	5,538	2,899
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(24)	(191)
Business combinations, net of cash		(9,014)
Net cash used in investing activities	(24)	(9,205)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Capital lease payments	(4)	(4)
Proceeds of the revolving line of credit		10,000
Payments of the revolving line of credit	(10,000)	
Proceeds from the term loan	6,000	
Payments for debt issuance costs	(20)	
Common stock cash dividends	(2,596)	(3,844)
Proceeds from the issuance of stock	65	73
Net cash provided by (used in) financing activities	(6,555)	6,225
Effect of exchange rate changes on cash	(418)	(290)
Net decrease in cash and cash equivalents	(1,459)	(371)
Cash and cash equivalents at beginning of period	8,400	9,781
Cash and cash equivalents at end of period	\$ 6,941	\$ 9,410
Supplemental disclosure of cash and non-cash transactions:		
Income taxes paid	\$ 791	\$ 1,092
Property and equipment purchased and included in accounts payable	1	12

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

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EVOLVING SYSTEMS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 BASIS OF PRESENTATION

Organization We are a provider of software solutions and services to the wireless, wireline and cable markets. We maintain long-standing relationships with many of the largest wireless, wireline and cable companies worldwide. Our customers rely on us to develop, deploy, enhance and maintain software solutions that provide a variety of service activation and provisioning functions. Our service activation solution, *Tertio*® (TSA) is used to activate bundles of voice, video and data services for wireless, wireline and cable network operators; our SIM card activation solution, *Dynamic SIM Allocation*™ (DSA) is used to dynamically allocate and assign resources to Mobile Network Operators (MNOs) devices that rely on SIM cards; our *Mobile Data Enablement*™ (MDE) solution provides a data consumption and policy management solution for wireless carriers and Mobile Virtual Network Operators (MVNOs) that monitor the usage and consumption of data services; our *Total Number Management* (TNM) product is a scalable and fully automated database solution that enables operators to reliably and efficiently manage their telephone numbers as well as other communication identifiers (i.e. SIMs, MSISDNs, IMSIs, ICCIDs, IPs). Our solutions can be deployed on premise or offered as a Software-as-a-Service (SaaS).

On September 30, 2015 we announced the acquisition of privately held RateIntegration, Inc., d/b/a Sixth Sense Media (SSM), a provider of real time analytics and marketing solutions to wireless carriers. SSM 's software solution platform, *Real-time Lifecycle Marketing* (RLM), enables carriers ' marketing departments to innovate, execute and manage highly-personalized and contextually-relevant, interactive campaigns that engage consumers in real time.

We believe the addition of SSM 's RLM product to our existing service activation and data enablement products will produce a powerful platform for wireless carriers. A product suite which we refer to as our Mobile Marketing Solutions (MMS) will provide sophisticated, highly tailored mobile campaigns which can be executed based on critical subscriber data captured during the initial activation experience (DSA and RLM) as well as in-life subscriber usage via MDE. We see the opportunity to leverage our technology to provide MNOs with sophisticated mobile marketing campaigns that will extend beyond voice, text and data usage campaigns and provide marketing services that will assist MNOs to market services that include retail mobile marketing, gaming, streaming video as well as social media based campaigns.

Interim Consolidated Financial Statements The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and in conformity with the instructions to Form 10-Q and Rule 8-03 of Regulation S-X and the related rules and regulations of the Securities and Exchange Commission (SEC). Accordingly, certain information and note disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. However, we believe that the disclosures included in these financial statements are adequate to make the information presented not misleading. The unaudited condensed consolidated financial statements included in this document have been prepared on the same basis as the annual consolidated financial

statements, and in our opinion reflect all adjustments, which include normal recurring adjustments necessary for a fair presentation in accordance with GAAP and SEC regulations for interim financial statements. The results for the three and nine months ended September 30, 2016 are not necessarily indicative of the results that we will have for any subsequent period. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes to those statements for the year ended December 31, 2015 included in our Annual Report on Form 10-K.

Reclassifications - Certain reclassifications have been made to the 2015 financial statements to conform to the consolidated 2016 financial statement presentation. These reclassifications had no effect on net earnings or cash flows as previously reported.

Use of Estimates The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, at the date of the financial statements, as well as the reported amounts of revenue and expenses during the reporting period. We made estimates with respect to revenue recognition for estimated hours to complete projects accounted for using the percentage-of-completion method, allowance for doubtful accounts, income tax valuation allowance, fair values of long-lived assets, valuation of intangible assets and goodwill, useful lives for property, equipment and intangible assets, business combinations, capitalization of internal software development costs and fair value of stock-based compensation amounts. Actual results could differ from these estimates.

Foreign Currency Our functional currency is the U.S. dollar. The functional currency of our foreign operations is the respective local currency for each foreign subsidiary. Assets and liabilities of foreign operations denominated in local currencies are translated at the spot rate in effect at the applicable reporting date. Our consolidated statements of income are translated at the weighted average rate of exchange during the applicable period. The resulting unrealized cumulative translation adjustment is recorded as a component of accumulated other comprehensive loss in stockholders' equity. Realized and unrealized transaction gains and losses generated by transactions denominated in a currency different from the functional currency of the applicable entity are recorded in other income (expense) in the consolidated statements of operations in the period in which they occur.

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Principles of Consolidation The unaudited condensed consolidated financial statements include the accounts of Evolving Systems, Inc. and subsidiaries, all of which are wholly owned. All significant intercompany transactions and balances have been eliminated in consolidation.

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.

Intangible Assets Amortizable intangible assets consist primarily of purchased software and licenses, customer contracts and relationships, trademarks and tradenames, non-competition and business partnerships acquired in conjunction with our purchase of Telespree Communications (Evolving Systems Labs, Inc.) and RateIntegration, Inc. d/b/a Sixth Sense Media (Evolving Systems NC, Inc.). These assets are amortized using the straight-line method over their estimated lives.

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

Fair Value Measurements Fair value is the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is estimated by applying the following hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Inputs that are generally unobservable and typically reflect management's estimate of assumptions that market participants would use in pricing the asset or liability.

Cash and Cash Equivalents All highly liquid investments with maturities of three months or less at the date of purchase are classified as cash equivalents.

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 and managed services which leverages our expertise and software solutions to optimize our customers networks and create new revenue streams. 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, managed services is recognized as services are performed or ratably over the contract period 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

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

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

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

We recognize revenue from managed service as services are performed or ratably based on the terms and conditions of the contract.

We recognize revenue from our MDE contracts based on the number of transactions per month multiplied by a factor based on a unique table for transaction volumes relating to each account.

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.

We review and update our contract-related estimates regularly. We recognize adjustments in estimated profit on contracts under the reallocation method. Under the reallocation method, the impact of an adjustment in estimate is recognized prospectively over the remaining contract term. No adjustment on any one contract was material to our unaudited Consolidated Financial Statements in the three and nine months ended September 30, 2016 and 2015.

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. 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.

Comprehensive Income (Loss) Comprehensive income (loss) consists of two components, net income and other comprehensive income (loss). Other comprehensive income (loss) refers to revenue, expenses, gains, and losses that under GAAP are recorded as an element of shareholders' equity but are excluded from net income. Other comprehensive income (loss) consists of foreign currency translation adjustments from those subsidiaries not using the U.S. dollar as their functional currency.

Income Taxes We record deferred tax assets and liabilities for the estimated future tax effects of temporary differences between the tax bases of assets and liabilities and amounts reported in the accompanying condensed consolidated balance sheets, as well as operating losses and tax credit carry-forwards. We measure deferred tax assets and liabilities using enacted tax rates expected to be applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. We reduce deferred tax assets by a valuation allowance if, based on available evidence, it is more likely than not that these benefits will not be realized.

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.

Recent Accounting Pronouncements In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers, Topic 606. This Update affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets, unless those contracts are within the scope of other standards. The guidance in this Update supersedes the revenue recognition requirements in Topic 605, Revenue Recognition and most industry-specific guidance. The core principle of the guidance is that an entity should recognize revenue to illustrate the transfer of promised goods or services to customers in an amount that

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reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new guidance also includes a cohesive set of disclosure requirements that will provide users of financial statements with comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a reporting organization's contracts with customers. In April 2016, the FASB issued ASU No. 2016-10, Revenue from Contracts with Customers, Topic 606: Identifying Performance Obligations and Licensing. This Update clarifies guidance related to identifying performance obligations and licensing implementation guidance contained in the new revenue recognition standard. The Update includes targeted improvements based on input the Board received from the Transition Resource Group for Revenue Recognition and other stakeholders. The update seeks to proactively address areas in which diversity in practice potentially could arise, as well as to reduce the cost and complexity of applying certain aspects of the guidance both at implementation and on an ongoing basis. In May 2016, the FASB issued ASU No. 2016-12, Revenue from Contracts with Customers, Topic 606: Narrow-Scope Improvements and Practical Expedients. The amendments in this Update address narrow-scope improvements to the guidance on collectibility, noncash consideration, and completed contracts at transition. Additionally, the amendments in this Update provide a practical expedient for contract modifications at transition and an accounting policy election related to the presentation of sales taxes and other similar taxes collected from customers. This ASU is the final version of Proposed Accounting Standards Update 2015-320, Revenue from Contracts with Customers, (Topic 606): Narrow-Scope Improvements and Practical Expedients, which has been deleted. This ASU is effective retrospectively for fiscal years, and interim periods within those years beginning after December 15, 2017 for public companies and 2018 for non-public entities. We do not expect the adoption of this standard to have a significant impact on the Company's financial position and results of operations.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which requires lessees to put most leases on their balance sheets by recognizing a lessee's rights and obligations, while expenses will continue to be recognized in a similar manner to today's legacy lease accounting guidance. This ASU could also significantly affect the financial ratios used for external reporting and other purposes, such as debt covenant compliance. This ASU will be effective for us on January 1, 2019, with early adoption permitted. We are currently in the process of assessing the impact of this ASU on our consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, Stock Compensation (Topic 718), which includes provisions intended to simplify various aspects related to how share-based payments are accounted for and presented in the financial statements. The standard is effective for annual periods beginning after December 15, 2016, with early adoption permitted. We are currently in the process of assessing the impact of this ASU on our consolidated financial statements.

NOTE 2 ACQUISITION

On September 30, 2015 we acquired privately held RateIntegration, Inc. d/b/a Sixth Sense Media (SSM), now known as Evolving Systems NC, Inc. for an initial payment of approximately \$9.75 million and a \$0.5 million working capital adjustment. We also agreed to make a payment on the one year anniversary of the transaction of \$250,000, with such payment being available to secure RateIntegration's representations and warranties in the agreement. This payment has not been paid to date because the reconciliation of adjustments has not been finalized.

We accounted for this business combination by applying the acquisition method, and accordingly, the purchase price was allocated to the assets and liabilities assumed based upon their fair values at the acquisition date. The excess of the purchase price over the net assets and liabilities, approximately \$6.9 million, was recorded as goodwill. The results of RateIntegration's operations have been included in the consolidated financial statements since the acquisition date.

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We believe this acquisition complements our activation and SIM management products. Combining SSM's real-time analytics and campaign capabilities with our DSA and MDE solutions will allow the company to offer global wireless carriers solutions that utilize the highly valuable contextual data captured from the subscribers' initial welcome experience via DSA, their ongoing network usage via RLM and their on-device app usage via MDE. The combined solutions will create a highly personalized experience that engages subscribers in real time from the first time subscribers power on their new devices right through their day-to-day usage.

Our strategic focus is primarily on the wireless markets in the areas of mobile marketing upsell, carrier service optimization, customer information monetization, customer acquisition acceleration, subscriber activation, SIM card management and activation, self-service mobile applications, data enablement solutions and connected device activation.

Total purchase price is summarized as follows (in thousands):

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	September 30, 2015	
Cash Consideration		
Initial Cash Purchase Price	\$	9,750
Cash/Working Capital Adjustment		535
Total Cash Consideration	\$	10,285
Assumed Liabilities		250
Total purchase price	\$	10,535

The following table summarizes the preliminary estimated fair values of the assets and liabilities assumed at the acquisition date (in thousands):

	September 30, 2015	
Cash and cash equivalents	\$	1,521
Contract receivables		1,057
Unbilled work-in-progress		89
Intangible assets		4,642
Prepaid and other current assets		68
Other assets, non-current		32
Total identifiable assets acquired	\$	7,409
Accounts payable and accrued liabilities	\$	1,506
Deferred tax liability		1,760
Deferred revenue		557
Total identifiable liabilities acquired	\$	3,823
Net identifiable assets acquired		3,586
Goodwill		6,949
Net assets acquired	\$	10,535

We recorded \$4.6 million in intangible assets as of the acquisition date with a weighted-average amortization period of approximately seven years and are amortizing the value of the trade name, technology, non-competition and customer relationships over an estimated useful life of 2, 8, 2 and 7 years, respectively. Amortization expense related to the acquired intangible assets of \$0.7 million was recorded through the period ended September 30, 2016.

The \$5.4 million of goodwill was assigned to the license and service segment and \$1.5 million was assigned to the customer support segment. The goodwill recognized is attributed primarily to expected synergies and the assembled workforce of SSM. As of the date of this report there were no changes in the recognized amounts of goodwill resulting from the acquisition of SSM.

Intangible assets related to the Evolving Systems NC, Inc. s acquisition as of September 30, 2016 (in thousands):

Gross Amount	September 30, 2016		Weighted-Average Amortization
	Accumulated Amortization	Net Carrying Amount	

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					Period		
Purchased software	\$	1,679	\$	210	\$	1,469	8 yrs
Trademarks and tradenames		122		61		61	2 yrs
Non-competition		33		17		16	2 yrs
Customer relationships		2,808		401		2,407	7 yrs
	\$	4,642	\$	689	\$	3,953	7.19 yrs

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Evolving Systems NC, Inc. contributed revenues of \$3.9 million and net income of \$0.9 million for the period from January 1, 2016 through September 30, 2016. The following unaudited pro forma financial information reflects the consolidated results of operations as if the acquisition of SSM had taken place on January 1, 2015. The pro forma information includes adjustments for the amortization of intangible assets. The pro forma financial information is not necessarily indicative of the results of operations as they would have been had the transaction been effected on the assumed date (in thousands).

	For the Nine Months Ended September 30,			
	2016	Actual	2015	Pro-forma
Revenue	\$	18,661	\$	23,118
Net Income		2,148		2,559

NOTE 3 GOODWILL AND INTANGIBLE ASSETS

Changes in the carrying amount of goodwill by reporting unit were as follows (in thousands):

	License and Services		Customer Support		Total Goodwill	
	U.S.	India	U.K.	U.S.		U.K.
Balance as of December 31, 2015	\$ 6,281	\$ 184	\$ 6,767	\$ 1,549	\$ 8,361	\$ 23,142
Effects of changes in foreign currency exchange rates (1)		(2)	(837)		(1,034)	(1,873)
Balance at September 30, 2016	\$ 6,281	\$ 182	\$ 5,930	\$ 1,549	\$ 7,327	\$ 21,269

(1) Represents the impact of foreign currency translation for instances when goodwill is recorded in foreign entities whose functional currency is also their local currency. Goodwill balances are translated into U.S. dollars using exchange rates in effect at period end. Adjustments related to foreign currency translation are included in other comprehensive income.

We performed our annual goodwill impairment test as of July 31, 2016, at which time we had \$21.5 million of goodwill included the following reporting units, License and Services (L&S) US of \$6.3 million, India of \$0.2 million and UK of \$6.1 million and Customer Support (CS) US of \$1.5 million and UK of \$7.4 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. In our analysis, we weighted the application of discounted cash flow analysis at 70% and observed market multiple data from selected guideline public companies at 30%. 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 be required to

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perform a second step of the impairment analysis which could lead to goodwill impairment should the carrying amount exceed the fair value. The excess of carrying amount over 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 2016 goodwill impairment analysis, the fair value of each reporting unit exceeded its carrying value. Therefore the second step was not necessary. However, a hypothetical decrease of approximately 18% and 23%, respectfully, due to lower than estimated future cash flows in the estimated fair values of our L&S-U.S. and CS-U.S. reporting units 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. From July 31, 2016 through the date of this report, no events have occurred that we believe may have impaired goodwill.

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As a result of the acquisition of SSM, \$6.9 million of goodwill was acquired, of which \$5.4 million was assigned to the license and service segment and \$1.5 million was assigned to the customer support segment.

We amortized identifiable intangible assets for Evolving Systems Labs, Inc. and Evolving Systems NC, Inc. on a straight-line basis over their estimated lives ranging from one to eight years. As of September 30, 2016 and December 31, 2015, identifiable intangibles were as follows (in thousands):

	September 30, 2016			December 31, 2015			Weighted-Average Amortization Period
	Gross Amount	Accumulated Amortization	Net Carrying Amount	Gross Amount	Accumulated Amortization	Net Carrying Amount	
Purchased software	\$ 2,118	\$ 370	\$ 1,748	\$ 2,118	\$ 171	\$ 1,947	7.3 yrs
Trademarks and tradenames	185	98	87	185	43	142	2.6 yrs
Non-competition	33	16	17	33	4	29	2.0 yrs
Customer relationships	3,024	480	2,544	3,024	159	2,865	6.8 yrs
	\$ 5,360	\$ 964	\$ 4,396	\$ 5,360	\$ 377	\$ 4,983	6.8 yrs

Amortization expense of identifiable intangible assets was \$0.2 million and \$24,000 for the three months and \$0.6 million and \$71,000 for the nine months ended September 30, 2016 and 2015, respectively. Expected future amortization expense related to identifiable intangibles based on our carrying amount as of September 30, 2016 was as follows (in thousands):

Twelve months ending September 30,

2017	\$ 783
2018	705
2019	694
2020	693
2021	693
Thereafter	828
	\$ 4,396

NOTE 4 EARNINGS PER COMMON SHARE

We compute basic earnings per share (EPS) by dividing net income or loss available to common stockholders by the weighted average number of shares outstanding during the period, including common stock issuable under participating securities. We compute diluted EPS using the weighted average number of shares outstanding, including participating securities, plus all potentially dilutive common stock equivalents. Common stock equivalents consist of stock options.

Our policy is to treat invested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents, whether paid or unpaid, as participating securities, included in the computation of both basic and diluted earnings per share. The following is the reconciliation of the denominator of the basic and diluted EPS computations (in thousands, except per share data):

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**For the Three Months Ended
2016**

For the Nine Months Ended