



**2016 ANNUAL REPORT
NOTICE OF 2017 ANNUAL MEETING
AND PROXY STATEMENT**

We caution you that certain information in this proxy statement may contain, in addition to historical information, “forward-looking” statements within the meaning of the Private Securities Litigation Reform Act of 1995 that are based upon management’s beliefs, as well as on assumptions made by management. These forward looking statements involve known and unknown risks, uncertainties and other factors that cause our actual results, performance or achievements to be materially different from what we say or imply with such forward looking statements. When we use the words “may,” “will,” “expects,” “intends,” “estimates,” “anticipates,” “believes,” “plans,” “seeks” or “continues,” or similar expressions, we intend to identify forward looking statements. You should be aware that the telecommunications industry is changing rapidly, and, therefore, the forward looking statements and statements of expectations, plans and intent are subject to a greater degree of risk than similar statements regarding certain other industries.

Although we believe that our expectations with respect to the forward looking statements are based upon reasonable assumptions, we cannot assure you that our actual results, performance or achievements will meet these expectations. Other than as may be required by applicable law, we undertake no obligation to release publicly the results of any revisions to these forward looking statements.

To Our Investors:

We are pleased to present Evolving Systems' 2016 annual report and proxy. During the past year, your management team made solid progress in reshaping the way the Company does business. The cornerstone of this process was our transition from a traditional software license model to a recurring revenue model based on managed services. This model is similar to the models that have been successfully adopted by leading companies across the telecom and technology sectors in recent years, and we believe it will strengthen Evolving Systems' ability to deliver compelling business solutions that result in successful business outcomes for our growing, worldwide base of customers. This, in turn, should result in profitable growth for our business and significant shareholder value creation over the long term.

The transition to managed services necessitated major changes in the development, sales and marketing, and delivery of our solutions. On the development side, we have migrated to a model where product development is initially funded by internal R&D and subsequently expanded based on customer demand and funding. This has helped us improve efficiencies, reduce headcount and lower product development costs by 22% year over year. On the sales and marketing front, we have retrained and strengthened our direct sales force, moving away from a one-and-done sales culture in favor of a long-term approach that generates more revenue over a longer period of time. On the delivery side, we have improved efficiencies by replacing customer specific teams for implementation and support with a shared resource pool off-site complemented by a small team on-site with each carrier. This approach ideally positions us to identify and meet our customers' evolving needs and create upsell opportunities that drive increased revenue for our customers and for us.

By design, the transition of our business model will result in lower up-front revenue in favor of more recurring and total revenue over the long term. Our revenue should also become more predictable through our conversion to monthly recurring fees with incremental upside revenue potential through performance fees and managed service upsell.

Late in 2016 we began to see results from our business transition. We closed four Managed Service deals with major carrier customers in Asia and Latin America. We won these deals in the face of stiff competition because our customers recognized that licensing software alone will not help them fully maximize their business opportunities. It also requires a team with deep industry expertise to help them accelerate customer acquisition, upsell new services, increase subscriber loyalty and monetize consumer behavior based on its experience and results in other markets. In each of the deals we won, it was this expertise and experience that carriers cited as the determining factor in their selection of Evolving Systems.

From a financial performance perspective, we continue to generate strong cash flows, achieving a 301% increase in cash flow from operations in the fourth quarter – to \$1.4 million – and a 210% increase for the full year – to \$6.9 million. We also saw continued improvement in our bottom line, closing 2016 with our 35th consecutive profitable quarter during which net income increased 19% with EPS of \$0.11, and adjusted EBITDA increased 12% to \$2.1 million. Gross margins in the fourth quarter were 78% and adjusted EBITDA margins were 34%. For the full year, net income increased 4% with EPS of \$0.29 and adjusted EBITDA increased 38% to \$7.9 million. Gross margins in 2016 were 79% and adjusted EBITDA margins were 32%.

In closing, while we have made good progress in re-focusing our business over the past year, there is more work to do. We want to continue to evolve our culture and become a more nimble company in terms of adopting the tools and processes that are common in high growth entrepreneurial organizations. We want to leverage our strengths in technology, talent base and customer relationships to achieve organic growth. And we want to pursue selective M&A opportunities that can add new customers and revenue streams and augment our solutions offerings.

As always, we appreciate the support of our shareholders and look forward to communicating our progress as we move through the year.



Sincerely,
Thomas Thekkethala
President and CEO

evolving SYSTEMS®

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS TO BE HELD ON JUNE 14, 2017

To the Stockholders of Evolving Systems, Inc.:

You are invited to attend the annual meeting of the stockholders of Evolving Systems, Inc. which will be held at 9:00 a.m. local time at the Company's headquarters located at 9777 Pyramid Court, Suite 100, Englewood, Colorado 80112, on June 14, 2017.

At the meeting, you will be asked to act on the following matters:

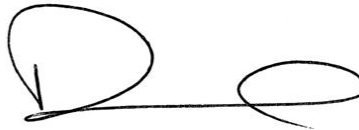
1. to elect the six nominees named in this Proxy Statement as directors, each for a one-year term;
2. to approve an amendment to the Company's 2016 Stock Incentive Plan to increase the total number of shares of common stock authorized for issuance under such plan by 400,000 shares;
3. to approve, on a non-binding, advisory basis, the compensation paid to our named executive officers;
4. to ratify the selection of Friedman LLP as our independent registered public accounting firm to audit the consolidated financial statements of Evolving Systems for our fiscal year ending December 31, 2017; and
5. to consider such other business as may properly come before the meeting or any adjournment or postponement of the meeting.

The Proxy Statement accompanying this Notice describes these items more fully.

Only holders of record of shares of Evolving Systems' common stock at the close of business on April 17, 2017 are entitled to vote at the meeting or any postponements or adjournments of the meeting.

**YOUR VOTE IS IMPORTANT. PLEASE READ THE PROXY STATEMENT AND VOTE BY
FOLLOWING THE VOTING INSTRUCTIONS SENT TO YOU.**

By order of the Board of Directors,



Daniel J. Moorhead
Chief Financial Officer & Secretary

Englewood, Colorado
April 28, 2017



9777 Pyramid Court, Suite 100
Englewood, Colorado 80112

**PROXY STATEMENT
FOR ANNUAL MEETING OF STOCKHOLDERS
June 14, 2017**

This proxy statement contains information related to the annual meeting of stockholders of Evolving Systems, Inc. which will be held at 9:00 a.m. local time at the Company's headquarters located at 9777 Pyramid Court, Suite 100, Englewood, Colorado 80112, on June 14, 2017, and any postponements or adjournments of the meeting. Evolving Systems first mailed, or made available on the Internet, these proxy materials to stockholders on or about May 5, 2017. In this proxy statement, "Company," "Evolving Systems," "we," "us," and "our" each refer to Evolving Systems, Inc. and its subsidiaries.

ABOUT THE PROXY MATERIALS

We are furnishing proxy materials to our stockholders primarily via the Internet, instead of mailing printed copies of those materials to each stockholder. By doing so, we save costs and reduce the environmental impact of our Annual Meeting. This proxy is being solicited by the Board of Directors, and the cost of solicitation of the proxies will be paid by Evolving Systems. Our officers, directors and regular employees, without additional compensation, also may solicit proxies by further mailing, by telephone or personal conversations. We have no plans to retain any firms or otherwise incur any extraordinary expense in connection with the solicitation.

The proxy materials include:

- Our proxy statement for the annual meeting; and
- Our 2016 Annual Report to Stockholders, which includes our audited consolidated financial statements.

We are sending a Notice of Internet Availability of Proxy Materials (the "Notice") to all stockholders of record on April 17, 2017. All stockholders of record will have the ability to access the proxy materials on a website referred to in the Notice (<http://www.evolving.com/investors>), or request to receive a printed set of the proxy materials. Instructions on how to access the proxy materials over the Internet or to request a printed copy may be found in the Notice. In addition, stockholders may request to receive proxy materials in printed form by mail or electronically by email on an ongoing basis.

The Notice will provide you with instructions regarding how to:

- View our proxy materials for the annual meeting on the Internet; and
- Instruct us to send our future proxy materials to you electronically by email.

Choosing to receive your future proxy materials by email will save us the cost of printing and mailing documents to you and will reduce the impact of our annual stockholders' meetings on the environment. If you choose to receive future proxy materials by email, you will receive an email next year with instructions containing a link to those materials and a link to the proxy voting site. Your election to receive proxy materials by email will remain in effect until you terminate it.

Stockholder of Record: Shares Registered in Your Name

If you are a stockholder of record, you may vote in person at the Annual Meeting, vote by proxy using the enclosed proxy card or vote by proxy on the Internet. Whether or not you plan to attend the Annual Meeting, we urge you to vote by proxy to ensure that your

vote is counted. You may vote in person at the Annual Meeting only if you bring a form of personal picture identification with you. You may deliver your completed proxy card in person or you may vote by completing a ballot, which will be available at the Annual Meeting.

- To vote using the proxy card, simply complete, sign and date the enclosed proxy card and return it promptly in the envelope provided. If you return your signed proxy card to us before the Annual Meeting, we will vote your shares as you direct.
- To vote on the Internet, go to www.voteproxy.com to complete an electronic proxy card. You will be asked to provide the eleven-digit number beneath the account number on the enclosed proxy card. Your vote must be received by 11:59 p.m., Eastern Daylight Time on June 13, 2017 to be counted.

Beneficial Owner: Shares Registered in the Name of a Broker or Bank

If you are a beneficial owner of shares registered in the name of your broker, bank, or other agent, you should have received instructions for granting proxies with these proxy materials from that organization rather than from the Company. A number of brokers and banks participate in a program provided through Broadridge Financial Services which enables beneficial holders to grant proxies to vote shares via telephone or the Internet. If your shares are held by a broker or bank that participates in the Broadridge program, you may grant a proxy to vote those shares telephonically by calling the telephone number on the instructions received from your broker or bank, or via the Internet at Broadridge's website at www.proxyvote.com. To vote in person at the Annual Meeting, you must obtain a valid proxy from your broker, bank, or other agent. Follow the instructions from your broker, bank or other agent included with these proxy materials, or contact your broker, bank or other agent to request a proxy form.

What You Are Voting On

At the Annual Meeting, there are four matters scheduled for a vote of the stockholders:

- ***Election of Directors.*** Election of David J. Nicol, David S. Oros, Richard R. Ramlall, Julian D. Singer, Matthew Stecker and Thomas Thekkethala as members to the Company's Board of Directors to serve until the 2018 annual meeting of stockholders or until their successors have been duly elected and qualified;
- ***Amendment of 2016 Stock Incentive Plan.*** Approval of an amendment to the Company's 2016 Stock Incentive Plan to increase the total number of shares of common stock authorized for issuance under such plan by 400,000 shares;
- ***Advisory Vote on Executive Compensation.*** Advisory approval in a non-binding vote of the compensation of the Company's named executive officers as disclosed in this Proxy Statement, or "say on pay." Even though your vote is advisory and, therefore, will not be binding on the Company, the Board's Compensation Committee will review the voting results and take them into consideration when making future decisions regarding executive compensation; and
- ***Ratification of the Appointment of Independent Registered Public Accounting Firm.*** Ratification of the appointment of Friedman LLP as the Company's independent registered public accounting firm for its fiscal year ending December 31, 2017.

You may either vote "For" each of the nominees to the Board of Directors or you may "Withhold" your vote for any nominee you specify. For the other matters to be voted on, you may vote "For" or "Against" or abstain from voting. If you receive more than one proxy card, your shares are registered in more than one name, or are registered in different accounts, please complete, sign and return **each** proxy card to ensure that all of your shares are voted.

Quorum and Required Votes

Only holders of record of shares of Evolving Systems' common stock at the close of business on April 17, 2017, the record date, are entitled to vote at the meeting or any postponements or adjournments of the meeting. As of the record date, Evolving Systems had 12,464,900 shares of common stock outstanding.

The presence at the meeting of a majority of the outstanding shares, in person or by proxy relating to any matter to be acted upon at the meeting, is necessary to constitute a quorum for the meeting. Each outstanding share of common stock is entitled to one vote.

Proxies marked "Abstain" and broker "non-votes" will be treated as shares that are present for purposes of determining the presence of a quorum. An "abstention" occurs when a stockholder sends in a proxy with explicit instructions to decline to vote regarding a particular matter. A broker non-vote occurs when a broker or other nominee who holds shares for another person does not vote on a particular proposal because that holder does not have the discretionary voting power for the proposal and has not received

voting instructions from the beneficial owner of the shares so the broker is unable to vote those uninstructed shares. Abstentions and broker non-votes, while included for quorum purposes, will not be counted as votes "cast" for or against any proposal.

The following table summarizes the votes required for passage of each proposal and the effect of abstentions and uninstructed shares held by brokers. **Please note that brokers may not vote your shares on the election of directors or proposals 2 or 3 if you have not given your broker specific instructions as to how to vote. Please be sure to give specific voting instructions to your broker so that your vote can be counted.**

Proposal Number	Description	Votes Required for Approval	Abstentions	Uninstructed Shares
1	Election of Directors	Nominees receiving highest number of votes	Not voted	Not voted
2	Approval of Amendment to 2016 Stock Incentive Plan	Majority of votes cast	Not voted	Not voted
3	Advisory vote on executive compensation ("Say on Pay")	Majority of votes cast	Not voted	Not voted
4	Ratification of Independent Registered Public Accounting Firm	Majority of votes cast	Not voted	Discretionary vote – brokers may vote

Recommendation of Board of Directors

Unless you instruct otherwise on your proxy card, the persons named as proxy holders on the proxy card will vote in accordance with the recommendations of the Board of Directors. Specifically, the Board's recommendations are as follows:

- **FOR** the election of each of the six nominees for director;
- **FOR** the approval of the amendment to the 2016 Stock Incentive Plan to increase the total number of shares of common stock authorized for issuance under such plan by 400,000 shares;
- **FOR** the approval, on a non-binding, advisory basis, of the compensation paid to our named executive officers; and
- **FOR** the ratification of the selection of Friedman LLP as our independent registered public accounting firm to audit the consolidated financial statements of Evolving Systems for our fiscal year ending December 31, 2017.

The proxy holders will vote as recommended by the Board of Directors with respect to any other matter that properly comes before the annual meeting, including any postponements or adjournments thereof. If the Board of Directors on any such matter gives no recommendation, the proxy holders will vote in their own discretion.

Revocation of Proxies

After you have submitted your proxy, you may change your vote at any time before the proxy is exercised by filing with the Secretary of Evolving Systems either a notice of revocation or a duly executed proxy bearing a later date. The powers of the proxy holders will be suspended if you attend the annual meeting in person and request to recast your vote. Attendance at the annual meeting will not, by itself, revoke a previously granted proxy.

Householding

To reduce costs and reduce the environmental impact of our Annual Meeting a single proxy statement and annual report, along with individual proxy cards or individual Notices of Internet Availability, will be delivered in one envelope to certain stockholders having the same last name and address and to individuals with more than one account registered at our transfer agent with the same address. This process, which is commonly referred to as "householding," potentially means extra convenience for security holders and cost savings for Evolving Systems. Once you have received notice from your broker or us that they will be "householding" communications to your address, "householding" will continue until you are notified otherwise or until you revoke your consent. If, at any time, you no longer wish to participate in "householding" and would prefer to receive a separate proxy statement, please notify your broker, or direct your written request to Evolving Systems, Inc., Daniel J. Moorhead, Secretary, 9777 Pyramid Court, Suite 100, Englewood, Colorado 80112, or contact Daniel J. Moorhead at 303-802-1000.

Stockholders who currently receive multiple copies of the proxy statement at their address and would like to request "householding" of their communications should contact their broker.

We encourage you to access and review all of the important information contained in the proxy materials before voting.

Voting Procedures and Tabulation of Votes

Our independent election inspector will tabulate votes cast by proxy or in person at the meeting. We will also report the results in a Form 8-K filed with the Securities and Exchange Commission ("SEC") within four business days of the Annual Meeting.

PROPOSAL 1

ELECTION OF DIRECTORS

Our Board of Directors is currently composed of 6 members, with each member elected annually for a term of one year. Vacancies on the Board may be filled only by persons elected by a majority of the remaining directors. A director elected by the Board to fill a vacancy (including a vacancy created by an increase in the Board of Directors) will serve for the remainder of the full term of the director for which the vacancy occurred and until the director's successor is elected and qualified.

Under the director independence guidelines, the Board of Directors must affirmatively determine a director has no relationship that would interfere with the exercise of independent judgment in carrying out his responsibilities as a director in order to qualify as independent. To facilitate this determination, annually each director completes a questionnaire that provides information about relationships that might affect the determination of independence. Management provides the Governance and Nominating Committee and our Board with relevant facts and circumstances of any relationship bearing on the independence of a director or nominee that is outside the categories permitted under the director independence guidelines.

Based on the review and recommendation by the Governance and Nominating Committee, the Board of Directors analyzed the independence of each director and determined that five of our directors (Messrs. Nicol, Oros, Ramlall, Singer and Stecker) are independent under NASDAQ's current listing standards and that each of them is free of any relationship that would interfere with his individual exercise of independent judgment. Mr. Thekkethala, the Company's CEO, is not considered independent under NASDAQ's current listing standards. The Board of Directors determined that the consulting arrangement between Mr. Ramlall and the Company during calendar year 2016 described under "Certain Relationships and Related Transactions—Consulting Agreements with Related Parties," did not affect Mr. Ramlall's independence.

All of our directors have terms of office expiring in 2017. The Board has nominated Messrs. Nicol, Oros, Ramlall, Singer, Stecker and Thekkethala for re-election. Proxies cannot be voted for a greater number of persons than the number of nominees named. If elected at the annual meeting, each of the nominees would serve until the 2018 annual meeting of stockholders.

Required Vote and Recommendation of the Board of Directors

Directors are elected by a plurality of the votes present in person or represented by proxy and entitled to vote at the meeting. Shares represented by executed proxies will be voted, if authority to do so is not withheld, "FOR" the election of the nominees named below. The persons nominated for election have agreed to serve if elected, and management has no reason to believe that the nominees will be unable to serve. The Board of Directors expects that each of the nominees will be available for election, but if any of them is unable to serve at the time the election occurs, the proxy will be voted for the election of another nominee designated by our Board.

Set forth below is biographical information for the persons nominated for election as a director at the annual meeting. Ages are as of April 28, 2017.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" EACH NOMINEE.

Nominees for Election for a One-Year Term Expiring at the 2018 Annual Meeting

David J. Nicol

David J. Nicol, 71, became a member of the Board of Directors in March 2004. Mr. Nicol also serves on the boards or advisory boards of several private companies. A member of the National Association of Corporate Directors (since 2004) and Financial Executives International, since 2015 he has been on the faculty in the Finance Department at the Bloch School of Management at UMKC. From 2012 through 2014, Mr. Nicol was President/COO of a security innovation company since acquired. Prior to that assignment, he was a consultant to several companies, each subsequently acquired by listed companies. From 2006 through 2009, he was EVP/Chief Financial Officer for Solutionary, a managed IT security services provider, since acquired by NTT Security. During 2004-5, Mr. Nicol raised 'A' round venture funding and helped launch Sipera Systems (VOIP security solutions), later acquired by Avaya. From 2001 through 2004, he was Senior Vice President for VeriSign Communications Services, a provider of signaling and intelligent network services to communication service providers. Prior to its acquisition by VeriSign in 2001, Mr. Nicol held the same position at Illuminet (Nasdaq) from 1996, and its predecessor company ITN from 1994. In those capacities, he was responsible for strategy, business development, product management and development, and application services support. From 1990

to 1994, he was Chief Operating Officer for two private technology services companies, each subsequently acquired by listed companies. From 1984 to 1990, Mr. Nicol held officer positions with United Telecom (now Sprint), lastly serving as Corporate Vice President Planning. Mr. Nicol holds a B.Sc. from Ohio State University, an M.A. from Case Institute of Technology, and a Ph.D. from Case Western Reserve University.

With his years of executive experience at United Telecom, ITN, Illuminet, Verisign and Solutionary, Mr. Nicol brings to the Board senior-level, functionally broad management ability, with deep experience in telecom, IT services and technology, both domestic and international. Complimenting his appointment to the Finance faculty at the UMKC Bloch School, his experience as CFO at Solutionary gives him an in-depth understanding of financial strategy and operations. Mr. Nicol is able to draw upon, among other things, his knowledge of raising capital and investor communications, having served as a member of the roadshow team that took Illuminet public (Nasdaq), as well as having raised significant debt and equity funding for Solutionary and several other early-stage companies. In addition, Mr. Nicol has a Ph.D. in corporate finance and has taught corporate finance at the MBA level at the Weatherhead School of Management of Case Western Reserve University and elsewhere.

David S. Oros

David S. Oros, 57, joined our Board of Directors in March 2008. Since March 2013, he has been a founding partner of Gamma 3 LLC, a Baltimore, Maryland based investment initiative focused on acquiring, building and incubating advanced technical intellectual property and providing early stage funding to advanced technology companies. Over the last ten years, Mr. Oros has started over eight companies primarily in the technology field. He is currently the Chairman and founder of Terbium Labs, an information security company that runs Matchlight, a data intelligence system, and he is also Chairman of Gemstone Biotherapeutics LLC, a leader in the field of tissue engineering and regenerative medicine. From June 2006 to February 2013, Mr. Oros was the managing partner of Global Domain Partners, LLC, a managed futures company that uses advanced optimization modeling as a predictive tool for worldwide markets, currencies and commodities. From 2006 to 2010, Mr. Oros served as Chairman of the Board of NexCen Brands, Inc., a leading vertically integrated brand acquisition and management firm focused on brand management. From 1996 until June 2006, Mr. Oros was the Chairman of the Board and CEO of Aether Systems, Inc., a leading provider of wireless and mobile data solutions for the transportation, fleet management and public safety industries. From 1994 until 1996, Mr. Oros was President of NexGen Technologies, L.L.C., a wireless software development company. From 1992 until 1994, he was President of the Wireless Data Group at Westinghouse Electric. Prior to that, from 1982 until 1992, Mr. Oros was at Westinghouse Electric directing internal research and managing large programs in advanced airborne radar design and development. Mr. Oros received a B.S. in mathematics and physics from the University of Maryland, and holds a U.S. patent for a multi-function radar system. Mr. Oros currently serves on the Board of Visitors for the University of Maryland Baltimore County.

Mr. Oros has had front line exposure to many of the issues facing public companies, particularly on operational, financial and corporate governance matters, from his former role as Managing Partner of Global Domain Partners and previously having served as Chairman of NexCen Brands, CEO of Aether Systems, President of NexGen Technologies, LLC and President of the Wireless Data Group of Westinghouse Electric. With his knowledge of the complex issues facing global companies and his understanding of what makes businesses work effectively and efficiently, Mr. Oros is a skilled advisor. His formal education and his experience in directing large research and development programs while at Westinghouse Electric also provides him with the background and expertise to assist the Board with technology-related issues.

Richard R. Ramlall

Richard R. Ramlall, 61, became a member of the Board of Directors in March 2008. He currently serves as the Vice President of Investor and Public Relations at Internap (NASDAQ:INAP) since January 1, 2017. Internap is a leading technology provider of Internet infrastructure services. Prior to his current assignment, from September 2013 to December 2016, through Ramlall Partners LLC, he provided investor relations, financial and regulatory due diligence and compliance, business development, strategic planning, and public relations consulting to public and private organizations in the financial, telecom and energy sectors. He also was selected to the 2014-2017 Advisory Board of the Washington Wizards NBA Franchise. Prior to his consulting with his LLC, he served as Senior Vice President, Corporate Development and Chief Communications Officer of Primus Telecommunications Group, Incorporated (NYSE:PTGI), from November 2010 to August 2013. Before being successfully sold to various entities, Primus was a leading provider of advanced communication solutions, including broadband Internet, traditional and IP voice, data, mobile services, collocation, hosting, and outsourced managed services to business and residential customers in the United States, Canada and Australia. From March 2005 to August 2010, he served as Senior Vice President, Strategic External Affairs and Programming at RCN Corporation, the leading overbuilder broadband provider of video, data, and voice services to residential, business and commercial/carrier customers. Prior to joining RCN in March 2005, Mr. Ramlall served as Senior Managing Director and Executive Vice President of Spencer Trask Media and Communications Group, LLC (a division of New York-based venture capital firm Spencer Trask & Company) based in Reston, Virginia, from June 1999. From March 1997 to June 1999, Mr. Ramlall served as Vice President and Managing Director for Strategy, Marketing and International Government Affairs for Bechtel Telecommunications, a subsidiary

of Bechtel Corporation. Prior to that, Mr. Ramlall was Executive Director for International Business Affairs for Bell Atlantic International and spent over 18 years at Bell Atlantic (now Verizon) including assignments in Product Management, Legal, Regulatory, Rates, Forecasting and Country Manager—Indian Subcontinent. In 1990, Mr. Ramlall was selected to serve a one-year appointment under the Presidential Exchange Executive Program of the White House. Mr. Ramlall formerly served on the Alzheimer’s Association—National Capital Area Board of Directors from 2008-2012 and a number of private company Boards. Mr. Ramlall holds a B.S. in Business Administration and an M.G.A. (Technology Management) from the University of Maryland.

Mr. Ramlall brings to our Board more than 39 years of experience in the telecommunications/IT industry and more than 24 years of international business experience, as well as operational experience at a senior executive level, with particular emphasis on Indian operations. As Senior Vice President for Corporate Development and Chief Communications Officer at Primus, in addition to previous assignments, Mr. Ramlall was responsible for International Business Development, M&A, Investor Relations, Public Relations and Regulatory Affairs, bringing valuable investor and corporate governance expertise and experience to our Board and our management team. Mr. Ramlall has won more than 25 Business Communications awards and in March 2013 was recognized as one of the Top 25 Minority Business leaders in the Washington D.C. Metro Area.

Julian D. Singer

Julian D. Singer, 33, became a member of the Board of Directors in January 2015. Prior to that, he served as a nonvoting observer to the Board of Directors from July 2014 until December 2014. Since May 2013 Mr. Singer has been engaged as an independent investment advisor. Prior to that, from April 2006 through June 2011, Mr. Singer served as an assistant trader and an analyst with York Capital Management where he evaluated potential mergers and acquisitions. Mr. Singer currently serves on the Board of Directors of Live MicroSystems, Inc., which sold its operating assets in 2013, and Fiber Span, a privately held company providing distributed antenna systems (DAS) technology primarily for public safety projects. Mr. Singer has a B.S. in Finance from Lehigh University and an M.B.A. from the NYU Stern School of Business.

Mr. Singer has a background in finance and investing in various industries, including software and telecommunications, as well as mergers and acquisitions. Drawing from his experience in these areas, Mr. Singer provides valuable strategic and financing advice to the Company’s management and the Board.

Matthew Stecker

Matthew Stecker, 48, joined our Board of Directors in March 2016 and was named Chairman of the Board in August 2016. He has served as a Senior Policy Advisor to the United States Department of Commerce since November 2014 and currently serves on the board of Live Microsystems, Inc. (OTC:LMSC). He previously served on the boards of MRV Communications from April 2013 to June 2016 and HealthWarehouse.com Inc. from December 2010 to August 2013, where he also served on the compensation committee. From January to November 2014, Mr. Stecker served as the Vice President of Mobile Entertainment for RealNetworks (NASDAQ:RNWK). From November 2009 to December 2013, he served as CEO of Live MicroSystems, Inc., and from April 2005 to November 2009 he was a senior executive in both Telecom Operations and Strategy at Cartesian, Inc. (NASDAQ:CRTN). He received his BA in Political Science and Computer Science from Duke University, and his JD from the University of North Carolina at Chapel Hill School of Law.

Mr. Stecker brings to our Board 20 years of experience as a public company executive in the telecommunications and wireless industries, which are highly relevant to the Company’s business and will assist the Company in developing, executing and evaluating business strategies and industry partnerships. As a new director, he also brings a fresh perspective to issues the Company is facing.

Thomas Thekkethala

Thomas Thekkethala, 55, was promoted to CEO in January 2016 after being named President and a Director of Evolving Systems when RateIntegration, Inc. d/b/a Sixth Sense Media, was acquired by Evolving Systems on September 30, 2015. Mr. Thekkethala was a founding investor, Chairman and CEO of RateIntegration from February 2004 until the company’s acquisition by Evolving Systems in September 2015. Prior to Sixth Sense Media, from December 1999 until September 2015, he was Founder and Managing General Partner at JT Ventures, an early stage technology venture fund where he led investments in Allegro (acquired by Cisco), Fidelia (acquired by NetScout) and Ibrix (acquired by HP).

Mr. Thekkethala also co-founded telecom software companies SRG Inc. and Consolidated Communication Systems and Services, where he developed the product vision and market strategy, and led the companies to their successful acquisitions. Mr. Thekkethala started his career at an early-stage wireless carrier that grew to a market leader before its acquisition by Ameritech (now ATT Wireless). Mr. Thekkethala serves on the board of LearnforLifeFoundation.Org. He holds a Bachelors in Electrical Engineering and a Masters in Information Management from Washington University, St. Louis.

Mr. Thekkethala has over 25 years of experience in financing and building enterprise software companies and managing them in all stages of business, through formation, capital raising, growth and acquisition. As a director who is also our Chief Executive Officer, he has detailed knowledge of the Company's business and operational matters and brings a keen understanding of these issues to Board deliberations.

INFORMATION REGARDING THE BOARD AND ITS COMMITTEES

Board Leadership Structure

Our Board believes it is important to retain flexibility in allocating the responsibilities of the Chief Executive Officer ("CEO") and Chairman of the Board in any way that is in the best interests of our Company based on the circumstances existing at a particular point in time. Accordingly, we do not have a strict policy on whether these roles should be served independently or jointly. Currently, we have an independent Chairman of the Board with Mr. Stecker serving in that role. He provides valuable experience on the Company's business and industry and works closely with our CEO in establishing Board meeting agendas to discuss key business and strategic issues.

Inasmuch as our Chairman position is held by an independent director, we do not have a separate Lead Independent Director.

The Board's Role in Risk Oversight

The Board as a whole actively oversees management of the Company's risks and looks to its committees, as well as senior management, to support the Board's oversight role. The Company's Compensation Committee provides information about risks relating to the Company's compensation plans and arrangements. The Audit Committee assists with oversight of financial risks, and the Nominating and Governance Committee focuses on risks associated with the independence of the Board of Directors and potential conflicts of interest. While each committee is responsible for evaluating certain risks, the full Board regularly receives information through committee reports and from members of senior management on areas of material risk to the Company, including operational, financial, legal and regulatory, technical and strategic risks.

Meetings and Committees of the Board of Directors

Our business, property and affairs are managed under the direction of our Board of Directors and its committees. Our Board of Directors provides management oversight, helps guide the Company on strategic planning, approves the Company's operating budgets and meets regularly in executive sessions. Members of our Board are kept informed of our business through discussions with our Chief Executive Officer and other officers and employees, by reviewing materials provided to them, by visiting our offices and by participating in meetings of the Board and its committees.

Our Board holds regularly scheduled quarterly meetings. In addition to the quarterly meetings, typically there is at least one other regularly scheduled meeting and several special meetings each year. At least twice a year, time is set aside for the independent directors to meet without management present. Our Board met formally nine times in 2016 in addition to conference calls throughout the year. In fiscal year 2016 each director attended at least 75% of all Board meetings held during such director's tenure on the Board.

The Board has an Audit Committee, a Compensation Committee, and a Nominating and Governance Committee. Below is a table that provides membership and meeting information for each of the Board committees during 2016. In fiscal year 2016 each committee member attended at least 75% of the meetings of each applicable committee.

Name	Audit	Compensation	Nominating & Governance
Mr. Nicol	X*	X*	
Mr. Oros	X	X	
Mr. Ramlall.....		X	X
Mr. Singer			X
Mr. Stecker	X		X*
Mr. Thekkethala.....			
Mr. Dupper (1).....			
Total meetings in fiscal year 2016.....	4	**	1

(1) Thaddeus Dupper was a member of the Company's Board of Directors until August 16, 2016.

* Denotes Committee Chair as of December 31, 2016.

** The Committee members met informally several times during the year, following which they acted formally through unanimous consent resolutions.

Below is a description of each committee of the Board of Directors. Each of the committees has authority to engage legal counsel or other experts or consultants as it deems appropriate to carry out its responsibilities. The Board of Directors has determined that each member of each committee meets the independence requirements under the NASDAQ's current listing standards and each member is free of any relationship that would interfere with his individual exercise of independent judgment.

The Audit Committee. The Audit Committee assists the Board of Directors in its oversight of the integrity of the Company's accounting, auditing, and reporting practices. The Audit Committee meets with our independent registered public accounting firm at least annually to review the results of the annual audit and discuss the financial statements. The Committee also meets with our independent registered public accounting firm quarterly to discuss the results of the accountants' quarterly reviews as well as quarterly results and quarterly earnings releases; recommends to the Board the registered public accounting firm to be retained; and receives and considers the accountants' comments as to internal controls and procedures in connection with audit and financial controls. The Audit Committee reviews all financial reports prior to filing with the Securities and Exchange Commission (SEC) and reviews all financial press releases prior to release. The specific responsibilities in carrying out the Audit Committee's oversight role are set forth in the Audit Committee's Charter, a copy of which is posted on the Company's website, www.evolving.com, under "Investors — Corporate Governance." The Audit Committee currently consists of Messrs. Nicol, Oros and Stecker, all of whom are independent directors as required under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), Section 10A(m)(3) and NASDAQ listing standards. The Board of Directors has determined that Mr. Nicol is an "audit committee financial expert" as defined by the rules of the Securities and Exchange Commission. For more information concerning the Audit Committee see the "Report of the Audit Committee" contained in this proxy statement.

The Compensation Committee. The primary responsibilities of the Compensation Committee are to review and recommend to the Board the compensation of our executive officers, to review and recommend an incentive compensation plan, approve grants of stock awards to employees and consultants under our stock incentive plan and otherwise determine compensation levels and perform such other functions regarding compensation as the Board may delegate. The Compensation Committee consists of Messrs. Nicol, Oros and Ramlall, all of whom are independent directors under NASDAQ listing standards.

The Compensation Committee meets outside the presence of all of our executive officers to consider appropriate compensation for our chief executive officer, or CEO. The Compensation Committee annually analyzes our CEO's performance and determines his base salary and incentive compensation and stock awards, based on its assessment of his performance and other considerations described in the Compensation Discussion and Analysis. For our other named executive officer, the Compensation Committee meets separately with our CEO. Our CEO annually reviews our other named executive officer's performance with the Compensation Committee and makes recommendations to the Compensation Committee with respect to the appropriate base salary, payments to be made under our incentive compensation plan and equity incentive awards for all officers, excluding himself. Based in part on these recommendations from our CEO and other considerations described in the Compensation Discussion and Analysis, the Compensation Committee approves the annual compensation package of our other executive officer. In 2010 the Compensation Committee engaged the services of Radford, an Aon Hewitt company, to assist the Committee in establishing compensation levels for executive officers. The Committee has made no significant changes to the executive officers' compensation plans since commissioning the study.

The specific responsibilities and functions of the Compensation Committee are discussed in the Compensation Committee Charter, which is posted on our website, www.evolving.com, under "Investors — Corporate Governance."

Nominating and Governance Committee. The primary responsibilities of the Nominating and Governance Committee are to monitor corporate governance matters, to determine the slate of director nominees for election to the Company's Board of Directors, to identify and recommend candidates to fill vacancies occurring on the Board of Directors, and to assist the Board with assessing the independence of the members of our Board of Directors.

Criteria and Diversity. In filling vacancies that occur on the Board, and nominating candidates for election, the Nominating and Governance Committee takes into account certain minimum qualifications and qualities that the Committee believes are necessary for one or more of the Company's directors to possess. These qualifications and qualities are as follows:

- Experience with businesses and other organizations comparable to the Company. For example, experience in the telecommunications industry, doing business internationally and/or experience in a software development company is desirable.

- Experience in reviewing, and the ability to understand, financial statements.
- Experience in investor relations and the operational and corporate governance aspects of running a public company.
- Experience working with or overseeing management and establishing effective compensation strategies to align management with Company objectives and stockholder financial returns.
- The candidate's independence from conflict or direct economic relationship with the Company.
- The candidate's contacts within the telecommunications industry, and/or within the finance and investment banking industry.
- Experience with mergers and acquisitions.
- The ability of the candidate to attend Board and committee meetings regularly (either in person or by telephone) and devote an appropriate amount of effort in preparation for those meetings.
- A reputation, strength of character and business judgment befitting a director of a publicly held company.

Candidates for the Board should have some, but not necessarily all, of the above-described criteria. Although the Company has no formal policy regarding diversity, the Committee seeks diversity in the broadest sense, with the goal of having a Board composed of a broad diversity of experience, professions, skills, geographic representation, backgrounds and culture. The Committee does not assign specific weights to particular criteria and no particular criterion is necessarily applicable to all prospective nominees. The Committee evaluates each individual in the context of the Board as a whole, with the objective of recommending a group that can best contribute to the success of the business and represent stockholder interests using its diversity of experience and sound business judgment. Nominees or potential nominees are not discriminated against on the basis of race, religion, national origin, sexual orientation, disability or any other basis proscribed by law.

The process used by the Nominating and Governance Committee for identifying and evaluating nominees for directors is as follows:

- **Nomination of an existing Board member whose term is expiring.** Each year prior to preparation of the proxy statement for the annual meeting, the Nominating and Governance Committee meets to determine whether current Board members desire to remain on the Board and, if so, whether each individual should be recommended for nomination. The Committee evaluates whether each individual continues to meet the then current qualifications and qualities established by the Committee for Board membership, as well as the contributions made by the individual during his or her tenure on the Board. The Committee, among other things, takes into consideration the individual's attendance at Board and committee meetings and his or her participation in, and preparation for, such meetings. In the event the Committee determines that it is in the Company's best interest to nominate an existing Board member for re-election, the Committee will adopt a formal recommendation for consideration and adoption by the full Board of Directors, which, if adopted by the Board of Directors, will be contained in the proxy statement.
- **Consideration of candidates proposed by stockholders.** The Nominating and Governance Committee will consider candidates for the Board proposed by stockholders. Stockholders wishing to nominate a candidate for consideration by the Committee may do so by writing to the Company's Secretary and providing the candidate's name, biographical data and qualifications. The Committee will consider the candidate for nomination in the same manner as described below, "Consideration of new candidates for the Board." A stockholder proposal for inclusion in the proxy statement (and received in accordance with the procedures described in our Bylaws and our previous year's proxy statement) will be included in the proxy statement in accordance with SEC regulations.
- **Consideration of new candidates for the Board.** The Nominating and Governance Committee will consider new candidates for the Board to fill vacancies that occur on the Board or to expand the size of the Board. Recommendations for candidates may be submitted to the Committee through the Company's Secretary. The Secretary will forward names and qualifications of proposed candidates to the Committee members. The Committee will review the materials to determine whether the candidate appears to meet the qualifications and qualities established by the Committee for Board membership. If the candidate appears to be qualified, the Committee will conduct an interview of the candidate and the candidate may be asked to interview with management as well as other members of the Board. The Committee may recommend a candidate for membership on the Board, subject to final approval of a majority of the Board of Directors, and the results of a background investigation and reference check of the candidate.

The specific responsibilities and functions of the Nominating and Governance Committee are set forth in the Nominating Committee Charter. The Committee's charter is posted on our website, www.evolving.com, under "Investors — Corporate Governance." The current members of the Nominating and Governance Committee are Messrs. Stecker, Ramlall and Singer, all of whom are independent directors under NASDAQ listing standards.

DIRECTOR COMPENSATION

The 2016 compensation plan for non-employee members of the Board of Directors and the committees of the Board is described in the table below.

	Annual retainer (payable in quarterly increments)	Additional annual cash compensation for non-employee Chairperson
Board of Directors	\$ 20,000	\$ N/A
Audit Committee	\$ 0	\$ 5,000
Compensation Committee	\$ 0	\$ 5,000

Upon joining our Board of Directors, each non-employee director receives stock options to purchase an aggregate of 15,000 shares of our common stock. This initial award may be granted in installments. Options are priced at the closing price of our common stock on the date of the grant. In 2016 no restricted stock awards were made to our non-employee directors.

We do not provide any deferred compensation, health or other personal benefits to our directors. We reimburse each director for reasonable out-of-pocket expenses incurred to attend Board and Committee meetings. We encourage, but do not require, our Board members to own stock in the Company.

2016 Director Compensation Table

The table below summarizes the compensation earned by non-employee directors for the fiscal year ended December 31, 2016.

(a) Name (1)	(b) Fees Paid in Cash (\$)	(c) Option Awards \$(5)	(d) Total (\$)
David J. Nicol	\$ 30,000	\$ 0	\$ 30,000
David S. Oros	\$ 20,000	\$ 0	\$ 20,000
Richard R. Ramlall (2)	\$ 65,500	\$ 0	\$ 65,500
Julian D. Singer	\$ 20,000	\$ 0	\$ 20,000
Matthew Stecker (3)	\$ 11,401	\$ 61,500	\$ 72,901
Thaddeus Dupper (4)	\$ 33,968	\$ 0	\$ 33,968

(1) See the *Summary Compensation Table* on page 23 for information on compensation earned by Mr. Thekkethala during fiscal year 2016.

(2) In addition to his compensation as a director, Mr. Ramlall earned \$45,500 in consulting fees for providing investor relations consulting services during 2016.

(3) Mr. Stecker was appointed to the Board on March 17, 2016.

(4) Mr. Dupper, the Company's former Chief Executive Officer, was a member of the Company's Board of Directors until August 16, 2016. See *Certain Relationships and Related Transactions* on page 31 for information relating to fees paid to Mr. Dupper for severance and consulting services during 2016.

(5) This column reflects the aggregate grant date fair value of stock options granted during the year computed in accordance with Statement of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 718 ("*FASB ASC Topic 718*"). For further information on these awards, see Note 9, "Share Based Compensation" of our consolidated financial statements included in Form 10-K for the year ended December 31, 2016, filed with the SEC on March 28, 2017. As of December 31, 2016, each director named above held outstanding options to purchase the following number of shares: Mr. Dupper: 91,089; Mr. Nicol: 23,200; Mr. Oros: 16,175; Mr. Ramlall: 14,625; Mr. Singer: 15,000; and Mr. Stecker: 15,000.

Information Regarding Stockholder Communication with the Board of Directors; Attendance of Board Members at the Annual Meeting

Stockholders may contact an individual director, the Board as a group, or a specified Board committee or group, including the non-employee directors as a group, at the following address: Corporate Secretary, Evolving Systems, Inc., 9777 Pyramid Court, Suite 100, Englewood, CO 80112, Attn: Board of Directors. Our Secretary will process communications before forwarding them to the addressee. Directors generally will not be forwarded stockholder communications that are primarily commercial in nature, relate to improper or irrelevant topics, or request general information about the Company.

We encourage, but do not require, Board members to attend our Annual Meeting of Stockholders. Two members of the Board attended the 2016 Annual Stockholders' Meeting.

Statement on Corporate Governance

We regularly monitor developments in the area of corporate governance by reviewing federal laws affecting corporate governance, as well as rules adopted by the SEC and NASDAQ. In response to those developments, we review our processes and procedures and implement corporate governance practices which we believe are in the best interests of the Company and its stockholders. Among other things, we have established a Disclosure Committee, comprised of executives and senior managers who are actively involved in the disclosure process, to specify, coordinate and oversee the review procedures that we use each quarter, including at fiscal year-end, to prepare our periodic SEC reports.

The Board has approved a set of corporate governance guidelines to promote the functioning of the Board and its Committees and to set forth a common set of expectations as to how the Board should perform its functions. Our Corporate Governance Guidelines are posted on the Company's website under "Investors — Corporate Governance." On an annual basis, each director and executive officer is obligated to complete a Director and Officer Questionnaire which requires disclosure of any transactions with the Company in which the director or executive officer, or any member of his or her immediate family, has a direct or indirect material interest.

The Board has also approved a Code of Business Conduct and a Code of Ethics for Finance Employees (collectively, the "Codes"), posted on our website, www.evolving.com, under "Investors — Corporate Governance." We require all employees and directors to adhere to the Code of Business Conduct in discharging their Company-related activities and our finance employees to also comply with the Code of Ethics for Finance Employees. Employees and directors are required to report any conduct that they believe in good faith to be an actual or apparent violation of the Codes. We intend to disclose on our website, or on a Current Report on Form 8-K, any amendments to or waivers of the Codes applicable to those of our senior officers to whom the Codes apply within four business days following the date of such amendment or waiver. Our Audit Committee has established a confidential hotline and procedures to receive, retain and treat complaints we receive regarding ethics, accounting and internal accounting controls of auditing matters, and to allow for the confidential, anonymous submission by our employees of concerns regarding ethics, accounting or auditing matters.

Policies and Procedures for Approval of Related Person Transactions

We may encounter business arrangements or transactions with businesses and other organizations in which one of our directors or executive officers, significant stockholders or their immediate families may also be a director, executive officer or investor or have some other direct or indirect material interest. We refer to these transactions as related person transactions. Related person transactions have the potential to create actual or perceived conflicts of interest between Evolving Systems and its directors and officers or their immediate family members.

In March 2007, the Board formally adopted a policy with respect to related person transactions to document procedures pursuant to which such transactions are reviewed, approved or ratified. The policy applies to any transaction in which (1) the Company is a participant, (2) any related person has a direct or indirect material interest and (3) the amount involved exceeds \$120,000, but excludes any transaction that does not require disclosure under Item 404(a) of Regulation S-K. The Audit Committee is responsible for reviewing, approving and/or ratifying any related person transaction. The Audit Committee intends to approve only those related person transactions that are in, or are not inconsistent with, the best interests of the Company and its stockholders. Transactions with related persons below the threshold level are reviewed and approved by the Compensation Committee.

PROPOSAL NO. 2

APPROVAL OF AN AMENDMENT TO THE 2016 STOCK INCENTIVE PLAN

Introduction

In June 2016, our stockholders approved the 2016 Stock Incentive Plan (the "2016 Stock Incentive Plan" or the "2016 Plan"). The Board has adopted, subject to stockholder approval, an amendment to the 2016 Plan to increase by 400,000 the number of shares of common stock that may be awarded under the plan to a total of 500,000 shares (the "Amendment"). As of April 17, 2017, there were 31,134 shares remaining for issuance of stock awards under the 2016 Plan.

Purpose of the 2016 Plan

The 2016 Plan was adopted to give us the ability to provide equity-based compensation to participants to encourage them to continue providing services to the Company and to better assure that their interests are aligned with the interests of our stockholders. We believe that employees, directors and key consultants should have a significant stake in the Company under programs that link compensation to stockholder return. As a result, stock awards are an integral part of our compensation plan. The grant of a stock award has several attractive characteristics, both to the recipient and to the Company, which make such grants more attractive than increasing the level of cash compensation. For example, granting stock awards provides an incentive to individuals because stock ownership permits them to share in our growth. We benefit because these individuals will be motivated to grow and improve the performance of the Company. In addition, the grant of certain stock awards preserves our cash resources.

If the stockholders approve the Amendment to the 2016 Plan, we will reserve an additional 400,000 shares of common stock for issuance under the 2016 Plan. We anticipate that, following the receipt of stockholder approval of this proposal, we will, from time to time, make stock awards to eligible participants as part of our overall compensation strategy. In determining whether to vote for this proposal, stockholders should consider that they are subject to the risk of dilution to their interests which would result if additional shares of common stock are issued under the 2016 Plan, and that as a result of the issuance of such common stock the current stockholders will own a smaller percentage of our outstanding common stock.

We have not made any specific determinations regarding individuals who may receive awards, the size of stock awards or other terms of the awards. If the stockholders do not approve Proposal No. 2, the Company will continue the 2016 Plan according to its terms prior to the Amendment; as noted above, however, there are only 31,134 shares remaining for issuance under the 2016 Plan as of the record date.

By seeking stockholder approval of the 2016 Plan, we are also asking our stockholders to re-approve the performance goals set forth in the 2016 Plan, as described below. Because the Company intends for certain awards made under the 2016 Plan to comply with the requirements for performance-based compensation pursuant to Section 162(m) of the Internal Revenue Code, the Company must obtain stockholder approval every five years of the material terms of performance goals.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" PROPOSAL NO. 2, APPROVAL OF AN AMENDMENT TO THE 2016 STOCK INCENTIVE PLAN.

SUMMARY OF THE KEY TERMS OF THE 2016 PLAN

The following is a brief description of the 2016 Plan, as proposed to be amended. The full text of the 2016 Plan, as proposed to be amended, is attached as Appendix A to this Proxy Statement, and the following description is qualified in its entirety by reference to the text of the 2016 Plan, as amended, set forth in Appendix A.

Administration of the 2016 Plan

The Compensation Committee of the Board of Directors (the "Committee") administers the 2016 Plan and determines recipients and types of awards to be granted, including the exercise price, exercisability and number of shares subject to the award. The Committee may also delegate administrative powers to a subcommittee or to officers of the Company subject to certain conditions. All action by the Committee under the Plan must be unanimous.

Eligibility

All employees (including officers), consultants and Directors of the Company or any parent or any subsidiary of the Company are eligible to receive stock awards under the 2016 Plan (each employee, consultant, and Director who receives such a stock

award is referred to as a "participant"). Participants will receive grants of stock awards at the discretion of the Committee as compensation for their services to the Company.

Types of Awards

The types of stock awards that are available for grant under the 2016 Plan are:

- incentive stock options;
- non-statutory stock options;
- restricted stock;
- restricted stock units;
- stock appreciation rights;
- performance awards; and
- other stock-based awards.

Stock Subject to the 2016 Plan

Following the proposed amendment to increase the number of shares subject to the 2016 Plan by 400,000 shares, the maximum aggregate number of shares of our common stock that may be issued under the 2016 Plan may not exceed 500,000 shares, the "share reserve," subject to adjustment for changes in capitalization. Each share of common stock issued pursuant to an award granted under the 2016 Plan will reduce the share reserve by one share. Subject to certain limitations, shares of common stock covered by stock awards that expire, are cancelled, terminate, are repurchased by us at cost or reacquired by us prior to vesting will revert to and be added to the share reserve or become available for issuance under the 2016 Plan. In addition, the share reserve will be reduced by the full number of shares of common stock covered by a stock appreciation right that is exercised or settled.

Annual Award Limits

Awards may be denominated in shares of common stock. The 2016 Plan contains a calendar year per participant limit of 125,000 shares underlying grants of awards, subject to adjustment as provided in Section 14 of the 2016 Plan, unless the Committee specifically determines at the time of grant that the award is not intended to qualify as performance-based compensation under the 2016 Plan. In addition, the annual limit will not apply in the following circumstances: the Company acquires all or substantially all (greater than seventy-five percent (75%)) of the fair market value of the assets of another entity or the Company acquires a Controlling Interest (as defined in the 2016 Plan) of another entity.

Adjustment

Transactions not involving the receipt of consideration by the Company, such as a merger, consolidation, reorganization, stock dividend, or stock split, may change the class and number of shares of common stock subject to the 2016 Plan and outstanding awards. In that event, the 2016 Plan will be appropriately adjusted as to the class and the maximum number of shares of common stock subject to the 2016 Plan and other share limits. Outstanding awards also will be adjusted as to the class, number of shares and price per share of common stock subject to such awards.

Fair Market Value

Generally, fair market value of the Company's common stock will be the closing sales price of one share of the Company's common stock on the NASDAQ Capital Market on the date of determination. The fair market value of the Company's stock as of April 17, 2017 was \$4.80.

Stock Options and Stock Appreciation Rights

The Committee may award stock options in the form of non-statutory stock options or incentive stock options or stock appreciation rights, each with a maximum term of ten years. The exercise price for the option and the grant price for the stock appreciation right may not be less than 100% of the fair market value of one share of common stock on the date of grant. The Committee will establish the vesting schedule for stock options and stock appreciation rights and the method of payment for the exercise price of an option, which may include cash, shares, or other awards. The Committee will establish in the award agreement the period of time that the participant will have after termination of continuous service with the Company to exercise the vested portion of an outstanding option or stock appreciation right. Stockholder approval of the class of eligible participants under the 2016 Plan and the limit on the number of shares covered by an award granted to any one participant during a calendar year is intended to satisfy the stockholder approval conditions for stock options and stock appreciation rights to qualify as deductible under Section 162(m) of the Internal Revenue Code.

Restricted Stock and Restricted Stock Units

The Committee may award restricted stock and restricted stock units and establish applicable restrictions, including any limitation on voting rights or the receipt of dividends. The Committee may decide to include dividends or dividend equivalents as part of an award of restricted stock or restricted stock units and may defer the payment of dividends, with or without interest, until the award is vested or paid. The Committee will establish the manner and timing under which restrictions may lapse. If the participant's continuous service is terminated during the applicable restriction period, shares of restricted stock and restricted stock units still subject to restriction will be forfeited, except as determined otherwise by the Committee.

Performance Awards and Other Stock-Based Awards

The Committee may grant performance awards, which may be denominated in cash, shares, other securities or other awards and payable to, or exercisable by, the participant upon the achievement of performance goals during performance periods, as established by the Committee. Performance criteria mean any measures, as determined by the Committee, which may be used to measure the level of performance of the Company or the participant during a performance period. The Committee may grant other stock-based awards that are denominated or payable in shares, under the terms and conditions as the Committee will determine.

Dividends and Dividend Equivalents

The Committee may provide in an award agreement that the participant is entitled to receive, currently, or on a deferred basis, dividends or dividend equivalents, with respect to the shares of common stock covered by the award.

Material Terms of Performance Goals for Covered Persons

The Company intends for certain awards made under the 2016 Plan to comply with the requirements for performance-based compensation pursuant to Section 162(m) of the Internal Revenue Code. Generally, current federal tax law does not allow a publicly held company to obtain tax deductions for compensation of more than \$1 million paid in any year to the chief executive officer and the three other most highly compensated executive officers (other than the chief financial officer) unless such payments are "performance-based" as defined in the tax laws. One of the requirements for compensation to be performance-based under those laws is that the company must obtain stockholder approval every five years of the material terms of performance goals where the Committee has the authority to select one or more performance goals previously approved by stockholders.

Group of Employees Covered

The group of employees whose compensation would be subject to the performance goals would include the Company's senior executive officers, including the chief executive officer and the three most highly compensated executive officers (other than the chief executive officer and chief financial officer), "covered officers," and other officers or individuals who may become covered officers.

Business Criteria

The Company intends to use one or more of the following performance criteria as the basis for the performance goals: (i) revenue, (ii) earnings before interest, taxes, depreciation and amortization (EBITDA), (iii) Adjusted EBITDA (earnings before interest, taxes, depreciation, amortization, impairment, stock compensation and gain/loss on foreign exchange transaction) (iv) net earnings, (v) net income, (vi) product-related targets and (vii) cash flow, subject to adjustment by the Committee to remove the effect of charges for restructurings, discontinued operations, extraordinary items and all items of gain, loss or expense determined to be extraordinary or unusual in nature or infrequent in occurrence, related to the disposal of a segment or a business, or related to a change in accounting principle or otherwise. The Committee may establish performance goals that are measured either individually, alternatively or in any combination, applied to either the Company as a whole or to a business unit or related company, and measured quarterly, annually or cumulatively over a period of years, on an absolute basis or relative to a pre-established target, to a previous quarter's or year's results or to a designated comparison group, in each case as specified by the Committee in the award. The Committee may establish the threshold, target and maximum performance levels, and the number of shares or dollar amounts payable at various performance levels from the threshold to the maximum.

The Committee has established qualifying performance criteria and maximum amounts that it considers appropriate in light of foreseeable contingencies and future business conditions. If the amendments to the 2016 Plan are approved by the stockholders, the Company reserves the right to award or pay other additional forms of compensation (including, but not limited to, salary, or other stock-based awards under the 2016 Plan) to the Company's covered officers. These other forms of compensation may be paid regardless of whether or not the qualifying performance goals for performance awards described above are achieved in any future year, and whether or not payment of such other forms of compensation would be tax deductible.

Effect of Change of Control

Upon certain changes of control of the Company, 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 the Company but the option will terminate if not exercised during that period. For this purpose, a "Change of Control" means the occurrence of any of the following:

- (i) (a) the date any person or group acquires ownership of stock of the Company that, together with stock held by the person or group, constitutes more than fifty percent (50%) of the total fair market value or total voting power of the stock of the Company; (b) a liquidation or dissolution of the Company; or (c) the sale of all or substantially all (greater than seventy five percent (75%)) of the fair market value of the assets of the Company;
- (ii) the acquisition by any person, entity or "group," within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act, of beneficial ownership within the meaning of Rule 13-d promulgated under the Securities Exchange Act of more than fifty percent (50%) of either the then-outstanding shares of the Company's common stock or the combined voting power of the Company's then-outstanding voting securities entitled to vote generally in the election of directors (hereinafter referred to as the ownership of a "Controlling Interest") excluding, for this purpose, any acquisitions by (a) the Company or its Affiliates; or (b) any employee benefit plan of the Company or its Affiliates; or any one person, or more than one person acting as a group, acquires (or has acquired during the twelve (12) month period ending on the date of the most recent acquisition by such person or persons) ownership of stock of the Company possessing fifty percent (50%) percent or more of the total voting power of the stock of such corporation;
- (iii) individuals who constitute the majority of the Board as of the date of this Agreement (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided that any individual who becomes a member of the Board after the date of this Agreement whose election, or nomination for election by holders of the Company's securities, was approved by the vote of at least a majority of the Individuals then constituting the Incumbent Board will be considered a member of the Incumbent Board; or
- (iv) any other change in effective control described in Treas. Reg. Section 1.409A(i)(5)(vi).

Limitations on Transfer

Awards are not transferable other than by will or the laws of descent and distribution unless determined otherwise by the Committee. Awards may not be pledged or otherwise encumbered.

Amendment and Termination of the 2016 Plan

The Board may, by unanimous approval, amend, suspend or terminate the 2016 Plan in any respect and at any time, subject to stockholder approval, if such approval is required by applicable law or stock exchange rules. The Committee may waive conditions or amend the term of awards, or otherwise amend or suspend awards already granted subject to certain conditions.

Effective Date of Amendment; Term of the 2016 Plan

The amendment of the 2016 Plan will become effective immediately upon its approval by the Company's stockholders. Unless earlier terminated by the Board, the 2016 Plan will terminate on March 8, 2026.

FEDERAL INCOME TAX INFORMATION

The following discussion of the U.S. federal income tax consequences of the 2016 Plan is intended to be a summary of the applicable federal law as currently in effect. Foreign, state and local tax consequences may differ and laws may be amended or interpreted differently during the term of the 2016 Plan or of stock awards granted under the 2016 Plan. Because the income tax rules governing stock awards and related payments are complex and subject to frequent change, participants are advised to consult their individual tax advisors.

Non-statutory Stock Options

The grant of a non-statutory stock option will not result in the recognition of taxable income by the participant or in a deduction for the Company. Upon exercise, the participant will recognize ordinary income in an amount equal to the excess of the fair market value of the shares of common stock purchased over the exercise price, and generally, the Company is entitled to a tax deduction for the amount of the income recognized by the participant (subject to Section 162(m) of the Internal Revenue Code). If the participant later sells any of the shares acquired upon exercise of the non-statutory stock option, any gain or loss recognized will be capital gain or loss (long-term or short-term, depending upon the holding period for the shares sold). Certain additional rules apply if the exercise price is paid in shares previously owned by the participant.

Incentive Stock Options

Incentive stock options granted under the 2016 Plan are intended to be eligible for the favorable federal income tax treatment accorded "incentive stock options" under Section 422 of the Internal Revenue Code. There generally are no federal income tax consequences to the participant or the Company upon the grant or exercise of an incentive stock option. However, the excess of the fair market value of the shares of common stock on the date of exercise over the exercise price will result in an adjustment to taxable income for purposes of the alternative minimum tax. If the participant holds stock acquired through exercise of an incentive stock option for at least two (2) years from the date on which the option is granted and at least one (1) year from the date on which the shares are transferred to the participant upon exercise of the option, any gain or loss on a disposition of the shares will be a long-term capital gain or loss. Generally, if the participant disposes of the stock before the expiration of either of these holding periods (a "disqualifying disposition"), then at the time of disposition the participant will realize taxable ordinary income equal to the lesser of (i) the excess of the stock's fair market value on the date of exercise over the exercise price, or (ii) the participant's actual gain, if any, on the disposition. The participant may also have additional gain or loss upon the disqualifying disposition, which will be capital gain or loss (long-term or short-term, depending upon the holding period for the shares). To the extent the participant recognizes ordinary income by reason of a disqualifying disposition, the Company will generally be entitled to a corresponding deduction for the tax year in which the disqualifying disposition occurs.

Stock Appreciation Rights

The grant of a stock appreciation right will not result in the recognition of taxable income by the participant or in a deduction for the Company. Upon exercise, the participant will recognize ordinary income in an amount equal to the then fair market value of the shares of common stock or cash distributed to the participant. The Company is entitled to a tax deduction equal to the amount of such income (subject to Section 162(m) of the Internal Revenue Code). Gain or loss upon a subsequent sale of any shares received by the participant will generally be taxed as capital gain or loss (long-term or short-term, depending upon the holding period for the shares sold).

Other Awards

A participant who is granted restricted stock, restricted stock units, performance awards or other stock-based awards will generally not be taxed at the time of grant of the award unless the participant makes a Section 83(b) election under the Internal Revenue Code to be taxed at the time of grant or exercise, as applicable. Upon the payment of shares with respect to units or upon the lapse of restrictions on transferability or the lapse of risk of forfeiture with respect to restricted stock, the participant will be taxed at ordinary income tax rates on the then fair market value of the shares. The Company is required to withhold tax on the amount of income recognized and the Company will generally be allowed a tax deduction on the amount of the income recognized (subject to Section 162(m) of the Internal Revenue Code). The participant's tax basis in the shares will be equal to the amount of ordinary income recognized. Upon subsequent disposition of the shares, the participant will realize capital gain or loss (long-term or short-term, depending upon the holding period for the shares sold).

Section 162(m) – Potential Limit on Company Deduction

Section 162(m) of the Internal Revenue Code limits the deduction for compensation paid to the chief executive officer and the four other most highly compensated executive officers of a publicly held corporation to \$1 million per fiscal year, with exceptions for certain performance-based compensation. In accordance with Treasury regulations issued under Section 162(m), compensation attributable to stock options and stock appreciation rights will qualify as performance-based compensation if the award is granted by a compensation committee comprised solely of "outside directors" and the plan is approved by the stockholders and contains a per-employee limitation on the number of shares for which such awards may be granted during a specified period, and (i) either the exercise price of the award is no less than the fair market value of the stock on the date of grant, or (ii) the award is granted (or exercisable) only upon the achievement (as certified in writing by the compensation committee) prior to vesting or exercisability of an objective performance goal established in writing by the compensation committee while the outcome is substantially uncertain, and the stockholders have approved the material terms of the award (including the class of employees eligible for such award, the business criteria on which the performance goal is based, and the maximum amount, or formula used to calculate the amount, payable upon attainment of the performance goal).

Restricted stock, restricted stock units, performance awards, and other stock-based awards qualify as performance-based compensation under the Treasury regulations only if (i) the award is granted by a compensation committee comprised solely of "outside directors," (ii) the award is granted (or exercisable) only upon the achievement of an objective performance goal established in writing by the compensation committee while the outcome is substantially uncertain, (iii) the compensation committee certifies in writing prior to the granting (or exercisability) of the award that the performance goal has been satisfied and (iv) prior to the granting (or exercisability) of the award, stockholders have approved the material terms of the award (including the class of employees eligible for such award, the business criteria on which the performance goal is based, and the maximum amount, or formula used to calculate the amount, payable upon attainment of the performance goal).

Section 409A – Deferred Compensation

Certain grants made under the 2016 Plan may constitute deferred compensation for purposes of Section 409A of the Internal Revenue Code. If the requirements of Section 409A are not satisfied for these awards, the participant may be subject to a 20% additional tax, in addition to ordinary income tax, at the time the award becomes vested, plus interest on late payments.

PROPOSAL 3

ADVISORY VOTE ON EXECUTIVE COMPENSATION

Introduction

In 2013 our stockholders voted to have an advisory vote on executive compensation every two years. Our last advisory approval was obtained at our 2015 annual meeting. Accordingly, we are again requesting our stockholders to approve, on an advisory basis, the compensation of our named executive officers as described in the "Executive Compensation" section of this Proxy Statement. This proposal, commonly known as a "say on pay" proposal, gives our stockholders the opportunity to express their views on the compensation of our named executive officers.

Compensation Program and Philosophy

Our executive compensation program is designed to attract, reward, and retain key employees, including our named executive officers, who are vital to our success. We tie a substantial percentage of an executive's compensation to the attainment of financial performance measures that our Board believes are important to the business and will enhance stockholder value. As described more fully in the Compensation Discussion and Analysis, the mix of fixed and performance based compensation and equity awards, as well as executives' employment and change in control agreements, are all designed to attract and retain talented employees and create a close correlation between performance and compensation. Our Compensation Committee and Board believe that the compensation plans of our named executive officers fulfill this objective. We recommend that stockholders read the "Compensation Discussion and Analysis" of this Proxy Statement, which discusses in detail how our compensation policies implement our compensation philosophy and the related compensation tables which set forth the fiscal year 2016 compensation of our named executive officers. Sixty-five percent of the stockholders voted in favor of the compensation plans in the 2015 advisory vote. There were 2.5 million broker non-votes, 21 percent of our issued and outstanding shares. Following the advisory vote in 2015, the Compensation Committee evaluated whether changes should be made to the compensation plans of the named executive officers and elected not to make any material changes.

Recommendation

Our Compensation Committee believes that the compensation plans of our named executive officers are structured to retain executive talent while also protecting stockholder and Company interests. As a result, we are asking our stockholders to indicate their support for the compensation of our named executive officers as described in this Proxy Statement by voting in favor of the following resolution:

"RESOLVED, that the compensation of the Company's named executive officers, as disclosed in the Compensation Discussion and Analysis, related compensation tables, and the accompanying narrative disclosure, is hereby APPROVED."

While this say on pay vote is advisory and therefore will not be binding on the Company, our Compensation Committee and Board value the opinions of our stockholders. Accordingly, to the extent there is a significant majority vote approving or disapproving the compensation of our named executive officers, we expect to take into account the outcome of the vote when considering future executive compensation.

**THE BOARD RECOMMENDS A VOTE "FOR" THE APPROVAL OF THE
COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS, AS DISCLOSED
IN THIS PROXY STATEMENT.**

PROPOSAL 4

RATIFICATION OF THE APPOINTMENT OF FRIEDMAN LLP AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR 2017

The Board of Directors has selected Friedman LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2017, and has further directed that management submit the selection of the independent registered public accounting firm for ratification by the stockholders at the Annual Meeting. Representatives of Friedman LLP are expected to be available at the Annual Meeting to make a statement if they so desire, and to respond to appropriate questions from stockholders present at the meeting.

Stockholder ratification of the selection of Friedman LLP as the Company's independent registered public accounting firm is not required by our bylaws or otherwise. However, the Board is submitting the selection of Friedman LLP to the stockholders for ratification as a matter of good corporate practice. If the stockholders fail to ratify the selection, the Audit Committee and the Board will reconsider whether or not to retain that firm. Even if the selection is ratified, the Audit Committee and the Board in their discretion may direct the appointment of a different independent registered public accounting firm at any time during the year if they determine that such a change would be in the best interests of the Company and its stockholders.

Required Vote and Recommendation of Board of Directors

The ratification of Friedman LLP as Evolving Systems' independent registered public accounting firm is considered a routine matter for brokers that hold their clients' shares in "street name" and brokers are entitled to vote these shares on this proposal. The affirmative vote of a majority of the shares of our common stock, present or represented and voting at the annual meeting, will be required to ratify the appointment of Friedman LLP as our independent registered public accounting firm. Abstentions will have no effect on the outcome of the vote with respect to this proposal. Because this is a routine proposal on which a broker or other nominee is generally empowered to vote, we do not expect any broker non-votes with respect to this proposal.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" PROPOSAL 4, RATIFICATION OF FRIEDMAN LLP AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR 2017.

Fees Billed by Independent Registered Public Accounting Firm

The following table sets forth information regarding fees for services rendered by Friedman LLP related to the fiscal years ended December 31, 2016 and December 31, 2015:

<u>Types of Fees</u>	<u>Fees for 2016</u>	<u>Fees for 2015</u>
Audit Fees	\$ 122,500	\$ 116,000
Other Fees	\$ 0	\$ 51,500
Total Fees	<u>\$ 122,500</u>	<u>\$ 167,500</u>

Audit Fees were for professional services for the audit of the consolidated financial statements and other fees for services that only our independent registered public accounting firm can perform, such as the review of our interim consolidated financial statements included in our Form 10-Q and 10-Q/A filings, consents and assistance with and review of documents filed with the SEC.

Other Fees for 2015 were for services related to our acquisition of RateIntegration, Inc.

The Audit Committee has considered the nature of all non-audit services and believes that such services are compatible with maintaining the independent registered public accounting firm's independence.

Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services

The Audit Committee has established a process for review and approval of fees and services of the independent registered public accounting firm. Requests to the Audit Committee for approval of fees and services for the independent registered public accounting firm are made in writing or via e-mail by our Chief Financial Officer. The request must be specific as to the particular services to be provided, but may be either for specific services or a type of service for predictable or recurring services. The Chairman of the Audit Committee reviews the request and provides a response, in writing or via e-mail, to our Chief Financial Officer and

approved requests are subsequently ratified by the Committee as a whole. All of the services provided by the independent registered public accounting firm in 2016 and 2015 were pre-approved by the Audit Committee.

The Audit Committee, with the ratification of the stockholders, engaged Friedman LLP to perform an annual audit of the Company's consolidated financial statements for the fiscal year ended December 31, 2016. Our Audit Committee entered into an engagement agreement with Friedman LLP which sets forth the terms by which Friedman LLP performed audit services for the Company.

MANAGEMENT

As of April 17, 2017, the Company's named executive officers are as follows:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Thomas Thekkethala	55	Chief Executive Officer and President
Daniel J. Moorhead	44	Chief Financial Officer and Secretary

Thomas Thekkethala. For biographical information on Mr. Thekkethala, please see Proposal No. 1, "Election of Directors."

Daniel J. Moorhead was promoted to Chief Financial Officer on January 1, 2016 after having served as Vice President of Finance & Administration from December 2011 through December 2015. He served as Corporate Controller for the Company from 2002 to 2005 and re-joined the Company in December 2008 in this same role. From August 2005 to November 2008, he was Chief Financial Officer for High Country Club, a destination club. Prior to 2002, he was the Assistant Controller at Convergent Communications and Auditor at Malouff and Co., P.C. Mr. Moorhead is a CPA and holds a B.B.A. in Accounting from the University of Northern Colorado.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Executive Compensation Objectives and Practices

We designed our executive officer compensation program to attract, motivate and retain key executives who drive our success. We strive to have pay reflect our performance and align with the interests of long-term stockholders, which we achieve with compensation that:

- Provides executives with competitive compensation that maintains a balance between cash and stock compensation, encouraging our executive officers to act as owners with an equity stake in our company;
- Ties a significant portion of total compensation to achievement of the Company's business goals such as quarterly and annual revenue, and Adjusted EBITDA targets;
- Enhances retention by having equity compensation subject to multi-year vesting; and
- Does not encourage unnecessary and excessive risk taking.

The Compensation Committee evaluates both performance and compensation to ensure the Company maintains its ability to attract and retain superior employees in key positions and compensation provided to key employees remains competitive relative to the compensation paid to similarly situated executives of other software companies our size.

Elements of Executive Compensation

Our compensation for senior executive officers generally consists of the following elements: base salary; performance-based incentive compensation determined primarily by reference to objective financial operating criteria; long-term equity compensation in the form of stock options and restricted stock; and employee benefits that are generally available to all our employees.

Base Salary

The Company provides named executive officers and other employees with base salary to compensate them for services rendered during the fiscal year. It is our policy to set base salary levels taking into account a number of factors, such as annual

revenue, the nature of the software business, the structure of other companies' compensation programs and the availability of compensation information. When setting base salary levels, in a manner consistent with the objectives outlined above, the Compensation Committee considers our performance, the individual's breadth of knowledge and performance and levels of responsibility. In determining salaries for 2016, the Compensation Committee did not engage compensation consultants.

Mr. Thekkethala joined the Company as President when the Company acquired RateIntegration, Inc. on September 30, 2015 and was promoted to Chief Executive Officer on January 1, 2016. The Compensation Committee elected to keep his annual base salary unchanged, set at \$300,000, from what he received as Chief Executive Officer of RateIntegration. Mr. Moorhead's annual base salary in 2016 was \$200,000.

Quarterly and Annual Performance-Based Incentive Compensation

Our performance-based incentive compensation program is designed to compensate executives when financial performance goals are achieved. Executives have the opportunity to earn quarterly and annual cash compensation equal to a percentage of their base salary. In 2016, on an annual basis, the potential incentive compensation percentages was 50% of the executive's base salary (as specifically noted in the "*Grants of Plan-Based Awards*" table on page 24), payable in five increments (four smaller quarterly payments and one larger annual payment) based upon quarterly and annual revenue and Adjusted EBITDA targets. Quarterly incentive compensation payments were equal to 30% of each executive's total incentive compensation and 70% was based on achievement of the annual targets. Quarterly incentive compensation was capped at 100% of the quarterly target. Achievement of 100% of the revenue or Adjusted EBITDA target paid out at 75% of the targeted incentive compensation. For extraordinary performance there was an opportunity to receive more than 100% of the targeted incentive compensation associated with the annual increment if certain "stretch" Company annual performance targets were attained – specifically, up to 200% for exceeding the annual revenue target by 20%; and up to 200% for exceeding the Adjusted EBITDA target by 26%. These Company performance targets also served as the basis for incentive compensation paid to non-executive officers, and certain managers and non-commissioned employees, to assure that all employees are motivated toward the same corporate financial goals.

Each year the Compensation Committee determines the appropriate performance measurement criteria that it believes best aligns executive compensation with the Company's business goals for the year. For fiscal 2016, the Compensation Committee determined that 50% of incentive compensation would be tied to revenue, and 50% would be tied to profitability, using quarterly and annual earnings targets before interest, taxes, depreciation, amortization, impairment, stock compensation and gain/loss on foreign exchange transactions – what we refer to as "Adjusted EBITDA."

For 2016, we did not achieve our revenue or Adjusted EBITDA targets; as a result, our named executive officers did not receive any incentive compensation payments.

In general, we set targeted levels of performance at the threshold range that require above average performance in order to qualify for payouts. Payouts above the target range are set at levels that are much more difficult to achieve. See footnote (4) to our "*Summary Compensation Table*" for additional information regarding percentage of target levels achieved for 2014 and 2015.

The Compensation Committee's policy with respect to the adjustment or recovery of compensation in the event of a material change in our financial statements requiring an accounting restatement is to retain discretion over all pay elements and reserve the right to reduce or forego future compensation based on any required restatement or adjustment. The Compensation Committee intends to review its policies with respect to such adjustment or recovery of compensation on an ongoing basis as part of its annual review.

Long-Term Incentive Compensation – Equity Compensation

Our executive officers are eligible for stock awards. We believe that stock awards give executives a significant, long-term interest in our success, help retain key executives in a competitive market, and align executive interests with stockholder interests and long-term performance of the Company. We have granted options as well as restricted stock under our 2016 Stock Incentive Plan and predecessor plans. Stock awards also provide each individual with an added incentive to manage the Company from the perspective of an owner with an equity stake in the business. Moreover, the long-term vesting schedule (which is generally four years for employees and one year for non-employee directors, although this may vary at the discretion of the Compensation Committee) encourages a long-term commitment to the Company by our executive officers and other participants. Each year the Compensation Committee reviews the number of shares owned by, or subject to options held by, each executive officer, and additional awards are considered based upon the executive's past performance, as well as anticipated future performance, of the executive officer. The Compensation Committee continues to believe that equity compensation should be an important element of the Company's compensation package.

Typically, we have awarded stock options to executives upon joining the Company and thereafter grants may be at the discretion of the Compensation Committee. Sometimes we grant options upon the occurrence of an event, such as a promotion or an

acquisition. Generally, options are priced at the closing price of the Company's common stock on the date of each grant, or, in the case of new employees, such later date as the employee joins the Company. We also have granted restricted stock to members of the Board of Directors, executive officers, and a limited number of non-executive officers from time to time.

We do not have a formal written policy relating to the timing of equity awards. We encourage, but we do not require, that our executive officers own stock in the Company.

Retirement and Other Benefits

All employees in the United States who are at least twenty-one years of age and who have worked for the Company for a period of 30 days are eligible to participate in our 401(k) plan.

Stock Purchase Plan

The Company maintains an employee stock purchase plan (the "*Purchase Plan*"). Generally, any employee, including each named executive officer, who is customarily employed at least 20 hours per week and five months per calendar year by the Company (or by any parent or subsidiary of the Company) on the first day of an offering is eligible to participate. Offerings occur quarterly. Employees who own 5% or more of the Company's common stock may not participate in the Purchase Plan.

No employee may accrue the right to purchase more than 10,000 shares in any offering period or more than \$25,000 worth of common stock (determined at the fair market value of the shares at the time such rights are granted) in any calendar year. Rights granted under the Purchase Plan are not transferable and may be exercised only by the employee to whom such rights are granted.

Employees are eligible to participate in the first offering commencing after the date they are employed by the Company or an affiliate of the Company. Subject to the limitations described above, employees who participate in an offering may have up to 15% of their compensation withheld pursuant to the Purchase Plan and applied at the end of each offering period to the purchase of shares of common stock. The price of common stock purchased under the Purchase Plan is equal to 85% of the lower of the fair market value of the common stock on the commencement date of each offering period or the purchase date. Employees may end their participation in the offering at any time prior to the end of the offering and participation ends automatically upon termination of employment with the Company.

Rights granted under the Purchase Plan are intended to qualify for favorable federal income tax treatment associated with rights granted under an employee stock purchase plan which qualifies under provisions of Section 423 of the Internal Revenue Code. For U.S.-based employees, no income will be taxable to a participant until disposition of the acquired shares, or until the participant's death while holding the acquired shares, and the amount of taxation will depend upon the holding period of the acquired shares. Employees located outside of the United States may be subject to different tax treatment based upon local tax laws.

Life Insurance and Disability Insurance

Our executive officers have the same life insurance and disability benefits as our U.S.-based employees, namely, a benefit at the rate of 66-2/3% of an employee's base pay, with a monthly benefit cap of \$5,667.

Perquisites and Other Personal Benefits

We do not provide additional perquisites and other personal benefits to our executive officers.

Indemnification Agreements

We have entered into an indemnification agreement with each of our named executive officers and members of our Board of Directors. Information regarding those agreements is provided under the heading "*Certain Relationships and Related Transactions*" on page 31.

Employment and Severance Agreements

Our named executive officers are employed "at-will," although our Chief Executive Officer and Chief Financial Officer have severance provisions in their employment agreements providing for payments to them upon termination of employment, subject to certain limitations. Information regarding potential payments and benefits under these employment agreements is provided under the heading "*Potential Payments Upon Termination or Change of Control*" on page 25.

Change of Control Arrangements

The compensation agreements we have entered into with Mr. Thekkethala and Mr. Moorhead contain change of control benefits. In our experience, change of control benefits for executive officers are common among our peer group, and our Board of Directors and Compensation Committee believe that providing these arrangements to our named executive officers will protect stockholders' interests in the event of a change of control by enabling executives to consider corporate transactions that are in the best

interests of the stockholders and other constituents of the Company without undue concern over whether the transaction may jeopardize the executive's own employment. Information regarding potential payments and benefits under such arrangements is provided under the heading "*Potential Payments Upon Termination or Change of Control*" on page 25.

Limitation on Deduction of Compensation Paid to Certain Executive Officers

Section 162(m) of the Internal Revenue Code, or Section 162(m), generally limits the Company deduction for federal income tax purposes to no more than \$1 million of compensation paid to each of the named executive officers in a taxable year. Compensation above \$1 million may be deducted if it is "performance-based compensation" within the meaning of the Code. While the Compensation Committee considers deductibility as one factor in determining executive compensation, in some cases the Compensation Committee may decide that it is not possible to satisfy all of the conditions of Section 162(m) for deductibility and still meet our compensation needs. In some circumstances, compensation that we provide may not satisfy all of the requirements for deductibility under Section 162(m).

Compensation of Chief Executive Officer

On January 1, 2016, the Board promoted Mr. Thekkethala, President of the Company, to the position of Chief Executive Officer. Mr. Thekkethala's annual base salary is \$300,000 and his potential incentive compensation percentage is 50% of his base salary. In 2016 he was also eligible to receive commissions on certain carry-over RateIntegration contracts. In 2016, Mr. Thekkethala was paid \$61,626 in commission on these contracts.

COMPENSATION COMMITTEE REPORT

The Compensation Committee of the Board of Directors has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with management and, based on such review and discussions, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this proxy statement and the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

THE COMPENSATION COMMITTEE

David J. Nicol, Chairman

David S. Oros

Richard R. Ramlall

COMPENSATION RISK ASSESSMENT

The Compensation Committee has discussed the concept of risk as it relates to our compensation programs and the Committee does not believe our compensation programs encourage excessive or inappropriate risk taking. We structure our pay to consist of fixed and variable compensation and the variable portions (cash and equity) are designed to reward both short- and long-term corporate performance. Our employees are encouraged to take a balanced approach that focuses on revenue, profitability and our new products, and our targets are applicable to our executives and employees alike, thus encouraging consistent behavior across the organization.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

Messrs. Nicol, Oros and Ramlall served as members of the Compensation Committee of the Board of Directors during fiscal 2016. None of the members of the Compensation Committee were, at any time during fiscal 2016, nor at any other time, officers or employees of the Company. No member of the Compensation Committee or executive officer of the Company has a relationship that would constitute an interlocking relationship with executive officers or directors of another entity.

2016 SUMMARY COMPENSATION TABLE

The table below summarizes the total compensation paid to or earned by each of the named executive officers for the fiscal years ended December 31, 2016, December 31, 2015 and December 31, 2014.

(a) Name and Principal Position (1)	(b) Year	(c) Salary (\$)	(d) Stock Awards (\$ (2))	(e) Option Awards (\$ (3))	(f) Non-Equity Incentive Plan Compensation (\$ (4))	(g) All Other Compensation (\$ (5))	(h) Total (\$)
Thomas Thekkethala							
President and Chief Executive Officer	2016	\$ 300,000	\$ —	\$ —	\$ —	\$ 78,230	\$ 378,230
.....	2015	\$ 75,000	\$ 90,000	\$ 96,261	\$ —	\$ 1,500	\$ 262,761
Daniel J. Moorhead							
Chief Financial Officer and Secretary	2016	\$ 200,000	\$ —	\$ 35,909	\$ —	\$ 27,392	\$ 263,301
.....	2015	\$ 200,000	\$ —	\$ 13,867	\$ —	\$ 22,664	\$ 236,531
.....	2014	\$ 200,000	\$ —	\$ 21,065	\$ 49,763	\$ 26,482	\$ 297,310

- (1) Mr. Thekkethala was named President of the Company on September 30, 2015 when the Company acquired RateIntegration, Inc. d/b/a Sixth Sense Media. He was promoted to the Chief Executive Officer position on January 1, 2016. Daniel J. Moorhead served as the Company's Vice President of Finance & Administration in calendar year 2015 and was promoted to Chief Financial Officer on January 1, 2016.
- (2) The amounts in column (d) reflect the grant date fair value of restricted stock awards granted under the Company's 2007 Stock Incentive Plan during the fiscal year noted, computed in accordance with FASB ASC Topic 718. For further information on these awards, see Note 9, "Share Based Compensation" of our consolidated financial statements included in Form 10-K for the year ended December 31, 2016, filed with the SEC on March 28, 2017.
- (3) The amounts in column (e) reflect the grant date fair value of stock options granted in the associated fiscal year granted pursuant to the Company's 2007 Stock Incentive Plan, computed in accordance with FASB ASC Topic 718. For further information on these awards, see the *Grants of Plan-Based Awards* table on page 24 of this proxy statement and Note 9, "Share Based Compensation" of our consolidated financial statements included in Form 10-K for the year ended December 31, 2016, filed with the SEC on March 28, 2017.
- (4) The amounts shown in column (f) represent incentive compensation earned for 2016, 2015 and 2014, some of which was paid in the subsequent calendar year. The Company achieved incentive compensation targets established by the Compensation Committee as follows: In 2016: first quarter: 0%; second quarter: 0%; third quarter: 0%; fourth quarter: 0%; annual: 0%; and full year: 0%. In 2015: first quarter: 0%; second quarter: 0%; third quarter: 0%; fourth quarter: 0%; annual: 0%; and full year: 0%. In 2014: first quarter: 0%; second quarter: 87%; third quarter: 50%; fourth quarter: 50%; annual: 59%; and full year: 55%.
- (5) Column (g) reflects amounts paid for each named executive officer as follows. Excluded from these amounts are premiums paid by the Company for group life and medical insurance also available to non-executive employees:

Named Executive Officer	Year	Retirement Plan Matching Contributions	Unused Paid Time Off	Commission and Other Payments
Thomas Thekkethala	2016	\$ 7,950	\$ 8,654	\$ 61,626*
	2015	\$ 1,500	\$ —	
Daniel J. Moorhead	2016	\$ 6,623	\$ 20,769	\$ —
	2015	\$ 7,665	\$ 14,999	
	2014	\$ 6,867	\$ 19,615	

* See page 22 for a discussion of Mr. Thekkethala 's earned commissions.

2016 GRANTS OF PLAN-BASED AWARDS

(a) Name	(b) Grant Date	Estimated future payouts under <u>non-equity incentive plan awards</u>			(f) All other stock awards; Number of shares of stock (#) (2)	(g) All other option awards: number of securities underlying options (#)	(h) Exercise price of option awards (\$/share)	(i) Grant date fair value of stock and option awards (\$)
		(c) Threshold (\$)	(d) Target (\$)(1)	(e) Maximum (\$)				
Thomas Thekkethala (3)		\$ —	150,000	300,000	—	—	\$ —	\$ —
Daniel J. Moorhead (4)	3/9/2016	\$ —	\$ 100,000	\$ 200,000	—	50,000	\$ 5.28	\$ 35,909

- (1) Columns (c), (d) and (e) reflect the amounts that would have been earned by the named executive officers had we achieved our 2016 performance objectives established by the Compensation Committee (see "Compensation Discussion and Analysis" discussion on page 19). Target amounts shown in column (d) would have been earned if we achieved 103% of our annual revenue target and 102% of our Adjusted EBITDA target. The maximum amount would have been earned if we achieved 123% of our annual revenue target and 129% of our annual Adjusted EBITDA target.
- (2) The amounts in column (i) reflect the grant date fair value of restricted stock awards and stock options granted under the Company's 2007 Stock Incentive Plan during fiscal year 2016, computed in accordance with FASB ASC Topic 718. For further information on these awards, see Note 9, "Share Based Compensation" of our consolidated financial statements included in Form 10-K for the year ended December 31, 2016, filed with the SEC on March 28, 2017.
- (3) Mr. Thekkethala's 2016 compensation plan provided for target incentive pay equal to 50% of his base salary.
- (4) Mr. Moorhead's 2016 compensation plan provided for target incentive pay equal to 50% of his base salary.

OUTSTANDING EQUITY AWARDS AT DECEMBER 31, 2016

(a) Name	Option Awards (1)				Stock Awards	
	(b) Number of Securities Underlying Unexercised Options (#) Exercisable	(c) Number of Securities Underlying Unexercised Options (#) Unexercisable	(d) Option Exercise Price (\$/share)	(e) Option Expiration Date	(f) Number of shares of stock that have not vested (#)(2)	(g) Market value of shares of stock that have not vested (\$)(3)
Thomas Thekkethala	31,250	68,750	\$ 6.00	9/29/2025	11,250	\$ 46,125
Daniel J. Moorhead	9,375	40,625	\$ 5.28	3/8/2026	—	—
	2,187	2,813	\$ 8.96	1/28/2025		
	3,437	1,563	\$ 10.90	1/20/2024		
	2,343	157	\$ 6.45	1/21/2023		
	2,590	—	\$ 4.42	1/5/2022		
	2,280	—	\$ 3.72	1/6/2020		
	5,945	—	\$ 1.00	11/30/2018		

- (1) Options were granted ten years prior to the option expiration date. Options generally vest at a rate of 25% per year over the first four years of the ten-year option term, and will be fully vested four years after the date of grant.
- (2) One-quarter of the restricted stock will vest on the first anniversary date of the grant of the award, and the remaining three-quarters will vest over the remaining three years, with full vesting of the award by November 10, 2019.
- (3) Market value was calculated by multiplying the number of shares shown in the table by \$4.10, which was the closing price per share on December 31, 2016, the last day of our fiscal year.

2016 OPTION EXERCISES AND STOCK VESTED

The table below reflects options exercised by the named executive officers and vesting of restricted stock awards during fiscal year 2016.

Name	Option Awards (1)		Stock Awards (2)	
	Number of shares acquired on exercise (#)	Value realized on exercise (\$)	Number of shares acquired on vesting (#)	Value realized on vesting (\$)
Thomas Thekkethala	—	\$ —	3,750	\$ 16,313
Daniel J. Moorhead	—	\$ —	—	\$ —

- (1) Neither of our named executive officers exercised options in 2016.
- (2) Represents the aggregate dollar amount realized by the named executive officer upon vesting of restricted stock, computed by multiplying the number of shares of stock by the market value of the underlying shares on the vesting dates.

PENSION BENEFITS

The Company does not maintain any defined benefit retirement plans. In the United States, the Company maintains a 401(k) plan; in the United Kingdom, the Company maintains a defined contribution pension benefit plan.

COMPENSATION AGREEMENTS

General Overview

Our compensation arrangement with our executive officers provides for base salary and incentive compensation. In 2016, potential incentive compensation of our named executive officers was 50% of the executive's base salary, and was payable if we attained targets established by our Compensation Committee for quarterly and annual revenue and Adjusted EBITDA. Quarterly incentive targets were capped at 100%; there was a potential to earn in excess of 100% of the annual target if we exceeded the annual targets. See the "*Grants of Plan-Based Awards Table*" on page 24 for more information about the "stretch" amounts, as well as the "*Executive Compensation, Quarterly and Annual Performance-Based Incentive Compensation*" section on page 20 for percentages achieved in 2016.

On September 30, 2015, the Company entered into an employment agreement with Mr. Thekkethala which generally provides that in the event the Company terminates his employment, other than for cause, death or disability, he will be paid severance pay. The amount of his severance is described below under the heading "*Potential Payments Upon Termination or Change of Control*." In exchange for severance, Mr. Thekkethala is required to execute a full release of all employment claims with the Company and agree to not compete with us and to not solicit our employees for the period of time during which severance is paid. The employment agreement does not change the "at will" nature of Mr. Thekkethala's employment with the Company. Either the Company or the executive may terminate his employment at any time.

On January 1, 2016, the Company entered into an employment agreement with Mr. Moorhead which generally provides that in the event the Company terminates his employment, other than for cause, death or disability, he will be paid severance pay. The amount of his severance is described below under the heading "*Potential Payments Upon Termination or Change of Control*." In exchange for severance, Mr. Moorhead is required to execute a full release of all employment claims with the Company and agree to not compete with us and to not solicit our employees for the period of time during which severance is paid. The employment agreement does not change the "at will" nature of Mr. Moorhead's employment with the Company. Either the Company or the executive may terminate his employment at any time.

POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE OF CONTROL

The tables below reflect the potential amount of compensation for each of the named executive officers in the event of termination of such executive's employment. The amount of compensation payable to each named executive officer upon voluntary termination, involuntary not-for-cause termination, retirement, disability or death, and termination following a change of control of the executive is shown below. The amounts shown assume that such termination was effective as of December 31, 2016 and thus include amounts earned through such time and are estimates of the amounts which would be paid to the executives upon their termination. The

actual payments to Mr. Thekkethala or Mr. Moorhead may be more or less than the amounts described below. In addition, the Company may enter into new arrangements or modify these arrangements from time to time.

Payments Made Upon Termination

Regardless of the manner in which a named executive officer's employment terminates, the executive is entitled to receive amounts earned during his term of employment. Such amounts include:

- non-equity incentive compensation earned through the date of separation. Quarterly and annual incentive compensation payments are pro-rated to the date of separation;
- vested stock options, which must be exercised within three (3) months, or for options granted on or after December 10, 2009, six (6) months of the date of separation, except in the case of disability (12 months), death (18 months) or, in the case of a change of control of the Company (see discussion below);
- stock vested on the date of separation pursuant to restricted stock awards; and
- salary and unused paid time off through the date of separation.

Involuntary Not-for-Cause Termination

If the executive's employment is terminated for reasons other than cause, or the executive resigns for "Good Reason," he will receive severance pay equal to 12 months of base pay and incentive compensation at 100% achievement. "Good Reason" is defined in the employment agreement, but generally is a material diminution in title, status, authority, duties or responsibilities; a requirement to relocate more than 25 miles away from the Company's current location or such executive principal office; a reduction in compensation of 5% or more; or a failure by the Company to pay compensation when due.

Voluntary Termination or Retirement

Except for amounts described under "*Payments Made Upon Termination*," the Company does not have an agreement or practice to pay a named executive officer on voluntary termination or retirement.

Disability or Death

In the event of the disability or death of the executive, the executive will receive benefits under the Company's disability benefits or payments under the Company's life insurance benefits, as applicable.

Change of Control

Upon a Change of Control and a "Qualified Termination" (described below) each executive will receive the following severance benefits:

- an amount equal to 18 months of his base salary, payable in equal increments over an equal period (the "*Severance Period*") (or such shorter period as required for compliance with Section 409A of the U.S. Internal Revenue Code), in the Company's normal payroll cycles;
- an amount equal to 1.5 times the executive's target incentive compensation, assuming achievement at 100% of the performance goals, payable in equal installments over his Severance Period;
- continuation of benefits under the Company's health insurance plan as provided by law, with the Company continuing its contributions to the premiums during the executive's Severance Period;
- tax advice services in an amount not to exceed \$7,500; and
- all stock options and restricted stock held by the executive will automatically vest and become exercisable.

A Qualified Termination will occur upon any of the following:

- termination of the executive's employment by us, without cause, within 180 days before or 365 days after a change of control; or
- resignation by the executive for "Good Reason" during the same period.

None of the executives will receive severance payments solely upon the occurrence of a change of control, except that 50% of the executive's outstanding equity awards (options and restricted stock) will automatically vest upon a change of control even if the executive's employment is not terminated.

For this purpose, a change of control will occur upon:

- the date any person or group acquires ownership of stock of the Company that, together with stock held by the person or group, constitutes more than 50% of the total fair market value or total voting power of the stock of the Company, the liquidation or dissolution of the Company or the sale of all of substantially all (greater than 75%) of the fair market value of the assets of the Company;
- the acquisition by any person, entity or group, within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act, of beneficial ownership within the meaning of Rule 13d-3 of the Securities Exchange Act, of more than 50% of either the then outstanding shares of the Company's common stock or the combined voting power of the Company's then outstanding voting securities entitled to vote generally in the election of directors; or any one person, or more than one person acting as a group, acquires or has acquired during the 12-month period ending on the date of the most recent acquisition by such person or persons, ownership of stock of the Company possessing 50% or more of the total voting power of the Company's stock; or
- the date the individuals who constituted a majority of the Board as of the date of execution of the employment agreement (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board provided that any individual who becomes a member of the Board following such date who was approved by a majority of the Incumbent Board shall be considered a member of the Incumbent Board.

In exchange for severance payments and benefits, the executive will be required to execute a full release of employment claims with the Company and agree not to compete with us and not to solicit our employees during the Severance Period.

Thomas Thekkethala

The following table shows the potential payments upon termination or a change of control of the Company for Thomas Thekkethala, our President and Chief Executive Officer.

<u>Executive Benefits and Payments Upon Separation</u>	<u>Involuntary Not-for-Cause Termination (other than Following Change of Control)</u>	<u>Change of Control Without Qualified Termination</u>	<u>Change of Control With Qualified Termination</u>
Cash Compensation			
• Base Salary	\$ 300,000	\$ 0	\$ 450,000
• Incentive Compensation.....	\$ 150,000	\$ 0	\$ 225,000
Equity Compensation			
• Stock Options (1)			
o Unvested and accelerated	\$ 0	\$ 0	\$ 0
• Restricted Stock (2)			
o Unvested and accelerated	\$ 0	\$ 23,063	\$ 46,125
Benefits and Perquisites			
• Health and Welfare Benefits (3)	\$ 0	\$ 0	\$ 0
• Accrued Paid Time Off	\$ 17,308	\$ 0	\$ 17,308
• Tax services	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 7,500</u>
Total	<u>\$ 467,308</u>	<u>\$ 23,063</u>	<u>\$ 745,933</u>

(1) The payments relating to stock options represent the value as of December 31, 2016, calculated by multiplying the number of unvested options by the difference between the exercise price and the closing price of our common stock on December 31, 2016 (\$4.10). All of Mr. Thekkethala's unvested stock options had an exercise price greater than the closing price of our common stock on December 31, 2016.

(2) Mr. Thekkethala had 11,250 shares of unvested restricted stock on December 31, 2016.

(3) Mr. Thekkethala does not participate in the Company's health plan.

Daniel J. Moorhead

The following table shows the potential payments upon termination or a change of control of the Company for Daniel J. Moorhead, our Chief Financial Officer.

Executive Benefits and Payments Upon Separation	Involuntary Not-for-Cause Termination (other than Following Change of Control)	Change of Control Without Qualified Termination	Change of Control With Qualified Termination
Cash Compensation			
• Base Salary	\$ 200,000	\$ 0	\$ 300,000
• Incentive Compensation.....	\$ 100,000	\$ 0	\$ 150,000
Equity Compensation			
• Stock Options (1)			
○ Unvested and accelerated	\$ 0	\$ 0	\$ 0
• Restricted Stock (2)			
○ Unvested and accelerated	\$ 0	\$ 0	\$ 0
Benefits and Perquisites			
• Health and Welfare Benefits	\$ 12,071	\$ 0	\$ 18,106
• Accrued Paid Time Off	\$ 9,615	\$ 0	\$ 9,615
• Tax services	\$ 0	\$ 0	\$ 7,500
Total	<u>\$ 321,686</u>	<u>\$ 0</u>	<u>\$ 485,221</u>

(1) All of Mr. Moorhead's unvested stock options had an exercise price greater than the closing price of our common stock on December 31, 2016.

(2) Mr. Moorhead did not have any unvested restricted stock on December 31, 2016.

TABLE OF EQUITY COMPENSATION PLANS

The following table contains summary information as of December 31, 2016 concerning the Company's Employee Stock Purchase Plan, 1996 Stock Option Plan, 2007 Amended and Restated Stock Incentive Plan and 2016 Stock Incentive Plan. All of the Plans were approved by the stockholders. See "Security Ownership of Certain Beneficial Owners and Management."

Equity Compensation Plans Approved by Security Holders	Number of shares to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of shares remaining available for future issuance under equity compensation plan
1996 Stock Option Plan	0		0 (1)
2007 Amended Stock Incentive Plan	574,039		309,336 (2)
2016 Stock Incentive Plan			250,000 (3)
Employee Stock Purchase Plan			51,218

(1) Our 1996 Stock Option Plan expired on January 18, 2006. As a result, no additional equity awards can be made under this plan and all options granted under this plan expired as of January 18, 2016.

(2) As of April 17, 2017, the record date, there were no shares remaining available for future issuance under the 2007 Amended Stock Incentive Plan.

(3) Our 2016 Stock Incentive Plan was approved by the stockholders on June 15, 2016. As of April 17, 2017, 218,866 shares have been issued from the Plan.

INFORMATION REGARDING BENEFICIAL OWNERSHIP OF PRINCIPAL STOCKHOLDERS, DIRECTORS, AND MANAGEMENT

The following table sets forth certain information regarding the ownership of the Company's common stock as of April 17, 2017 by: (i) each director and nominee for director; (ii) each executive officer named in the Summary Compensation Table; (iii) all executive officers and directors of the Company as a group; and (iv) all those known by the Company to be beneficial owners of more than five percent (5%) of its common stock.

This table is based upon information supplied by officers, directors and principal stockholders and Schedules 13D and 13G filed with the Securities and Exchange Commission (the "SEC"). Unless otherwise indicated in the footnotes to this table and subject to community property laws where applicable, the Company believes that each of the stockholders named in this table has sole voting and investment power with respect to the shares indicated as beneficially owned. Applicable percentages are based on shares outstanding on April 17, 2017, adjusted as required by rules promulgated by the SEC.

<u>Name and Address of Beneficial Owner</u>	<u>Shares of Common Stock Beneficially Owned (1)</u>	
	<u>Number of Shares</u>	<u>Percentage Ownership</u>
David J. Nicol (2) c/o Evolving Systems, Inc. 9777 Pyramid Ct, Suite 100 Englewood, CO 80112	93,859	*
David S. Oros (3) c/o Evolving Systems, Inc. 9777 Pyramid Ct., Suite 100 Englewood, CO 80112	220,095	1.8 %
Richard R. Ramlall c/o Evolving Systems, Inc. 9777 Pyramid Ct., Suite 100 Englewood, CO 80112	81,200	* %
Julian D. Singer (4) c/o Evolving Systems, Inc. 9777 Pyramid Ct., Suite 100 Englewood, CO 80112	450,138	3.6 %
Matthew Stecker (5) c/o Evolving Systems, Inc. 9777 Pyramid Ct., Suite 100 Englewood, CO 80112	26,250	* %
Thomas Thekkethala (6) c/o Evolving Systems, Inc. 9777 Pyramid Ct., Suite 100 Englewood, CO 80112	342,407	2.8 %
Daniel J. Moorhead (7) c/o Evolving Systems, Inc. 9777 Pyramid Ct., Suite 100 Englewood, CO 80112	53,114	* %
All executive officers and directors as a group (7 persons) (8)	1,268,488	10.2 %
Piton Capital Partners LLC (9) c/o Kokino LLC 201 Tresser Boulevard, 3rd Floor Stamford, CT 06901	660,872	5.3 %

Name and Address of Beneficial Owner	Shares of Common Stock Beneficially Owned (1)	
	Number of Shares	Percentage Ownership
Karen Singer, Trustee of the Singer Children's Management Trust (10) 212 Vaccaro Drive Cresskill, NJ 07626	2,645,638	21.2 %

* Less than one percent (1.0%).

- (1) Percentage of common stock beneficially owned is based on 12,464,900 shares of common stock outstanding on April 17, 2017.
- (2) Includes approximately 5,000 shares purchased on the open market. Mr. Nicol holds his shares in a brokerage account which permits borrowing on margin.
- (3) Includes approximately 176,000 shares purchased on the open market.
- (4) Includes approximately 245,000 shares purchased on the open market.
- (5) Includes 1,250 shares subject to stock options exercisable within 60 days of April 17, 2017.
- (6) Includes approximately 65,000 shares purchased on the open market.
- (7) Includes 3,749 shares subject to stock options exercisable within 60 days of April 17, 2017.
- (8) Includes 4,999 shares subject to stock options exercisable within 60 days of April 17, 2017.
- (9) Based solely upon the Schedule 13D information filed with the SEC by Piton Capital Partners LLC on April 27, 2017.
- (10) Based solely upon the Schedule 13D/A information filed with the SEC by Karen Singer on April 7, 2017. The reporting person disclaims beneficial ownership of these securities, except to the extent of her pecuniary interest therein.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires our directors and executive officers, and persons who own more than ten percent of a registered class of our equity securities, to file with the SEC initial reports of ownership and reports of changes in ownership of our common stock and other equity securities. Officers, directors and greater than ten percent stockholders are required by SEC regulation to furnish us with copies of all Section 16(a) forms they file.

To our knowledge, based solely on a review of the copies of such reports furnished to us and written representations that no other reports were required, during the fiscal year ended December 31, 2016, all Section 16(a) filing requirements applicable to our officers, directors and greater than ten percent beneficial owners were complied with.

REPORT OF THE AUDIT COMMITTEE

The Audit Committee of the Board of Directors (the "Audit Committee") is comprised of three (3) directors appointed by the Board of Directors. Each of the committee members who served during 2016, Messrs. Nicol, Oros and Stecker, satisfied the independence and financial management expertise requirements of NASDAQ's Audit Committee Policy, and Mr. Nicol has been designated by the Board as the Audit Committee's "financial expert." For a description of Mr. Nicol's relevant experience, please see his biographical information contained in Proposal 1 of this proxy statement.

On May 25, 2000, the Board of Directors adopted a charter for the Audit Committee (the "Charter"). An Amended and Restated Charter was adopted by the Board of Directors on March 4, 2004. A copy of the Amended and Restated Charter can be found on our website, www.evolving.com, under "Investors — Corporate Governance."

Management is responsible for the preparation, presentation, and integrity of our financial statements, accounting and financial reporting principles, and internal controls and procedures designed to ensure compliance with accounting standards,

applicable laws and regulations. Our independent registered public accounting firm is responsible for performing an independent audit of the consolidated financial statements and expressing an opinion on the conformity of those financial statements with accounting principles generally accepted in the United States of America.

The Audit Committee's primary responsibilities are to:

- (1) hold meetings periodically with the independent registered public accounting firm, the Board and management to review and monitor the adequacy and effectiveness of reporting, internal controls, risk assessment and compliance with Company policies;
- (2) establish policies and procedures for appointing, reviewing and overseeing the performance and independence of the independent registered public accounting firm;
- (3) review with the independent registered public accounting firm and financial management of the Company and approve the plan and scope of audit and permissible audit-related work;
- (4) review financial press releases with management;
- (5) review consolidated financial statements and disclosures;
- (6) pre-approve all audit and permitted non-audit services; and
- (7) develop procedures for receiving, on an anonymous basis, and responding to concerns about our accounting and auditing practices.

Review of Fiscal Year 2016 Consolidated Financial Statements

In connection with its review of our Fiscal Year 2016 Consolidated Financial Statements, the Audit Committee has:

- (1) reviewed and discussed the audited consolidated financial statements with management;
- (2) discussed with Friedman LLP, our independent registered public accounting firm, the matters required to be discussed by Public Company Accounting Oversight Board Auditing Standard No. 1301, *Communications with Audit Committees*; and
- (3) received from Friedman LLP the written disclosures and letter required by applicable requirements of the Public Company Accounting Oversight Board and discussed with Friedman LLP their independence.

Based upon the review and discussions described above, the Audit Committee recommended to the Board of Directors that the audited consolidated financial statements for fiscal year ended December 31, 2016 be included in the Company's 2016 Annual Report on Form 10-K.

BY THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS:

David J. Nicol, Chairman
David S. Oros
Matthew Stecker

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Change of Control Provisions with our Named Executive Officers

We have entered into Employment Agreements with our named executive officers which contain a Change of Control provision. These agreements were approved by our Compensation Committee and are described above in the section entitled "*Potential Payments Upon Termination or Change of Control.*"

Indemnification Agreements

We have entered into indemnification agreements (the "Indemnification Agreements") with each of our directors and named executive officers. Subject to the provisions of the Indemnification Agreements, we will indemnify and advance expenses to such

directors and executives in connection with their involvement in any event or occurrence which arises in their capacity as, or as a result of, their position with the Company.

Our Indemnification Agreements are provided as part of the compensation arrangements with our executives, which are subject to approval of the Compensation Committee. Indemnification for directors was approved by the Board of Directors and is part of the standard arrangement for all Company directors.

Consulting Agreements with Related Parties

On July 9, 2015, we entered into a Consulting Agreement with Ramlall Partners LLC, a limited liability company in which Richard Ramlall, one of the members of our Board of Directors, is the principal. Mr. Ramlall has provided investor relations consulting services to the Company. His Consulting Agreement was terminated as of December 31, 2016. In 2016 we paid Ramlall Partners LLC \$45,500 for services provided under the Agreement. No additional amounts are owed to Ramlall Partners LLC.

On January 1, 2016, we entered into a Consulting Agreement with Thaddeus Dupper, the Company's former Chief Executive and Chairman of the Board to provide transition services to the Company. In 2016 we paid Mr. Dupper \$21,600 for services provided under the Agreement. The Agreement was terminated in August 2016. We also entered into a Separation and Release Agreement with Mr. Dupper under which we paid Mr. Dupper \$494,476 in severance and related payments in accordance with his employment agreement. All payments owed to Mr. Dupper under the Separation and Release Agreement were completed in 2016 and no additional amounts are owed to Mr. Dupper.

The above agreements were approved by our Board of Directors. Because the value of the agreements was below \$120,000, they were not subject to our related person transactions approval policy and were not separately approved by our Audit Committee.

FORWARD LOOKING STATEMENTS

We caution you that certain information in this proxy statement may contain, in addition to historical information, "forward-looking" statements within the meaning of the Private Securities Litigation Reform Act of 1995 that are based upon management's beliefs, as well as on assumptions made by management. These forward-looking statements involve known and unknown risks, uncertainties and other factors that cause our actual results, performance or achievements to be materially different from what we say or imply with such forward-looking statements. When we use the words "may," "will," "expects," "intends," "estimates," "anticipates," "believes," "plans," "seeks" or "continues," or similar expressions, we intend to identify forward-looking statements. You should be aware that the telecommunications industry is changing rapidly, and, therefore, the forward-looking statements and statements of expectations, plans and intent are subject to a greater degree of risk than similar statements regarding certain other industries.

Although we believe that our expectations with respect to the forward-looking statements are based upon reasonable assumptions, we cannot assure you that our actual results, performance or achievements will meet these expectations. Other than as may be required by applicable law, we undertake no obligation to release publicly the results of any revisions to these forward-looking statements.

WHERE YOU CAN FIND MORE INFORMATION ABOUT EVOLVING SYSTEMS

As a reporting company, we are subject to the informational requirements of the Exchange Act and accordingly file our annual reports on Form 10-K and Form 10-K/A, quarterly reports on Form 10-Q and 10-Q/A, current reports on Form 8-K, proxy statements and other information with the SEC. The public may read and copy any materials filed with the SEC at their Public Reference Room at 100 F Street NE, Washington, DC 20549. Please call the SEC at (800) SEC-0330 for further information on the Public Reference Room. As an electronic filer, our public filings are maintained on the SEC's Internet site that contains reports, proxy information statements, and other information regarding issuers that file electronically with the SEC. The address of that website is <http://www.sec.gov>. In addition, our annual reports on Form 10-K and Form 10-K/A, quarterly reports on Form 10-Q and 10-Q/A, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, may be accessed free of charge through our website, as soon as reasonably practicable after we have electronically filed such material with, or furnished it to, the SEC. Also, our Code of Business Conduct and Corporate Governance Guidelines, as well as the Charters for our Audit, Compensation, Nominating and Governance, and Investment Committees are available on our website and amendments to, or waivers of, the Code of Business Conduct will be disclosed on our website. The address of our website is www.evolving.com; however, the information found on our website is not part of this proxy statement.

Our common stock is traded on the NASDAQ Capital Market under the symbol EVOL.

This proxy statement has been preceded or accompanied by the Annual Report for the fiscal year ended December 31, 2016. Stockholders are referred to such report for financial and other information about the activities of the Company.

Our transfer agent is American Stock Transfer & Trust Company, LLC. Their address is 59 Maiden Lane, Plaza Level, New York, NY 10038.

You may request copies of documents we have filed with the SEC, as well as copies of documents that appear on our website, from us, without charge, upon written or oral request to:

Evolving Systems, Inc.
9777 Pyramid Ct., Suite 100
Englewood, CO 80112
Attn: Daniel J. Moorhead, Chief Financial Officer & Secretary
1-800-649-6562

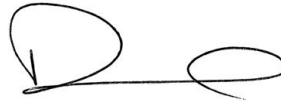
STOCKHOLDER PROPOSALS FOR THE 2018 ANNUAL MEETING OF STOCKHOLDERS

If any stockholder intends to present a proposal to be considered for inclusion in the Company's proxy materials in connection with the 2018 Annual Meeting of Stockholders, the proposal must be in proper form (per SEC Regulation 14A, Rule 14a-8 – Stockholder Proposals) and received by the Secretary of the Company on or before January 5, 2018. A stockholder proposal or nomination for director for consideration at the 2018 annual meeting but not included in the proxy statement and proxy must be received by the Secretary of Evolving Systems no earlier than March 16, 2018 and no later than April 15, 2018. The submission of a stockholder proposal does not guarantee that it will be presented at the annual meeting. Stockholders interested in submitting a proposal are advised to contact knowledgeable legal counsel with regard to the detailed requirements of applicable federal securities laws and Evolving Systems' bylaws, as applicable.

OTHER MATTERS

The Board of Directors knows of no other matters that will be presented for consideration at the Annual Meeting. If any other matters are properly brought before the meeting, it is the intention of the persons named in the accompanying proxy to vote on such matters in accordance with their best judgment.

By Order of the Board of Directors,



Daniel J. Moorhead
Chief Financial Officer & Secretary

Appendix A

2016 Stock Incentive Plan, as Amended

**EVOLVING SYSTEMS, INC.
2016 STOCK INCENTIVE PLAN**

**Adopted by the Board of Directors on March 9, 2016
Approved by the Stockholders on June 15, 2016
Amended by the Board of Directors on February 14, 2017**

1. GENERAL

(a) **Purpose.** The primary purposes of the Evolving Systems, Inc. 2016 Stock Incentive Plan are to attract, retain and motivate employees, directors and consultants, to compensate them for their contributions to the growth and profits of the Company and its Affiliates and to encourage them to own Common Stock.

(b) **Types of Awards.** The Plan permits the award of (i) Incentive Stock Options, (ii) Nonstatutory Stock Options, (iii) Stock Appreciation Rights, (iv) Restricted Stock, (v) Restricted Stock Units, (vi) Performance Awards, and (vii) Other Stock-Based Awards.

2. DEFINITIONS

Except as otherwise provided in an applicable Award Agreement, the following capitalized terms shall have the meanings indicated below for purposes of the Plan and any Award:

(a) **"Affiliate"** means a parent or subsidiary of the Company, with "parent" meaning an entity that controls the Company directly or indirectly, through one or more intermediaries, and "subsidiary" meaning an entity that is controlled by the Company directly or indirectly, through one or more intermediaries. Solely with respect to the grant of an Incentive Stock Option, Affiliate means any parent corporation or subsidiary corporation of the Company, whether now or hereafter existing, as those terms are defined in Sections 424(e) and (f), respectively, of the Code.

(b) **"Award"** means any award of an Option, Stock Appreciation Right, Restricted Stock, Restricted Stock Unit, Performance Award, or Other Stock-Based Award.

(c) **"Award Agreement"** means the written or electronic document setting forth the terms and conditions of an Award. The Award Agreement is subject to the terms and conditions of the Plan.

(d) **"Board"** means the Board of Directors of Evolving Systems, Inc.

(e) **"Change of Control"** means the occurrence of any of the following events:

(i) the date any person or group acquires ownership of stock of the Company that, together with stock held by the person or group, constitutes more than fifty percent (50%) of the total fair market value or total voting power of the stock of the Company; (b) a liquidation or dissolution of the Company; or (c) the sale of all or substantially all (greater than seventy five percent (75%)) of the fair market value of the assets of the Company.

(ii) the acquisition by any person, entity or "group," within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act, of beneficial ownership within the meaning of Rule 13-d promulgated under the Securities Exchange Act of more than fifty percent (50%) of either the then-outstanding shares of the Company's common stock or the combined voting power of the Company's then-outstanding voting securities entitled to vote generally in the election of directors (hereinafter referred to as the ownership of a "Controlling Interest") excluding, for this purpose, any acquisitions by (a) the Company or its Affiliates; or (b) any employee benefit plan of the Company or its Affiliates; or any one person, or more than one person acting as a group, acquires (or has acquired during the twelve (12) month period ending on the date of the most recent acquisition by such person or persons) ownership of stock of the Company possessing fifty percent (50%) percent or more of the total voting power of the stock of such corporation; or

(iii) individuals who constitute the majority of the Board as of the date of this Agreement (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided that any individual who becomes a member of the Board after the date of this Agreement whose election, or nomination for election by holders of the Company's securities, was approved by the vote of at least a majority of the Individuals then constituting the Incumbent Board will be considered a member of the Incumbent Board.

(iv) any other change in effective control described in Treas. Reg. Section 1.409A(i)(5)(vi).

(f) **"Code"** means the Internal Revenue Code of 1986, as amended, and the applicable rulings, regulations and guidance thereunder.

(g) **"Committee"** means the Compensation Committee of the Board which shall consist of three (3) members of the Board, and, so long as the Singer Children's Management Trust (the "Trust") is the beneficial owner of no less than twenty percent (20%) of the Company's issued and outstanding Common Stock, shall further consist of at least two (2) members of the Board that have been nominated by the Trust.

(h) **"Common Stock"** means a share of Evolving Systems, Inc., common stock, \$0.001 par value per share.

(i) **"Company"** means Evolving Systems, Inc., a Delaware corporation.

(j) **"Consultant"** means any person, including an advisor, engaged by the Company or an Affiliate to render consulting or advisory services and who is compensated for such services.

(k) **"Continuous Service"** means continuous service as an Employee, Director or Consultant to the Company or an Affiliate. Unless otherwise stated in the applicable Award Agreement, a Participant's change in position or duties with the Company or any Affiliate shall not result in interrupted or terminated service, so long as such Participant continues service as an Employee, Director or Consultant. Whether a termination or interruption in service shall have occurred for purposes of the Plan shall be determined by the Committee (or its designee), which determination shall be final, binding and conclusive.

(l) **"Covered Employee"** means the chief executive officer and other highest compensated officers of the Company for whom total compensation is required to be reported to stockholders under the Exchange Act, as determined for purposes of Section 162(m) of the Code and other employees who may become subject to such reporting.

(m) **"Director"** means a member of the Board.

(n) **"Dividend Equivalents"** means any right granted under Section 11 of the Plan.

(o) **"Employee"** means any person employed by the Company or an Affiliate, determined in accordance with the Company's standard personnel policies and practices.

(p) **"Exchange Act"** means the U.S. Securities Exchange Act of 1934, as it may be amended from time to time, or any successor act thereto.

(q) **"Fair Market Value"** means, as of any date, the value of the Common Stock of the Company determined as follows:

(i) If the Common Stock is listed on any established stock exchange, or traded on the Nasdaq Market, the Fair Market Value of a share of Common Stock shall be the closing sales price for such stock (or the closing bid, if no sales were reported) as quoted on such exchange or market (or the exchange or market with the greatest volume of trading in Common Stock) on the determination date, as reported in *The Wall Street Journal* or such other source as the Board deems reliable. Unless otherwise provided by the Committee, if there is no closing sales price (or closing bid if no sales were reported) for the Common Stock on the determination date, then the Fair Market Value shall be the closing sales price (or closing bid if no sales were reported) on the last preceding date for which such quotation exists.

(ii) In the absence of such markets for the Common Stock, the Fair Market Value shall be determined in good faith by the Committee.

(r) **"Full-Value Award"** means an Award of Restricted Stock, Restricted Stock Units, Performance Award or Other Stock-Based Award.

(s) **"Incentive Stock Option"** means an Option granted under Section 6 of the Plan that is intended to meet the requirements of Section 422 of the Code, or any successor provision thereto.

(t) **"Non-statutory Stock Option"** means an Option granted under Section 6 of the Plan that is not intended to be an Incentive Stock Option.

(u) **"Option"** or **"Stock Option"** means a right to purchase one or more shares of Common Stock.

(v) **"Other Stock-Based Award"** means any right granted under Section 10 of the Plan.

(w) **"Participant"** means an eligible individual who is granted an Award under the Plan.

(x) **"Performance Award"** means any right granted under Section 9 of the Plan.

(y) **"Performance Criteria"** means any quantitative or qualitative measures, as determined by the Committee, which may be used to measure the level of performance of the Company, an Affiliate or any individual Participant during a Performance Period, including any Qualifying Performance Criteria.

(z) **"Performance Period"** means any period as determined by the Committee in its sole discretion.

(aa) **"Person"** means any individual, corporation, partnership, association, joint-stock company, trust, unincorporated organization, or government or political subdivision thereof.

(bb) **"Qualifying Performance Criteria"** means one or more of the following performance criteria applied to the individual, the Company as a whole, an Affiliate, a business unit, or any combination thereof, and measured quarterly, annually or

cumulatively over a period of years, on an absolute basis or relative to a pre-established target, to a previous quarter or year's results or to a designated comparison group, in each case as specified by the Committee in the Award Agreement: (i) revenue (ii) earnings before interest, taxes, depreciation and amortization (EBITDA), (iii) adjusted EBITDA (earnings before interest, taxes, depreciation, amortization, impairment, stock compensation and gain/loss on foreign exchange transaction), (iv) net earnings, (v) net income, (vi) product-related targets and (vii) cash flow, subject to adjustment by the Committee to remove the effect of charges for restructurings, discontinued operations, extraordinary items and all items of gain, loss or expense determined to be extraordinary or unusual in nature or infrequent in occurrence, related to the disposal of a segment or a business, or related to a change in accounting principle or otherwise.

(cc) **"Plan"** means this Evolving Systems, Inc. 2016 Stock Incentive Plan.

(dd) **"Restricted Stock"** means an Award of shares of Common Stock granted under Section 8 of the Plan.

(ee) **"Restricted Stock Unit"** means a right granted under Section 8 of the Plan that is denominated in shares of Common Stock.

(ff) **"Share Reserve"** means as defined in Section 4 of the Plan.

(gg) **"Stock Appreciation Right"** means any right granted under Section 7 of the Plan.

(hh) **"Substitute Award"** means an Award granted in substitution for, or in assumption of, outstanding awards previously granted by an entity acquired by the Company or an Affiliate or with which the Company or Affiliate combines.

3. PLAN ADMINISTRATION

(a) **Authority of the Committee.** Except as otherwise provided herein, the Plan shall be administered by the Committee, which shall have the power to interpret the Plan and to adopt such rules and guidelines for implementing the terms of the Plan as it may deem appropriate. The Committee shall have the ability to modify the Plan provisions, to the extent necessary, or delegate such authority, to accommodate any changes in law and regulations in jurisdictions in which Participants will receive Awards. Subject to the terms of the Plan and applicable law, the Committee shall have full power and authority to:

(i) designate Participants;

(ii) determine the type or types of Awards to be granted to each Participant under the Plan;

(iii) determine the number of shares of Common Stock to be covered by (or with respect to which payments, rights, or other matters are to be calculated in connection with) Awards;

(iv) determine the terms and conditions of any Award;

(v) determine whether, to what extent, and under what circumstances Awards may be settled or exercised in cash, shares of Common Stock, other securities, or other Awards, or canceled, forfeited, or suspended, and the method or methods by which Awards may be settled, exercised, canceled, forfeited, or suspended;

(vi) determine whether, to what extent, and under what circumstances cash, shares of Common Stock, other securities, other Awards, and other amounts payable with respect to an Award under the Plan shall be deferred either automatically or at the election of the holder thereof or of the Committee;

(vii) interpret and administer the Plan and any instrument or agreement relating to, or Award made under, the Plan;

(viii) establish, amend, suspend, or waive such rules and guidelines;

(ix) appoint such agents as it shall deem appropriate for the proper administration of the Plan;

(x) make any other determination and take any other action that the Committee deems necessary or desirable for the administration of the Plan; and

(xi) correct any defect, supply any omission, or reconcile any inconsistency in the Plan or any Award in the manner and to the extent it shall deem desirable to carry the Plan into effect.

(b) **Administrative Actions.** Unless otherwise expressly provided in the Plan, subject to the limitations described in subsection (a) above, all designations, determinations, interpretations, and other decisions under or with respect to the Plan or any Award shall be within the sole discretion of the Committee, may be made at any time, and shall be final, conclusive, and binding upon all Persons, including the Company, any Affiliate, any Participant, any holder or beneficiary of any Award, any stockholder, and any employee of the Company or of any Affiliate.

(c) **No Liability.** No member of the Committee shall be liable for any action or determination made in good faith with respect to the Plan, any Award or any Award Agreement.

(d) **Action by the Committee.** Notwithstanding anything to the contrary expressed or implied in this Plan, any and all actions by the Committee required or permitted under this Plan shall require the unanimous approval of all Committee members.

4. SHARES SUBJECT TO THE PLAN

(a) **Shares Available.** Subject to adjustment as provided in Section 14 of the Plan, the maximum aggregate number of shares of Common Stock that may be issued pursuant to Awards granted under the Plan shall be 500,000 shares ("**Share Reserve**"). Each share of Common Stock issued pursuant to an Award shall reduce the Share Reserve by one (1) share. To the extent that a distribution pursuant to an Award is made in cash, the Share Reserve shall be reduced by the number of shares of Common Stock subject to the redeemed or exercised portion of the Award.

(b) **Annual Individual Participant Award Limits.** The following calendar year annual limits apply, on a per Participant basis, to grants of Awards unless the conditions described in subsection (iii) apply or the Committee specifically determines at the time of grant that the Award is not intended to qualify as performance-based compensation under the Plan: (i) 125,000 shares, subject to adjustment as provided in Section 14, for grants of stock options, stock appreciation rights, restricted stock awards, restricted stock units, performance shares and other stock-based awards; and (ii) \$0.00 in annual Performance Awards payable in cash or other cash-based awards. The limit set forth in subsection (i) will not apply in the following circumstances: (iii) the Company acquires all or substantially all (greater than seventy five percent (75%)) of the fair market value of the assets of another entity or the Company acquires a Controlling Interest (as defined in Section 2(e) of this Plan) of another entity.

(c) **Changes to the Share Reserve.** If an Award granted under the Plan shall for any reason (i) expire, be canceled or otherwise terminate, in whole or in part, without having been exercised or redeemed in full, (ii) be reacquired by the Company prior to vesting, or (iii) be repurchased at cost by the Company prior to vesting, the shares of Common Stock not acquired by the Participant under such Award shall revert or be added to the Share Reserve and become available for issuance under the Plan; *provided, however*, that shares of Common Stock shall not revert or be added to the Share Reserve that had been (A) tendered in payment of an Option, (B) withheld by the Company to satisfy any tax withholding obligation, or (C) purchased by the Company with the proceeds from the exercise of Options, and *provided, further*, that shares of Common Stock covered by a Stock Appreciation Right, to the extent the right is exercised and settled in shares of Common Stock, and whether or not shares of Common Stock are actually issued to the Participant upon exercise of the Stock Appreciation Right, shall be considered issued or transferred pursuant to the Plan.

(d) **Source of Shares.** Any shares of Common Stock delivered pursuant to an Award may consist, in whole or in part, of authorized and unissued shares or reacquired shares, bought on the market or otherwise.

(e) **Substitute Awards.** In the case of Substitute Awards, the shares of Common Stock subject to the Substitute Award shall not reduce the Share Reserve. If a Substitute Award shall for any reason expire, be canceled or otherwise terminate, in whole or in part, be settled in cash or otherwise settled by issuance of fewer shares, the shares of Common Stock not acquired by the Participant shall not be added to the Share Reserve. Further, any shares of Common Stock withheld or delivered to pay tax withholding obligations relating to a Substitute Award shall not reduce the Share Reserve.

5. ELIGIBILITY

Individuals eligible to participate in this Plan include Employees, Directors and Consultants of the Company, or any Affiliate; *provided, however*, to the extent required under Section 409A of the Code, an Affiliate of the Company shall include only an entity in which the Company possesses at least twenty percent (20%) of the total combined voting power of the entity's outstanding voting securities or such other threshold ownership percentage permitted under Section 409A of the Code.

6. STOCK OPTIONS

(a) **Grant of Options.** The Committee is hereby authorized to grant Options to Participants with the following terms and conditions, and any other terms and conditions not inconsistent with the provisions of the Plan, as the Committee shall determine. Incentive Stock Options may be granted only to eligible Employees of the Company or of any parent corporation or subsidiary corporation (as permitted by Section 422 of the Code).

(b) **Award Agreement.** Each Option granted under the Plan shall be evidenced by an Award Agreement. The Award Agreement shall specify whether the Option is intended to be an Incentive Stock Option or a Nonstatutory Stock Option.

(i) **Exercise Price.** The purchase price per share of Common Stock that may be purchased by an Option shall be determined by the Committee; *provided, however*, and except with respect to Substitute Awards or as provided in Section 14, that such purchase price shall not be less than 100% of the Fair Market Value of a share of Common Stock on the date of grant of such Option.

(ii) **Term.** The term of each Option shall not exceed ten (10) years from the date of grant.

(iii) **Vesting; Restrictions on Exercise.** The Award Agreement shall set forth any installment or other restrictions on exercise of the Option during the term of the Option. Each Option shall become exercisable and shall vest over such period of time, or upon such events or such Performance Criteria, as determined by the Committee.

(iv) **Time and Method of Exercise.** The Committee shall establish in the applicable Award Agreement the time or times at which an Option may be exercised in whole or in part, and the method or methods by which, and the form or forms, including, without limitation, cash, shares of Common Stock, or other Awards or any combination thereof, having a Fair Market Value on the exercise date equal to the relevant exercise price, in which payment of the exercise price with respect thereto may be made or deemed to have been made.

(v) **Termination of Continuous Service.** Each Award Agreement shall set forth the extent, if any, to which the Participant shall have the right to exercise the Option following termination of the Participant's Continuous Service. Such provisions shall be determined in the sole discretion of the Committee, need not be uniform among all Options issued pursuant to the Plan, and may reflect distinctions based on the reasons for termination of Continuous Service. In the absence of specific provisions in an Award Agreement setting forth rights to exercise following termination of a Participant's Continuous Service, the following shall apply:

(A) **Termination of Continuous Service Other than as a Result of Disability or Death.** In the event a Participant's Continuous Service terminates (other than upon the Participant's death or disability), the Participant may exercise his or her Option (to the extent that the Participant was entitled to exercise it as of the date of termination) but only within such period of time ending on the earlier of (a) the date three (3) months after the termination of the Participant's Continuous Status as an Employee, Director or Consultant (or such longer or shorter period specified in the Option Agreement), or (b) the expiration of the term of the Option as set forth in the Option Agreement. If, at the date of termination, the Participant is not entitled to exercise his or her entire Option, the shares covered by the un-exercisable portion of the Option shall revert to and again become available for issuance under the Plan. If, after termination, the Participant does not exercise his or her Option within the time specified in the Option Agreement, the Option shall terminate, and the shares covered by such Option shall not become available for issuance under the Plan.

(B) **Disability of a Participant.** In the event a Participant's Continuous Service terminates as a result of the Participant's disability, the Participant may exercise his or her Option (to the extent that the Participant was entitled to exercise it as of the date of termination), but only within such period of time ending on the earlier of (i) the date twelve (12) months following such termination (or such longer or shorter period specified in the Option Agreement), or (ii) the expiration of the term of the Option as set forth in the Option Agreement. If, at the date of termination, the Participant is not entitled to exercise his or her entire Option, the shares covered by the un-exercisable portion of the Option shall revert to and again become available for issuance under the Plan. If, after termination, the Participant does not exercise his or her Option within the time specified herein, the Option shall terminate, and the shares covered by such Option shall not become available for issuance under the Plan.

(C) **Death of a Participant.** In the event of the death of a Participant during, or within a period specified in the Option Agreement after the termination of, the Participant's Continuous Service, the Option may be exercised (to the extent the Participant was entitled to exercise the Option as of the date of death) by the Participant's estate, by a person who acquired the right to exercise the Option by bequest or inheritance or by a person designated to exercise the option upon the Participant's death pursuant to subsection 15(b), but only within the period ending on the earlier of (1) the date eighteen (18) months following the date of death (or such longer or shorter period specified in the Option Agreement), or (2) the expiration of the term of such Option as set forth in the Option Agreement. If, at the time of death, the Participant was not entitled to exercise his or her entire Option, the shares covered by the un-exercisable portion of the Option shall revert to and again become available for issuance under the Plan. If, after death, the Option is not exercised within the time specified herein, the Option shall terminate, and the shares covered by such Option shall not become available for issuance under the Plan.

(c) **Limitations on Incentive Stock Options.**

(i) **Initial Exercise.** The aggregate Fair Market Value of the shares of Common Stock with respect to which Incentive Stock Options are exercisable for the first time by a Participant in any calendar year, under the Plan or otherwise, shall not exceed \$100,000. For this purpose, the Fair Market Value of the shares of Common Stock shall be determined as of the date of grant and each Incentive Stock Option shall be taken into account in the order granted.

(ii) **Ten Percent Stockholders.** An Incentive Stock Option granted to a Participant who is the holder of record of more than ten percent (10%) of the combined voting power of all classes of stock of the Company shall have an exercise price at least equal to 110% of the Fair Market Value of a share of Common Stock on the date of grant and the term of the Option shall not exceed five (5) years.

(iii) **Notification of Disqualifying Disposition.** If any Participant shall make any disposition of shares of Common Stock acquired pursuant to the exercise of an Incentive Stock Option under the circumstances described in Section 421(b) of the Code (relating to certain disqualifying dispositions), the Participant shall notify the Company of such disposition within ten (10) days thereof.

7. STOCK APPRECIATION RIGHTS

(a) **Grant of Stock Appreciation Rights.** The Committee is hereby authorized to grant Stock Appreciation Rights to Participants. Subject to the terms of the Plan and any applicable Award Agreement, a Stock Appreciation Right granted under the Plan shall confer on the holder thereof a right to receive, upon exercise thereof, the excess of (i) the Fair Market Value of a share of Common Stock on the date of exercise over (ii) the grant price of the Stock Appreciation Right as specified by the Committee.

(b) **Award Agreement.** Each Stock Appreciation Right granted under the Plan shall be evidenced by an Award Agreement.

(i) **Grant Price.** The grant price shall be determined by the Committee; *provided, however*, and except as provided in Section 14, that such price shall not be less than 100% of the Fair Market Value of one share of Common Stock on the date of grant, except that if a Stock Appreciation Right is at any time granted in tandem with an Option, the grant price of the Stock Appreciation Right shall not be less than the exercise price of such Option.

(ii) **Term.** The term of each Stock Appreciation Right shall not exceed ten (10) years from the date of grant.

(iii) **Time and Method of Exercise.** The Committee shall establish in the applicable Award Agreement the time or times at which a Stock Appreciation Right may be exercised in whole or in part. At the discretion of the Committee, the payment upon exercise may be in cash, shares of Common Stock or any combination thereof, or in any other manner approved by the Committee in its sole discretion. The Committee's determination as to the form of settlement shall be set forth in the Award Agreement.

(iv) **Termination of Continuous Service.** Each Award Agreement shall set forth the extent, if any, to which the Participant shall have the right to exercise the Stock Appreciation Right following termination of the Participant's Continuous Service. Such provisions shall be determined in the sole discretion of the Committee, need not be uniform among all Stock Appreciation Rights issued pursuant to the Plan, and may reflect distinctions based on the reasons for termination of Continuous Service.

8. RESTRICTED STOCK AND RESTRICTED STOCK UNITS

(a) **Grant of Restricted Stock or Restricted Stock Units.** The Committee is hereby authorized to grant Awards of Restricted Stock and Restricted Stock Units to Participants.

(b) **Award Agreement.** Each grant of Restricted Stock or Restricted Stock Units shall be evidenced by an Award Agreement.

(i) **Restrictions on Transfer.** Shares of Restricted Stock and Restricted Stock Units shall be subject to such restrictions as the Committee may establish in the applicable Award Agreement (including, without limitation, any limitation on the right to vote a share of Restricted Stock or the right to receive any dividend or other right), which restrictions may lapse separately or in combination at such time or times, in such installments or otherwise, as the Committee may deem appropriate. Unrestricted shares of Common Stock, evidenced in such manner as the Committee shall deem appropriate, shall be delivered to the holder of Restricted Stock promptly after such restrictions have lapsed.

(ii) **Share Registration.** Any Restricted Stock granted under the Plan may be evidenced in such manner as the Committee may deem appropriate, including, without limitation, book-entry registration or issuance of a stock certificate or certificates. In the event any stock certificate is issued in respect of shares of Restricted Stock granted under the Plan, such certificate shall be registered in the name of the Participant and shall bear an appropriate legend referring to the terms, conditions, and restrictions applicable to such Restricted Stock.

(iii) **Forfeiture.** Upon termination of Continuous Service during the restriction period, except as determined otherwise by the Committee, all shares of Restricted Stock and all Restricted Stock Units that are then subject to restrictions shall be forfeited and reacquired by the Company.

9. PERFORMANCE AWARDS

(a) **Grant of Performance Awards.** The Committee is hereby authorized to grant Performance Awards to Participants. Performance Awards include arrangements under which the grant, issuance, retention, vesting and/or transferability of any Award is subject to such Performance Criteria and such additional conditions or terms as the Committee may designate.

(b) **Award Agreement.** Each grant of a Performance Award shall be evidenced by an Award Agreement. Subject to the terms of the Plan and any applicable Award Agreement, a Performance Award granted under the Plan:

(i) may be denominated or payable in cash, shares of Common Stock (including, without limitation, Restricted Stock), other securities, or other Awards; and

(ii) shall confer on the holder thereof rights valued as determined by the Committee and payable to, or exercisable by, the holder of the Performance Award, in whole or in part, upon the achievement of such performance goals during such Performance Periods as the Committee shall establish.

(c) **Covered Employee.** The Committee may from time to time grant Awards to Covered Employees that are intended to satisfy the performance-based compensation requirements of Section 162(m) of the Code. For purposes of such Awards, the Committee shall consider all of the requirements of Section 162(m), including the Qualifying Performance Criteria, approvals and certification by solely outside directors, the individual Award limits and any other requirements under Section 162(m) of the Code.

10. OTHER STOCK-BASED AWARDS

The Committee is hereby authorized to grant to Participants such other Awards that are denominated or payable in, valued in whole or in part by reference to, or otherwise based on or related to, shares of Common Stock, as are deemed by the Committee to be consistent with the purposes of the Plan; *provided, however*, that such grants must comply with applicable law. Subject to the terms of the Plan and any applicable Award Agreement, the Committee shall determine the terms and conditions of such Awards. Shares of Common Stock or other securities delivered pursuant to a purchase right granted under this Section 10 shall be purchased for such consideration, which may be paid by such method or methods and in such form or forms, including, without limitation, cash, shares of Common Stock, other securities, or other Awards, or any combination thereof, as the Committee shall determine.

11. DIVIDEND EQUIVALENTS

The Committee is hereby authorized to grant to Participants the right, if so determined by the Committee, to receive, currently, or on a deferred basis, dividends or Dividend Equivalents, with respect to the shares of Common Stock covered by the Award. The Committee may provide that any dividends paid on shares of Common Stock subject to an Award must be reinvested in additional shares of Common Stock, which may or may not be subject to the same vesting conditions and restrictions applicable to the Award. Notwithstanding the award of Dividend Equivalents or dividends, a Participant shall not be entitled to receive a special or extraordinary dividend or distribution unless the Committee shall have expressly authorized such receipt. All distributions, if any, received by a Participant with respect to an Award as a result of any split, Common Stock dividend, combination of shares of Common Stock, or other similar transaction shall be subject to the restrictions applicable to the original Award.

12. TAX WITHHOLDING

The Company or any Affiliate shall be authorized to withhold from any Award granted or any payment due or transfer made under any Award or under the Plan the amount (in cash, shares of Common Stock, other securities, or other Awards) of withholding taxes due in respect of an Award, its exercise, or any payment or transfer under such Award or under the Plan and to take such other action as may be necessary in the opinion of the Company or Affiliate to satisfy statutory withholding obligations for the payment of such taxes.

13. CANCELLATION AND RE-GRANT OF OPTIONS

(a) Subject to subsection (b) of this Article 13, the Board shall have the authority to effect, at any time and from time to time (i) the repricing of any outstanding Options under the Plan and/or (ii) with the consent of the affected holders of Options, the cancellation of any outstanding Options and the grant in substitution of new Options under the Plan covering the same or different numbers of shares of Common Stock, but having an exercise price per share not less than 100% of the Fair Market Value, or, in the case of a ten percent (10%) stockholder (as defined in subsection 6(c)), not less than 110% of the Fair Market Value) per share of Common Stock on the new grant date.

(b) Prior to the implementation of any such repricing or cancellation of one or more outstanding Options as described in Section 13(c), the Board shall obtain the approval of the stockholders of the Company to the extent required by the New York Stock Exchange, Nasdaq or other securities exchange listing requirements applicable to the Company, or applicable law.

(c) To the extent required by Section 162(m) of the Code, shares subject to an Option canceled under this Section 13 shall continue to be counted against the maximum award of Options permitted to be granted during any calendar year to an individual Participant pursuant to Section 4(b) of the Plan. The repricing of an Option hereunder resulting in a reduction of the exercise price shall be deemed to be a cancellation of the original Option and the grant of a new Option; in the event of such repricing, both the

original and the new Options shall be counted against the maximum awards of Options permitted to be granted during any calendar year to an individual Participant pursuant to Section 4(b) of the Plan. The provisions of this Section 13(c) shall be applicable only to the extent required by Section 162(m) of the Code.

14. ADJUSTMENTS UPON CHANGES IN STOCK

(a) **Changes in Capital.** If any change is made in the Common Stock subject to the Plan, or subject to any Award, without the receipt of consideration by the Company (through merger, consolidation, reorganization, recapitalization, reincorporation, stock dividend, dividend in property other than cash, stock split, liquidating dividend, combination of shares, exchange of shares, change in corporate structure or other transaction not involving the receipt of consideration by the Company), the Plan will be appropriately adjusted in the class(es) and maximum number of shares subject to the Plan and the maximum number of shares subject to award to any person during any calendar year, and the outstanding Awards will be appropriately adjusted in the class(es) and number of shares and price per share of stock subject to such outstanding Awards. Such adjustments shall be made by the Committee proportionately, so as to put the Participant in the same economic position both prior to and after the change in capital. The determination of the Committee shall be final, binding and conclusive. (The conversion of any convertible securities of the Company shall not be treated as a "transaction not involving the receipt of consideration by the Company.")

(b) **Change of Control.** In the event of a Change of Control, to the extent permitted by applicable law: (i) any surviving corporation (or an Affiliate thereof) shall assume any Awards outstanding under the Plan or shall substitute similar Awards for those outstanding under the Plan and (ii) such Awards shall continue in full force and effect. In the event any surviving corporation (or an Affiliate) refuses to assume or continue such Awards, or to substitute similar Awards for those outstanding under the Plan, then vesting (or release from the repurchase option) shall accelerate such that such Awards are fully vested at such event and shall be exercisable for a period of 15 days after notice from the Company. If not so exercised within the 15 day period, then such Awards shall be terminated.

15. GENERAL PROVISIONS

(a) **Forms of Payment for Awards.** Subject to the terms of the Plan and any applicable Award Agreement, payments or transfers to be made by the Company or an Affiliate upon the grant, exercise, or payment of an Award may be made in such form or forms as the Committee shall determine, including, without limitation, cash, shares of Common Stock, rights in or shares issuable under the Award or other Awards, other securities, or other Awards or any combination thereof, and may be in a single payment or transfer, in installments, or on a deferred basis, in each case in accordance with the rules and procedures established by the Committee. Such rules and procedures may include, without limitation, provisions for the payment or crediting of reasonable interest on installment or deferred payments or the grant or crediting of Dividend Equivalents in respect of installment or deferred payments.

(b) **Limits on Transfer of Awards.** Except as provided by the Committee, no Award, and no right under any such Award, shall be assignable, alienable, saleable, or transferable by a Participant otherwise than by will or by the laws of descent and distribution; *provided, however*, that, if so determined by the Committee, a Participant may, in the manner established by the Committee, designate a beneficiary or beneficiaries to exercise the rights of the Participant with respect to any Award upon the death of a Participant. Each Award, and each right under any Award, shall be exercisable, during the Participant's lifetime, only by the Participant or, if permissible under applicable law, by the Participant's guardian or legal representative. No Award, and no right under any such Award, may be pledged, alienated, attached, or otherwise encumbered, and any purported pledge, alienation, attachment, or encumbrance thereof shall be void and unenforceable against the Company or any Affiliate.

(c) **Conditions and Restrictions Upon Securities Subject to Awards.** The Committee may provide that the shares of Common Stock issued upon exercise of an Option or Stock Appreciation Right or otherwise subject to or issued under an Award shall be subject to such further agreements, restrictions, conditions or limitations as the Committee in its discretion may specify prior to the exercise of such Option or Stock Appreciation Right or the grant, vesting or settlement of such Award, including without limitation, conditions on vesting or transferability and forfeiture or repurchase provisions or provisions on payment of taxes arising in connection with an Award. Without limiting the foregoing, such restrictions may address the timing and manner of any resales by the Participant or other subsequent transfers by the Participant of any shares of Common Stock issued under an Award, including without limitation: (i) restrictions under an insider trading policy or pursuant to applicable law; (ii) restrictions designed to delay and/or coordinate the timing and manner of sales by Participant and holders of other Company equity compensation arrangements; (iii) restrictions as to the use of a specified brokerage firm for such resales or other transfers; and (iv) provisions requiring shares to be sold on the open market or to the Company in order to satisfy tax withholding or other obligations.

(d) **Share Certificates.** All shares or other securities delivered under the Plan pursuant to any Award or the exercise thereof shall be subject to such stop transfer orders and other restrictions as the Committee may deem advisable under the Plan or the rules, regulations, and other requirements of the Securities and Exchange Commission, any stock exchange upon which such shares of Common Stock or other securities are then listed, and any applicable Federal, state, or local securities laws, and the Committee may cause a legend or legends to be put on any such certificates to make appropriate reference to such restrictions. Notwithstanding any other provision of this Plan to the contrary, the Company may elect to satisfy any requirement under this Plan for the registration or delivery of stock certificates through the use of book-entry registration.

(e) **Changes in Accounting or Tax Rules.** Except as provided otherwise at the time an Award is granted, notwithstanding any other provision of the Plan to the contrary, if, during the term of the Plan, any changes in the financial or tax accounting rules applicable to any Award shall occur which, in the sole judgment of the Committee, may have a material adverse effect on the reported earnings, assets or liabilities of the Company, the Committee shall have the right and power to modify, as necessary, any then outstanding and unexercised Options, Stock Appreciation Rights and other outstanding Awards as to which the applicable services or other restrictions have not been satisfied.

(f) **Non-exclusivity of the Plan.** The adoption of the Plan shall not be construed as creating any limitations upon the right and authority of the Committee to adopt such other incentive compensation arrangements (which arrangements may be applicable either generally to a class or classes of individuals or specifically to a particular individual or particular individuals) as the Committee in its discretion determines desirable.

(g) **Other Award Agreement Provisions.** Each Award Agreement may contain such other terms and conditions not inconsistent with the Plan as may be determined by the Committee, in its sole discretion.

(h) **Other Employee Benefits.** The amount of any compensation deemed to be received by a Participant as a result of the exercise of an Option or Stock Appreciation Right, the sale of shares received upon such exercise, the vesting of any Restricted Stock, receipt of Performance Shares, distributions with respect to Restricted Stock Units, Performance Awards, or Other Stock-Based Awards shall not constitute "earnings" or "compensation" with respect to which any other employee benefits of such employee are determined, including without limitation, benefits under any pension, profit sharing, 401(k), life insurance or salary continuation plan.

(i) **Severability.** If any provision of the Plan or any Award Agreement shall be determined to be illegal or unenforceable by any court of law in any jurisdiction, the remaining provisions hereof and thereof shall be severable and enforceable in accordance with their terms, and all provisions shall remain enforceable in any other jurisdiction.

(j) **Governing Law.** The validity and construction of this Plan and the Award Agreements shall be construed in accordance with and governed by the laws of the State of Delaware other than any conflicts or choice of law rule or principle that might otherwise refer construction or interpretation of this Plan and the Award Agreements to the substantive laws of any other jurisdiction.

(k) **Section 409A.** Notwithstanding anything in this Plan to the contrary, the Plan and Awards made under the Plan are intended to comply with the requirements imposed by Section 409A of the Code. If any Plan provision or Award under the Plan would result in the imposition of an additional tax under Section 409A of the Code, the Company and the Participant intend that the Plan provision or Award will be reformed to avoid imposition, to the extent possible, of the applicable tax and no action taken to comply with Section 409A of the Code shall be deemed to adversely affect the Participant's rights to an Award. The Participant further agrees that the Committee, in the exercise of its sole discretion and without the consent of the Participant, may amend or modify an Award in any manner and delay the payment of any amounts payable pursuant to an Award to the minimum extent necessary to meet the requirements of Section 409A of the Code as the Committee deems appropriate or desirable.

(l) **Stockholder Rights.** No Participant nor any other holder of an Award granted under the Plan shall be deemed to be the holder of, or to have any of the rights of a holder with respect to, any shares subject to such Award unless and until such person has satisfied all requirements for exercise of the Award or lapse of restrictions pursuant to its terms.

16. AMENDMENT, MODIFICATION AND TERMINATION

(a) **Amendment, Modification, and Termination.** Subject to Sections 3, 15(k) and 16(b), and only upon unanimous approval of the entire Board, the Board may at any time terminate, and from time to time may amend or modify the Plan; *provided, however,* that no amendment or modification may become effective without approval of the stockholders of the Company if stockholder approval is required to enable the Plan to satisfy any applicable statutory or regulatory requirements, or if the Company, on the advice of counsel, determines that stockholder approval is otherwise necessary or desirable.

(b) *Awards Previously Granted.* Except as otherwise may be required under Section 15(k), notwithstanding Section 16(a), to the contrary, no amendment, modification or termination of the Plan or Award Agreement shall adversely affect in any material way any previously granted Award, without the written consent of the Participant holding such Award.

17. STOCKHOLDER APPROVAL; EFFECTIVE DATE OF PLAN

The Plan shall be effective immediately upon approval by the stockholders. Unless sooner terminated by the Board, this Plan shall terminate automatically on March 8, 2026. After the Plan is terminated, no Awards may be granted. Awards outstanding at the time the Plan is terminated shall remain outstanding in accordance with the terms and conditions of the Plan and the Award Agreement.

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2016

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: 001-34261

EVOLVING SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

84-1010843

(I.R.S. Employer
Identification Number)

9777 Pyramid Court, Suite 100, Englewood, Colorado
(Address of principal executive offices)

80112
(Zip Code)

(303) 802-1000

(Registrant's telephone number, including area code)

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

Common Stock, Par Value \$0.001 Per Share

(Title of Class)

The Nasdaq Capital Market

(Name of exchange on which registered)

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

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

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
No

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 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.

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

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

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 \$43.9 million as of June 30, 2016.

The number of shares of Common Stock outstanding was 12,462,692 as of March 23, 2017.

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 2017 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission within 120 days after the close of the 2016 year. Except as expressly incorporated by reference, the Proxy Statement shall not be deemed to be a part of this report on Form 10-K.

EVOLVING SYSTEMS, INC.
Annual Report on Form 10-K
For the year ended December 31, 2016

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FORWARD-LOOKING STATEMENTS

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

PART I

ITEM 1. BUSINESS

INTRODUCTION

Evolving Systems is a leader in real-time analytics, activation and consumer engagement marketing. The company’s software solutions and managed services are deployed at over 75 mobile service providers in 50 countries worldwide where they accelerate customer acquisition and activation, upsell services, improve subscriber loyalty and monetize consumer information throughout their lifecycle.

The acquisition of RateIntegration, Inc. d/b/a Sixth Sense Media (“SSM”) in 2015 accelerated the company’s entry into the high value mobile marketing space and also initiated the transition from a traditional software license model to a recurring revenue model based on managed services.

The company has moved from selling technology to offering business solutions. The value proposition likewise has moved away from cost savings to a focus on revenue increases for the carrier and our business model has moved from classic capex license and services to opex models based on managed services with performance fees.

We offer managed services and solutions in the following core areas:

- Subscriber Acquisition and Activation solutions used to sign up new subscribers and to activate complex bundles of voice, video and data services for traditional and next generation wireless, wireline and cable networks;
- Mobile Analytics, Engagement and Upsell enables carrier marketing departments to innovate, execute and manage highly-personalized and contextually-relevant, interactive campaigns that engage consumers in real time;
- Retention, Loyalty and Fulfilment solutions that reduce subscriber churn, encourage service usage, and reward subscribers with value from the carrier and from loyalty program partners;
- Consumer Information Monetization enables mobile service providers to monetize their consumer information and context through the up-selling of digital services like games and apps and mobile advertising.

We previously reported the operations of our business as two operating segments based on revenue type: license and services revenue and customer support revenue. In order to report results consistent with our new business solutions model, we now report our operations as one segment since we are packaging multiple products and services into offerings for carriers. We report geographic information based upon revenue and long-lived assets in the United States, United Kingdom and all other foreign countries as a group. Further information regarding our operating segments and geographical information is contained in Note 12 to our Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

COMPANY BACKGROUND

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

subscriber activation, SIM card management and activation, self—service mobile applications, data enablement solutions, connected device activation and management of services.

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

On September 30, 2015, we acquired privately held SSM, now known as Evolving Systems NC, Inc. (“Evolving Systems NC”) for an initial cash payment totaling approximately \$9.75 million, plus customary working capital adjustments, and we agreed to make a payment of \$250,000 on the one year anniversary of the transaction, with such payment being available to secure SSM’s representations and warranties under the acquisition agreement. The acquisition included SSM’s software solution, RLM, a platform which enables carrier marketing departments to innovate, execute and manage highly-personalized and contextually-relevant, interactive campaigns that engage consumers in real time as well as a platform for Customer Loyalty and Retention. The final payment has not been made as of the date this Form 10-K was filed due to pending resolution of outstanding claims.

INDUSTRY DYNAMICS

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

- Carriers seeking to further monetize their customer relationships and associated demographic, behavioral, location and contextual information to up-sell their network services and open new channels for optimized and personalized third-party service revenues;
- Rapid adoption of smart phones and network-attached devices, driving increased usage of mobile data;
- On-going network investment to provide vastly improved delivery speeds and capacity (Long Term Evolution, or “LTE”/4G);
- Pricing pressure within the telecom industry driven by relatively flat subscriber growth, network upgrade costs, subscriber churn, and increased competition from traditional and new market entrants such as Over-the-Top (“OTT”) services both in the developed and emerging markets; and
- Adoption of the connected device and M2M markets.

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

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

We are a pioneer and leader in this market and believe we are well-positioned to maintain our leadership role in this growth segment. To date our Subscriber Activation solution has activated over half a billion SIM cards, providing enhanced functionality and significant operator savings. Our Mobile Analytics, Engagement, Upsell and Retention solutions are connecting with over 300 million subscribers around the world.

SOLUTIONS PORTFOLIO

Acquisition and Activation

Our Subscriber Acquisition and Activation solutions support carriers in adding new subscribers to their network, from the sales and contract process through to the allocation of network and service resources and the activation of services to the mobile device.

- **Smart Dealer** provides SIM retailers with a tool set that enables them to sell SIM cards efficiently and effectively. With Smart Dealer, the operator is able to communicate and guide dealers towards using the latest promotions, enabling instant reactions to competitor activities. Smart Dealer captures subscriber details for “Know Your Customer” prepaid registration, including biometric data, using standard, low cost devices.

- **Dynamic SIM Allocation™** is a SIM Activation solution which is integrated into the carrier's signaling network, enabling new SIM cards that have not been pre-provisioned to be detected on first use. This triggers an efficient, dynamic provisioning process and eliminates the need for pre-provisioning, thus lowering the operator's costs of subscriber acquisition. The SIM activation occurs only when a SIM card is first used. During the activation process, the solution enables an on-device interaction with the end-user, delivering a differentiated user-experience, reducing customer churn and boosting revenue for the carrier.
- **Tertio® Service Activation** is used by carriers to activate a new subscriber or to add a new service to an existing subscriber. Our solution provides a flexible operating environment for carriers to manage their voice, data, and content service needs for both their traditional and broadband IP networks. It provides a point of flexibility in the carrier's OSS/BSS architecture, allowing fast introduction of new network technologies and easing the burden of integration with existing devices and systems. Service providers who use our Tertio solution can better plan, manage and execute the introduction of new services.
- **Number Inventory and Management** is a scalable and fully automated solution that enables operators to reliably and efficiently manage their telephone numbers (i.e., SIMs, MSISDNs, IMSIs, Integrated Circuit Card Identifiers ("ICCIDs")) as well as other communication identifiers such as Uniform Resource Locators or ("URLs") and email addresses. Our solution focuses on the automation of all number resource management processes, allowing operators to adhere to regulatory requirements and effectively manage the lifecycle of telephone numbers, as well as benefit from time savings and reduced costs.

Analytics, Engagement and Upsell

Our Analytics, Engagement and Upsell solutions empower marketing departments to create and deploy highly personalized, location and contextually relevant, interactive customer engagement campaigns. The platform monitors customer events and behavioral patterns in real-time, building a profile of each subscriber. When the right conditions are met, the platform pushes the best match or a personalized offer or ad to the customer.

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

- **The Profiling Engine** supports static as well as ongoing dynamic profiling of subscribers. It fully supports any real-time or micro segmentation requirements as needed by the business. The Profiling Engine is a rules-driven flexible aggregator of subscriber baseline and usage data. It has been designed to handle any data model, including any data representation that may be available within the carrier's legacy billing and Customer Relationship Management ("CRM") environment.
- **The Campaign Engine** is used to configure and deliver marketing campaigns and offers to subscribers. It includes a business friendly dashboard that enables rapid configuration, testing and launching of new business campaigns. Through the dashboard the business user can target specific subscribers, define offers and rewards, and create personalized messages per campaign, interaction and subscriber. The dashboard provides a real-time view on each campaign's effectiveness and impact.
- **Campaign Modules** provide predefined templates for specific types of real-time mobile marketing tactics, including marketing and loyalty for digital services such as mobile money and content, data package upsell and top-up accelerators.
- **Social Media Integration** enables carriers to expand their engagement with subscribers beyond simple network usage and direct channels, and can support social marketing campaigns that leverage the subscribers as a part of the marketing network.
- **App Promotion** engages subscribers when they are first configuring new services or when they are upgrading to mobile devices with new capabilities. It enables carriers to promote the use of their own mobile applications for subscriber care, and also those of third party app publishers, opening possibilities for new revenue streams.

Retention and Loyalty

Our subscriber Retention and Loyalty solutions help reduce churn and generate more revenue from existing subscribers by using the latest innovative programs. Strong subscriber loyalty is created by rewarding subscribers via schemes that offer additional carrier services or the services and products of participating partners.

- **Loyalty Points and Programs** are used to reward mobile subscribers for use of the carrier's services. Credit is earned in the forms of status points and bonus points. Gamification can be used to encourage the collection of rewards by

subscribers and comparison with others in their social group. Loyalty Credit is then exchanged for services or discounts from the carrier, or for digital and physical goods from third party businesses and retail partners.

- **Coupon Management** covers the whole lifecycle of coupons as a medium for delivering rewards. Our solution manages the interface with coupon partners, the delivery of coupons to subscribers, redemption for digital or physical goods, and settlement between carrier and partner.

PROFESSIONAL AND MANAGED SERVICES

Our Professional Services team provides expert and vastly experienced consulting services for the customization, integration and deployment of our solutions. Our services cover all aspects of the project lifecycle, including system architecture, design, software development and customization, system integration, testing, live deployment and production support, program and project level management, post-implementation maintenance and domain and product expertise.

Our Managed Services can be delivered on-site at a carrier or remotely. Services range from operational support of our software solutions, through technical services to expand those solutions with new modules and functionality to support new business value, to marketing and customer engagement consultancy that directly drives marketing campaigns for our customers and helps them achieve their business objectives. The Managed Services teams also offer their expertise and experience to create the maximum financial impact to the carrier from using our solutions.

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

PRODUCT DEVELOPMENT

We develop our software solutions internally and using third party development organizations where specialist technical expertise is required. We conduct research to identify specific industry and customer business needs as well as market requirements and we use that information to determine our investment in product development (“PD”). We evaluate the market for new products and we leverage our existing product capabilities with enhancements of existing products. We build investment plans for our principal product areas and we make other investments in tools and product extensions to accelerate the development, implementation and integration process for customer solutions.

PD is expensed as incurred. For the years ended December 31, 2016, 2015 and 2014, we expensed \$3.0 million, \$3.8 million and \$3.6 million, respectively, in PD costs. The majority of PD investments in 2016 went into the further development and enhancement of our RLM and DSA solutions.

SALES AND MARKETING

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

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

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

COMPETITION

The market for telecommunications OSS products and mobile analytics and advertising is competitive and 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; all in the context of continuing pricing pressure.

Our existing and potential competitors include many large domestic and international companies that often have substantially greater financial, technological, marketing, distribution and other resources, larger installed customer bases and longer-standing relationships with telecommunications customers. The market for telecommunications OSS software and services is extremely large and we currently hold only a small portion of total market share. Nonetheless, we believe our work to establish the Subscriber Acquisition and Activation area has resulted in our achieving a measurable and reasonable market share in those areas.

Our principal competitors for Subscriber Acquisition and Activation are vendors such as Comptel-Nokia, Amdocs and Oracle, as well as billing vendors and vendors such as Ericsson. In the area of Subscriber Acquisition and Activation, we believe we hold a significant leadership position; however, we see occasional competition from Giesecke & Devrient GmbH and HP, as well as a few other smaller regional competitors. Competitors for Analytics, Engagement & Upsell, and for Retention and Loyalty, include specialist vendors such as Knowesis, Pontis and Business Logic Systems, as well as some products in general CRM suites from vendors such as SAS and Oracle.

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

SIGNIFICANT CUSTOMERS

For the years ended December 31, 2016 and 2015, no significant customer exceeded the threshold (defined as contributing at least 10%) of revenue from continuing operations. For the year ended December 31, 2014, two significant customers accounted for 24% (13% and 11%) of revenue from continuing operations. These customers are large telecommunications operators in Europe and Mexico.

INTELLECTUAL PROPERTY

We rely on a combination of patents, copyright, trademark and trade secret laws, as well as confidentiality agreements and licensing arrangements, to establish and protect our proprietary rights. We have 16 patents in the U.S. on elements of our DSA and mobile broadband enablement products and patents pending in other countries on elements of our DSA and other products.

EMPLOYEES

As of December 31, 2016, we employed 197 people including 27 in the United States, 34 in the United Kingdom and 136 in India. Of our worldwide staff, 81% are involved in product delivery, development, support and professional services, 11% in sales and marketing, and 8% in general administration.

AVAILABLE INFORMATION

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

ITEM 1A. RISK FACTORS

General Risk Statement

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

Risks Related to Our Business and Industry

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

Our revenue comes primarily from sales outside the U.S. and our growth strategy is largely focused on emerging markets. Our success delivering solutions and competing in international markets is subject to our ability to manage various risks and difficulties, including, but not limited to:

- our ability to effectively staff, provide technical support and manage operations in multiple countries;
- fluctuations in currency exchange rates;
- timely collecting of accounts receivable from customers and resellers located outside of the U.S.;
- our ability to repatriate cash from foreign locations and manage potential adverse tax consequences in connection with repatriating funds;
- trade restrictions, political instability, disruptions in financial markets, and deterioration of economic conditions;
- compliance with the U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act and other anti-bribery laws and regulations;
- variations and changes in laws applicable to our operations in different jurisdictions, including enforceability of intellectual property and contract rights; and
- compliance with export regulations, tariffs and other regulatory barriers.

Approximately 40% of our revenue is transacted in currencies other than the U.S. dollar (e.g. British Pound Sterling, Swiss Franc and Euro). As a result, when the U.S. dollar strengthens, our revenue, when converted to U.S. dollars, is reduced. At the same time, approximately 60% of our operating expenses are incurred 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 repatriate cash without incurring substantial risks involving floating currency exchange rates, or to recover or apply withholding taxes remitted to foreign governments. Any of the foregoing factors may have a material adverse impact on our business, financial condition and results of operations. In addition, there have been proposals to change U.S. tax laws that would significantly impact how U.S. multinational corporations are taxed on foreign earnings. Although we cannot predict whether or in what form any proposed legislation may pass, if enacted it could have a material adverse impact on our tax expense and cash flow.

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

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

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

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

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

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

We offer some of our products as a managed service or a SaaS implementation and we intend to offer more of our solutions in this manner in the future. While we believe the demand for managed services and cloud-based solutions is strong, there are no guarantees that we will be able to compete effectively, generate significant revenues or maintain profitability. Whether we are successful in providing our solutions as managed services or solutions as cloud solutions depends on our execution in a number of areas, including continuing to innovate and bring to market compelling managed services and cloud-based offerings and ensuring that our services meet the reliability expectations of our customers and maintain the security of customer data. Our managed and cloud-based services strategies also may fail to achieve success if other companies offering managed services and cloud-based solutions experience data loss, security breaches or service reliability issues that cause consumers to become less willing to accept managed services and cloud-based solutions in general.

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

In connection with our acquisition of SSM in September 2015, we increased our revolving credit facility with East West Bank from \$5.0 million to \$10.0 million (the “Revolving Facility”) and we used the full amount of the Revolving Facility to fund the acquisition. The Revolving Facility was secured by substantially all of the Company’s assets, including a pledge, subject to certain limitations with respect to stock of foreign subsidiaries, of the stock of the existing and future direct subsidiaries of the Company. The Revolving Facility required the Company to pay monthly payments of interest, with the unpaid balance due on October 22, 2016.

On February 29, 2016, we entered into a term loan agreement with East West Bank (“Term Loan”) for \$6.0 million. The Term Loan bears interest at a floating rate equal to the U.S. Prime Rate plus 1.0%, and is secured by substantially all of the Company’s assets, including a pledge, subject to certain limitations with respect to stock of foreign subsidiaries, of the stock of the existing and future direct subsidiaries of the Company. Interest accrues and is payable monthly. We are required to repay the Term Loan in 36 equal monthly installments, commencing on January 1, 2017. We must maintain a minimum current ratio, a specified ratio of Total Liabilities to EBITDA and a minimum fixed charge coverage ratio, as defined in the Term Loan. The Term Loan requires us to pay two annual credit facility fees of \$18,750. We were required to use the \$6 million Term Loan proceeds, plus \$4.0 million from our cash reserves, to pay off the Revolving Facility. The Term Loan matures on January 1, 2020.

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

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

- reserving cash in order to satisfy the obligations relating to our debt could adversely affect the amount or timing of investments to grow our business, impairing our ability to invest in and successfully grow our business;
- our existing debt could limit our ability to obtain additional financing on satisfactory terms to fund our working capital requirements, capital expenditures, acquisitions, debt obligations and other general corporate requirements;
- our debt may increase our vulnerability to general economic downturns, competition and industry conditions and we may be unable to take advantage of opportunities that our leverage prevents us from exploiting, placing us at a disadvantage to our competitors that are less leveraged; and
- the Term Loan imposes restrictions on the manner in which we conduct our business, including restrictions on our ability to pay dividends, incur additional debt and sell assets.

The obligations under the Term Loan could have an adverse effect on our business, financial condition, operating results or cash flows. In addition, our failure to comply with the covenants under the Term Loan could result in an event of default and acceleration of the outstanding balance, which could significantly harm our business and cause our stock price to decline.

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

In September of 2015 we acquired SSM and we expect to continue making acquisitions or entering into strategic alliances as part of our long-term business strategy. We cannot be sure that these transactions will ultimately enhance our products or strengthen

our competitive position. These transactions involve significant challenges and risks: they may not advance our business strategy, we may not get a satisfactory return on our investment, we may have difficulty integrating operations, new technologies, products and employees, and they may distract management and employees from our other businesses. Furthermore, we may fail to identify or assess the magnitude of certain liabilities, shortcomings or other circumstances prior to acquiring a company or technology, which could result in unexpected litigation or regulatory exposure, unfavorable accounting treatment, unexpected increases in taxes due, a loss of anticipated tax benefits or other adverse effects on our business, operating results or financial condition. The success of these transactions will depend in part on our ability to leverage them to enhance our existing products and services or develop compelling new ones. It may take longer than expected to realize the full benefits from these transactions, such as increased revenue, enhanced efficiencies, or increased market share, or the benefits may ultimately be smaller than we expected. In addition, future acquisitions could result in dilutive issuances of equity securities, reduce our cash available for operations and increase our debt. The occurrence of any of these risks could have a material adverse effect on our business, results of operations, financial condition or cash flows, particularly in the case of a large acquisition or several concurrent acquisitions.

Our periodic workforce restructurings can be disruptive.

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

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

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

The majority of our existing contracts provide for acceptance testing by the customer, which can be a lengthy process. Unanticipated difficulties or delays in the customer acceptance process could result in higher costs, delayed payments, and deferral of revenue recognition. In addition, if our software contains defects or we otherwise fail to satisfy acceptance criteria within prescribed times, the customer may be entitled to liquidated damages, to cancel its contract and receive a refund of all or a portion of amounts paid or to seek other monetary damages. These could exceed related contract revenue and 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.

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 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, conditions surrounding acceptance and payments owed to us may be impacted by factors that are out of our control. Resellers may also delay paying us even when they have been paid by the end-user customer. We have experienced delays in closing contracts through partners and collecting from resellers and this situation may arise again in the future, negatively impacting our cash flows. Doing business through local partners may also increase our risks under anti-bribery regulations, discussed below.

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

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

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

We are a relatively small company. Consequently, compared to larger companies, sales fluctuations could have a greater impact on our revenue and profitability on a quarter-to-quarter and year-to-year basis and a delayed contract could cause our operating results to vary significantly from quarter to quarter and year-to-year. In addition, as a small company we have limited staff and are heavily reliant on certain key personnel to operate our business. If a key employee were to leave the company it could have a material

impact on our business and results of operations as we might not have sufficient depth in our staffing to fill the role that was previously being performed. A delay in filling the vacated position could put a strain on existing personnel or result in a failure to satisfy our contractual obligations or to effectively implement our internal controls, and materially harm our business.

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

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

- the size of new contracts, rate of progress under our contracts and when we are able to recognize the related revenue;
- foreign exchange fluctuations;
- budgeting cycles of our customers;
- changes in the terms and rates related to the renewal of support agreements;
- the mix of products and services sold;
- the timing of delivery of software and hardware by third parties;
- level and timing of operating expenses and capital investments;
- changes in our strategy; and
- general economic conditions.

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

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

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

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

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

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

Our customers may require, or we may find it necessary or advisable, to modify our products or services to address actual or anticipated changes in regulations affecting our customers. This could increase our costs, delay adoption of our products and increase our sales cycle, which could materially harm our business, financial condition, results of operations, and cash flows. We are also subject to numerous regulatory requirements of foreign jurisdictions, which are often complex and changing. Any failure to comply with such regulations could, likewise, materially harm our business, financial condition, results of operations and cash flows.

Consolidation in the communications industry may impact our financial performance.

The global communications industry has experienced and continues to experience significant consolidation. These consolidations have caused us to lose customers and may result in fewer potential customers. In addition, combining companies often re-evaluate their solutions and their capital expenditures, choosing to consolidate with one solution; there is no guarantee our solution will be selected in this process. As our customers become larger, they generally have longer sales cycles and stronger purchasing power, which can result in delays in securing contracts and pressure to reduce our prices. All of these factors can have a negative impact on our financial performance, particularly in any fiscal quarter.

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

A large portion of our revenue currently is, and historically has been, derived from fixed-price contracts and we expect this will continue. These contracts specify certain obligations and deliverables we must meet regardless of the actual costs we incur. Projects done on a fixed-price basis are subject to budget overruns. On occasion, we have experienced budget overruns, resulting in 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 our license fee/services and fixed-price services contracts is accounted for on the percentage-of-completion method of accounting. Under this method we recognize revenue and profits for each project based on the percentage of the project that is completed, which requires us to estimate the total cost to complete the project, project schedule and completion date, and probable change orders. Our failure to accurately estimate these often subjective factors could result in overstated or understated revenue, profits or losses.

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 to release new products, new features and product enhancements, to improve product performance and to reduce prices. Our competitors include many large domestic and international companies who have substantially greater resources, larger installed customer bases and longer-standing relationships with customers. In addition, some companies who would not typically compete with us, such as network equipment manufacturers, offer next generation solutions that address some of the benefits provided by our DSA solution.

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

We believe that our ability to compete successfully depends on numerous factors, including the quality and price 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 price reductions or increased marketing and promotion, accelerated introduction of new or enhanced products, or cooperative relationships among competitors and their strategic partners, could negatively impact the sale of our products. We may have to reduce the prices we charge for our products, resulting in lower revenue and operating margins. We may not be able to compete successfully 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.

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

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

The provisions of our agreements with customers are designed to limit our exposure to potential liability for damages arising out of the use of, or defects in, our products. We cannot guarantee that these limitations will be effective. Although we carry errors and omissions insurance, to the extent that any successful product liability claim is not covered by our errors and omissions insurance or exceeds the coverage under our policy, we may be required to incur legal fees and pay for a claim. This could be expensive, particularly since our software products may be used in critical business applications. On occasion, we also engage subcontractors to

provide deliverables under customer contracts; we could be required to indemnify customers for work performed by our subcontractors. We may be able to recover these damages from a subcontractor, but there is no guarantee that we will be able to do so. Defending against a product liability claim, regardless of its merits, could be expensive and require the time and attention of key management personnel, either of which could materially harm our business, financial condition and results of operations. In addition, our business reputation could be harmed by product liability claims, regardless of their merit or the eventual outcome of these claims.

Our business practices with respect to handling personally identifiable information could give rise to liabilities.

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

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

Our success and ability to compete are dependent to a significant degree on our proprietary technology. Protecting our global intellectual property rights is difficult. We rely on a combination of patent, copyright, trademark and trade secret laws, as well as confidentiality agreements and licensing arrangements, to establish and protect our proprietary rights. We have 16 patents in the U.S. on elements of our DSA and mobile broadband enablement products and patents pending in other countries on elements of our DSA and Intelligent M2M Controller™ ("IMC") products. In addition, we have registered or filed for registration of certain of our trademarks. Our patent portfolio is relatively small and given the cost of obtaining additional patent protection, we may choose not to patent certain inventions that later become important. There is also the possibility that our means of protecting our proprietary rights may not be adequate; a third party may copy or otherwise obtain and use our products or technology without authorization or may develop similar technology independently or design around our patents. In addition, the laws of some foreign countries may not adequately protect our proprietary rights.

Source code, the detailed program commands for our software programs, is critical to our business. While we take steps to limit access to our source code and to protect it as a trade secret, we may not be able to protect our source code from copying if there is an unauthorized disclosure. Trade secret protection for that source code could be jeopardized, making it easier for third parties to develop competing products.

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

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

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

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

There is little or no legal precedent for interpreting the terms of certain of these open source licenses, including the terms addressing the extent to which software incorporating open source software may be considered a derivative work subject to these licenses. We believe we have complied with our obligations under the various applicable open source licenses. However, if the owner of any open source software were to successfully establish that we had not complied with the terms of an open source license for a particular product that includes such open source software, we may be forced to release the source code for that derivative work to the public or cease distribution of that work.

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

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

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

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

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

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

As a result of operating as a smaller public company, our management is required to devote a substantial amount of time to comply with regulatory matters; our relatively small staff can make compliance challenging.

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

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

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

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.

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

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

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

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

Our named executive officers have entered into agreements with us that contain a change in control provision. These agreements generally provide for acceleration on vesting of stock awards. The acceleration of vesting of stock awards 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 Stock Incentive Plans provide for acceleration of vesting of stock awards under certain changes in control. As noted above, the acceleration on vesting of stock awards upon a change in control may be viewed as an anti-takeover measure.

All of the above factors 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.

We suspended our dividends in 2016 and we may not pay dividends in the future.

In June, 2016, our Board of Directors suspended our quarterly dividends. Any decision to pay dividends in the future and the amount of any dividend we may declare will depend on general business conditions, the impact of such payment on our financial condition and other factors our Board of Directors may consider to be relevant. In addition, our term loan facility limits our ability to pay dividends by establishing a maximum amount that can be paid per quarter and prohibiting payment of dividends when an event of default has occurred. If we elect to pay future dividends, this could reduce our cash reserves to levels that may be inadequate to fund expansions to our business plan or unanticipated contingent liabilities.

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

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

<u>Location</u>	<u>Square Footage</u>	<u>Lease Expiration</u>
Englewood, Colorado (Headquarters)	5,092	11/30/17
Durham, North Carolina	2,860	7/31/18
London, England	2,200	3/02/20
Bangalore, India	12,300	8/18/18
Kolkata, India	1,575	10/31/18
Kolkata, India	2,708	11/14/18
Kuala Lumpur, Malaysia	1,042	7/14/17
Bucharest, Romania.....	215	9/30/17

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

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

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

	For the Years Ended December 31,			
	2016		2015	
	High	Low	High	Low
First Quarter	\$ 5.92	\$ 4.99	\$ 9.45	\$ 8.01
Second Quarter	\$ 5.82	\$ 5.02	\$ 9.98	\$ 8.44
Third Quarter	\$ 5.53	\$ 3.99	\$ 9.27	\$ 5.30
Fourth Quarter.....	\$ 4.45	\$ 3.85	\$ 6.17	\$ 5.32

As of March 23, 2017, there were approximately 64 holders of record of our common stock.

Dividends

Our Board of Directors declared a cash dividend of \$0.11 per share in the first and second quarters of 2016. In 2015, our Board of Directors declared a cash dividend of \$0.11 per share during each of the four quarters of 2015. In June 2016, our Board of Directors suspended our quarterly dividends and there can be no guarantee that we will resume paying dividends. Any decision to declare dividends in the future and the amount of any dividend we may declare will depend on general business conditions, the impact of such payment on our financial condition and other factors our Board of Directors may consider to be relevant. In addition, our term loan facility limits our ability to pay dividends by establishing a maximum amount that can be paid per quarter and prohibiting payment of dividends when an event of default has occurred. Payment of future dividends can also affect our business as this could reduce our cash reserves to levels that may be inadequate to fund expansions to our business plan or unanticipated contingent liabilities.

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, 2016, 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.

	For the Years Ended December 31,				
	2016	2015	2014	2013	2012
	(in thousands, except per share amounts)				
Revenue	\$ 24,778	\$ 25,576	\$ 29,680	\$ 25,093	\$ 26,247
Costs of Revenue and Operating Expenses:					
Costs of revenue, excluding depreciation and amortization.....	5,297	6,449	7,648	7,164	8,236
Sales and marketing	4,965	5,844	5,734	5,364	5,070
General and administrative	3,855	4,003	3,638	3,644	3,613
Product development	3,014	3,847	3,643	2,956	3,069
Depreciation.....	259	314	246	155	268
Amortization	783	266	95	211	400
Restructuring and other expense	1,010	533	237	558	—
Income (loss) from operations	5,595	4,320	8,439	5,041	5,591
Interest and other income (expense), net.....	(703)	(109)	(34)	39	842
Interest and other income, related parties, net.....	—	—	—	—	532
Income tax expense (benefit)	1,457	915	2,797	1,274	1,401
Net income	<u>\$ 3,435</u>	<u>\$ 3,296</u>	<u>\$ 5,608</u>	<u>\$ 3,806</u>	<u>\$ 5,564</u>
Basic income per common share - net income.....	\$ 0.29	\$ 0.28	\$ 0.48	\$ 0.33	\$ 0.49
Diluted income per common share - net income.....	\$ 0.29	\$ 0.28	\$ 0.47	\$ 0.32	\$ 0.48
Weighted average basic shares outstanding	11,845	11,693	11,642	11,459	11,278
Weighted average diluted shares outstanding.....	11,961	11,935	11,926	11,756	11,529
Cash dividend declared per common share (1) (3)	\$ 0.22	\$ 0.44	\$ 0.42	\$ 0.36	\$ 2.00
Working capital (2)	\$ 7,989	\$ 3,478	\$ 15,794	\$ 14,699	\$ 13,894
Total assets.....	43,755	50,429	44,232	43,184	36,593
Stockholders’ equity	\$ 29,334	\$ 32,162	\$ 34,052	\$ 32,735	\$ 30,836

- (1) During 2012, our Board of Directors declared and paid a first, third and fourth quarter cash dividend of \$0.05 per share each and a second and fourth quarter special cash dividend of \$1.70 and \$0.15 per share, respectively. There were no accrued dividends as of December 31, 2012. In addition, the special cash dividend declared in the fourth quarter 2011 of \$2.00 per share was paid in January 2012.
- (2) On September 30, 2015, we completed the acquisition of SSM for an initial cash payment totaling approximately \$9.75 million, plus customary working capital adjustments, and we agreed to make a payment of \$250,000 on the one year anniversary of the transaction, with such payment being available to secure SSM’s representations and warranties under the acquisition agreement. The initial payment was financed through our revolving line of credit, which required monthly payments of interest, with the unpaid balance due on October 22, 2016. As this debt was due in twelve months, it reduced our working capital as of December 31, 2015 by \$10.0 million. On February 29, 2016, we entered into the Fifth Amendment to the Loan and Security Agreement to enter into a Term Loan for \$6.0 million. Interest shall accrue from the date the Term Loan is made and shall be payable monthly. The Term Loan shall be repaid in 36 equal monthly installments of principal, plus accrued but unpaid interest, commencing on January 1, 2017 and continuing on the first day of each month thereafter through and including January 1, 2020. The Term Loan agreement required us to use the term loan proceeds and \$4.0 million from our cash balances to pay off the existing Revolving Facility totaling \$10.0 million. The Term Loan matures on January 1, 2020. Due to the Term Loan, our working capital balances increased in 2016 as a result of paying off the existing Revolving Facility totaling \$10.0 million.
- (3) On June 30, 2016, our Board of Directors suspended the quarterly dividends. Prior to suspending the dividend, our Board of Directors declared a first quarter cash dividend of \$0.11 per share on March 15, 2016, which was paid April 1, 2016, to stockholders of record March 28, 2016 and a second quarter cash dividend of \$0.11 per share, on May 3, 2016, which was paid on July 1, 2016, to stockholders of record June 3, 2016.

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

FORWARD-LOOKING STATEMENTS

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

OVERVIEW

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

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

RECENT DEVELOPMENTS

We reported net income of \$3.4 million, \$3.3 million and \$5.6 million for the years ended December 31, 2016, 2015 and 2014, respectively.

On September 30, 2015 we acquired privately held SSM, now known as Evolving Systems NC, Inc., a provider of real time analytics and marketing solutions to wireless carriers, for an initial payment of approximately \$9.75 million and a \$0.5 million working capital adjustment. We also agreed to make a payment on the one year anniversary of the transaction of \$250,000, with such payment being available to secure SSM's representations and warranties in the agreement. SSM's software solution platform, RLM, enables carriers' marketing departments to innovate, execute and manage highly-personalized and contextually-relevant, interactive campaigns that engage consumers in real time. RLM is included as a component of our Mobile Marketing Solutions ("MMS") product suite in license fees and service revenue and customer support revenue. The final payment has not been made as of the date this Form 10-K was filed due to pending resolution of outstanding claims.

We declared and paid a \$0.11 cash dividend per share in the first and second quarters of 2016.

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 2016 and 2015 are a result of the U.S. dollar strengthening on average versus the British Pound Sterling. The chart below summarizes what the effects on our revenue and expenses would be on a constant currency basis. The constant currency basis assumes that the exchange rate was constant for the periods presented (in thousands).

	For the Years ended December 31,	
	2016 vs. 2015	2015 vs. 2014
Revenue	\$ (753)	\$ (954)
Costs of revenue and operating expenses.....	(1,318)	(1,219)
Operating gain.....	<u>\$ 565</u>	<u>\$ 265</u>

The net effect of our foreign currency translations for the year ended December 31, 2016 was a \$0.8 million decrease in revenue and a \$1.3 million decrease in operating expenses versus the year ended December 31, 2015 due to a stronger U.S. dollar on average during the year 2016. The net effect of our foreign currency translations for the year ended December 31, 2015 was a \$1.0 million decrease in revenue and a \$1.2 million decrease in operating expenses versus the year ended December 31, 2014 due to a stronger U.S. dollar on average during the year 2015.

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		
	2016	2015	Change	2015	2014	Change
REVENUE						
License fees.....	\$ 2,873	\$ 3,161	\$ (288)	\$ 3,161	\$ 5,027	\$ (1,866)
Services.....	21,905	22,415	(510)	22,415	24,653	(2,238)
Total revenue.....	<u>24,778</u>	<u>25,576</u>	<u>(798)</u>	<u>25,576</u>	<u>29,680</u>	<u>(4,104)</u>
COSTS OF REVENUE AND OPERATING EXPENSES						
Costs of revenue, excluding depreciation and amortization.....	5,297	6,449	(1,152)	6,449	7,648	(1,199)
Sales and marketing.....	4,965	5,844	(879)	5,844	5,734	110
General and administrative.....	3,855	4,003	(148)	4,003	3,638	365
Product development.....	3,014	3,847	(833)	3,847	3,643	204
Depreciation.....	259	314	(55)	314	246	68
Amortization.....	783	266	517	266	95	171
Restructuring.....	1,010	533	477	533	237	296
Total costs of revenue and operating expenses.....	<u>19,183</u>	<u>21,256</u>	<u>(2,073)</u>	<u>21,256</u>	<u>21,241</u>	<u>15</u>
Income (loss) from operations.....	5,595	4,320	1,275	4,320	8,439	(4,119)
Interest income.....	6	18	(12)	18	19	(1)
Interest expense.....	(340)	(121)	(219)	(121)	(17)	(104)
Other income (expense).....	183	—	183	—	(27)	27
Foreign currency exchange loss.....	(552)	(6)	(546)	(6)	(9)	3
Other (expense) income, net.....	<u>(703)</u>	<u>(109)</u>	<u>(594)</u>	<u>(109)</u>	<u>(34)</u>	<u>(75)</u>
Income before income taxes.....	4,892	4,211	681	4,211	8,405	(4,194)
Income tax expense.....	1,457	915	542	915	2,797	(1,882)
Net income.....	<u>\$ 3,435</u>	<u>\$ 3,296</u>	<u>\$ 139</u>	<u>\$ 3,296</u>	<u>\$ 5,608</u>	<u>\$ (2,312)</u>

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

	For the Years Ended December 31,		
	2016	2015	2014
REVENUE			
License fees.....	12%	12%	17%
Services.....	88%	88%	83%
Total revenue.....	<u>100%</u>	<u>100%</u>	<u>100%</u>
COSTS OF REVENUE AND OPERATING EXPENSES			
Costs of revenue, excluding depreciation and amortization.....	21%	25%	25%
Sales and marketing.....	20%	23%	19%
General and administrative.....	16%	16%	12%
Product development.....	12%	15%	12%
Depreciation.....	1%	1%	1%
Amortization.....	3%	1%	0%
Restructuring and other recovery.....	4%	2%	1%
Total costs of revenue and operating expenses.....	<u>77%</u>	<u>83%</u>	<u>70%</u>
Income from operations.....	<u>23%</u>	<u>17%</u>	<u>30%</u>
Other income (expense).....			
Interest income.....	0%	0%	0%
Interest expense.....	(2)%	(1)%	(0)%
Other (expense) income.....	1%	—%	(1)%
Foreign currency exchange loss.....	(2)%	(0)%	(0)%
Other (expense) income, net.....	<u>(3)%</u>	<u>(1)%</u>	<u>(1)%</u>
Income before income taxes.....	20%	16%	29%
Income tax expense.....	6%	3%	10%
Net income.....	<u>14%</u>	<u>13%</u>	<u>19%</u>

Revenue

Revenue is comprised of license fees and services. License fees represent the fees we receive from the licensing of our software products. Services revenue are services directly related to the delivery of the licensed product as well as integration services, managed services, SaaS services, time and materials work and customer support services. Customer support services 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

License fees revenue decreased 9%, or \$0.3 million to \$2.9 million for the year ended December 31, 2016 compared to \$3.2 million for the year ended December 31, 2015. The decrease in license fee revenue is primarily related to lower First User Activations (“FUAs”) offset by an increase of initial license sales.

License fees revenue decreased 37%, or \$1.8 million to \$3.2 million for the year ended December 31, 2015 compared to \$5.0 million for the year ended December 31, 2014. The decrease in license fee revenue is primarily due to lower FUAs and the initial licensing of our software products.

Services

Services revenue decreased 2%, or \$0.5 million, to \$21.9 million for the year ended December 31, 2016 from \$22.4 million for the year ended December 31, 2015. The decrease in services revenue is due to a decline in fixed-price services from customization required of our software products offset by an increase of our customer support and managed services revenue due to Evolving Systems NC, which was acquired on September 30, 2015.

Services revenue decreased 9%, or \$2.2 million, to \$22.4 million for the year ended December 31, 2015 from \$24.6 million for the year ended December 31, 2014. The decrease in services revenue is primarily due to a decline in our fixed-price services due to fewer customizations our software products and SaaS services.

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 \$5.3 million, \$6.4 million and \$7.6 million for the years ended December 31, 2016, 2015 and 2014, respectively.

Costs of revenue decreased 18%, or \$1.1 million, to \$5.3 million for the year ended December 31, 2016 from \$6.4 million for the year ended December 31, 2015. The decrease in costs was primarily the result of lower embedded software expense, reduced headcount, and travel, due to lower revenue during the period partially offset by increased expenses related to the operations of Evolving Systems NC. As a percentage of revenue, costs of revenue, excluding depreciation and amortization, decreased to 21% for the year ended December 31, 2016 from 25% for the year ended December 31, 2015. The decrease in costs as a percentage of revenue is primarily related to the aforementioned reduction in costs of revenue which exceeded the decrease in revenue during the period.

Costs of revenue decreased 16%, or \$1.2 million, to \$6.4 million for the year ended December 31, 2015 from \$7.6 million for the year ended December 31, 2014. The decrease in costs was primarily the result of lower embedded software expense, fewer service project hours, incentive compensation and travel, due to lower revenue in the period partially offset by increased expenses related to the operations of Evolving Systems NC. As a percentage of revenue, costs of revenue, excluding depreciation and amortization, remained at 25% for the years ended December 31, 2015 and 2014.

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 15%, or \$0.9 million, to \$5.0 million for the year ended December 31, 2016 from \$5.8 million for the year ended December 31, 2015. The decrease in costs is primarily related to partner fees, reduced employees and lower travel expenses offset by increased sales operations expenses related to Evolving Systems NC. As a percentage of total revenue, sales and marketing expenses for the year ended December 31, 2016 decreased to 20% from 23% for the year ended December 31, 2015. The decrease as a percentage of revenue is due to the aforementioned reduction in expenses.

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

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 4%, or \$0.1 million, to \$3.9 million for the year ended December 31, 2016 from \$4.0 million for the year ended December 31, 2015. The decrease for the period was primarily due to a decline of professional fees related to merger and acquisition activities and lower travel expense, offset by increased general and administrative expenses related to Evolving Systems NC and an allowance placed on uncollectible accounts receivables. As a percentage of total revenue, general and administrative expenses remained at 16% for the years ended December 31, 2016 and 2015.

General and administrative expenses increased 10%, or \$0.4 million, to \$4.0 million for the year ended December 31, 2015 from \$3.6 million for the year ended December 31, 2014. The increase for the year ended December 31, 2015 was due primarily to higher professional fees and additional general and administrative costs relating to the acquisition of Evolving Systems NC offset by lower incentive compensation. As a percentage of total revenue, general and administrative expenses increased to 16% for the year ended December 31, 2015 from 12% for the year ended December 31, 2014. The increase in expenses as a percentage of revenue is related to the aforementioned increase of expenses and lower revenue during the period.

Product Development

Product development expenses consist primarily of employee-related costs for product development. Product development expenses decreased 22%, or \$0.8 million, to \$3.0 million for the year ended December 31, 2016 from \$3.8 million for the year ended December 31, 2015. The decrease in costs was related to reduced headcount partially offset by expenses from Evolving Systems NC product development department. As a percentage of total revenue, product development expenses decreased to 12% for the year ended December 31, 2016 from 15% for the year ended December 31, 2015. The decrease in expenses as a percentage of revenue is related to the aforementioned decrease of expenses during the period.

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

Depreciation

Depreciation expense consists of depreciation of long-lived property and equipment. Depreciation expenses decreased 18%, or \$0.1 million, to \$0.2 million for the year ended December 31, 2016 from \$0.3 million for the year ended December 31, 2015. The decrease of expense was due to lower capital purchases in the current period and older assets becoming fully depreciated. As a percentage of revenue, depreciation expense remained at 1% for the years ended December 31, 2016 and 2015.

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

Amortization

Amortization expense consists of amortization of identifiable intangibles related to our acquisitions of Evolving Systems U.K., Evolving Systems Labs and Evolving Systems NC. Amortization expense increased 194%, or \$0.5 million to \$0.8 million for the year ended December 31, 2016 from \$0.3 million for the year ended December 31, 2015. The increase in amortization expense was due to the amortization expense of the intangible assets relating to the acquisition of Evolving Systems NC on September 30, 2015. As a percentage of revenue, amortization expense increased to 3% for the year ended December 31, 2016 from 1% for the year ended December 31, 2015. The increase of amortization expense as a percentage of total revenue is due to the aforementioned increase of expense.

Amortization expense increased 180%, to \$0.3 million for the year ended December 31, 2015 from \$0.1 million for the year ended December 31, 2014. The increase in amortization expense was due to the amortization expense of the intangible assets relating to the acquisition of Evolving Systems NC. As a percentage of revenue, amortization expense increased to 1% for the year ended December 31, 2015 from less than 1% for the year ended December 31, 2014. The increase of amortization expense as a percentage of total revenue is due to the aforementioned increase of expense.

Restructuring

Restructuring expense includes the costs associated with a reduction in workforce involving the termination of employees. Restructuring increased 90%, or \$0.5 million, to \$1.0 million for the year ended December 31, 2016 from \$0.5 million for the year

ended December 31, 2015. Restructuring expense for the years ended December 31, 2016 and 2015 related to the acquisition of Evolving Systems NC. As a percentage of revenue, restructuring expense increased to 4% for the year ended December 31, 2016 from 2% for the year ended December 31, 2015. The increase of restructuring expense as a percentage of total revenue is due to the aforementioned increase of expense and lower revenue.

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

Interest Income

Interest income includes interest income earned on cash, cash equivalents and long-term investments. Interest income decreased 67%, or \$12,000, to \$6,000 for the year ended December 31, 2016 from \$18,000 for the year ended December 31, 2015.

Interest income decreased 5%, or \$1,000, to \$18,000 for the year ended December 31, 2015 from \$19,000 for the year ended December 31, 2014.

Interest Expense

Interest expense includes interest expense on our term loan, revolving line of credit and capital lease obligations as well as amortization of debt issuance costs. Interest expense for the year ended December 31, 2016 increased 181%, or \$0.2 million, to \$0.3 million as compared to \$0.1 million for the year ended December 31, 2015. This increase in interest expense was due to a larger principal balance from our term loan and revolving line of credit related to the acquisition of Evolving Systems NC. Refer to Note 5, Long-Term Debt, of our Consolidated Financial Statements included elsewhere in this Annual Report on Form 10-K for more information regarding the Term loan.

Interest expense for the year ended December 31, 2015 increased 612%, or \$0.1 million, to \$0.1 million as compared to \$17,000 for the year ended December 31, 2014. This increase was due to the interest expense from our revolving line of credit for the initial payment of the acquisition of Evolving Systems NC.

Loss on Foreign Exchange Transactions

Loss on foreign exchange transactions consists of realized and unrealized foreign currency transaction gains and losses. Foreign currency transaction gains and losses result from transactions denominated in a currency other than the functional currency of the respective subsidiary. The foreign currency transaction loss increased 9,100%, or \$0.6 million, to \$0.6 million for the year ended December 31, 2016 compared to a \$6,000 loss for the year ended December 31, 2015. The net loss was generated through the re-measurement of certain non-functional currency denominated financial assets and liabilities of our Evolving Systems U.K. and India subsidiaries of which the loss was primarily related to Evolving Systems U.K. contract receivables.

The foreign currency transaction loss of \$6,000 for the year ended December 31, 2015 compared to a \$9,000 loss for the year ended December 31, 2014 resulted in a year over year gain of 33% or \$3,000. The net loss was generated through the re-measurement of certain non-functional currency denominated financial assets and liabilities of our Evolving Systems U.K. and India subsidiaries.

Income Tax Expense

We recorded income tax expense of \$1.5 million, \$0.9 million and \$2.8 million for the years ended December 31, 2016, 2015 and 2014, respectively. The net expense during year ended December 31, 2016 consisted of current income tax expense of \$1.5 million and a net deferred tax benefit of (\$24,000). The current tax expense consists primarily of income tax from our U.K. and India based operations. The deferred tax benefit was related primarily to the reduction of deferred tax liabilities related to intangible assets incurred due to the acquisition of Evolving Systems NC. Refer to Note 6, Income Taxes, of our Consolidated Financial Statements included elsewhere in this Annual Report on Form 10-K for more information regarding the foreign tax credit.

The net expense during year ended December 31, 2015 consisted of current income tax expense of \$2.0 million and a net deferred tax benefit of (\$1.1) million. The current tax expense consists primarily of income tax from our U.S., U.K. and India based operations and unrecoverable foreign withholding tax in the U.K. U.S. income taxes payable of \$0.8 million were offset due to realization of Net Operating Losses ("NOL") comprised of windfall tax benefits related to stock-based compensation. Unused windfall tax benefits may not be recorded as an asset on our Consolidated Balance Sheets but are recorded as a reduction to our taxes payable when realized, with a corresponding credit to additional paid in capital. The deferred tax benefit was related primarily to foreign tax credits incurred for the years 2012 through 2014 which we recorded as a deferred tax asset in the amount of \$3.7 million offset by a partial valuation allowance.

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

Our effective tax rates for the years ended December 31, 2016, 2015 and 2014 were 30%, 22% and 33%, respectively. The effective tax rate increased in 2016 compared to 2015 due to aforementioned foreign tax credits utilized in 2015. The effective tax rate decreased during 2015 due to the aforementioned foreign tax credits and lower profits. The effective tax rate increased in 2014 primarily attributable to higher profits from our U.K. subsidiary.

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

The Company has the intent and current ability to indefinitely reinvest profits of Evolving Systems India for the year ended December 31, 2016. Undistributed foreign earnings for the year ended December 31, 2016 are approximately \$1.0 million. Repatriation to the U.S. in the form of dividend distributions from the India controlled foreign subsidiary would give rise to taxation.

We use a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. As of December 31, 2016 and 2015, we had no liability for unrecognized tax benefits. We do not believe there will be any material changes to our unrecognized tax positions over the next twelve months.

FINANCIAL CONDITION

Our working capital position of \$8.0 million at December 31, 2016 reflects an increase of \$4.5 million from our working capital position of \$3.5 million at December 31, 2015. The increase is primarily related to the \$10.0 million borrowed on our short term revolving line of credit to fund the initial payment of the acquisition of Evolving Systems NC, which was converted to a long-term loan in 2016, and decreases in our accounts receivable and unbilled work-in-progress offset by an increase in our current term loan balance, deferred revenue and tax liabilities.

LIQUIDITY AND CAPITAL RESOURCES

We have historically financed operations through cash flows from operations as well as debt and equity transactions. At December 31, 2016, our principal sources of liquidity were \$7.6 million in cash and cash equivalents and \$5.9 million in contract receivables, net of allowances. On February 29, 2016, we entered into the Fifth Amendment to the Loan and Security Agreement with East West Bank which provides for a Term Loan (the “Term Loan”) for \$6.0 million. The \$6.0 million loan bears interest at a floating rate equal to the U.S.A. Prime Rate plus 1.0%. As of December 31, 2016, the U.S.A. Prime Rate was 3.75%. The Term Loan is secured by substantially all of the assets of Evolving Systems, including a pledge, subject to certain limitations with respect to stock of foreign subsidiaries, of the stock of the existing and future direct subsidiaries of Evolving Systems. Interest accrues from the date the Term Loan was made at the aforementioned rate and is payable monthly. The Term Loan shall be repaid in 36 equal monthly installments of principal, plus accrued but unpaid interest, commencing on January 1, 2017 and continuing on the first day of each month thereafter through and including January 1, 2020. On the Term Loan maturity date, the outstanding principal amount of the Term Loan and all accrued and unpaid interest thereon shall be immediately due and payable. The Term Loan, once repaid, may not be reborrowed. We must maintain a minimum current ratio, a specified ratio of Total Liabilities to EBITDA and a minimum fixed charge coverage ratio which are as defined in the Term Loan. The Term Loan requires us to pay two annual credit facility fees of \$18,750 and legal fee equal to \$1,000. The Term Loan agreement required us to use the term loan’s proceeds and \$4.0 million from our cash balances to pay off and terminate a Revolving Facilities Loan and Security Agreement with East West Bank totaling \$10.0 million. The Term Loan matures on January 1, 2020. As of the date this Form 10-K was filed, we are in compliance with our covenants.

Net cash provided by (used in) operating activities for the year ended December 31, 2016, 2015 and 2014 was \$6.9 million, \$2.2 million and (\$0.4) million, respectively. The increase in cash provided by operating activities for the year ended December 31, 2016 was primarily due to higher collections of contract receivables and decreased unbilled work-in-progress as-well-as increases in accounts payable and accrued liabilities and unearned revenue.

The increase in cash provided by operating activities for the year ended December 31, 2015 was primarily due to higher billings and collections of contract receivables partially offset by decreases in accounts payable and accrued liabilities and unearned revenue.

Net cash used in investing activities was \$0.1 million, \$9.2 million and \$0.6 million for the years ended December 31, 2016, 2015 and 2014, respectively. Cash used in investing activities for the year ended December 31, 2016 was related to the purchase of property and equipment. During 2016, 2015 and 2014, we purchased \$0.1 million, \$0.2 million and \$0.6 million in property and equipment to support operations, respectively. Historically, capital expenditures have been financed by cash from operating activities.

Cash used in investing activities for the year ended December 31, 2015 was related to the acquisition of Evolving Systems NC and purchase of property and equipment. Refer to Note 2, Acquisition, of our Consolidated Financial Statements included elsewhere in this Annual Report on Form 10-K for more information regarding the acquisition.

Net cash provided by (used in) financing activities was (\$6.6) million, \$5.9 million and (\$3.2) million for the years ended December 31, 2016, 2015 and 2014, respectively. The net cash used by financing activities as of December 31, 2016 is due to proceeds from the term loan of \$6.0 million, which was used along with \$4.0 million of cash-on-hand to pay off the revolving line of credit of \$10.0 million and \$2.6 million paid for dividends.

The net cash provided by financing activities as of December 31, 2015 is due to proceeds from the revolving line of credit of \$10.0 million for the initial payment of the acquisition of Evolving Systems NC, \$0.8 million in windfall tax benefits from stock-based compensation and \$0.3 million in proceeds from the exercise of stock options offset by payments of \$5.1 million for dividends.

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

- Our cash and cash equivalents balance at December 31, 2016 of \$7.6 million;
- Our working capital balance of \$8.0 million;
- Our ability to historically generate positive operating cash flows;
- Our planned capital expenditures of less than \$1.0 million during 2017.

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, 2016, 2015 and 2014, the effect of exchange rate changes resulted in a (\$1.1) million decrease, (\$0.3) million decrease and a \$0.2 million increase to consolidated cash, respectively. We do not currently hedge our foreign currency exposure, but we closely monitor the rate changes and may hedge our exposures in the future.

Off-Balance Sheet Arrangements

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

Contractual Obligations and Commercial Commitments

The following summarizes our significant contractual obligations as of December 31, 2016, which are comprised of a capital lease and operating leases (in thousands).

	Total	Payments due by period				
		2017	2018	2019	2020	2021
Capital lease.....	\$ 1	\$ 1	\$ —	\$ —	\$ —	\$ —
Operating leases.....	1,011	544	325	142	—	—
Total commitments.....	<u>\$ 1,012</u>	<u>\$ 545</u>	<u>\$ 325</u>	<u>\$ 142</u>	<u>\$ —</u>	<u>\$ —</u>

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. The majority of our license fees and services revenue is

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

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

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

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

We recognize revenue from our managed services contracts primarily ratably over the service contract period. On occasion, our managed services contracts will contain a specified number of hours to work over the term of the contract. Revenue for this type of managed service contract is recognized using the proportional performance method of accounting.

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

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

Allowance for Doubtful Accounts

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

Income Taxes

Significant judgment is required in determining our provision for income taxes. We assess the likelihood that our deferred tax asset will be recovered from future taxable income, and to the extent we believe that recovery is not likely, we establish a valuation

allowance. We consider future taxable income projections, historical results and ongoing tax planning strategies in assessing the recoverability of deferred tax assets. However, adjustments could be required in the future if we determine that the amount to be realized is less or greater than the amount that we recorded. Such adjustments, if any, could have a material impact on our results of our operations.

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

Goodwill

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

We performed our annual goodwill impairment test as of July 31, 2016, at which time we had \$21.5 million of goodwill included in the following reporting units, License and Services (“L&S”) — U.S. of \$6.3 million, U.K. of \$6.1 million, India of \$0.2 million and Customer Support (“CS”) — U.S. of \$1.5 million and U.K. 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. 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 our segment 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. Due to our transition of packaging our products and services into a single managed service offering, we have determined we have one reporting unit. We do not believe the aggregation of our reporting units impacts the value of our goodwill nor are there any events through the date this Form 10K was filed which impacts our assumptions on the determination of the fair value of our goodwill.

Intangible Assets

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

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

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

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, 2016, 2015, or 2014. In addition, we did not have any capitalized internal software development costs included in our December 31, 2016 and 2015 Consolidated Balance Sheets. We believe that during these periods no material internal software development costs were required to be capitalized. Our conclusion is primarily based on the fact that the feature-rich, pre-integrated, and highly-scalable nature of our products requires that our development efforts include complex design, coding and testing methodologies, which include next generation software languages and development tools. Development projects of this nature carry a high degree of development risk.

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

Stock-based Compensation

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Interest Rate Risks

Our cash balances are subject to interest rate fluctuations and as a result, interest income amounts may fluctuate from current levels. As of December 31, 2016 we had \$6.0 million outstanding under our term loan, which under the loan bears interest at variable rates. Refer to Note 5, Long-Term Debt, of our Consolidated Financial Statements included elsewhere in this Annual Report on Form 10-K for more information regarding the Term loan.

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:

	<u>December 31,</u> <u>2016</u>	<u>December 31,</u> <u>2015</u>
Spot rates:		
British pound sterling.....	0.81103	0.67495
Indian rupee	67.95500	66.15844
	<u>For the Years Ended December 31,</u>	
Average rates:	<u>2016</u>	<u>2015</u>
British pound sterling.....	0.74067	0.65442
Indian rupee	67.19148	64.14862
	<u>2014</u>	
		61.14301

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.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
Evolving Systems, Inc.

We have audited the accompanying consolidated balance sheets of Evolving Systems, Inc. (a Delaware corporation, the “Company”) as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income (loss), changes in stockholders’ equity, and cash flows for each of the three years in the period ended December 31, 2016. Evolving Systems, Inc.’s management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Evolving Systems, Inc. as of December 31, 2016, and 2015, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2016 in conformity with accounting principles generally accepted in the United States of America.

/s/ FRIEDMAN LLP

East Hanover, New Jersey
March 28, 2017

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

	December 31, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 7,614	\$ 8,400
Contract receivables, net of allowance for doubtful accounts of \$221 and \$83 at December 31, 2016 and December 31, 2015, respectively	5,867	7,727
Unbilled work-in-progress	3,376	4,158
Prepaid and other current assets	1,553	1,459
Total current assets	18,410	21,744
Property and equipment, net	546	560
Amortizable intangible assets, net	4,200	4,983
Goodwill	20,599	23,142
Total assets	\$ 43,755	\$ 50,429
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of capital lease obligations	\$ 1	\$ 5
Revolving Line of credit	—	10,000
Term Loan - Current	1,997	—
Accounts payable and accrued liabilities	4,274	4,607
Income taxes payable	617	324
Unearned revenue	3,532	3,330
Total current liabilities	10,421	18,266
Long-term liabilities:		
Capital lease obligations, net of current portion	—	1
Term Loan, net of current portion	4,000	—
Total liabilities	14,421	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 December 31, 2016 and December 31, 2015	—	—
Common stock, \$0.001 par value; 40,000,000 shares authorized; 12,086,280 shares issued and 11,907,391 outstanding as of December 31, 2016 and 11,970,731 shares issued and 11,791,842 outstanding as of December 31, 2015	12	12
Additional paid-in capital	97,744	97,418
Treasury stock 178,889 shares, at December 31, 2016 and December 31, 2015, at cost	(1,253)	(1,253)
Accumulated other comprehensive loss	(9,992)	(5,999)
Accumulated deficit	(57,177)	(58,016)
Total stockholders' equity	29,334	32,162
Total liabilities and stockholders' equity	\$ 43,755	\$ 50,429

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

EVOLVING SYSTEMS, INC.
CONSOLIDATED STATEMENTS OF INCOME
(in thousands except per share data)

	For the Years Ended December 31,		
	2016	2015	2014
REVENUE			
License fees.....	\$ 2,873	\$ 3,161	\$ 5,027
Services.....	21,905	22,415	24,653
Total revenue.....	<u>24,778</u>	<u>25,576</u>	<u>29,680</u>
COSTS OF REVENUE AND OPERATING EXPENSES			
Costs of revenue, excluding depreciation and amortization.....	5,297	6,449	7,648
Sales and marketing.....	4,965	5,844	5,734
General and administrative.....	3,855	4,003	3,638
Product development.....	3,014	3,847	3,643
Depreciation.....	259	314	246
Amortization.....	783	266	95
Restructuring.....	1,010	533	237
Total costs of revenue and operating expenses.....	<u>19,183</u>	<u>21,256</u>	<u>21,241</u>
Income from operations.....	<u>5,595</u>	<u>4,320</u>	<u>8,439</u>
Other income (expense)			
Interest income.....	6	18	19
Interest expense.....	(340)	(121)	(17)
Other (expense) income.....	183	—	(27)
Foreign currency exchange loss.....	(552)	(6)	(9)
Other (expense) income, net.....	<u>(703)</u>	<u>(109)</u>	<u>(34)</u>
Income before income taxes.....	4,892	4,211	8,405
Income tax expense.....	1,457	915	2,797
Net income.....	<u>\$ 3,435</u>	<u>\$ 3,296</u>	<u>\$ 5,608</u>
Basic income per common share - net income.....	<u>\$ 0.29</u>	<u>\$ 0.28</u>	<u>\$ 0.48</u>
Diluted income per common share - net income.....	<u>\$ 0.29</u>	<u>\$ 0.28</u>	<u>\$ 0.47</u>
Cash dividends declared per common share.....	\$ 0.22	\$ 0.44	\$ 0.42
Weighted average basic shares outstanding.....	11,845	11,693	11,642
Weighted average diluted shares outstanding.....	11,961	11,935	11,926

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

EVOLVING SYSTEMS, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(in thousands)

	For the Years Ended December 31,		
	2016	2015	2014
Net income	\$ 3,435	\$ 3,296	\$ 5,608
Other comprehensive income:			
Foreign currency translation loss	(3,993)	(1,465)	(1,518)
Comprehensive (loss) income	\$ (558)	\$ 1,831	\$ 4,090

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

EVOLVING SYSTEMS, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(in thousands, except share data)

	Common Stock		Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Accumulated (Deficit)	Total Stockholders' Equity
	Shares	Amount					
Balance at December 31, 2013 ..	11,600,618	\$ 12	\$ 93,895	\$ (1,253)	\$ (3,016)	\$ (56,903)	\$ 32,735
Stock option exercises.....	56,186	—	245	—	—	—	245
Common Stock issued pursuant to the Employee Stock Purchase Plan.....	7,352	—	55	—	—	—	55
Stock-based compensation expense	—	—	401	—	—	—	401
Issuance of common stock related to acquisition.....	1,832	—	19	—	—	—	19
Excess tax benefits from stock- based compensation	—	—	1,390	—	—	—	1,390
Restricted stock issuance, net of cancellations	(1,313)	—	—	—	—	—	—
Common stock cash dividends.....	—	—	—	—	—	(4,883)	(4,883)
Net income.....	—	—	—	—	—	5,608	5,608
Foreign currency translation adjustment.....	—	—	—	—	(1,518)	—	(1,518)
Balance at December 31, 2014 ..	11,664,675	\$ 12	\$ 96,005	\$ (1,253)	\$ (4,534)	\$ (56,178)	\$ 34,052
Stock option exercises.....	99,897	—	243	—	—	—	243
Common Stock issued pursuant to the Employee Stock Purchase Plan.....	8,302	—	57	—	—	—	57
Stock-based compensation expense	—	—	317	—	—	—	317
Excess tax benefits from stock- based compensation	—	—	796	—	—	—	796
Restricted stock issuance, net of cancellations	18,968	—	—	—	—	—	—
Common stock cash dividends.....	—	—	—	—	—	(5,134)	(5,134)
Net income.....	—	—	—	—	—	3,296	3,296
Foreign currency translation adjustment.....	—	—	—	—	(1,465)	—	(1,465)
Balance at December 31, 2015 ..	11,791,842	\$ 12	\$ 97,418	\$ (1,253)	\$ (5,999)	\$ (58,016)	\$ 32,162
Stock option exercises.....	112,185	—	51	—	—	—	51
Common Stock issued pursuant to the Employee Stock Purchase Plan.....	3,364	—	16	—	—	—	16
Stock-based compensation expense	—	—	259	—	—	—	259
Common stock cash dividends.....	—	—	—	—	—	(2,596)	(2,596)
Net income.....	—	—	—	—	—	3,435	3,435
Foreign currency translation adjustment.....	—	—	—	—	(3,993)	—	(3,993)
Balance at December 31, 2016 ..	11,907,391	\$ 12	\$ 97,744	\$ (1,253)	\$ (9,992)	\$ (57,177)	\$ 29,334

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

EVOLVING SYSTEMS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	For the Years Ended December 31,		
	2016	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income.....	\$ 3,435	\$ 3,296	\$ 5,608
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation.....	259	314	246
Amortization of intangible assets.....	783	266	95
Amortization of debt issuance costs.....	32	14	15
Stock based compensation.....	259	317	401
Gain on earn-out from acquisition of Telespree.....	(178)	—	—
Unrealized foreign currency transaction losses, net.....	552	6	9
Provision for doubtful accounts.....	150	41	—
Benefit from deferred income taxes.....	(24)	(1,123)	(282)
Change in operating assets and liabilities:			
Contract receivables.....	643	2,202	(3,398)
Unbilled work-in-progress.....	204	721	(2,977)
Prepaid and other assets.....	(182)	(120)	(214)
Accounts payable and accrued liabilities.....	276	(2,305)	985
Unearned revenue.....	687	(1,404)	(888)
Net cash provided by (used in) operating activities.....	6,896	2,225	(400)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment.....	(61)	(198)	(588)
Business combinations, net of cash.....	—	(9,014)	—
Restricted cash.....	—	—	24
Net cash used in investing activities.....	(61)	(9,212)	(564)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Capital lease payments.....	(5)	(5)	(8)
Proceeds from 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)	(5,143)	(4,883)
Excess tax benefits from stock-based compensation.....	—	797	1,390
Proceeds from the issuance of stock.....	67	300	300
Net cash provided by (used in) financing activities.....	(6,554)	5,949	(3,201)
Effect of exchange rate changes on cash.....	(1,067)	(343)	161
Net decrease in cash and cash equivalents.....	(786)	(1,381)	(4,004)
Cash and cash equivalents at beginning of year.....	8,400	9,781	13,785
Cash and cash equivalents at end of year.....	\$ 7,614	\$ 8,400	\$ 9,781
Supplemental disclosure of cash and non-cash investing and financing transactions:			
Interest paid.....	\$ 312	\$ 107	\$ 1
Income taxes paid.....	1,270	2,089	182
Common stock dividends declared.....	2,636	5,221	4,966
Property and equipment purchased and included in accounts payable.....	244	1	191
Issuance of common stock related to acquisition.....	—	—	19

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

EVOLVING SYSTEMS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 — ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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. In 2016, we began a shift from selling technology to offering business solutions. The value proposition has moved from cost savings to revenue increases for the carrier and our business model has moved from classic capex license and services to opex models based on recurring managed services with performance fees. 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 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 and streaming video as well as social media based campaigns.

Business Combination — On September 30, 2015 we acquired SSM, now known as Evolving Systems NC. This business combination is reflected in these consolidated financial statements since the acquisition date. Refer to Note 2, Acquisition, for more information regarding the acquisition.

We account for business combinations in accordance with the acquisition method. The acquisition method of accounting requires that assets acquired and liabilities assumed be recorded at their fair values on the date of a business acquisition. The excess of the purchase price over the fair value of assets acquired is recognized as goodwill. Certain adjustments to the assessed fair values of the assets and liabilities made subsequent to the acquisition date, but within the measurement period, which is up to one year, are recorded as adjustments to goodwill. Any adjustments subsequent to the measurement period are recorded in income. Our consolidated financial statements and results of operations reflect an acquired business from the completion date of an acquisition.

The judgments that we make in determining the estimated fair value assigned to each class of assets acquired and liabilities assumed, as well as asset lives, can materially impact net income in periods following a business combination. We generally use either the income, cost or market approach to aid in our conclusions of such fair values and asset lives. The income approach presumes that the value of an asset can be estimated by the net economic benefit to be received over the life of the asset, discounted to present value. The cost approach presumes that an investor would pay no more for an asset than its replacement or reproduction cost. The market approach estimates value based on what other participants in the market have paid for reasonably similar assets. Although each valuation approach is considered in valuing the assets acquired, the approach ultimately selected is based on the characteristics of the asset and the availability of information.

Principles of Consolidation — The 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.

Reclassifications — Certain reclassifications have been made to the 2015 and 2014 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 accounting principles generally accepted in the U.S. 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, generally, 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 balance sheets are translated at the spot rate of exchange during the applicable period. Our consolidated statements of operations 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 income (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 (loss) in the period in which they occur.

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. For purposes of the goodwill evaluation, we compare the fair value of each of our reporting units to its respective carrying amount. 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.

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 Evolving Systems Labs and Evolving Systems NC. 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. The majority of our license fees and services revenue is generated from fixed-price contracts, which provide for licenses to our software products and services to customize such software to meet our customers' use. When the customization services are determined to be essential to the functionality of the delivered software, we recognize revenue using the percentage-of-completion method of accounting. In these types

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

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

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

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

We recognize revenue from our managed services contracts primarily ratably over the service contract period. On occasion, our managed services contracts will contain a specified number of hours to work over the term of the contract. Revenue for this type of managed service contract is recognized using the proportional performance method of accounting.

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.

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 consists of two components, net income and other comprehensive income (loss). Other comprehensive income 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 and unrealized gains and losses on marketable securities categorized as available-for-sale.

Contract Receivables, Unbilled Work-in-Progress and Allowance for Doubtful Accounts — Contract receivables are recorded at the invoiced amount and do not bear interest. Credit is extended based on the evaluation of a customer’s financial

condition and collateral is not required. Unbilled work in progress is revenue which has been earned but not invoiced. An allowance is placed against accounts receivable or unbilled work in progress for our best estimate of the amount of probable credit losses. We determine the allowance based on historical write-off experience and information received during collection efforts. We review our allowances monthly and past due balances over 90 days are reviewed individually for collectability. Account balances are charged against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. We do not have any off-balance-sheet credit exposure related to our customers.

The following table reflects the activity in the allowance for doubtful accounts:

<u>Fiscal Year</u>	<u>Description</u>	<u>Balance at Beginning of Period</u>	<u>Bad Debt Expense/ (Recovery)</u>	<u>Write-Offs Charged to Allowance</u>	<u>Effects of Foreign Currency Exchange Rates</u>	<u>Balance at End of Period</u>
2016.....	Allowance for doubtful accounts	\$ 83	\$ 150	\$ —	\$ (12)	\$ 221
2015.....	Allowance for doubtful accounts	\$ 43	\$ 41	\$ —	\$ (1)	\$ 83
2014.....	Allowance for doubtful accounts	\$ 73	\$ —	\$ (25)	\$ (5)	\$ 43

The following table reflects the activity in the allowance for unbilled work-in-progress:

<u>Fiscal Year</u>	<u>Description</u>	<u>Balance at Beginning of Period</u>	<u>Unbilled Work-in-Progress Allowance/ (Recovery)</u>	<u>Write-Offs Charged to Allowance</u>	<u>Effects of Foreign Currency Exchange Rates</u>	<u>Balance at End of Period</u>
2016.....	Allowance for unbilled work-in-progress	\$ —	\$ —	\$ —	\$ —	\$ —
2015.....	Allowance for unbilled work-in-progress	\$ 306	\$ —	\$ (306)	\$ —	\$ —
2014.....	Allowance for unbilled work-in-progress	\$ 317	\$ —	\$ —	\$ (11)	\$ 306

Concentration of Credit Risk — Financial instruments that potentially subject us to concentrations of credit risk consist primarily of contract receivables and unbilled work-in-progress. We perform on-going evaluations of customers' financial condition and, generally, require no collateral from customers.

A substantial portion of our revenue is from a limited number of customers, all in the telecommunications industry.

For the years ended December 31, 2016 and 2015, no significant customer exceeded the threshold (defined as contributing at least 10%) of revenue from continuing operations. For the year ended December 31, 2014, two significant customers accounted for 24% (13% and 11%) of revenue from continuing operations. These customers are large telecommunications operators in Europe and Mexico.

As of December 31, 2016 no customers accounted for 10% of contract receivables and unbilled work-in-progress. As of December 31, 2015, two significant customers accounted for approximately 36% (25% and 11%) of contract receivables and unbilled work-in-progress. These customers are large telecommunications operators in Africa and Europe.

We are subject to concentration of credit risk with respect to our cash and cash equivalents, which we attempt to minimize by maintaining our cash and cash equivalents with institutions of sound financial quality. At times, cash balances may exceed limits federally insured by the Federal Deposit Insurance Corporation ("FDIC").

Our funds not under any FDIC program were \$6.3 million and \$7.3 million as of December 31, 2016 and 2015, respectively.

Sales, Use and Other Value Added Tax — Revenue is recorded net of applicable state, use and other value added taxes.

Advertising and Promotion Costs — Advertising and promotion costs are expensed as incurred. Advertising costs totaled approximately \$0.1 million, \$0.1 million and \$0.2 million for the years ended December 31, 2016, 2015 and 2014.

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 three years ended December 31, 2016. In addition, we did not have any capitalized internal software development costs included in our December 31, 2016 and 2015 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.

Property and Equipment and Long-Lived Assets — Property and equipment are stated at cost or estimated fair value if acquired in an acquisition, less accumulated depreciation, and are depreciated over their estimated useful lives, or the lease term, if shorter, using the straight-line method. Leasehold improvements are stated at cost, less accumulated amortization, and are amortized over the shorter of the lease term or estimated useful life of the asset. Maintenance and repair costs are expensed as incurred.

We review our long-lived assets, such as property and equipment and purchased intangible assets subject to amortization, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. We evaluate the recoverability of an asset or asset group by comparing its carrying amount to the estimated undiscounted future cash flows expected to be generated by the asset or asset group. If the carrying amount of an asset or asset group exceeds its estimated future cash flows, we recognize an impairment charge as the amount by which the carrying amount of the asset exceeds the estimated fair value of the asset.

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 consolidated balance sheets, as well as operating loss 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 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 collectability, 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. In December 2016, the FASB issued ASU No. 2016-20, “Revenue from Contracts with Customers,” Topic 606: “Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers”. The amendments in this Update address narrow-scope improvements to the guidance on loan guarantee fees, contract cost-impairment testing, contract costs-interaction of impairment testing with guidance in other topics, provision for losses on construction-type and production-type contracts, scope of Topic 606 to exclude all contracts that

are within the scope of Topic 944, disclosure of remaining performance obligations, disclosure of prior-period performance obligations, contract modifications, contract asset versus receivable, refund liability, advertising costs, fixed-odds wagering contracts in the casino industry and cost capitalization for advisors to private funds and public funds. The Board decided to issue a separate Update for technical corrections and improvements to Topic 606 and other Topics amended by Update 2014-09 to increase stakeholders' awareness of the proposals and to expedite improvements to Update 2014-09. 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 our 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 do not expect the adoption of this standard to have a significant impact on our financial position and results of operations.

In January 2017, the FASB issued ASU No. 2017-04, Intangibles-Goodwill and Other (Topic 350), which includes provisions, intended to simplify the test for goodwill impairment. The standard is effective for annual periods beginning after December 15, 2019, with early adoption permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. We do not expect the adoption of this standard to have a significant impact on our financial position and results of operations.

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, for an initial payment of approximately \$9.75 million and a \$0.5 million working capital adjustment. We also agreed to make a payment on the one year anniversary of the transaction of \$250,000, with such payment being available to secure SSM's representations and warranties in the agreement. This payment has not been paid to date due to SSM's representations and warranties not as yet being fully satisfied.

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 SSM's operations have been included in the consolidated financial statements since the acquisition date.

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 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 subscriber activation, SIM card management and activation, self-service mobile applications, data enablement solutions, connected device activation, mobile marketing campaigns, advertising and analytics and management of services.

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

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

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

	<u>September 30, 2015</u>
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
Deferred tax asset.....	—
Other assets, non-current	32
Total identifiable assets acquired.....	<u>\$ 7,409</u>
Accounts payable and accrued liabilities	\$ 1,506
Deferred tax liability.....	1,760
Deferred revenue.....	557
Total identifiable liabilities acquired	<u>\$ 3,823</u>
Net identifiable assets acquired.....	3,586
Goodwill	6,949
Net assets acquired.....	<u><u>\$ 10,535</u></u>

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. We recorded \$0.9 million of amortization expense related to the acquired intangible assets during the period from September 30, 2015 through December 31, 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's acquisition as of December 31, 2016 were as follows (in thousands):

	<u>December 31, 2016</u>			<u>Weighted-Average</u>
	<u>Gross Amount</u>	<u>Accumulated</u>	<u>Net Carrying</u>	<u>Amortization</u>
		<u>Amortization</u>	<u>Amount</u>	<u>Period</u>
Purchased software	\$ 1,679	\$ 262	\$ 1,417	8 yrs
Trademarks and tradenames	122	76	46	2 yrs
Non-competition	33	21	12	2 yrs
Customer relationships.....	2,808	502	2,306	7 yrs
	<u>\$ 4,642</u>	<u>\$ 861</u>	<u>\$ 3,781</u>	<u>7.19 yrs</u>

Pro Forma

Evolving Systems NC, Inc. contributed revenues of \$5.1 million and net income of \$1.2 million for the twelve months ended December 31, 2016 and revenue of \$1.4 million and net income of \$0.3 million from the acquisition date of September 30, 2015 through December 31, 2015. The following unaudited pro forma financial information reflects the consolidated results of operations of as if the acquisition of SSM had taken place on January 1, 2016 and 2015. The pro forma information includes adjustments for the amortization of intangible assets. The following unaudited 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).

	<u>Year Ended December 31,</u>	
	<u>2016</u>	<u>2015</u>
		<u>(unaudited)</u>
Revenue	\$ 24,778	\$ 30,190
Earnings	3,435	3,645

SSM did not have any material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings.

NOTE 3 — GOODWILL AND INTANGIBLE ASSETS

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

	Total Goodwill
Balance as of December 31, 2014.....	\$ 17,010
Goodwill acquired during the year.....	6,949
Acquired goodwill adjusted during the year	(32)
Effects of changes in foreign currency exchange rates (1)	(785)
Balance as of December 31, 2015.....	\$ 23,142
Effects of changes in foreign currency exchange rates (1)	(2,543)
Balance as of December 31, 2016.....	\$ 20,599

(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 in the following reporting units, License and Services (“L&S”) - U.S. of \$6.3 million, U.K. of \$6.1 million, India of \$0.2 million and Customer Support (“CS”) — U.S. of \$1.5 million and U.K. 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. 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 our segment 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. Due to our transition of packaging our products and services into a single managed service offering, we have determined we have one reporting unit. We do not believe the aggregation of our reporting units impacts the value of our goodwill nor are there any events through the date this Form 10-K was filed which impacts our assumptions on the determination of the fair value of our goodwill.

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

	December 31, 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	\$ 436	\$ 1,682	\$ 2,118	\$ 171	\$ 1,947	7.3 yrs
Trademarks and tradenames	185	116	69	185	43	142	2.6 yrs
Non-competition	33	21	12	33	4	29	2.0 yrs
Customer relationships.....	3,024	587	2,437	3,024	159	2,865	6.8 yrs
	<u>\$ 5,360</u>	<u>\$ 1,160</u>	<u>\$ 4,200</u>	<u>\$ 5,360</u>	<u>\$ 377</u>	<u>\$ 4,983</u>	<u>6.8 yrs</u>

Amortization expense of identifiable intangible assets was \$0.8 million, \$0.3 million and \$0.1 million for the years ended December 31, 2016, 2015 and 2014, respectively. Expected future amortization expense related to identifiable intangibles based on our carrying amount as of December 31, 2016 was as follows (in thousands):

<u>Year ending December 31,</u>	
2017	\$ 764
2018	703
2019	693
2020	693
2021	679
Thereafter	668
	<u>\$ 4,200</u>

NOTE 4 — BALANCE SHEET COMPONENTS

The components of certain balance sheet line items are as follows (in thousands):

	December 31,	
	2016	2015
Property and equipment:		
Computer equipment and purchased software	\$ 4,781	\$ 4,814
Furniture, fixtures and leasehold improvements	1,107	1,155
	5,888	5,969
Less accumulated depreciation	(5,342)	(5,409)
	<u>\$ 546</u>	<u>\$ 560</u>
	December 31,	
	2016	2015
Assets acquired under capital lease:		
Original book value.....	\$ 24	\$ 24
Accumulated amortization	(23)	(18)
Net book value	<u>\$ 1</u>	<u>\$ 6</u>

Depreciation expense was \$0.3 million, \$0.3 million and \$0.2 million for the years ended December 31, 2016, 2015 and 2014, respectively.

Included in computer equipment and purchased software at December 31, 2016 and 2015 are assets under capital lease. Depreciation expense related to assets under capital leases was \$5,000 for the years ended December 31, 2016, 2015 and 2014, respectively.

	December 31,	
	2016	2015
Accounts payable and accrued liabilities:		
Accounts payable	\$ 628	\$ 716
Accrued liabilities	2,649	2,698
Accrued compensation and related expenses	997	1,193
	<u>\$ 4,274</u>	<u>\$ 4,607</u>

NOTE 5 — LONG-TERM DEBT

On February 29, 2016, we entered into the Fifth Amendment to the Loan and Security Agreement with East West Bank which provides for a Term Loan (the “Term Loan”) for \$6.0 million. The \$6.0 million loan bears interest at a floating rate equal to the U.S.A. Prime Rate plus 1.0%. As of December 31, 2016, the U.S.A. Prime Rate was 3.75%. The Term Loan is secured by substantially all of the assets of Evolving Systems, including a pledge, subject to certain limitations with respect to stock of foreign subsidiaries, of the stock of the existing and future direct subsidiaries of Evolving Systems. Interest accrues from the date the Term Loan was made at the aforementioned rate and is payable monthly. The Term Loan shall be repaid in 36 equal monthly installments of principal, plus accrued but unpaid interest, commencing on January 1, 2017 and continuing on the first day of each month thereafter through and including January 1, 2020. On the Term Loan maturity date, the outstanding principal amount of the Term Loan and all accrued and unpaid interest thereon shall be immediately due and payable. The Term Loan, once repaid, may not be reborrowed. We must maintain a minimum current ratio, a specified ratio of Total Liabilities to EBITDA and a minimum fixed charge coverage ratio which are as defined in the Term Loan. The Term Loan requires us to pay two annual credit facility fees of \$18,750 and legal fee equal to \$1,000. The Term Loan agreement required us to use the term loan’s proceeds and \$4.0 million from our cash balances to pay off and terminate a Revolving Facilities Loan and Security Agreement with East West Bank totaling \$10.0 million. The Term Loan matures on January 1, 2020.

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

As of December 31, 2016, we are in compliance with the covenants and have a \$6.0 million balance under the Term Loan net of approximately \$3,000 debt issuance costs. The proceeds from the borrowings against the facilities were used for the initial payment for the SSM acquisition agreement on September 30, 2015.

NOTE 6 — INCOME TAXES

The pre-tax income from continuing operations on which the provision for income taxes was computed is as follows (in thousands):

	For the Years Ended December 31,		
	2016	2015	2014
Domestic	\$ (2,928)	\$ (2,948)	\$ (1,274)
Foreign	7,820	7,159	9,679
Total	<u>\$ 4,892</u>	<u>\$ 4,211</u>	<u>\$ 8,405</u>

The expense (benefit) from continuing operations for income taxes consists of the following (in thousands):

	For the Years Ended December 31,		
	2016	2015	2014
Current:			
Federal	\$ (112)	\$ 789	\$ 1,468
Foreign	1,483	1,174	1,637
State	110	76	(26)
Total current	<u>1,481</u>	<u>2,039</u>	<u>3,079</u>
Deferred:			
Federal	(60)	(1,023)	(301)
Foreign	43	16	19
State	(7)	(117)	0
Total deferred	<u>(24)</u>	<u>(1,124)</u>	<u>(282)</u>
Total	<u>\$ 1,457</u>	<u>\$ 915</u>	<u>\$ 2,797</u>

As of December 31, 2014, we had federal Net Operating Loss (“NOL”) carryforwards of approximately \$2.3 million. As of December 31, 2016 and 2015 we had no Federal NOL carryforwards remaining. As of December 31, 2016 and 2015, we had state NOL’s of approximately \$17.5 million and \$17.4 million, respectively. The state NOL carryforwards expire at various times beginning in 2018 and ending in 2036. In addition, we have research and experimentation credit carryforwards of approximately \$0.3 million which may expire in 2018 and Alternative Minimum Tax (“AMT”) credits of \$0.8 million which may expire at various times beginning in 2028 and ending in 2034.

In our U.S. Federal income tax returns we historically deducted income taxes paid to various countries. In our 2014 U.S. Federal income tax return we had \$2.3 million of NOL carryforwards. Our income tax calculations have historically been under the regular and AMT regimes found in U.S. tax laws. The U.S. tax system contains rules to alleviate the burden of double taxation on income generated in foreign countries and subject to tax in such countries. The U.S. allows for either a deduction or credit of such foreign taxes against U.S. taxable income. An election to either claim a deduction or credit on such foreign income taxes can be made each tax year, independent from elections made in other years. A credit reduces a company’s actual U.S. income tax on a dollar-for-dollar basis, while a deduction reduces only the company’s income subject to tax. We made a comparison of our foreign dividends paid by our foreign subsidiary for which we deducted foreign taxes claimed versus claiming a Foreign Tax Credit (“FTC”) on the dividend paid by the foreign subsidiary. The dividends received were grossed-up with its corresponding foreign taxes. The U.S. law requires the offset of taxable income with NOL prior to applying the FTC rules. We determined it was beneficial for the company to gross-up the foreign dividends paid by the foreign subsidiary for the years 2012 through 2014 and make the election to claim an FTC. By doing so we fully utilized our December 31, 2014, \$2.3 million balance of the federal NOL. As a result, the company had approximately \$2.8 million of FTC’s to carryforward into 2015 and subsequent years as a deferred tax asset. As of December 31, 2016, our FTC deferred tax asset balance was approximately \$4.4 million.

The Company uses the incremental approach to recognizing excess tax benefits associated with equity compensation. Our \$2.3 million of federal NOL’s are primarily windfall excess tax benefit related to stock compensation expense, the benefit of which, if realized, will be an increase to Additional Paid-in Capital (“APIC”) as opposed to a reduction in tax expense. Due to the aforementioned election to claim an FTC, during the year 2015 \$0.8 million of the federal NOL was realized, with a corresponding increase in additional paid-in capital.

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

	As of December 31,	
	2016	2015
Deferred tax assets:		
Foreign tax credits carryforwards	\$ 4,360	\$ 3,667
Net operating loss carryforwards – State	544	540
Research and development credits	303	303
Equity compensation	561	686
AMT credit	770	770
Depreciable assets	71	110
Accrued liabilities and reserves	124	340
Total deferred tax assets	<u>6,733</u>	<u>6,416</u>
Deferred tax liabilities:		
Intangibles	(1,339)	(1,512)
Undistributed foreign earnings	(662)	(666)
Accrued liabilities and reserves	—	(23)
Total deferred tax liability	<u>(2,001)</u>	<u>(2,201)</u>
Net deferred tax assets, before valuation allowance	4,732	4,215
Valuation allowance	(4,732)	(4,215)
Net deferred tax asset	<u>\$ —</u>	<u>\$ —</u>

In conjunction with the acquisition of Evolving Systems Labs in October 2013, we recorded certain identifiable intangible assets. We established a deferred tax asset of \$0.1 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. In September 2015, we established a deferred tax liability of \$1.8 million as a result of the acquisition of Evolving Systems NC. As of December 31, 2016 and 2015, there was a net deferred tax liability of (\$1.3) million and a net deferred tax liability of (\$1.5) million, respectively. This net deferred tax liability will be recognized as the identifiable intangibles are amortized.

We continue to maintain a full valuation allowance on the domestic net deferred tax asset, as we have determined it is more likely than not that we will not realize our domestic deferred tax assets. Such assets primarily consist of certain net state operating loss carryforwards, AMT credits and research and development credits. We assessed the realizability of our domestic deferred tax assets using all available evidence. In particular, we considered both historical results and projections of profitability for the reasonably foreseeable future periods. We are required to reassess our conclusions regarding the realization of our deferred tax assets at each financial reporting date. A future evaluation could result in a conclusion that all or a portion of the valuation allowance is no longer necessary which could have a material impact on our results of operations and financial position.

The benefit for income taxes differs from the amount computed by applying the U.S. federal income tax rate of 34% to income before income taxes as follows (in thousands):

	For the Years Ended December 31,		
	2016	2015	2014
U.S. federal income tax expense at statutory rates	\$ 1,854	\$ 2,392	\$ 4,595
State income tax expense, net of federal impact	54	—	542
Foreign Tax Credit	(874)	(3,667)	—
Foreign rate differential	(1,331)	(449)	(1,452)
Foreign deemed dividends	1,515	939	1,783
Undistributed foreign earnings	0	(221)	—
Change in valuation allowance	517	2,415	(1,971)
Research and development expenses	(604)	(1,096)	(867)
Foreign taxes	0	314	53
Section 78 Gross-up	457	371	—
Permanent differences and other, net	(131)	(83)	114
Total tax expense	<u>\$ 1,457</u>	<u>\$ 915</u>	<u>\$ 2,797</u>

The Company recognizes the tax benefit from an uncertain tax position when it determines that it is more likely than not that the position would be sustained upon examination by taxing authorities.

As of December 31, 2016 and 2015, 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. Interest and penalties related to income tax liabilities are included as a component of income tax expense (benefit) in the accompanying statements of operations.

Our income taxes payable may be reduced by the AMT tax benefits from employee stock plan awards. We had no net excess tax benefits from employee stock plan awards for the years ended December 31, 2016 and 2015, which would be reflected as an increase to additional paid-in capital.

We conduct business globally and, as a result, Evolving Systems Inc. or one or more of our subsidiaries file income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. In the normal course of business, we are subject to examination by taxing authorities throughout the world, namely the United Kingdom, Germany and India. Although carryovers can always be subject to review by taxing authorities, we are no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations for years before 2013.

During 2004, we formed Evolving Systems India, a wholly owned subsidiary of Evolving Systems which is used primarily for product development and customer service and support. The Company has the intent and current ability to indefinitely reinvest profits of Evolving Systems India for the year ended December 31, 2016. Undistributed foreign earnings for the year ended December 31, 2016 are approximately \$1.0 million. Repatriation to the U.S. in the form of dividend distributions from the India controlled foreign subsidiary would give rise to taxation.

Two Indian subsidiaries of SSM were acquired pursuant to the terms of the Agreement and Plan of Merger dated September 30, 2015. We have reason to believe there is uncertainty related to the lack of historical US International reporting for these two foreign subsidiaries, and are in the process of determining whether either or both of these subsidiaries are controlled foreign corporations (“CFCs”) within the meaning of the Internal Revenue Code and related Regulations, or if a “check-the-box” election has taken place to effectively treat one or both of these subsidiaries as disregarded entities for U.S. federal tax reporting purposes. The Company is in the process of obtaining pertinent information to assess the degree of uncertainty and to quantify related costs or liabilities.

NOTE 7 — STOCKHOLDERS’ EQUITY

Common Stock Dividends

Our Board of Directors declared a first quarter cash dividend of \$0.11 per share on March 15, 2016, which was paid April 1, 2016, to stockholders of record March 28, 2016. On May 3, 2016, our Board of Directors declared a second quarter cash dividend of \$0.11 per share, which was paid on July 1, 2016, to stockholders of record June 3, 2016. There were no accrued dividends as of December 31, 2016.

Any determination to declare a future quarterly dividend, as well as the amount of any cash dividend which may be declared, will be based on our financial position, earnings, earnings outlook and other relevant factors at that time, including applicable limits under our term loan facility or any other credit facility then in effect.

Treasury Stock

Beginning on May 20, 2011, and continuing through December 31, 2014, we had the ability through our stock purchase program to re-purchase 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, was based on market and business conditions as well as other factors. We were not obligated to purchase any shares. The re-purchase program expired on December 31, 2014.

From the inception of the plan through December 31, 2014, we purchased 178,889 shares of our common stock for \$1.3 million or an average price of \$6.97 per share.

Certain Anti-Takeover Provisions/Agreements with Stockholders

Our restated certificate of incorporation allows the board of directors to issue up to 2,000,000 shares of preferred stock and to determine the price, rights, preferences and privileges of those shares without any further vote or action by our stockholders. The rights of the holders of our common stock will be subject to, and may be adversely affected by, the rights of the holders of any preferred stock that may be issued in the future. Issuance of preferred stock, while providing desired flexibility in connection with possible acquisitions and other corporate purposes could make it more difficult for a third party to acquire a majority of our outstanding voting stock. As of December 31, 2016 and December 31, 2015, no shares of preferred stock were outstanding.

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 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.

NOTE 8 — SHARE-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, using the modified prospective method. We record compensation costs associated with the vesting of unvested options on a straight-line basis over the vesting period. We recognized \$0.3 million, \$0.3 million and \$0.4 million for the years ended December 31, 2016, 2015 and 2014, respectively, of compensation expense in the consolidated statements of operations, with respect to our stock-based compensation plans. The following table summarizes stock-based compensation expenses recorded in the statement of operations (in thousands):

	For the Years Ended December 31,		
	2016	2015	2014
Cost of revenue, excluding depreciation and amortization	\$ 39	\$ 82	\$ 81
Sales and marketing	28	36	31
General and administrative	119	112	181
Product development	73	87	108
Total share based compensation	<u>\$ 259</u>	<u>\$ 317</u>	<u>\$ 401</u>

Stock Option/Incentive Plans

In June 2007, our stockholders approved the 2007 Stock Incentive Plan (the “2007 Stock Plan”) with a maximum of 1,000,000 shares reserved for issuance. In June 2010, our stockholders approved an amendment to the 2007 Stock Plan which increased the maximum shares that may be awarded under the plan to 1,250,000. In June 2013, our stockholders approved an amendment to the 2007 Stock Plan which increased the maximum shares that may be awarded under the plan to 1,502,209. In June 2015, our stockholders approved an amendment to the 2007 Stock Plan which increased the maximum shares that may be awarded under the plan to 2,002,209. Awards permitted under the 2007 Stock Plan include: Stock Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, Performance Awards and Other Stock-Based Awards. Awards issued under the 2007 Stock Plan are at the discretion of the Board of Directors. As applicable, awards are granted with an exercise price equal to the closing price of our common stock on the date of grant, generally vest over four years for employees and one year for directors and, with respect to stock option grants, expire no more than ten years from the date of grant. At December 31, 2016 and 2015, there were approximately 0.3 million shares available for grant under the 2007 Stock Plan. Of the shares available as of December 31, 2016 and 2015, 0.2 million shares were reserved for acquisitions. At December 31, 2016 and 2015, 0.7 million and 0.8 million options were issued and outstanding under the 2007 Stock Plan, respectively.

In June 2016, our stockholders approved the 2016 Stock Incentive Plan (the “2016 Stock Plan”) with a maximum of 250,000 shares reserved for issuance. Awards permitted under the 2016 Stock Plan include: Stock Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, Performance Awards and Other Stock-Based Awards. Awards issued under the 2016 Stock Plan are at the discretion of the Board of Directors. As applicable, awards are granted with an exercise price equal to the closing price of our common stock on the date of grant, generally vest over four years for employees and three years for an initial grant and one year for subsequent grants for directors and expire no more than ten years from the date of grant. At December 31, 2016, no awards have been granted under the 2016 Stock Plan.

During the year ended December 31, 2015 we awarded a total of 20,000 shares of restricted stock to members of our senior management. No shares of restricted stock were awarded during the year ended December 31, 2016. During the years ended December 31, 2016 and 2015, approximately 5,000 and 94 shares of restricted stock vested, respectively. There were forfeitures of approximately 1,000 shares of restricted stock during year ended December 31, 2015 and no forfeitures during the year ended December 31, 2016. The fair market value for stock-based compensation expense is equal to the closing price of our common stock on the date of grant. The restrictions on the stock award are released generally over four years for senior management and over one year for board members. Stock-based compensation expense includes \$30,000, \$8,000 and \$0.1 million for the years ended December 31, 2016, 2015 and 2014, respectively for restricted stock. In March 2017, we awarded 542,000 shares of restricted stock to our Board of Directors and senior management team which includes 216,800 shares subject to achievement of annual performance goals established by our Board of Directors. The options vest over four years. These shares are included in the March 23, 2017 number of Common Stock outstanding shares referenced on the cover of this Annual Report on Form 10-K.

The weighted-average assumptions used in the fair value calculations are as follows:

	For the Years Ended December 31,		
	2016	2015	2014
Expected term (years).....	6.0	6.0	5.9
Risk-free interest rate.....	1.32%	1.37%	1.69%
Expected volatility.....	36.81%	42.01%	55.88%
Expected dividend yield.....	7.2%	6.4%	4.0%

The following is a summary of stock option activity under the stock option plans for the years ended December 31, 2016 and 2015:

	Number of Shares (in thousands)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (in thousands)
Options outstanding at December 31, 2014.....	630	\$ 4.94	5.69	\$ 2,959
Options granted.....	331	\$ 7.13		
Less options forfeited.....	(27)	\$ 9.39		
Less options exercised.....	(100)	\$ 2.43		
Options outstanding at December 31, 2015.....	834	\$ 5.97	6.94	\$ 957
Options granted.....	158	\$ 5.31		
Less options forfeited.....	(196)	\$ 7.47		
Less options exercised.....	(112)	\$ 1.14		
Options outstanding at December 31, 2016.....	684	\$ 6.17	7.30	\$ 139
Options exercisable at December 31, 2016.....	<u>369</u>	<u>\$ 6.12</u>	<u>6.02</u>	<u>\$ 139</u>

The following is a summary of stock options outstanding under the plans as of December 31, 2016:

Stock Options Outstanding				Stock Options Exercisable	
Range of Exercise Prices	Number of Shares (in thousands)	Weighted Avg. Remaining Contractual Life (years)	Weighted Avg. Exercise Price	Number of Shares (in thousands)	Weighted Avg. Exercise Price
\$ 0.01 - \$ 1.34	22	1.88	\$ 0.38	22	\$ 0.38
\$ 2.80 - \$ 2.86	16	2.92	\$ 2.86	16	\$ 2.86
\$ 3.20 - \$ 3.72	86	3.01	\$ 3.69	86	\$ 3.69
\$ 4.09 - \$ 5.80	168	8.82	\$ 5.22	37	\$ 4.87
\$ 6.00 - \$ 6.63	227	8.44	\$ 6.06	88	\$ 6.15
\$ 7.70 - \$ 10.90	165	7.60	\$ 9.72	120	\$ 9.75
	<u>684</u>	<u>7.30</u>	<u>\$ 6.17</u>	<u>369</u>	<u>\$ 6.12</u>

The weighted-average grant-date fair value of stock options granted during the years ended December 31, 2016, 2015 and 2014 was \$0.84, \$1.60 and \$3.80 respectively.

As of December 31, 2016, there were approximately \$0.4 million of total unrecognized compensation costs related to unvested stock options and restricted stock. These costs are expected to be recognized over a weighted average period of 2.5 years.

The total intrinsic value of stock option exercises for the years ended December 31, 2016, 2015 and 2014 was \$0.3 million, \$0.3 million and \$0.4 million, respectively. The total fair value of stock awards vested during the years ended December 31, 2016, 2015 and 2014 was \$0.3 million.

The deferred income tax benefits from stock options expense related to Evolving Systems U.K. totaled approximately \$11,000, \$19,000 and \$15,000 for the years ended December 31, 2016, 2015 and 2014, respectively.

Cash received from stock option exercises was \$0.1 million, \$0.2 million and \$0.2 million for the years ended December 31, 2016, 2015 and 2014, respectively.

During the year ended December 31, 2016, we had net settlement exercises of stock options, whereby the optionee did not pay cash for the options but instead received the number of shares equal to the difference between the exercise price and the market price on the date of exercise. Net settlement exercises during the year ended December 31, 2016, resulted in approximately 93,782 shares issued and 32,502 options cancelled in settlement of shares issued.

Net settlement exercises during the year ended December 31, 2014, resulted in approximately 7,094 shares issued and 26,376 options cancelled in settlement of shares issued. There were no net settlement exercises during the year ended December 31, 2015.

Employee Stock Purchase Plan

Under the Employee Stock Purchase Plan (“ESPP”), we are authorized to issue up to 550,000 shares of our common stock to full-time employees, nearly all of whom are eligible to participate. Under the terms of the ESPP, employees may elect to have up to 15% of their gross compensation withheld through payroll deduction to purchase our common stock, capped at \$25,000 annually and no more than 10,000 shares per offering period. The purchase price of the stock is 85% of the lower of the market price at the beginning or end of each three-month participation period. As of December 31, 2016, there were approximately 51,000 shares available for purchase. For the years ended December 31, 2016, 2015 and 2014, we recorded compensation expense of \$2,000, \$13,000 and \$17,000, respectively, associated with grants under the ESPP which includes the fair value of the look-back feature of each grant as well as the 15% discount on the purchase price. This expense fluctuates each period primarily based on the level of employee participation.

	For the Years Ended December 31,		
	2016	2015	2014
Expected term (years)	0.25	0.25	0.25
Risk-free interest rate	0.26%	0.07%	0.03%
Expected volatility	41.65%	39.58%	40.92%
Expected dividend yield	6.7%	6.3%	4.5%

Cash received from employee stock plan purchases was approximately \$7,000, \$53,000 and \$68,000 for the years ended December 31, 2016, 2015 and 2014, respectively. We issued shares related to the ESPP of approximately 2,000, 9,000 and 9,000 for the years ended December 31, 2016, 2015 and 2014, respectively.

NOTE 9 — BENEFIT PLANS

We have established a defined contribution retirement plan for our employees under section 401(k) of the Internal Revenue Code (the “401(k) Plan”) that is available to all U.S. employees 21 years of age or older with a month of service. Beginning in 2012, we adopted a Safe Harbor 401(k) requiring us to contribute 3% of the employee’s compensation for each eligible employee, regardless of whether the employee chooses to participate in the plan. All employee contributions are fully vested immediately and employer contributions vest over a period of three years. Evolving Systems U.K. has established a defined contribution pension scheme that is available to all employees in their first full month of employment. Employees may contribute a percentage of their earnings, the amount of which is dependent upon the age of the employee, not to exceed the maximum statutory contribution amount. We match 5% of employee contributions. All contributions are immediately vested in their entirety.

During 2016, 2015 and 2014, we recorded a consolidated expense of \$0.3 million, \$0.4 million and \$0.4 million, under the aforementioned plans, respectively.

NOTE 10 — EARNINGS PER SHARE

Basic earnings per share (“EPS”) is computed by dividing net income or loss available to common stockholders by the weighted average number of shares of common stock outstanding during the period. Diluted EPS is computed using the weighted average number of shares of common stock outstanding, plus all potentially dilutive common stock equivalents using the treasury stock method. Common stock equivalents consist of stock options. The following is the reconciliation of the numerators and denominators of the basic and diluted EPS computations (in thousands except per share data):

	For the Years Ended December 31,		
	2016	2015	2014
Basic income per share:			
Net income	\$ 3,435	\$ 3,296	\$ 5,608
Basic weighted average shares outstanding	11,845	11,693	11,642
Basic income per share:			
Net Income	\$ 0.29	\$ 0.28	\$ 0.48
Diluted income per share:			
Net income	\$ 3,435	\$ 3,296	\$ 5,608
Weighted average shares outstanding	11,845	11,693	11,642
Effect of dilutive securities - options	116	242	284
Diluted weighted average shares outstanding	11,961	11,935	11,926
Diluted income per share:			
Net Income	\$ 0.29	\$ 0.28	\$ 0.47

Weighted average options to purchase approximately 0.5 million, 0.3 million and 0.1 million shares of common stock equivalents were excluded from the computation of diluted weighted average shares outstanding for the years ended December 31, 2016, 2015 and 2014, respectively, because the effect would have been anti-dilutive since their exercise prices were greater than the average market value of our common stock for the period.

NOTE 11 — COMMITMENTS AND CONTINGENCIES

(a) Lease Commitments

We lease office and operating facilities and equipment under non-cancelable operating leases. Current facility leases include our headquarters in Englewood, Colorado, Durham, North Carolina, London, England, Bangalore and Kolkata, India, Kuala Lumpur, Malaysia and Bucharest, Romania. Rent expense was \$0.6 million for the years ended December 31, 2016, 2015 and 2014, respectively. Rent expense is net of sublease rental income. There were no sublease rental income for the years ended December 31, 2016, 2015 and 2014.

Our headquarters facility lease extends for the term through November 30, 2017. The lease contains a clause that adjusts the lease rate every year. The lease rate increases annually as of December 1. Our London, England facility contains a clause which gives us six months free rent over the five year term. We account for the effect of such escalating lease payments as if the lease rate were consistent over the lease term. Future minimum commitments under non-cancelable operating leases and capital leases gross of sublease payments as of December 31, 2016 are as follows (in thousands):

	<u>Operating Leases</u>	<u>Capital Leases</u>
2017	\$ 544	\$ 1
2018	325	—
2019	142	—
Total minimum lease payments	<u>\$ 1,011</u>	<u>1</u>
Less: Amount representing interest.....		—
Principal balance of capital lease obligations		<u>1</u>
Less: Current portion of capital lease obligations.....		<u>(1)</u>
Long-term portion of capital lease obligations		<u>\$ —</u>

(b) Other Commitments

As permitted under Delaware law, we have agreements with officers and directors under which we agree to indemnify them for certain events or occurrences while the officer or director is, or was, serving at our request in this capacity. The term of the indemnification period is indefinite. There is no limit on the amount of future payments we could be required to make under these indemnification agreements; however, we maintain Director and Officer insurance policies, as well as an Employment Practices Liability Insurance Policy, that may enable us to recover a portion of any amounts paid. Accordingly, we did not record any liabilities for these agreements as of December 31, 2016 and 2015.

We enter into standard indemnification terms with customers and suppliers, as discussed below, in the ordinary course of business. As we may subcontract the development of deliverables under customer contracts, we could be required to indemnify customers for work performed by subcontractors. Depending upon the nature of the customer indemnification, the potential amount of future payments we could be required to make under these indemnification agreements may be unlimited. We may be able to recover damages from a subcontractor if the indemnification to customers results from the subcontractor’s failure to perform. To the extent we are unable to recover damages from a subcontractor, we could be required to reimburse the indemnified party for the full amount. We have never incurred costs to defend lawsuits or settle claims relating to indemnification arising out of subcontractors’ failure to perform. We did not record any liabilities for these agreements as of December 31, 2016 and 2015.

Our standard license agreements contain product warranties that the software will be free of material defects and will operate in accordance with the stated requirements for a limited period of time. The product warranty provisions require us to cure any defects through any reasonable means. We believe the estimated fair value of the product warranty provisions in the license agreements in place with our customers is minimal. Accordingly, we did not record any liabilities for these product warranty provisions as of December 31, 2016 and 2015.

Our software arrangements generally include a product indemnification provision whereby we will indemnify and defend a customer in actions brought against the customer for claims that our products infringe upon a copyright, trade secret, or valid patent. We have not historically incurred any significant costs related to product indemnification claims. Accordingly, we did not record any liabilities for these indemnification provisions as of December 31, 2016 and 2015.

In connection with our acquisition of Telespree on October 24, 2013, we agreed to make a cash payment of \$0.5 million on the one year anniversary of the closing. This payment was subject to reduction for certain claims and has not been paid to date. We have made claims against this payment which are currently under dispute. Once settled the final payment will be released.

In connection with our acquisition of SSM on September 30, 2015, we agreed to make a cash payment of \$0.3 million on the one year anniversary of the closing. This payment is subject to reduction for certain claims and has not been paid to date. Once settled the final payment will be released.

(c) Litigation

From time to time, we are involved in various legal matters arising in the normal course of business. We do not expect the outcome of such proceedings, either individually or in the aggregate, to have a material effect on our financial position, cash flows or results of operations.

NOTE 12 — SEGMENT INFORMATION

We define operating segments as components of our enterprise for which separate financial information is reviewed regularly by the chief operating decision-makers to evaluate performance and to make operating decisions. We have identified our Chief Executive Officer and Chief Financial Officer decision-makers (“CODM”). These chief operating decision makers review revenue by segment and review overall results of operations.

We currently operate our business as one operating segment which includes two revenue types: license fees revenue and services revenue (as shown on the consolidated statements of operations). License fees revenue represents the fees received from the license of software products. Services revenue includes services directly related to the delivery of the licensed products, such as fees for custom development, integration services, SaaS service, managed services, annual support fees, recurring maintenance fees, fees for maintenance upgrades and warranty services. Warranty services that are similar to software maintenance services are typically bundled with a license sale. Total assets by segment have not been disclosed as the information is not available to the chief operating decision-makers.

Revenue information by segment was as follows (in thousands):

	For the Years Ended December 31,		
	2016	2015	2014
Revenue			
License fees.....	\$ 2,873	\$ 3,161	\$ 5,027
Services.....	21,905	22,415	24,653
Total revenue	<u>24,778</u>	<u>25,576</u>	<u>29,680</u>
Revenue less costs of revenue, excluding depreciation and amortization			
License fees and services	19,481	19,127	22,032
	<u>19,481</u>	<u>19,127</u>	<u>22,032</u>
Unallocated Costs			
Other operating expenses.....	11,834	13,694	13,015
Depreciation and amortization.....	1,042	580	341
Restructuring.....	1,010	533	237
Interest income.....	(6)	(18)	(19)
Interest expense.....	340	121	17
Other (expense) income	(183)	—	27
Foreign currency exchange (gain) loss	552	6	9
Income from operations before income taxes	<u>\$ 4,892</u>	<u>\$ 4,211</u>	<u>\$ 8,405</u>

Geographic Regions

We are headquartered in Englewood, a suburb of Denver, Colorado. We use customer locations as the basis for attributing revenue to individual countries. We provide products and services on a global basis through our offices in Colorado, North Carolina and our U.K.-based Evolving Systems U.K. subsidiary. Additionally, personnel in Bangalore and Kolkata, India, provide software development services to our global operations. Financial information relating to operations by geographic region is as follows (in thousands):

	For the Year Ended December 31, 2016		
	License	Services	Total
Revenue			
United Kingdom	\$ 49	\$ 3,825	\$ 3,874
Switzerland	89	2,794	2,883
Other	2,735	15,286	18,021
Total revenues	<u>\$ 2,873</u>	<u>\$ 21,905</u>	<u>\$ 24,778</u>

	For the Year Ended December 31, 2015		
	License	Services	Total
Revenue			
United Kingdom	\$ 306	\$ 3,650	\$ 3,956
Other	2,855	18,765	21,620
Total revenues	<u>\$ 3,161</u>	<u>\$ 22,415</u>	<u>\$ 25,576</u>

	For the Year Ended December 31, 2014		
	License	Services	Total
Revenue			
United Kingdom	\$ 134	\$ 5,434	\$ 5,568
Nigeria	1,297	2,130	3,427
Mexico	368	2,832	3,200
Other	3,228	14,257	17,485
Total revenues	<u>\$ 5,027</u>	<u>\$ 24,653</u>	<u>\$ 29,680</u>

	December 31, 2016	December 31, 2015
Long-lived assets, net		
United States	\$ 12,347	\$ 13,026
United Kingdom	12,680	15,318
Other	318	341
	<u>\$ 25,345</u>	<u>\$ 28,685</u>

NOTE 13 — RESTRUCTURING

During the first and second quarters of 2016, we undertook a reduction in workforce involving the termination of employees resulting in an expense of \$0.9 million and \$0.1 million, respectively, primarily related to severance for the affected employees. The reduction in workforce was related to the consolidation of duplicative functions and alignment of staff with ongoing business activity as a result of the acquisition of Evolving Systems NC in the third quarter of 2015. Restructuring expense of \$0.5 million and \$0.2 million was recorded for the years ending December 31, 2015 and 2014, respectively, due to severance for a reduction in workforce. The reduction in workforce was related to the acquisition of Evolving Systems NC in the third quarter of 2015 and Evolving Systems Labs in the fourth quarter of 2013.

The restructuring liability was \$0 and \$25,000 as of December 31, 2016 and 2015, respectively.

NOTE 14 — QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Quarterly financial information is as follows (in thousands, except per share data):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Year Ended December 31, 2016				
Total revenue	\$ 6,480	\$ 6,078	\$ 6,103	\$ 6,117
Less: cost of revenue and operating expenses.....	5,966	4,470	4,400	4,347
Income from operations	514	1,608	1,703	1,770
Income before income taxes	597	1,090	1,369	1,836
Net income	\$ 427	\$ 780	\$ 941	\$ 1,287
Net income per common share:				
Basic income per common share - net income.....	\$ 0.04	\$ 0.07	\$ 0.08	\$ 0.11
Diluted income per common share - net income.....	\$ 0.04	\$ 0.07	\$ 0.08	\$ 0.11

Year Ended December 31, 2015

Total revenue	\$	6,660	\$	6,071	\$	5,773	\$	7,072
Less: cost of revenue and operating expenses.....		5,238		5,130		4,819		6,069
Income from operations		1,422		941		954		1,003
Income before income taxes		1,299		1,093		712		1,107
Net income.....	\$	860	\$	780	\$	570	\$	1,086
Net income per common share:								
Basic income per common share - net income.....	\$	0.07	\$	0.07	\$	0.05	\$	0.09
Diluted income per common share - net income.....	\$	0.07	\$	0.07	\$	0.05	\$	0.09

Year Ended December 31, 2014

Total revenue	\$	6,582	\$	7,939	\$	7,560	\$	7,599
Less: cost of revenue and operating expenses.....		5,555		5,322		5,241		5,123
Income from operations		1,027		2,617		2,319		2,476
Income before income taxes		929		2,514		2,506		2,456
Net income.....	\$	651	\$	1,676	\$	1,679	\$	1,602
Net income per common share:								
Basic income per common share - net income.....	\$	0.06	\$	0.14	\$	0.14	\$	0.14
Diluted income per common share - net income.....	\$	0.05	\$	0.14	\$	0.14	\$	0.13

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures. We maintain “disclosure controls and procedures,” as such term is defined in Rule 13a-15(e) and 15d-15(f) under the Securities Exchange Act of 1934 (the “Exchange Act”), that are designed to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Our management, with the participation of the Chief Executive Officer and the Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Annual Report on Form 10-K. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of the end of such period.

In designing and evaluating our disclosure controls and procedures, management recognized that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Additionally, in designing disclosure controls and procedures, we are required to apply judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Management’s report on internal control over financial reporting. Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the 2013 framework set forth in the report entitled Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). The COSO framework summarizes each of the components of a company’s internal control system, including (i) the control environment, (ii) risk assessment, (iii) control activities, (iv) information and communication, and (v) monitoring.

Based on our evaluation under the framework in Internal Control — Integrated Framework, our management concluded that our internal control over financial reporting was effective as of December 31, 2016.

This Annual Report on Form 10-K does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our independent registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit us to provide only management's report in this Annual Report on Form 10-K.

Changes in internal control over financial reporting. During the quarter ended December 31, 2016, there was no change in our internal control over financial reporting or in other factors that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Incorporated by reference to the sections of Evolving Systems, Inc. 2017 Proxy Statement, anticipated to be filed within 120 days of December 31, 2016, entitled "Proposal No. 1-Election of Directors," "Management" and "Information Regarding the Board and Its Committees."

ITEM 11. EXECUTIVE COMPENSATION

Incorporated by reference to the section of Evolving Systems, Inc. 2017 Proxy Statement, anticipated to be filed within 120 days of December 31, 2016, entitled "Executive Compensation."

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Incorporated by reference to the section of the Evolving Systems, Inc. 2017 Proxy Statement, anticipated to be filed within 120 days of December 31, 2016, entitled "Information Regarding Beneficial Ownership of Principal Stockholders, Directors, and Management."

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Incorporated by reference to the sections of the Evolving Systems, Inc. 2017 Proxy Statement, anticipated to be filed within 120 days of December 31, 2016, entitled "Certain Relationships and Related Transactions" and "Information Regarding the Board and Its Committees."

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Incorporated by reference to the section of the Evolving Systems, Inc. 2017 Proxy Statement, anticipated to be filed within 120 days of December 31, 2016, entitled "Proposal No. 3-Ratification of Selection of Independent Registered Public Accounting Firm."

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this Annual Report on Form 10-K:

Consolidated Financial Statements.

Consolidated Financial Statement Schedules have been omitted because the required information is not present, or not present in amounts sufficient to require submission of the schedules or because the required information is provided in the Consolidated Financial Statements or Notes thereto.

EXHIBIT INDEX

<u>Exhibit No.</u>	<u>Description of Document</u>
2.1	Asset Purchase Agreement, dated as of April 21, 2011, by and between Evolving Systems, Inc. and NeuStar, Inc., as filed as Exhibit 2.1 to the Registrant's Form 8-K filed on April 21, 2011 and incorporated herein by reference.
2.2	Agreement and Plan of Merger by and among Evolving Systems, Inc., Topaz Merger Sub, Inc., Telespree Communications and Gill Cogan as the exclusive representative of the Effective Time Shareholders and Change in Control Payment Recipients, as filed as Exhibit 2.1 to the Registrant's Form 8-K filed on October 25, 2013 and incorporated herein by reference.
2.3	Merger Agreement dated as of September 30, 2015, by and among Evolving Systems, Inc., Evolving Systems NC, Inc., a wholly owned subsidiary of Evolving Systems, RateIntegration, Inc. and a representative of the stockholders and change in control payment recipients of RateIntegration, Inc., as filed as Exhibit 2.1 to the Registrant's Form 8-K filed September 30, 2015 and incorporated herein by reference.
3.1†	Restated Certificate of Incorporation.
3.1(a)	Certificate of Designation for the Series B Convertible Preferred Stock, as filed as Exhibit 3.1 to the Registrant's Form 8-K filed November 11, 2004 and incorporated herein by reference.
3.1(b)	Certificate of Amendment to Certificate of Designation of Series B Convertible Preferred Stock filed as Exhibit 3.1(c) to the Registrant's Form 8-K filed November 17, 2005 and incorporated herein by reference.
3.1(c)	Certificate of Amendment to Certificate of Designation of Series B Convertible Preferred Stock filed as Exhibit 3.01 to the Registrant's Form 8-K filed May 4, 2007 and incorporated herein by reference.
3.1(d)	Certificate of Amendment to the Restated Certificate of Incorporation of Evolving Systems, Inc., as filed as Exhibit 3.1 to the Registrant's Form 8-K filed on July 21, 2009 and incorporated herein by reference.
3.1(e)	Certificate of Amendment to Amended and Restated Certificate of Incorporation of Evolving Systems, Inc. as filed as Exhibit 3(i) to the Registrant's Form 8-K filed on June 16, 2011 and incorporated herein by reference.
3.2†	Amended and Restated Bylaws.
3(ii)(1)	Amended and Restated Bylaws of Evolving Systems, Inc., as filed as Exhibit 3(ii) to the Registrant's Form 8-K filed on July 31, 2014 and incorporated herein by reference.
4.1†	Reference is made to Exhibits 3.1 and 3.2.
4.1(a)*	James E. King Equity Incentive Plan, as filed as Exhibit 4.1 to the Registrant's Form S-8 filed March 22, 2007 and incorporated herein by reference.
4.1(b)	Evolving Systems, Inc. Amended and Restated 2007 Stock Incentive Plan, as filed as Appendix A to the Registrant's Definitive Proxy Statement on Schedule 14A filed with the Commission on April 30, 2015 and incorporated herein by reference.
4.2†	Specimen stock certificate representing shares of Common Stock.
10.1 *	Form of Indemnification Agreement, entered into by the Registrant and each of its directors and executive officers, as filed as Exhibit 10.2 to the Registrant's Form 8-K filed on July 31, 2014 and incorporated herein by reference.
10.2† *	Amended and Restated Stock Option Plan.
10.2(a)	Standstill Agreement between Evolving Systems, Inc. and Karen Singer, Trustee of the Singer Children's Management Trust, as filed as Exhibit 10.2 to the Registrant's Form 8-K filed February 27, 2008 and incorporated herein by reference.
10.3† *	Employee Stock Purchase Plan.
10.4	Form of Change in Control Agreement, as filed as Exhibit 10.3 to the Registrant's Form 8-K filed January 3, 2008 and incorporated herein by reference.
10.5	Letter from Singer Children's Management Trust, as filed as Exhibit 10.1 to the Registrant's Form 8-K filed December 14, 2010 and incorporated herein by reference.
10.6†	Software Development Agreement, by and between the Registrant and American Telephone and Telegraph Company, dated as of May 1, 1993. (The division of American Telephone & Telegraph Company responsible for this Agreement has split off from AT&T and is now known as Lucent Technologies, Inc.).

Exhibit No.	Description of Document
10.7*	Amendment to Management Change in Control Agreement — Thaddeus Dupper, as filed as Exhibit 10.20(a) to the Registrant’s Form 10-Q filed May 11, 2007 and incorporated herein by reference.
10.8	Fifth Amendment to Office Building Lease Agreement, as filed as Exhibit 10.21 to the Registrant’s Form 10-Q filed May 11, 2007 and incorporated herein by reference.
10.9	Agreement entered into with Singer Children’s Management Trust, as filed as Exhibit 10.1 to the Company’s Form 8-K filed April 20, 2011 and incorporated herein by reference.
10.10*	Employment Agreement entered into between Evolving Systems, Inc. and Thaddeus Dupper, as filed as Exhibit 99.1 to the Registrant’s Form 8-K filed on May 19, 2011 and incorporated herein by reference.
10.11*	Consulting Agreement between Evolving Systems, Inc. and Anita T. Moseley, as filed as Exhibit 99.1 to the Registrant’s Form 8-K filed on July 1, 2011 and incorporated herein by reference.
10.12	Loan and Security Agreement between Evolving Systems, Inc. and East West Bank, as filed as Exhibit 10.1(a) to the Registrant’s Form 8-K filed on October 25, 2012 and incorporated herein by reference.
10.13	Amendment to Loan and Security Agreement between Evolving Systems, Inc. and East West Bank, as filed as Exhibit 10.1 to the Registrant’s Form 8-K filed on November 6, 2014 and incorporated herein by reference.
10.14	Third Amendment to Loan and Security Agreement between Evolving Systems, Inc. and East West Bank, as filed as Exhibit 10.1 to the Registrant’s Form 8-K filed on September 30, 2015 and incorporated herein by reference.
10.15	Fourth Amendment to Loan and Security Agreement between Evolving Systems, Inc. and East West Bank, as filed as Exhibit 10.1 to the Registrant’s Form 8-K filed on November 10, 2015 and incorporated herein by reference.
10.16	Fifth Amendment to Loan and Security Agreement between Evolving Systems, Inc. and East West Bank, as filed as Exhibit 10.1 to the Registrant’s Form 8-K filed on March 3, 2016 and incorporated herein by reference.
10.17*	Employment Agreement dated September 30, 2015, entered into between Evolving Systems, Inc. and Thomas Thekkethala, as filed as Exhibit 10.2 to the Registrant’s Form 8-K filed on September 30, 2015 and incorporated herein by reference.
10.18*	Consulting Services Agreement dated January 1, 2016, entered into between Evolving Systems, Inc. and Thaddeus Dupper, as filed as Exhibit 10.1 to the Registrant’s Form 8-K filed on January 5, 2016 and incorporated herein by reference.
10.19*	Employment Agreement dated January 1, 2016, entered into between Evolving Systems, Inc. and Daniel J. Moorhead, as filed as Exhibit 10.2 to the Registrant’s Form 8-K filed on January 5, 2016 and incorporated herein by reference.
10.20*	Evolving Systems, Inc. 2016 Stock Incentive Plan, as filed as Appendix A to the Registrant’s Definitive Proxy Statement on Schedule 14A filed with the Commission on April 29, 2016 and incorporated herein by reference.
21(a)	Subsidiaries of the Registrant (filed herewith).
23.1	Consent of Friedman LLP, Independent Registered Public Accounting Firm related to Registration Statements on Forms S-8 (filed herewith).
24.1	Power of Attorney (included on signature page)
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
Exhibit 101	The following financial information from the annual report on Form 10-K of Evolving Systems, Inc. for the year ended December 31, 2016, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets as of December 31, 2016 and 2014 (ii) Consolidated Statements of Operations for the years ended December 31, 2016, 2015 and 2014 (iii) Consolidated Statements of Other Comprehensive Income for the years ended December 31, 2016, 2015 and 2014 (iv) Consolidated Statements of Changes in Stockholders’ Equity for the years ended December 31, 2016, 2015 and 2014 (v) Consolidated Statements of Cash Flows for the years ended December 31, 2016, 2015 and 2014 and (vi) Notes to the Consolidated Financial Statements.

† Incorporated by reference to the Registrant’s Registration Statement on Form S-1 No. 333-43973.

* Identifies each management contract or compensatory plan or arrangement.

ITEM 16. FORM 10-K SUMMARY

Not applicable.

SUBSIDIARIES OF THE REGISTRANT

Evolving Systems Networks India Private Limited
Evolving Systems Holdings Limited (formerly Tertio Telecoms Holdings Limited)
Evolving Systems Limited (formerly Tertio Telecoms Limited)
Evolving Systems GmbH (formerly Tertio Telecoms Limited GmbH)
Evolving Systems Labs, Inc. (formerly Telespree Communications)
Evolving Systems NC, Inc. (formerly RateIntegration, Inc. d/b/a Sixth Sense Media)
RateIntegration Software Technologies PVT LTD

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements of Evolving Systems, Inc. on Forms S-8 (File No. 333-212538, File No. 333-205795, File No. 333-191046, File No. 333-167858, and File No. 333-116085) of our report dated March 28, 2017, with respect to the consolidated financial statements of Evolving Systems, Inc. included in this Annual Report (Form 10-K) for the year ended December 31, 2016.

/s/ FRIEDMAN LLP
East Hanover, New Jersey
March 28, 2017

CERTIFICATION

I, Thomas Thekkethala, certify that:

1. I have reviewed this Annual Report on Form 10-K of Evolving Systems, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 28, 2017

/s/ Thomas Thekkethala
Thomas Thekkethala
President and Chief Executive Officer

CERTIFICATION

I, Daniel J. Moorhead, certify that:

1. I have reviewed this Annual Report on Form 10-K of Evolving Systems, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 28, 2017

/s/ Daniel J. Moorhead
Daniel J. Moorhead
Chief Financial Officer

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Thomas Thekkethala, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge, the Annual Report of Evolving Systems, Inc. on Form 10-K for the annual period ended December 31, 2016 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in such Form 10-K fairly presents in all material respects the financial condition and results of operations of Evolving Systems, Inc.

/s/ Thomas Thekkethala
Thomas Thekkethala
President and Chief Executive Officer
March 28, 2017

This certification is furnished with this Annual Report on Form 10-K pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by such Act, be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that we specifically incorporate it by reference.

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Daniel J. Moorhead, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge, the Annual Report of Evolving Systems, Inc. on Form 10-K for the annual period ended December 31, 2016 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in such Form 10-K fairly presents in all material respects the financial condition and results of operations of Evolving Systems, Inc.

/s/ Daniel J. Moorhead

Daniel J. Moorhead
Chief Financial Officer
March 28, 2017

This certification is furnished with this Annual Report on Form 10-K pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by such Act, be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that we specifically incorporate it by reference.

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