



evolving  
systems

**2018 ANNUAL REPORT  
NOTICE OF 2019 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.

Letter from the CEO

April 30, 2019

To Our Investors:

We are pleased to present Evolving Systems' 2018 annual report and proxy.

Evolving Systems helps wireless carriers thrive. Our provisioning and management systems help operators make efficient use of both physical (SIM) and network (numbers, infrastructure) resources. Our marketing solutions leverage our twenty years of expertise to digitally offer end user subscribers the right programs and promotions to maximize the value of each customer to the carrier. When carriers work with us, whichever services they choose, they make more money. As part of trying to tell this story, we recently completely updated our website and encourage you to take a look if you haven't done so lately.

In some respects, this is a limited market, but there are over five hundred carriers around the world who could profit by working with us. Today, we work with about one hundred. Our focus is simple and direct — continue excellent execution at our existing customers while introducing the Company to more operators.

While we are a leader in each of the markets we serve, our software is never at a standstill. Industry changes, such as the migration to 5G and the increased penetration of smartphones and affordable data in emerging markets, require continuous refinement and enhancements to our platforms. On top of ongoing lifecycle investment, 2019 will begin to see the results from our first new product in some time, a product called Evolution.

When Evolving Systems purchased three leading companies in the digital marketing space, we knew we had purchased three great companies, but we had also inherited three similar platforms. Instead of simply 'picking a winner,' we undertook a larger effort to integrate the best parts of all three platforms, and simultaneously take the opportunity to boost the technology foundations with big-data horsepower, machine learning algorithms and cloud awareness. Further, we created a clear upgrade path for the customers of the former BLS, Lumata, and SSM.

With the release of Evolution 1.0, we can now focus our R&D efforts on updates and improvements to our traditional infrastructure products. Stay tuned for some exciting news.

2019 and 2020 will be all about execution. We have the products, we know how to service our existing customers and where to find our next customers. The rest is a matter of dedication, hard work, and agility displayed by hundreds of Evolving Systems' professionals around the world. I'm honored to help support them.

I'll let the finances in the annual report, as prepared by our equally hard-working finance team, speak for themselves. As always, we appreciate the support of our stockholders and look forward to communicating our progress throughout the year. Should you have questions, there is an investor hotline form on our website.

Sincerely,

*Matthew Stecker*

Matthew Stecker  
CEO and Chairman of the Board



**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS  
TO BE HELD ON JUNE 19, 2019**

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 9800 Pyramid Court, Suite 400, Englewood, CO 80112 Englewood, Colorado 80112, on June 19, 2019.

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

1. to elect the four nominees named in this Proxy Statement as directors, each for a one-year term;
2. to approve, on a non-binding, advisory basis, the compensation paid to our named executive officers;
3. to cast an advisory vote on the frequency of having an advisory vote on executive compensation;
4. to ratify the selection of Marcum LLP as our independent registered public accounting firm to audit the consolidated financial statements of Evolving Systems, Inc. for our fiscal year ending December 31, 2019; 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, Inc common stock at the close of business on April 22, 2019 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,

A handwritten signature in dark ink that reads "Mark Szykowski".

*Mark P. Szykowski*  
*Senior Vice President of Finance & Secretary*

Englewood, Colorado  
April 30, 2019



9800 Pyramid Court, Suite 400  
Englewood, Colorado 80112

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**PROXY STATEMENT  
FOR ANNUAL MEETING OF STOCKHOLDERS  
June 19, 2019**

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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 9800 Pyramid Court, Suite 400, Englewood, Colorado 80112, on June 19, 2019, 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 10, 2019. 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.

We are sending a Notice of Internet Availability of Proxy Materials (the “Notice”) to all stockholders of record on April 22, 2019. All stockholders of record will have the ability to access the proxy materials on a website referred to in the Notice (<https://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](http://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 18, 2019 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](http://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, Julian D. Singer and Matthew Stecker as members to the Company's Board of Directors to serve until the 2020 annual meeting of stockholders or until their successors have been duly elected and qualified;
- ***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;
- ***Advisory Vote on the Frequency of the Advisory Vote on Executive Compensation.*** Advisory vote on the frequency of the vote on the compensation of the Company's named executive officers, or "say on pay." Even though your vote is advisory and, therefore, will not be binding on the Company, the Board will review the voting results and take them into consideration when making future decisions regarding the frequency of the advisory vote on executive compensation; and
- ***Ratification of the Appointment of Independent Registered Public Accounting Firm.*** Ratification of the appointment of Marcum LLP as the Company's independent registered public accounting firm for its fiscal year ending December 31, 2019.

You may either vote "For" the nominee to the Board of Directors or you may "Withhold" your vote for the nominee you specify. For the advisory vote on the frequency of the vote on the compensation of our named executive officers, you may vote on the preferred frequency by choosing the option of "one year," "two years," "three years" or abstaining from voting. 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 22, 2019, 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 12,196,582 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; as a result, the broker or other nominee 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 any other non-routine matters (Proposals 2 and 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.**

<u>Proposal Number</u>	<u>Description</u>	<u>Votes Required for Approval</u>	<u>Abstentions</u>	<u>Uninstructed Shares</u>
1	Election of Directors	Nominees receiving highest number of votes	Not voted	Not voted
2	Advisory vote on executive compensation (“Say on Pay”)	Majority of shares cast	Not voted	Not voted
3	Advisory vote on frequency of Say on Pay	Alternative (every 1, 2 or 3 years) receiving the highest number of votes	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 four nominees for director;
- **FOR** the approval, on a non-binding, advisory basis, of the compensation paid to our named executive officers;
- To hold an advisory vote on executive compensation every two years; and
- **FOR** the ratification of the selection of Marcum LLP as our independent registered public accounting firm to audit the consolidated financial statements of Evolving Systems for our fiscal year ending December 31, 2019.

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., Mark P. Szykowski, Secretary, 9800 Pyramid Court, Suite 400, Englewood, Colorado 80112, or contact Mark P. Szykowski 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. In accordance with our Company’s Bylaws, our Board of Directors adopted a resolution on April 11, 2019, to reduce the size of the Board from six to four members, effective as of the date of the Annual Stockholders’ meeting.

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 three of our directors (Messrs. Nicol, Oros and Singer) 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. Stecker, who was previously independent under NASDAQ’s listing standard, was appointed Executive Chairman in April 2018 and CEO in July 2018 and, as a result, is not considered independent.

The Board has nominated Messrs. Nicol, Oros, Singer and Stecker for re-election. As noted above, the Board adopted a resolution to reduce the size of the Board from six to four members. Mr. Thekkethala, the Company’s former Chief Executive Officer (“CEO”) and current member of the Board, is not being nominated for re-election to the Board and Mr. Ramlall has decided not to run 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 2020 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 30, 2019.

### **THE BOARD OF DIRECTORS RECOMMENDS A VOTE “FOR” EACH NOMINEE.**



## **Nominees for Election for a One-Year Term Expiring at the 2020 Annual Meeting**

### **David J. Nicol**

David J. Nicol, 73, became a member of the Board of Directors in March 2004. Since February 2018, Mr. Nicol also serves on the board of CCUR Holdings, Inc. (OTCQB:CCUR), where he is a member of the Nominating /Governance Committee and the Audit Committee, which he also Chairs. He also is a board member of PropertyTrak, Inc, a privately-held provider of facilities management SaaS services. A member of the National Association of Corporate Directors (since 2004) and Financial Executives International, since August 2015 he has served on the faculty in the Finance Department at the Bloch School of Management at UMKC. From February 2012 through March 2014, Mr. Nicol was President/COO of Strongwatch Corporation, a security innovation company since acquired. In prior assignments, Mr. Nicol held senior-level executive positions with both public companies (Verisign, Illuminet, and Sprint/United Telecom), as well as early-stage, private companies: Solutionary (IT network security), Siperia (VOIP security), ITN (network signaling), International Micronet (LAN/WAN systems) and iLAN (LAN systems & consulting). Beyond P&L responsibilities, his leadership roles have included strategic planning, business development, acquisitions, business planning, operations planning, product management, product development/support, financial planning, and fund raising/IR.

With his years of executive experience at Sprint/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, 59, 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 and the Board of Directors for Health Care for the Homeless.

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.

### **Julian D. Singer**

Julian D. Singer, 35, 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, 50, joined our Board of Directors in March 2016, was named Chairman of the Board in August 2016, Executive Chairman in April 2018 and President & CEO on July 16, 2018. He served as a Senior Policy Advisor to the United States Department of Commerce from 2014 to 2017. In that capacity, Mr. Stecker was part of the senior team that launched FirstENet. Mr. Stecker 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 over twenty 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.

## **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 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 Executive Chairman of the Board with Mr. Stecker serving in that role as well as the CEO.

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 four times in 2018 in addition to conference calls throughout the year. In fiscal year 2018 each director, with the exception of Thomas Thekkethala, 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, a Nominating and Governance Committee and a Strategic Initiatives Committee. Below is a table that provides membership and meeting information for each of the Board committees as of December 31, 2018. In fiscal year 2018 each committee member attended at least 75% of the meetings of each applicable committee.

<u>Name</u>	<u>Audit</u>	<u>Compensation</u>	<u>Nominating &amp; Governance</u>	<u>Strategic Initiatives</u>
Mr. Nicol .....	X*	X*		X
Mr. Oros.....	X	X	X	
Mr. Ramlall (1).....	X	X	X*	
Mr. Singer.....				X*
Mr. Stecker .....				X
Mr. Thekkethala (2).....				
Total meetings in fiscal year 2018	4	**	**	**

\* Denotes Committee Chair as of December 31, 2018. Mr. Stecker resigned from the Audit Committee on January 31, 2018 and the Board appointed Mr. Ramlall to serve on the Committee. Mr. Stecker also resigned as Chairman of the Nominating & Governance Committee on January 31, 2018 and the Board appointed Mr. Ramlall to serve as the Chairman of the Nominating & Governance Committee and appointed Mr. Oros to serve on the Committee.

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

- (1) Mr. Ramlall has decided not to run for re-election to the Board.
- (2) The Board is not nominating Mr. Thekkethala for re-election.

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 the Audit Committee, Compensation Committee and Nominating & Governance Committee meet 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](http://www.evolving.com), under "Investor Relations — Corporate Governance." The Audit Committee currently consists of Messrs. Nicol, Oros and Ramlall, 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. Following Mr. Ramlall's departure from the Board, the Board intends to appoint Mr. Singer, who is independent under NASDAQ listing standards, to serve on the Audit Committee. 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 currently consists of Messrs. Nicol, Oros and Ramlall, all of whom are independent directors under NASDAQ listing standards. Following Mr. Ramlall's departure from the Board, the Board intends to appoint Mr. Singer, who is independent under NASDAQ listing standards, to serve on the Compensation Committee.

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.

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](http://www.evolving.com), under “Investor Relations — 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](http://www.evolving.com), under “Investor Relations — Corporate Governance.” The current members of the Nominating and Governance Committee are Messrs. Ramlall and Oros, both of whom are independent directors under NASDAQ listing standards. Following Mr. Ramlall’s departure from the Board, the Board intends to appoint Mr. Singer, who is independent under NASDAQ listing standards, to serve on the Nominating and Governance Committee.

**Strategic Initiatives Committee.** In March of 2017 the Board formed a Strategic Initiatives Committee for the purpose of assisting the Board in fulfilling its strategic planning duties such as:

- Overseeing the implementation of the strategic plan and related initiatives
- Identifying and evaluating corporate development opportunities
- Developing criteria for use in evaluating potential strategic investment
- Assisting management to identify critical strategic issues facing the organization
- Assessing potential mergers and acquisitions

The Committee assists management in developing and refining a strategic plan which identifies specific long-term goals and business objectives determined to be in the Company’s best interest. This includes providing assistance to management in evaluating, planning & executing on selected merger and acquisition candidates, joint ventures, new markets or products lines, acquisition or disposition of capital assets, equity and debt funding and modifications of existing capital structure and stock offerings, repurchase programs and reverse splits. Additionally, the Committee evaluates the progress and effectiveness of the strategic plan, recommend changes to the plan where necessary or advisable and evaluate other issues or opportunities. Messrs. Singer, Nicol and Stecker are currently members of the Committee.

## DIRECTOR COMPENSATION

The 2018 compensation plan for non-employee members of the Board of Directors and the committees of the Board is described in the table below.

	<u>Annual retainer (payable in quarterly increments)</u>	<u>Additional annual cash compensation for non-employee Chairperson</u>	
Board of Directors .....	\$ 20,000	\$ 50,000	
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. Annual equity awards to Directors are discretionary at the determination of the Compensation Committee.

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.

### 2018 Director Compensation Table

The table below summarizes the compensation earned by non-employee directors for the fiscal year ended December 31, 2018.

(a) Name (1)	(b) Fees Paid in Cash (\$)	(c) Stock Awards \$(2)	(d) Option Awards \$(3)	(e) Total (\$)
<b>David J. Nicol</b> .....	\$ 30,000	\$ 0	\$ 0	\$ 30,000
<b>David S. Oros</b> .....	\$ 20,000	\$ 0	\$ 0	\$ 20,000
<b>Richard R. Ramlall</b> .....	\$ 20,000	\$ 0	\$ 0	\$ 20,000
<b>Julian D. Singer</b> .....	\$ 20,000	\$ 0	\$ 0	\$ 20,000
<b>Matthew Stecker (4)</b> .....	\$ 55,000	\$ 0	\$ 0	\$ 55,000

(1) See the *Summary Compensation Table* on page 18 for information on compensation earned by Mr. Thekkethala during fiscal year 2018 and Mr. Stecker following his appointment as Executive Chairman in April 2018.

(2) The amounts in column (c) reflect the grant date fair value of restricted stock awards granted under the Company's Amended 2016 Stock Incentive Plan during the fiscal year noted, computed in accordance with FASB ASC Topic 718. For further information on awards, see Note 8, "Share Based Compensation" of our consolidated financial statements included in Form 10-K for the year ended December 31, 2018, filed with the SEC on April 4, 2019.

(3) No stock options were granted to the non-employee directors in 2018. As of December 31, 2018, each director, other than Mr. Stecker, held outstanding options to purchase the following number of shares: Mr. Nicol: 23,200; Mr. Oros: 16,175; Mr. Ramlall: 14,625; and Mr. Singer: 15,000. See the *Outstanding Equity Awards at December 31, 2018* on page 20 for information on stock options held by Mr. Stecker.

(4) During calendar year 2018 Mr. Stecker assumed additional operational duties as Executive Chairman. Mr. Stecker's compensation reflected in this table was the amount paid or awarded to him prior to his appointment as Executive Chairman in April 2018. For information on compensation paid to Mr. Stecker following his appointment as Executive Chairman, please see information provided under the heading "2018 Summary Compensation Table" on page 18.

### 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., 9800 Pyramid Court, Suite 400, 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. One member of the Board participated in the 2018 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 "Investor Relations — 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 "Investor Relations — 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**

### **ADVISORY VOTE ON EXECUTIVE COMPENSATION**

As required by section 14A of the Securities Exchange Act of 1934, as amended, we are 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 or 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 2018 compensation of our named executive officers.

### **Recommendation**

For the above reasons, 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 pursuant to Item 402 of Regulation S-K, including the Compensation Discussion and Analysis, related compensation tables, and the accompanying narrative disclosure, is hereby APPROVED.”**

Acknowledging that 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 vote regarding 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 3**

**ADVISORY VOTE ON THE FREQUENCY OF AN ADVISORY VOTE  
ON EXECUTIVE COMPENSATION**

As required by Section 14A of the Securities Exchange Act of 1934, as amended, we also are asking our stockholders to provide their input with regard to the frequency of future stockholder advisory votes on our named executive officer compensation, such as the proposal contained in Proposal 2 above of this Proxy Statement. We last sought a stockholder advisory vote on this matter at our Annual Stockholders’ Meeting in 2013 and say-on-frequency votes must be held every six years. Accordingly, we are again asking whether the advisory vote on executive compensation should occur every year, every two years or every three years.

Our Board previously recommended an advisory vote every two years and our stockholders approved this recommendation. After considering this agenda item again this year, our Board has determined that an advisory vote on executive compensation every two years continues to be the most appropriate alternative for Evolving Systems. Our Board believes that obtaining an advisory vote on executive compensation every two years will provide us with sufficient input on our compensation philosophy, policies and practices as disclosed in the proxy statement every year. Accordingly, our Board recommends that the advisory vote on executive compensation be held every two years. We understand that our stockholders may have different views as to what is the best approach for Evolving Systems, and we look forward to hearing from our stockholders on this agenda item in this Proxy Statement.

You may cast your vote by choosing the option of one year, two years, three years, or abstain from voting in response to the resolutions set forth below:

**“RESOLVED, that the option of once every year, every two years, or every three years that receives the highest number of votes cast for this resolution will be determined to be the preferred frequency with which the Company is to hold an advisory vote by stockholders to approve the compensation of the named executive officers, as disclosed in the Compensation Discussion and Analysis, related compensation tables, and the accompanying narrative disclosure.”**

Acknowledging that your vote is advisory and therefore will not be binding on the Company, the Board and the Compensation Committee value the opinions of our stockholders and will consider your vote. Nonetheless, the Board may decide that it is in the best interests of our stockholders and Evolving Systems to hold an advisory vote on executive compensation more or less frequently than the option voted by our stockholders.

**THE BOARD RECOMMENDS A VOTE FOR THE OPTION OF “EVERY TWO YEARS”  
AS THE FREQUENCY WITH WHICH STOCKHOLDERS ARE PROVIDED AN  
ADVISORY VOTE ON EXECUTIVE COMPENSATION.**

**PROPOSAL 4**

**RATIFICATION OF SELECTION OF INDEPENDENT  
REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors has selected Marcum LLP as the Company’s independent registered public accounting firm for the fiscal year ending December 31, 2019 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, the Company's auditors for the fiscal year ending December 31, 2018, as well as representatives of Marcum LLP, are expected to be present at the Annual Meeting, will have an opportunity to make a statement if they so desire, and will be available to respond to appropriate questions from stockholders present at the meeting.

Stockholder ratification of the selection of Marcum 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 Marcum 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 Marcum LLP as Evolving Systems' independent registered public accounting firm is a routine matter for brokers that hold their clients' shares in "street name." 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 Marcum 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, no broker non-votes will likely result from this proposal.

### **THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" PROPOSAL NO. 4, RATIFICATION OF MARCUM LLP AS THE COMPANY'S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE FISCAL YEAR ENDING DECEMBER 31, 2019.**

#### **Information Regarding Change In Accountants**

On April 18, 2019, the Company advised Friedman LLP, its independent registered public accountant, that the Company had determined not to reappoint Friedman LLP for 2019. The audit committee of the Company's Board of Directors participated in and approved the decision to change the Company's independent registered public accounting firm.

The report of Friedman LLP on the Company's balance sheets as of December 31, 2018 and 2017, and the related statements of operations, stockholders' equity and cash flows for the years then ended did not contain an adverse opinion or disclaimer of opinion.

Except as disclosed in the following sentence, during the Company's two most recent fiscal years ended December 31, 2017 and December 31, 2018, and through April 18, 2019, there were no disagreements with Friedman LLP on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of Friedman LLP would have caused Friedman LLP to make reference to the subject matter of the disagreements in connection with its report on the financial statements for such year or to affect the review of interim period financial information. The Company disagreed with Friedman LLP with respect to the recognition of a goodwill impairment charge in the fourth quarter of 2018, and the matter was discussed by the Company's audit committee and Friedman LLP prior to the filing of the Form 10-K for the year ended December 31, 2018. The disagreement was resolved to the satisfaction of Friedman LLP by the Company agreeing to follow the accounting treatment recommended by Friedman LLP. The Company has authorized Friedman LLP to respond fully to any inquiries by a successor auditor concerning the subject matter of the disagreement. In addition, there were no "reportable events," as described in paragraph (a)(1)(v) of Item 304 of Regulation S-K, that occurred within the Company's two most recent fiscal years and the subsequent interim period preceding Friedman LLP's dismissal.

In connection with the Company's Form 8-K, filed with the SEC on April 24, 2019, the Company provided Friedman LLP with a copy of the foregoing disclosures. Friedman LLP furnished the Company with a letter addressed to the Securities and Exchange Commission stating that Friedman LLP agreed with the above statements.

Effective April 18, 2019, the accounting firm of Marcum LLP was engaged to serve as the new independent principal accountant to audit the Company's financial statements for the fiscal year ended December 31, 2019. During the Company's two most recent fiscal years, and the subsequent interim period prior to engaging that accountant, neither the Company (nor someone on its behalf) consulted Marcum LLP regarding either:

1. the application of accounting principles to any specified transaction, either completed or proposed; or the type of audit opinion that might be rendered on the Company's financial statements, and neither a written report was provided to the Company nor oral advice was provided that Marcum LLP concluded was an important factor considered by the Company in reaching a decision as to the accounting, auditing, or financial reporting issue; or

2. any matter that was either the subject of a disagreement (as defined in paragraph (a)(1)(iv) of Item 304 of Regulation S-K and the related instructions thereto) or a reportable event (as described in paragraph (a)(1)(v) of Item 304 of Regulation S-K). The Company has provided each of Marcum LLP and Friedman LLP with a copy of the foregoing disclosures prior to the filing of this Proxy Statement with the SEC.

**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, 2018 and December 31, 2017:

<u>Types of Fees</u>	<u>Fees for 2018</u>	<u>Fees for 2017</u>
Audit Fees .....	<u>\$ 389,213</u>	<u>\$ 217,000</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.

**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 Senior Vice President of Finance. 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 Senior Vice President of Finance 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 2018 and 2017 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, 2018. 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 30, 2019, the Company’s named executive officers are as follows:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Matthew Stecker .....	50	Chief Executive Officer and President
Mark P. Szykowski.....	51	Sr. Vice President of Finance and Secretary

**Matthew Stecker.** For biographical information on Mr. Stecker, please see Proposal No. 1, “Election of Directors.”

**Mark P. Szykowski,** 51, joined the Company as Senior Vice President of Finance on December 4, 2017. He brings with him over twenty years of finance and accounting experience, an extensive background in mergers and acquisitions, budgeting and forecasting, and a broad knowledge of the software technology industry. Previously, he served as Chief Financial Officer of 6D Global Technologies, Inc., a Digital Marketing technology company where he was responsible for overseeing financial operations including SEC filings, SOX compliance and reporting. Earlier in his career, Mr. Szykowski served in a variety of financial positions with Epiq Systems, a global technology, Software as a Service and professional services provider to the legal industry. Over nearly 10 years at Epiq, Mr. Szykowski held senior positions including Vice President of Finance, Electronic Discovery Segment; Corporate Controller; and Subsidiary Controller. Prior to that, he served as Controller for Tradeware Global LLC, Vice President of Finance and Operations for Integro Staffing Services and was a Senior Auditor with Ernst & Young. Mr. Szykowski has a B.A. in Accounting from Alfred University and is a member of the American Institute of Certified Public Accountants (AICPA) and the National Accounting Association.

## 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 2018, the Compensation Committee did not engage compensation consultants.

Mr. Stecker was appointed as Executive Chairman in April 2018 and as President & CEO on July 16, 2018. His annual base salary for 2018 was \$240,000. Mr. Szykowski's annual base salary in 2018 was \$185,000.

#### 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 2018, on an annual basis, the potential incentive compensation percentages was 50% of the executive's base salary (for our CEO) and 40% (for our Sr. Vice President of Finance) (as specifically noted in the "Grants of Plan-Based Awards" table on page 19), 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 2018, 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 2018, we did not achieve any of our incentive compensation targets; as a result, our named executive officers did not receive any incentive compensation payment for 2018.

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 2016 and 2017.

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 Amended 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, our executive officers to 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 27.

#### **Employment and Severance Agreements**

Our named executive officers are employed "at-will," although our Senior Vice President of Finance has severance provisions in his employment agreement providing for payments to him upon termination of employment, subject to certain limitations. Information regarding potential payments and benefits under Mr. Szykowski's employment agreement is provided under the heading "*Potential Payments Upon Termination or Change of Control*" on page 21.

#### **Change of Control Arrangements**

The compensation agreement we have entered into with Mr. Szykowski contains 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 this arrangement will protect stockholders' interests in the event of a change of control by enabling the executive 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 Mr. Szykowski's arrangement is provided under the heading "*Potential Payments Upon Termination or Change of Control*" on page 21.

#### **Compensation of Chief Executive Officer**

Mr. Stecker's annual base salary is \$240,000 and his potential incentive compensation percentage is 50% of his base salary. In addition, Mr. Stecker, who previously served as a non-employee Chairman of the Board, continues to receive quarterly compensation in the amount of \$5,000 for serving on the Board.

### **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, 2018.

#### ***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 2018. None of the members of the Compensation Committee were, at any time during fiscal 2018, 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.

### 2018 SUMMARY COMPENSATION TABLE

The table below summarizes the total compensation paid to or earned by each of the named executive officers, as well as Mr. Thekkethala who served as our CEO during fiscal year 2018 until July 16, 2018, for the fiscal years ended December 31, 2018, December 31, 2017 and December 31, 2016.

(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 (\$)
<b>Matthew Stecker</b> . . . . .							
Chief Executive Officer . . . . .	2018	\$ 180,000	\$ —	\$ —	\$ —	\$ 15,000	\$ 195,000
<b>Mark P. Szykowski</b> . . . . .							
Sr. Vice President of Finance and Secretary . . . . .	2018	\$ 185,000	\$ —	\$ —	\$ —	\$ —	\$ 185,000
	2017	\$ 13,875	\$ 34,500	\$ 96,245	\$ —	\$ —	\$ 144,620
<b>Thomas Thekkethala</b> . . . . .							
Former President and Chief Executive Officer . . . . .	2018	\$ 163,654	\$ —	\$ —	\$ —	\$ —	\$ 163,654
	2017	\$ 300,000	\$ 1,068,750	\$ —	\$ 5,625	\$ 27,480	\$ 1,401,855
	2016	\$ 300,000	\$ —	\$ —	\$ —	\$ 78,230	\$ 378,230

- (1) Mr. Stecker was named Executive Chairman in April 2018 and President and CEO of the Company in July 2018. Compensation in this table reflects amounts paid or awarded to him after he became Executive Chairman. For additional information on Mr. Stecker's compensation as a director, please see information provided under the heading "2018 Director Compensation Table" on page 10. Mr. Szykowski joined the Company as Senior Vice President of Finance on December 4, 2017. Mr. Thekkethala was removed as President & CEO of the Company on July 16, 2018, a position he held since January 1, 2016.
- (2) The amounts in column (d) reflect the grant date fair value of restricted stock awards granted under the Company's Amended 2016 Stock Incentive Plan during the fiscal year noted, computed in accordance with FASB ASC Topic 718. For further information on these awards, see Note 8, "Share Based Compensation" of our consolidated financial statements included in Form 10-K for the year ended December 31, 2018, filed with the SEC on April 4, 2019.
- (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 Amended 2016 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 19 of this proxy statement and Note 8, "Share Based Compensation" of our consolidated financial statements included in Form 10-K for the year ended December 31, 2018, filed with the SEC on April 4, 2019.

- (4) The amounts shown in column (f) represent incentive compensation earned for 2018, 2017 and 2016, some of which was paid in the subsequent calendar year. The Company achieved incentive compensation targets established by the Compensation Committee as follows: In 2018 the Company did not achieve any of its incentive compensation targets. In 2017: first quarter: 0%; second quarter: 50%; third quarter: 0%; fourth quarter: 0%; annual: 0%; and full year: 4%. In 2016 the Company did not achieve any of its incentive compensation targets.
- (5) Column (g) reflects amounts paid for each named executive officer and former named executive officers as follows. Mr. Stecker continues to receive \$5,000 as compensation for serving on the Board. Excluded from these amounts are premiums paid by the Company for group life and medical insurance also available to non-executive employees:

<u>Named Executive Officer and former Named Executive Officers</u>	<u>Year</u>	<u>Retirement Plan Matching Contributions</u>	<u>Unused Paid Time Off</u>	<u>Commission and Other Payments*</u>
Matthew Stecker .....	2018	\$ —	\$ —	\$ —
Mark P. Szykowski.....	2018	\$ —	\$ —	\$ —
	2017	\$ —	\$ —	\$ —
Thomas Thekkethala.....	2018		\$ —	\$ —
	2017	\$ 8,100	\$ —	\$ 25,005
	2016	\$ 7,950	\$ 8,654	\$ 61,626

\* In 2016 and 2017 Mr. Thekkethala was eligible to receive commissions on certain carry over RateIntegration contracts.

#### 2018 GRANTS OF PLAN-BASED AWARDS

(a) Name	Estimated future payouts under non-equity incentive plan awards				(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 (\$)
	(b) Grant Date	(c) Threshold (\$)	(d) Target (\$ (1))	(e) Maximum (\$)				
Matthew Stecker (3).....	\$	—	\$ 120,000	\$ 240,000	—	—	—	—
Mark P. Szykowski (4) .....	\$	—	\$ 74,000	\$ 148,000	—	—	—	—
Thomas Thekkethala (5) .....	\$	—	\$ 150,000	\$ 300,000	—	—	—	—

- (1) Columns (c), (d) and (e) reflect the amounts that would have been earned by the named executive officers had we achieved our 2018 performance objectives established by the Compensation Committee (see “*Compensation Discussion and Analysis*” discussion on page 15). 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 Amended 2016 Stock Incentive Plan during fiscal year 2018, computed in accordance with FASB ASC Topic 718. For further information on awards, see Note 8, “Share Based Compensation” of our consolidated financial statements included in Form 10-K for the year ended December 31, 2018, filed with the SEC on April 4, 2019.
- (3) Mr. Stecker’s 2018 compensation plan provided for target incentive pay equal to 50% of his base salary, effective July 16, 2018.
- (4) Mr. Szykowski’s 2018 compensation plan provided for target incentive pay equal to 40% of his base salary.
- (5) Mr. Thekkethala’s 2018 compensation plan provided for target incentive pay equal to 50% of his base salary. Mr. Thekkethala was removed from his position at the Company on July 16, 2018.

## OUTSTANDING EQUITY AWARDS AT DECEMBER 31, 2018

(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)
Matthew Stecker .....	13,750	1,250	\$ 5.80	3/16/2026	18,000	\$ 21,420
Mark P. Szykowski .....	12,500	37,500	\$ 4.60	12/3/2027	5,625	\$ 6,694
Thomas Thekkethala.....	81,250	18,750	\$ 6.00	9/29/2025	138,751	\$ 165,114

- (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. Mr. Stecker's options granted to him as a non-employee director prior to July 16, 2018, vested over a one-year period.
- (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, 2021.
- (3) Market value was calculated by multiplying the number of shares shown in the table by \$1.19, which was the closing price per share on December 31, 2018, the last day of our fiscal year.

### 2018 OPTION EXERCISES AND STOCK VESTED

The table below reflects vesting of restricted stock awards during fiscal year 2018. No options were exercised in 2018.

Name	Stock Awards (1)	
	Number of shares acquired on vesting (#)	Value realized on vesting (\$)
Matthew Stecker .....	9,000	\$ 44,400
Mark P. Szykowski .....	1,875	\$ 2,894
Thomas Thekkethala.....	71,249	\$ 332,995

- (1) 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 2018, potential incentive compensation of our named executive officers was 50% or 40% 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 19 for more information about the "stretch" amounts, as well as the "Executive Compensation, Quarterly and Annual Performance-Based Incentive Compensation" section on page 15 for percentages achieved in 2017 and 2016.

Mr. Stecker does not have an employment agreement with the Company.



On December 4, 2017, the Company entered into an employment agreement with Mr. Szykowski 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. Szykowski 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. Szykowski’s employment with the Company. Either the Company or the executive may terminate his employment at any time.

On September 30, 2015, the Company entered into an employment agreement with Mr. Thekkethala which generally provided that in the event the Company terminated his employment, other than for cause, death or disability, he would be paid severance pay. The Board terminated Mr. Thekkethala’s employment for cause on July 16, 2018; as a result, in accordance with the employment agreement the Company did not pay any severance to Mr. Thekkethala.

## **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, 2018 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. Stecker or Mr. Szykowski 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, and irrespective of whether the executive has entered into an employment agreement, 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 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**

Mr. Stecker does not have an employment agreement. As a result, the Company has no contractual obligation to pay him severance in the event his employment terminates. Mr. Szykowski’s employment agreement provides that if his employment is terminated for reasons other than cause, or he resigns for “Good Reason,” he will receive severance pay equal to 6 months of base pay. “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 an agreed number of 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) Mr. Szykowski will receive the following severance benefits:

- an amount equal to 12 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 his 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 \$2,500; 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 in the case of Mr. Szykowski 50% of his outstanding equity awards (options and restricted stock) will automatically vest upon a change of control even if his 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, Mr. Szykowski 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.

## Matthew Stecker

Mr. Stecker does not have an employment agreement. Upon termination of his employment he will be entitled to receive only the amount of compensation that is earned through his date of termination, as set forth above under “*Payments Made upon Termination.*” Mr. Stecker will receive no additional compensation or vesting of stock options or restricted stock upon a Change in Control.

## Mark P. Szykowski

The following table shows the potential payments upon termination or a change of control of the Company for Mark P. Szykowski, our Sr. Vice President of Finance.

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
<b>Cash Compensation</b> .....			
• Base Salary .....	\$ 92,500	\$ 0	\$ 185,000
• Incentive Compensation .....	\$ 0	\$ 0	\$ 74,000
<b>Equity Compensation</b> .....			
• Stock Options (1).....			
• Unvested and accelerated .....	\$ 0	\$ 0	\$ 0
• Restricted Stock (2) .....			
• Unvested and accelerated .....	\$ 0	\$ 3,347	\$ 6,694
<b>Benefits and Perquisites</b> .....			
• Health and Welfare Benefits (3) .....	\$ 0	\$ 0	\$ 0
• Accrued Paid Time Off.....	\$ 473	\$ 0	\$ 473
• Tax services .....	\$ 0	\$ 0	\$ 2,500
<b>Total</b> .....	<u>\$ 92,973</u>	<u>\$ 3,347</u>	<u>\$ 268,667</u>

- (1) The payments relating to stock options represent the value as of December 31, 2018, 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, 2018 (\$1.19). All of Mr. Szykowski's unvested stock options had an exercise price of \$4.60 per share.
- (2) Mr. Szykowski had 5,625 shares of unvested restricted stock on December 31, 2018. The amount reflected is based on the closing price of our common stock on December 31, 2018 (\$1.19).
- (3) Mr. Szykowski does not participate in the Company's health plan.

### Other notes:

On July 16, 2018, the Board terminated Mr. Thekkethala's employment for cause. No payments were made to him under his employment agreement.

## TABLE OF EQUITY COMPENSATION PLANS

The following table contains summary information as of December 31, 2018 concerning the Company's Employee Stock Purchase Plan, 2007 Amended and Restated Stock Incentive Plan and 2016 Amended 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
2007 Amended Stock Incentive Plan .....	293,302	6.895	0(1)
2016 Amended Stock Incentive Plan .....	405,020	2.644	364,845(2)
Employee Stock Purchase Plan .....			50,545

- (1) As of April 22, 2019, the record date, the 2007 Amended Stock Incentive Plan had expired.
- (2) As of April 22, 2019, 702,866 shares have been issued from the 2016 Stock Incentive 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 22, 2019 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 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 22, 2019, 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. 9800 Pyramid Ct, Suite 400 Englewood, CO 80112.....	100,859	*%
David S. Oros (3) c/o Evolving Systems, Inc. 9800 Pyramid Ct., Suite 400 Englewood, CO 80112.....	227,095	1.9%
Richard R. Ramlall (4) c/o Evolving Systems, Inc. 9800 Pyramid Ct., Suite 400 Englewood, CO 80112.....	88,200	*%
Julian D. Singer (5) c/o Evolving Systems, Inc. 9800 Pyramid Ct., Suite 400 Englewood, CO 80112.....	440,138	3.6%
Matthew Stecker (6) c/o Evolving Systems, Inc. 9800 Pyramid Ct., Suite 400 Englewood, CO 80112.....	42,000	*%
Mark P. Szykowski (7) c/o Evolving Systems, Inc. 9800 Pyramid Ct., Suite 400 Englewood, CO 80112.....	26,250	*%
Thomas Thekkethala (8) c/o Evolving Systems, Inc. 9800 Pyramid Ct., Suite 400 Englewood, CO 80112.....	209,661	1.7%
All current executive officers and directors as a group (7 persons) (9).....	1,134,203	9.3%
Piton Capital Partners LLC (10) c/o Kokino LLC 201 Tresser Boulevard, 3rd Floor Stamford, CT 06901 .....	1,250,000	10.25%

Name and Address of Beneficial Owner	Shares of Common Stock Beneficially Owned (1)	
	Number of Shares	Percentage Ownership
Kokino LLC (11) c/o Kokino LLC 201 Tresser Boulevard, 3rd Floor Stamford, CT 06901 .....	1,250,000	10.25%
Karen Singer, Trustee of the Singer Children's Management Trust (12) 212 Vaccaro Drive Cresskill, NJ 07626.....	2,645,638	21.7%
Renaissance Technologies LLC (13) 800 Third Avenue New York, NY 10022 .....	645,236	5.3%

\* Less than one percent (1.0%).

- (1) Percentage of common stock beneficially owned is based on 12,196,582 shares of common stock outstanding on April 22, 2019.
- (2) Includes approximately 5,000 shares purchased on the open market and 23,200 shares subject to stock options exercisable within 60 days of April 22, 2019. Mr. Nicol holds his shares in a brokerage account which permits borrowing on margin.
- (3) Includes approximately 172,000 shares purchased on the open market and 16,175 shares subject to stock options exercisable within 60 days of April 22, 2019.
- (4) Includes 14,625 shares subject to stock options exercisable within 60 days of April 22, 2019.
- (5) Includes approximately 245,000 shares purchased on the open market and 15,000 shares subject to stock options exercisable within 60 days of April 22, 2019.
- (6) Includes 15,000 shares subject to stock options exercisable within 60 days of April 22, 2019.
- (7) Includes 18,750 shares subject to stock options exercisable within 60 days of April 22, 2019.
- (8) Includes approximately 43,000 shares purchased on the open market and 87,500 shares subject to stock options exercisable within 60 days of April 22, 2019.
- (9) Includes 190,250 shares subject to stock options exercisable within 60 days of April 22, 2019.
- (10) Based solely upon the Schedule 13D/A information filed with the SEC by Piton Capital Partners LLC on November 28, 2017.
- (11) Based solely upon the Schedule 13F information filed with the SEC by Kokino LLC on February 13, 2019.
- (12) 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.
- (13) Based solely upon the Schedule 13G information filed with the SEC by Renaissance Technologies LLC on February 12, 2019.

## 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, 2018, all Section 16(a) filing requirements applicable to our officers, directors and greater than ten percent beneficial owners were complied with, except that Mr. Thekkethala failed to file a Form 4 reporting a sale of shares in December 2018.

### 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 2018, Messrs. Nicol, Oros and Ramlall, 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](http://www.evolving.com), under “Investor Relations — 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 2018 Consolidated Financial Statements

In connection with its review of our Fiscal Year 2018 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, 2018 be included in the Company's 2018 Annual Report on Form 10-K.

**BY THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS:**

**David J. Nicol, Chairman**

**David S. Oros**

**Richard R. Ramlall**

**CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

**Change of Control Provisions with Mark P. Szykowski**

We have entered into an Employment Agreement with Mark P. Szykowski, our Senior Vice President of Finance, which contains a Change of Control provision. This agreement was approved by our Compensation Committee and is 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.

**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. 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 and Nominating and Governance 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](http://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 by the Annual Report for fiscal year ended December 31, 2018. 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.  
9800 Pyramid Court, Suite 400  
Englewood, CO 80112  
Attn: Mark P. Szykowski, Sr. Vice President of Finance & Secretary  
1-844-SEC-EVOL (1-844-732-3865)

#### **STOCKHOLDER PROPOSALS FOR THE 2020 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 2020 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 11, 2020. A stockholder proposal or nomination for director for consideration at the 2020 annual meeting but not included in the proxy statement and proxy must be received by the Secretary of Evolving Systems no earlier than March 21, 2020 and no later than April 20, 2020. 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,



*Mark P. Szykowski*  
Senior Vice President of Finance & Secretary



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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**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, 2018

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)

**9800 Pyramid Court, Suite 400, 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 every Interactive Data File required to be submitted 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, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer", "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 \$17,708,979 as of June 30, 2018.

The number of shares of Common Stock outstanding was 12,161,176 as of April 3, 2019.

**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 2019 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission within 120 days after the close of the 2018 year. Except as expressly incorporated by reference, the Proxy Statement shall not be deemed to be a part of this report on Form 10-K.

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**EVOLVING SYSTEMS, INC.**  
**Annual Report on Form 10-K**  
**For the year ended December 31, 2018**  
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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,” or “plan,” and 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; the expectations associated with our business, our subsidiaries’ operations and our 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.” Readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date they are made. 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 provides real-time digital engagement solutions and services to more than 100 customers in over 65 countries worldwide. Our portfolio includes market-leading solutions and services for real-time analytics, customer acquisition and activation, customer value management and loyalty for the telecom industry promoting partnerships into retail and financial services.

Our acquisitions in 2017 of BLS Limited (“EVOL BLS”) and four Lumata Holdings subsidiaries, Lumata France SAS, Lumata Spain S.L., Lumata UK Ltd and Lumata Deutschland GmbH (collectively, “Lumata Entities”), along with the acquisition of RateIntegration d/b/a Sixth Sense Media (“SSM”) in 2015 ushered our entry into the high value digital engagement space and also initiated our adoption of a recurring revenue business model based on managed services and Software as a Service (SaaS).

We have transitioned from offering traditional software technology licensing, focused on cost savings, to offering business solutions focused on revenue growth and efficiency gains for the carrier. Our business model has moved from classic capital expenditure license and services to operating expense models based on managed services, including transaction and performance fees.

We offer real-time, interactive digital engagement solutions and services that drive increases in customer lifetime value for our enterprise clients:

- Acquisition and Activation Solutions that increase new subscriber enrollments through multiple channels and dealer networks, electronically authenticate customer identity and activate complex bundles of traditional telecom services (voice, messaging and data) and value-added network services;
- Retention and Loyalty Solutions that extend the duration of customer contracts by engaging them with the brand, interacting and rewarding them with personalized offers through loyalty and partner programs; and
- Analytics and Value Management Solutions that analyze consumer behavior in real-time and enable marketing departments to innovate, create and manage highly-personalized and contextually-relevant interactive campaigns that engage consumers with event-triggered offers that result in higher take-rates and increased customer revenue.

The combination of these offerings increases customer activations and activity, extends their lifecycle and increases customer spend resulting in increased customer lifetime value.

#### COMPANY BACKGROUND

Evolving Systems was founded in 1985 to provide software and services to the U.S. telecommunications industry. During our early years we focused on providing 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 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 focused 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 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. The acquisition included technology used in the delivery and management of mobile data services and a portfolio of SaaS based solutions. We were not required to make the additional contingent payments potentially payable by us under the acquisition agreement and we recognized other income in 2016 and the three months ended June 30, 2018.

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. This payment was offset against other obligations during 2018 and was not made. 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.

On July 3, 2017, BLS Limited (“EVOL BLS”), a wholly owned subsidiary of the Company, completed the purchase of Business Logic Systems Limited (“BLS”), a provider of customer value management solutions and data driven marketing solutions. EVOL BLS and BLS are both companies incorporated under the laws of England and Wales. Under the terms of the Asset Purchase Agreement (the “Purchase Agreement”), BLS sold substantially all of its assets and transferred certain liabilities relating to BLS’s business for £1.2 million (\$1.6 million) in cash, plus (a) an additional sum of £0.1 million (\$0.1 million), reduced by any sums paid by EVOL BLS for certain employee severance obligations (collectively, the “Cash Payments”); (b) a percentage of collections on certain receivables over a 24-month period; and (c) an earnout equal to 50% of BLS based revenue over defined threshold levels for a period of 3 years after the closing date. We made the earn-out payment in November 2018 of approximately \$0.8 million. No future payments are expected at this time. BLS specializes in data-driven customer value management and customer engagement solutions that have been implemented in over 20 mobile operators in Europe, Africa, Asia-Pacific and the Caribbean. BLS solutions turn customer data into actionable insights and personalized contextual offers. Customer engagement occurs through in-bound and out-bound offers and is further extended through a suite of loyalty and retention solutions.

On September 7, 2017, Evolving Systems Holdings Limited (“EVOL Holdings”) acquired all of the issued and outstanding shares of four (4) Lumata Holdings (“Seller”) subsidiaries, (“Lumata Entities”), in exchange for a cash payment totaling €4.0 million (\$4.8 million), subject to certain adjustments. In connection with the acquisition, EVOL Holdings entered into a Term Loan Facility Agreement, a Debenture and a Subordination Deed with East West Bank as lender in the amount of \$4,730,000 (collectively, the “Loan Facility Agreements”).

The Lumata Entities are a leading global provider of real-time, next generation loyalty and customer lifecycle management software and services that allow businesses to analyze customer data for relevant and contextual insights that will support additional services. Its customers are mobile operators including Orange, Telefonica and other Tier-1 and emerging operators in Europe and around the world.

We are now a leading supplier of real-time digital engagement solutions and services that drive growth in customer acquisition and activation, extend customer lifetime and increase customer value and revenue in the converging mobile, entertainment, financial and retail services eco-system. Our platforms, together with our team of experienced industry experts, help service providers increase their customer lifetime value (“CLV”) over the course the customer lifecycle.

## INDUSTRY DYNAMICS

The market for digital engagement to increase customer lifetime value is growing. Several key factors are driving carrier demand for next generation solutions, supporting growth for specific products within the sector:

- Carriers are 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 has resulted in increased usage of mobile data;
- On-going network investment in 5G and Internet of Things (“IoT”) networks is driving increased demand for digital engagement solutions;
- Carriers are experiencing pricing pressure 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 Enterprise Mobility and Machine to Machine (“M2M”) requirements are driving further demand.

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 5G, IoT and M2M accelerate, the SIM card and embedded SIM (eSIM) have emerged as vital links in the end-to-end value chain. Evolving Systems’ full life cycle management of SIMs and eSIMs from ordering, dynamically activating and managing the SIM card is becoming an important component in the service provider’s 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 700 million SIM cards, providing enhanced functionality and significant operator savings.

In a market where consumers perceive their telecom services as a commodity, maintaining or growing customer value and retaining valuable customers is a persistent challenge. Customers are demanding ever greater incentives for their loyalty, attracted by disruptive OTT alternatives and competitive offers on data, airtime, and SMS. This can lead to a spiral of price-driven value destruction unless a truly differentiated approach is used to stand out from the crowd and deliver superior value.

The digital revolution offers unparalleled opportunities to generate new revenue streams, create highly relevant and differentiated offerings, and deliver more engaging customer experiences to the growing universe of connected consumers. But a digital environment requires a whole new way of interacting with consumers in real-time, via multiple channels such as apps, web, email, as well as traditional SMS, in a highly contextual manner. Having a deep understanding of customer preferences and behavior is critical in this digital environment full of demanding customers.

Mobile service is ubiquitous and mobile operators are the digital enablers between consumers and brands, the trusted processors of customer data, uniquely able to bridge the digital and physical world through their technology infrastructure. The mobile industry is going through a transition period. Traditional voice and messaging revenues are in decline due to several factors including the “over-the-top” OTT players. Mobile data demand is growing. Service providers are focused on building upon their brand and their “last mile” connectivity to more actively engage their customers and to increase the customer wallet-share through digital and non-digital partnerships.

We help service providers navigate through the digital marketing jungle of fragmented technologies, converging communication channels and managing the data overload through our portfolio of digital engagement solutions. We combine big ideas and a deep understanding of mobile customer behavior with powerful software capabilities and expertise to create digital engagement & loyalty experiences that stand out from the crowd.

We sit at the intersection of technology and marketing. Our solutions leverage mechanics such as digital vouchering, digital badges, in-app engagement, etc. to drive a two-sided business model, where we generate value from 3<sup>rd</sup> party brands, as well as retail customers. It is a continuous circle where customers increase spending and extend tenure in return for perceived high value rewards and experiences, which brands provide in order to access a highly targeted mobile customer base.

Connecting brands and consumers, via a digital platform, positions the mobile operator at the center of commerce, content and communication flows in the connected world. Using our solutions, mobile operators have access to accurate data on customer preferences, behavior, spending, etc. While it is critical to ensure customer opt-in for data use, industry research confirms that consumers will allow a trusted mobile operator to use their information in return for highly relevant and attractive incentives.

## **DIGITAL ENGAGEMENT SOLUTIONS PORTFOLIO**

### **Acquisition and Activation**

Our Subscriber Acquisition and Activation solutions support carriers in adding new subscribers to their network, beginning with the sales and contract process through 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/eSIM Activation solution which is integrated into the carrier’s signaling network, enabling new SIM cards or eSIMs that have not been pre-provisioned to be detected on first use in consumer and IoT Markets. This triggers an efficient, dynamic provisioning process and eliminates the need for pre-provisioning, thus lowering the operator’s costs of subscriber acquisition and eSIM bootstrapping. The SIM/eSIM activation occurs only when a SIM/eSIM 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. eSIMs and eSIM profiles, 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.

### **Customer Analytics and Value Management**

Our Customer Analytics and Value Management solutions empower marketing departments to create and deploy highly personalized, location and contextually relevant, interactive customer engagement campaigns. Our most recent version of our cutting-edge **Evolution** platform launched in the first quarter of 2019 enables us to deliver a full-service solution at the client’s site or hosted in our cloud and provided as SaaS subscription. 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 for data bundles, digital services such as music, video, movies, gaming, entertainment, and mobile money as well as non-digital services including retail offers.
- **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.

### **Customer Retention and Loyalty**

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

Brand partnerships are the true differentiators given the commoditization of typical carrier offers in the market. Some of the examples of digital engagement concepts we have created include the first digital badges concept in the telecom sector with Orange, the largest and most successful film vouchering programs with Orange, & Everything Everywhere, innovative Recharge & Instant Win mechanics in prepaid markets, and two of the most successful loyalty programs in the tough African market. These concepts were designed with specific mechanics that work within the local market in conjunction with brand partners. They are successful solutions which endure, because of key ingredients such as simple customer journeys, perceived high value rewards and innovative engagement mechanics in conjunction with strategic brand partnerships.

The key modules include:

- **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, Voucher and Badges Management** covers the whole lifecycle of coupons, vouchers and badges as a medium for delivering rewards. Our solution manages the interface with partners, the delivery of coupons to subscribers, redemption for digital or physical goods, and settlement between carrier and partner.
- **Digital Engagement Engine** includes several solution components:
  - Proprietary framework for engagement concept design and partner selection;
  - Flexible business rules to define tiers to earn, burn or transfer credits;
  - Multi-variable definition to calculate loyalty, including spend, tenure, social advocacy, brand engagement, digital maturity, etc.;
  - Intelligent predictive analytics engine and segmentation capability;
  - Channel agnostic redemption capability with standard partner APIs to connect into Point of Sale retail systems and other redemption networks; and,
  - Tier 1 carrier grade data capture and configurable provisioning engine.

## **MANAGED SERVICES (MARKETING AND EXPERT IT SERVICES)**

Our Marketing Services team works through a five-stage approach to assist our clients' marketing departments in growing their customer base and engaging and retaining their valuable customers:

- **Engage:** We design engagement plans that map against specific segments based on 'propensity to participate' and lifetime value indicators.
- **Interact:** We design the push and real-time trigger-based interactions with customers to attract them into the program and keep them engaged.
- **Reward:** We define a broad range of trigger events and a variety of engagement mechanics (points, badges, instant wins, vouchers, etc.).
- **Redeem:** We work with partners to stitch together a redemption network online and offline, so customers have highly relevant, branded rewards (a key source of differentiation and program longevity) from which to choose.
- **Optimise/Learn:** We use program data, overlay program results from our global customer base, and apply an iterative process to reach the right customers with meaningful incentives.

Our experienced IT Services team provides expert 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.

We deliver our Managed Services both on-site at a carrier's facilities or remotely. Services range from operational support of our software solutions, technical services to expand those solutions with new modules and functionality to support new business value, 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 most of our products and services internally in our innovation labs in North Carolina, France, Romania and India. Internal development allows us to maintain competitive advantages that come from product differentiation and closer technical control over our products and services. It also allows us to decide which modifications and enhancements are most important and when they should be implemented. Generally, we also create product documentation internally. We conduct research to identify



specific industry and client business needs as well as market requirements and we use that information to determine our investment in product development. 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.

We are currently continuing our on-going investment in our Evolution platform, a combination of software capabilities achieved through each of our acquisitions, which will provide a powerful environment to configure and operate rich Customer Lifecycle Journeys from acquisition to retention through a variety of engagement models, offer and loyalty programs. Primarily designed to address integrated mobile digital engagement needs it can accommodate any type of customer and any type of use case. The platform's Customer Journey Manager will be responsible for profiling individual engagements to enable better insights and more automation. This approach produces more relevant and engaging predictions and offers for us to present to customers.

The platform will provide service providers with unmatched artificial intelligence based on smart data and operational predictive analytics functions enabling to improve efficiency and to maximize revenues, all the while reducing time and effort to execute hundreds of micro-segmented engagements and offers. We intend to take our digital engagement readiness solution for carriers beyond just enabling clients to use their traditional data. The new platform will move beyond its current SQL engine to using a Kafka-engine-powered big data platform. This will enable the real-time processing of multiple data-streams for unlimited flexibility and scalability.

Our Evolution platform will be used to operate the most innovative large-scale loyalty programs, as well as to provide unique mechanics enabling gamification, optimization and personalization across a variety of channels. It will enable our clients to engage with their customers at all stage of their lifecycle, providing interactive dialogue and smart recommendations through all available traditional and digital channels. The platform will seamlessly integrate within the service provider's IT infrastructure, either on-premise or on a private cloud. It will be operated or managed as a service depending on the market needs.

## **SALES AND MARKETING**

Our sales force is primarily a field organization structured to focus on specific geographical territories around the world including North America, Latin America, Europe, Middle East, Africa, the Commonwealth of Independent States (comprised of Russia and other former Soviet Republics), South Asia and Asia Pacific. Our sales activities cover direct sales to enterprise customers as well as sales through partners and resellers. Partners include Ericsson, Gemalto and Idemia who include our products as part of their wider solution offerings and systems integrators such as IBM, Amdocs and Atos, who license our technology to customers as part of their delivery engagements. The resellers include regional or country specific companies that manage our customer relationships in countries where English is not the primary language.

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 and lead generation.

## **COMPETITION**

The market for telecommunications OSS products and mobile analytics and advertising is highly 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 in subscriber acquisition and activation and Digital Engagement Customer Value Management, Retention and Loyalty 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 Nokia, Amdocs and Huawei, as well as billing vendors and other vendors such as Ericsson, 6D, HP and a few other smaller regional competitors.

Competitors for Digital Engagement Customer Value Management, Retention and Loyalty, include specialist vendors such as Pontis (acquired by Amdocs), CRM software from vendors such as Amdocs Limited, Analytics software from vendors like SAS and a few independent software companies like FlyTxt and Pelatro.

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 both marketing services and expert services 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 and IT infra-structure. 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 year ended December 31, 2018 one significant customer accounted for 11% of revenue from operations. This customer is a large telecommunications operator in Europe. For the year ended December 31, 2017 one significant customer accounted for 11% of revenue from operations. This customer is a large telecommunications operator in Europe.

## **INTELLECTUAL PROPERTY**

We rely on a combination of patents, copyright, trademark and trade secret laws, as well as confidentiality agreements and licensing arrangements, to establish and protect our proprietary rights. We have 9 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, 2018, we employed 280 people including 17 in the United States, 117 in the United Kingdom and European Union and 146 in India. Of our worldwide staff, 78% are involved in product delivery, development, support and professional services, 6% in sales and marketing, and 16% in general administration. The number and mix of our staff stabilized after the integration of the prior year acquisitions, however changes may occur in the coming year related to changes in the business and our market strategies. We also engage with multiple contractors in various countries to allow us to service our global clients.

## **AVAILABLE INFORMATION**

You can find out more information about us at [www.evolving.com](http://www.evolving.com). In addition, we use social media to communicate to the public. It is possible that the information we post on social media could be deemed to be material to investors. We encourage investors, the media, and others interested in Evolving Systems to review the information we post on the social media channels listed on our website. The information on or accessible through our website or on social media 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](http://www.sec.gov).

## **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 60% 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 96% 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.

There is additionally considerable uncertainty about the economic and regulatory effects of the United Kingdom's exit from the European Union (commonly referred to as "Brexit"). The UK is one of our largest markets in Europe, but we also presently provide services to UK customers from EU countries. Brexit may result in greater regulatory complexity surrounding the services we provide to our UK customers and financial results could be negatively impacted.

Any of the foregoing factors may have a material adverse impact on our business, financial condition and results of operations. 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. Throughout the world, in the normal course of business, we are subject to examination by taxing authorities up until, two years in the U.K. and Europe and four years in India, following the end of the accounting period. As of the date of this report, three of our income tax returns in India are under examination and we do not expect the results of the examination will have a material effect on our financial statements.

*We face intense competition for our products and services, which may lead to lower revenue or operating margins.*

Our competitors range in size from diversified global companies with significant research and development resources to small, specialized firms. Many of the areas in which we compete evolve rapidly with changing and disruptive technologies, shifting user needs, and frequent introductions of new products and services. Our ability to remain competitive depends on our success in making innovative products, devices, and services that appeal to businesses and their customers.

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

In connection with our acquisition of "Lumata Entities" completed on September 4, 2017, we entered into a Term Loan Facility Agreement with East West Bank as lender in the amount of \$4.7 million (the "Lumata Facility") and we used the full amount of the Lumata Loan Facility to fund the acquisition. The Lumata Facility requires us to make monthly principal payments of approximately \$0.1 million, which commenced July 31, 2018 and interest at the greater of (a) 3.5% or (b) the variable rate of interest that appears in the Wall Street Journal on a monthly measurement date, plus in either case 1.5%. The Lumata Facility is secured by substantially all of our assets. The unpaid balance of the Lumata Facility is due on August 16, 2021.

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. On February 29, 2016, we retired the Revolving Facility and 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 our 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, which commenced on January 1, 2017. The Term Loan matures on January 1, 2020.

Both in the Lumata Facility and the Term Loan (collectively, "Loans"), require us to 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 Loans also include negative covenants that place restrictions on our 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 stockholders; and change the nature of our business materially. Outstanding amounts under the Loans 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.

The Loans 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 the Loans could adversely affect the amount or timing of investments to grow our business, impairing our ability to invest in and successfully grow our business;
- the Loans 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;
- the Loans 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 Loans impose 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 Loans 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 Loans 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. We did not comply with the fixed charge ratio covenant for the quarter ended December 31, 2018. We received a waiver of the non-compliance from East West Bank and we are negotiating new quarterly ratios for 2019. We may fail to meet the covenant requirements in future periods and may be unable to obtain additional waivers or modifications.

***We recently completed a number of acquisitions in support of our new strategy based on recurring managed services. Acquisitions present many risks and we cannot guarantee that we will realize the financial and strategic goals that were contemplated at the time of a transaction.***

We have recently entered into acquisitions that we believe have accelerated and will continue to accelerate our pivot to the customer acquisition and customer value management (“CVM”) domains. 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. 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.

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 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. In addition, future acquisitions could result in dilutive issuances of equity securities, impact employee stock options, reduce our cash available for operations and increase our debt. All of these factors associated with acquisitions could result in unexpected litigation from employees and stockholders. 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.

***An impairment of the carrying value of goodwill or other indefinite-lived intangible assets could negatively affect our consolidated operating results.***

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 an other than temporary decline in our market capitalization that is calculated as our common stock’s market price multiplied by the number of shares of common stock outstanding, 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 the reporting unit, and determination of the fair value of the reporting unit. In 2018, the Company adopted ASU 2017-04, Intangibles — Goodwill and Other (Topic 350), Simplifying the Test for Goodwill Impairment, which simplifies the subsequent measurement of goodwill by eliminating the second step from the quantitative goodwill impairment test. Under this guidance, annual or interim goodwill impairment testing will be performed by comparing the fair value of a reporting unit with its carrying amount. An impairment charge will then be recognized for the amount by which the carrying amount exceeds the reporting unit’s fair value, not to exceed the carrying value of goodwill.

Fair value determinations require considerable judgment and are sensitive to changes in underlying assumptions, estimates and market factors. Estimating the fair value of our business and indefinite-lived intangible assets requires us to make assumptions and estimates regarding our future plans, as well as industry and economic conditions. These assumptions and estimates include projected revenues and income growth rates, terminal growth rates, competitive and consumer trends, market-based discount rates, and other market factors. If current expectations of future growth rates are not met or market factors outside of our control, such as discount rates, change significantly, then goodwill or intangible assets might become impaired in the future. As goodwill and intangible assets associated with recently acquired businesses are recorded on the balance sheet at their estimated acquisition date fair values, those amounts are more susceptible to an impairment risk if business operating results or macroeconomic conditions deteriorate. Additionally, recently impaired intangible assets can also be more susceptible to future impairment as they are recorded on the balance sheet at their recently estimated fair values. An impairment of the carrying value of goodwill or other indefinite-lived intangible assets could negatively affect our operating results or net worth.

***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 clients 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. Even as we transition more of our business software-as-a-service business model and managed services, the license-based proprietary software model generates a substantial portion of our software revenue. 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.

***Our products are complex and have a lengthy implementation process; unanticipated difficulties or delays in obtaining customer acceptance 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, 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. We have in the past 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, and other usage of mobile data.***

Our primary market, wireless telecommunications, is fairly mature and saturated, which may result in lower budgets and margins for our solutions and services. The future success of our business depends upon continued new subscriber growth, consumer adoption of new types of connected devices like IoT and consequently mobile operator demand for next generation software solutions and services. 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.

***The success of our business also depends on our ability to renew our support and managed services offerings. The quality of our support and managed services offerings is important to our customers. If we fail to meet our service level obligations under our agreements, we could incur penalties and could lose customers.***

Providing a high level of support for our solutions is critical to our business. Our customers expect us to resolve issues relating to the use of our solutions and if we are unable to meet or exceed the expectations of our customers, we could experience loss of customers and difficulty attracting new customers. In addition, we have service level agreements with many of our customers under which we guarantee specified levels of service availability and service credits for failing to achieve our agreed service levels, which could result in higher than expected costs, decreased revenues and decreased operating margins. Any of the above results would likely have a material adverse impact on our business, revenue, results of operations, financial condition and reputation.

***Compliance with changing European privacy laws could require us to incur significant costs and failure to comply could give rise to liabilities. Disclosure and misuse of personal data could result in liability and harm our reputation.***

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. In addition, we have offices and clients in the EU where new more stringent regulations, known as the General Data Protection Regulations or "GDPR," took effect in May 2018. The GDPR imposes significant new obligations and compliance with these obligations depends in part on how particular regulators apply and interpret them. If we fail to comply with the GDPR, or if regulators assert we have failed to comply with the GDPR, it may lead to regulatory enforcement actions, which can result in monetary penalties of up to 4% of worldwide revenue, private lawsuits, or reputational damage.

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 Despite our efforts to improve our security controls, it is possible our security controls over personal data, our training of employees and vendors on data security, and other practices we follow may not prevent the improper disclosure of customer or user data we store and manage. 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. We may also experience hesitancy, reluctance or refusal by European or multi-national customers to continue to use our services due to the potential risk exposure that these customers might face as a result of the current data protection obligations imposed on them by certain data protection authorities. These customers may require us to accept increased liability, decide not to do business with us or may require that their personal data remains in certain locations. 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 damage claims from our customers, 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.

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

The security of our products and services is important in our customers' decisions to purchase or use our products or services. 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 cyber-attacks, 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 business continuity or 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.

***System security risks, data protection breaches, cyberattacks and systems integration issues could disrupt our internal operations or IT services provided to customers, and any such disruption could reduce our revenue, increase our expenses, damage our reputation and adversely affect our stock price.***

As a technology services business, we are exposed to attacks from criminals, nation state actors and activist hackers (collectively, “malicious parties”) who may be able to circumvent or bypass our cyber security measures and misappropriate, maliciously alter or destroy our confidential information or that of third parties, create system disruptions or cause shutdowns. Malicious parties also may be able to develop and deploy viruses, worms, ransomware and other malicious software programs that attack our products or otherwise exploit any security vulnerabilities of our products. Threats to our own IT infrastructure can also affect our customers. Customers using our cloud-based services rely on the security of our infrastructure, including hardware and other elements provided by third parties, to ensure the reliability of our services and the protection of their data. Sophisticated hardware and operating system software and applications that we procure from third parties may contain defects in design or manufacture, including flaws that could unexpectedly interfere with the operation of the system. The costs to us to eliminate or alleviate cyber or other security problems, including bugs, viruses, worms, malicious software programs and other security vulnerabilities, could be significant and could reduce our operating margins. Our efforts to address these problems may not be successful and could result in interruptions, delays, cessation of service and loss of existing or potential customers that may impede our sales, manufacturing, distribution or other critical functions.

We manage and store various proprietary information and sensitive or confidential data relating to our business. In addition, our business may process, store and transmit data relevant to our clients, including commercially sensitive and personally identifiable information, including the personal information of European citizens covered by the GDPR. Breaches of our cyber or physical security measures or the accidental loss, inadvertent disclosure or unapproved dissemination of proprietary information or sensitive or confidential data about us, our clients or their customers, including the potential loss or disclosure of such information or data, could expose us, our customer or the individuals affected to a risk of loss or misuse of this information, result in litigation and potential liability for us, damage our brand and reputation or otherwise harm our business. We also could lose existing or potential customers or incur significant expenses in connection with our customers’ system failures or any actual or perceived security vulnerabilities in our products and services. In addition, the cost and operational consequences of implementing further data protection measures could be significant.

Portions of our IT infrastructure also may experience interruptions, delays or cessations of service or produce errors in connection with systems integration or migration work that takes place from time to time. We may not be successful in implementing new systems and transitioning data, which could cause business disruptions and be more expensive, time-consuming, disruptive and resource intensive. Such disruptions could adversely impact our ability to fulfill orders and respond to customer requests and interrupt other processes. Delayed sales, lower margins or lost customers resulting from these disruptions could reduce our revenue, increase our expenses, damage our reputation and adversely affect our stock price.

***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 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.

***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 in the future. 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.



***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;
- impairment in the value of our long-lived assets;
- 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, expenses associated with our debt 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 next generation loyalty and customer lifecycle management software and services 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 and investment in new technologies is speculative. 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 customers do not perceive our latest offerings as providing significant new functionality or other value, they may reduce their purchases of new offerings or upgrades, unfavorably affecting revenue. We may not achieve significant revenue from new products and services for several years, if at all. New products and services may not be profitable, and even if they are profitable, operating margins for some new products and businesses will not be as high as the margins we have experienced historically.

***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 under our 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.

***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 solutions.

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 and services. We may have to reduce the prices we charge for our products and services, 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 solutions 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 solutions 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 not be able to recover these damages from a subcontractor. 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 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 9 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.

***Our performance may be adversely affected by economic and political conditions in the United Kingdom where we do business.***

Our performance has been in the past and may continue in the future to be impacted by economic and political conditions in the United Kingdom where we do business. Economic and financial uncertainties in our international markets, including uncertainties surrounding the United Kingdom's impending withdrawal from the European Union (commonly referred to as "Brexit") and changes to major international trade arrangements, could negatively impact our operations and sales. Brexit may result in greater regulatory complexity surrounding the services we provide to our customers from our UK resources and financial results could be negatively impacted.

***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 UK, we are also subject to the U.K. Bribery Act of 2010. In addition, many countries in which we do business have their own anti-bribery rules and regulations. Under these regulations, we may be held liable for actions taken by our local partners and agents, even if such parties act without our knowledge. Any determination that we have violated the FCPA or the Bribery Act of 2010 (whether directly or through acts of others, intentionally or through inadvertence) or other anti-bribery legislation could result in sanctions that could have a material adverse effect on our business. While we have procedures and controls in place to monitor compliance, situations outside of our control may arise that could put us in violation of anti-bribery legislation inadvertently and thus negatively impact our business.

***In order to operate internationally and comply with local government regulations and customer requirements, we maintain bank accounts at non-U.S. banks located in Asian and African countries and in local currencies. Certain countries such as India and Nigeria require that we pay withholding taxes should we transfer our cash from a non-U.S. bank account to our U.S. bank accounts.***

As of December 31, 2018, of our \$6.7 million cash balance, \$1.3 million is on deposit in the U.S., the U.S. dollar equivalents of \$2.8 million is on deposit in the U.K. and Europe, \$1.5 million is on deposit in India and \$1.1 million is on deposit in Nigeria. Should we choose to transfer cash out of our bank accounts in India and Nigeria, we may be required to pay the local tax authorities a withholding tax ranging from 10% to 20% of the amount transferred. Local regulations may make a transfer may take longer to execute than transfers from our U.S., U.K. and European bank accounts and the withholding tax we pay may not be refundable. The longer execution times and the withholding taxes means we may be subject to delays in executing our operations and our available cash is reduced by the withholding taxes.

***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.

***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.

***The input method of accounting used for most of our projects can result in overstated or understated profits or losses.***

Our services and managed services revenue under fixed-price services contracts is accounted for using the input method of accounting. Under this method, we recognize revenue and profits for each fixed-price service project-based efforts or inputs toward satisfying a performance obligation, which is a promise in a contract to transfer a distinct service to the customer. The input method requires us to estimate the total performance obligation and to allocate the transaction price of a contract to each distinct performance obligation. Our failure to accurately estimate these often-subjective factors could result in overstated or understated revenue, profits or losses.

***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 GAAP, resulting in a material adverse impact on our financial positions or results of operations. 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.

Certain of 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 Loans limit 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.

**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 .....	400	month-to-month
New York, New York.....	391	01/31/20
Durham, North Carolina .....	1,453	08/31/20
London, England .....	376	09/30/19
Bangalore, India.....	12,429	08/18/23
Kolkata, India .....	5,638	07/31/20
Delhi, India.....	322	03/09/20
Johannesburg, South Africa.....	130	03/31/19
Kuala Lumpur, Malaysia .....	1,042	07/14/19
Mexico City, Mexico .....	89	02/28/19
Grenoble, France .....	3,767	03/21/21
Cluj-Napoca, Romania .....	7,793	12/31/22
Madrid, Spain .....	215	month-to-month

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**

We are involved in various legal matters arising in the normal course of business. Losses, including estimated costs to defend, are recorded for these matters to the extent they were probable of loss and the amount of loss could be reasonably estimated. 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."

As of April 3, 2019, there were approximately 79 holders of record of our common stock.

#### Dividends

Our Loans limit 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. 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.

### ITEM 6. SELECTED FINANCIAL DATA

Not applicable.

### 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., Evolving Systems NC Evolving Systems BLS LTD, Lumata UK LTD, Lumata France SAS, Lumata Deutschland GmbH, and Lumata Spain SL and short- and long-term cash needs. In some cases, words such as "anticipates", "expects", "intends", "plans", "believes" or "estimates" and 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 provider of real-time digital engagement solutions and services to the wireless carrier and consumer financial services markets. We operate a managed services business model through which we maintain long-standing relationships with many of the largest wireless companies worldwide. The Company's portfolio includes market-leading solutions and services for real-time analytics, customer acquisition and activation, customer value management and loyalty for the telecom industry promoting partnerships into retail and financial 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 capital expenditure license and services to operating expense models based on managed services with performance fees.

In July 2017, we completed our acquisition of BLS, a company headquartered in Newbury, United Kingdom that specializes in data-driven customer value management and customer engagement solutions that have been implemented in over 20 mobile operators in Europe, Africa, Asia-Pacific and the Caribbean. BLS solutions can turn customer data into actionable insights and personalized contextual offers. Customer engagement occurs through in-bound and out-bound offers and is further extended through a suite of loyalty and retention solutions.

In September 2017, we completed the acquisition of four business operating units of the "Lumata Entities". The Lumata Entities are a leading global provider of real-time, next generation loyalty and customer lifecycle management software and services that help businesses gain value from their customer data for relevant and contextual insights and actions of value to both customers

and enterprises. Lumata's customers include wireless carriers Orange, Telefonica and other Tier-1 and emerging wireless carriers in Europe, Asia, the Middle East, Africa, the Caribbean and Central and South America.

## RECENT DEVELOPMENTS

We reported a net loss of \$14.8 million and net income of \$2.5 million for the years ended December 31, 2018 and 2017, respectively.

In 2018, the Company adopted ASU 2017-04, Intangibles — Goodwill and Other (Topic 350), Simplifying the Test for Goodwill Impairment, which simplifies the subsequent measurement of goodwill by eliminating the second step from the quantitative goodwill impairment test. Under this guidance, annual or interim goodwill impairment testing will be performed by comparing the fair value of a reporting unit with its carrying amount. An impairment charge will then be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value, not to exceed the carrying value of goodwill. Due to a sustained decline in the market capitalization of our common stock during the fourth quarter of 2018, we performed an interim goodwill impairment test in accordance with the provisions of ASU 2017-04. The outcome of this goodwill impairment test resulted in a charge for the impairment of goodwill of \$17.8 million, which was recorded in the consolidated financial statements for the year ended December 31, 2018. Management considered that, along with other possible factors affecting the assessment of the Company's reporting unit for the purposes of performing a goodwill impairment assessment, including management assumptions about expected future revenue forecasts and discount rates, changes in the overall economy, trends in the stock price, estimated control premium and other operating conditions.

We have operations in foreign countries where the local currency is used to prepare the consolidated 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 2018 and 2017 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):

	<u>For the Years Ended December 31, 2018 vs. 2017</u>	
<b>Changes in:</b>		
Revenue .....	\$	435
Costs of revenue and operating expenses.....		<u>(3,187)</u>
Loss from operations.....	\$	<u><u>(2,752)</u></u>

The net effect of our foreign currency translations for the year ended December 31, 2018 was a \$0.4 million increase in revenue and a \$3.2 million decrease in operating expenses versus the year ended December 31, 2017 due to a stronger U.S. dollar on average during the year 2017.

## RESULTS OF OPERATIONS

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

	<u>For the Years Ended December 31,</u>			
	<u>2018</u>	<u>2017</u>	<u>Change</u>	<u>% Change</u>
	(in thousands)			
<b>REVENUE</b>				
License fees.....	\$ 1,433	\$ 3,438	\$ (2,005)	(58)%
Services.....	<u>29,203</u>	<u>25,374</u>	<u>3,829</u>	<u>15%</u>
Total revenue .....	<u>30,636</u>	<u>28,812</u>	<u>1,824</u>	<u>6%</u>
<b>COSTS OF REVENUE AND OPERATING EXPENSES</b>				
Costs of revenue, excluding depreciation and amortization.....	10,349	8,680	1,669	19%
Sales and marketing .....	6,592	5,214	1,378	26%
General and administrative .....	6,677	6,065	612	10%
Product development .....	4,170	2,042	2,128	104%
Depreciation.....	121	250	(129)	(52)%
Amortization.....	970	860	110	13%
Restructuring.....	—	286	(286)	(100)%
Goodwill impairment loss.....	<u>17,760</u>	<u>—</u>	<u>17,760</u>	<u>100%</u>
Total costs of revenue and operating expenses .....	<u>46,639</u>	<u>23,397</u>	<u>23,242</u>	<u>99%</u>



	<b>For the Years Ended December 31,</b>			
	<b>2018</b>	<b>2017</b>	<b>Change</b>	<b>% Change</b>
	(in thousands)			
(Loss) income from operations .....	(16,003)	5,415	(21,418)	(396)%
Other income (expense) .....				
Interest income.....	65	1	64	6,400%
Interest expense.....	(478)	(365)	(113)	31%
Other income.....	393	23	370	1,609%
Foreign currency exchange income (loss).....	810	(1,137)	1,947	(171)%
Other income (expense), net .....	790	(1,478)	2,268	(153)%
(Loss) income from operations before income taxes .....	(15,213)	3,937	(19,150)	(486)%
Income tax (benefit) expense .....	(426)	1,421	(1,847)	(130)%
Net (loss) income .....	<u>\$ (14,787)</u>	<u>\$ 2,516</u>	<u>\$ (17,303)</u>	<u>(688)%</u>

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

	<b>For the Years Ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
<b>REVENUE</b>		
License fees.....	5%	12%
Services.....	95%	88%
Total revenue .....	100%	100%
<b>COSTS OF REVENUE AND OPERATING EXPENSES</b>		
Costs of revenue, excluding depreciation and amortization.....	34%	30%
Sales and marketing .....	22%	18%
General and administrative .....	22%	21%
Product development .....	14%	7%
Depreciation.....	0%	1%
Amortization .....	3%	3%
Restructuring.....	0%	1%
Goodwill impairment loss.....	58%	0%
Total costs of revenue and operating expenses .....	153%	81%
(Loss) income from operations .....	(53)%	19%
Other income (expense) .....		
Interest income.....	0%	0%
Interest expense.....	(2)%	(1)%
Other income.....	1%	0%
Foreign currency exchange income (loss).....	3%	(4)%
Other income (expense), net .....	2%	(5)%
(Loss) income from operations before income taxes .....	(51)%	14%
Income tax (benefit) expense .....	(1)%	5%
Net (loss) income .....	<u>(50)%</u>	<u>9%</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 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 include annual support fees, recurring maintenance fees, minor product upgrades and warranty fees. Warranty fees are typically deferred and recognized over the warranty period.

## ***License Fees***

License fees revenue decreased 58%, or \$2.0 million to \$1.4 million for the year ended December 31, 2018 compared to \$3.4 million for the year ended December 31, 2017. The decrease is related to a \$0.6 million decline in one-time licensing fees from prior year related to the BLS acquisition and the remaining \$1.4 million from our historical products as the Company continues to transition to a managed services model and more reliable recurring revenue.

## ***Services***

Services revenue increased 15%, or \$3.8 million, to \$29.2 million for the year ended December 31, 2018 from \$25.4 million for the year ended December 31, 2017. The increase is related to \$5.3 million in service revenue from the acquired companies offset by a decline in our services revenues related to historical relationships of \$1.5 million due to fewer new implementations and pricing pressures.

## ***Costs of Revenue, excluding depreciation and amortization***

Costs of revenue, excluding depreciation and amortization, consist primarily of personnel costs and other direct costs associated with these personnel, facilities costs, costs of third-party software and partner commissions. Costs of revenue includes product development expenses related to software features requested in advance of their scheduled availability which are funded by customers as part of a managed service offering. Costs of revenue, excluding depreciation and amortization increased \$1.7 million, or 19%, to \$10.4 million for the year ended December 31, 2018 from \$8.7 million for the year ended December 31, 2017. The increase in costs of revenue is primarily attributable to higher service project hours from projects related to the Acquired Companies of \$2.5 million partially offset by lower service project hours from existing client relationships. This has allowed for experienced resources to work on internal projects and product development. As a percentage of revenue, costs of revenue, excluding depreciation and amortization, increased to 34% for the year December 31, 2018 from 30% for the year ended December 31, 2017. The increase as a percentage of revenue is primarily due to the increased hours and resource costs from the Acquired Companies on projects generating lower margins.

## ***Sales and Marketing***

Sales and marketing expenses primarily consist of compensation costs, including incentive compensation and commissions, travel expenses, advertising, marketing and facilities expenses. Sales and marketing expenses increased 26%, or \$1.4 million, to \$6.6 million for the year ended December 31, 2018 from \$5.2 million for the year ended December 31, 2017. The increase in expenses is attributable to \$1.3 million in costs from the acquired companies and \$0.1 million in additional staff. As a percentage of total revenue, sales and marketing expenses for the year ended December 31, 2018 increased to 22% from 18% for the year ended December 31, 2017. The increase in sales and marketing expenses as a percentage of revenue is primarily due to the aforementioned higher costs.

## ***General and Administrative***

General and administrative expenses consist principally of employee-related costs for the following departments: finance, human resources, and certain executive management; facilities costs; and professional and legal fees. General and administrative expenses increased 10%, or \$0.6 million, to \$6.7 million for the year ended December 31, 2018 from \$6.1 million for the year ended December 31, 2017. The increase in costs was related to \$0.1 million in costs related to the Acquired Companies, \$0.5 million in legal costs related to finalizing a matter regarding our September 2015 SSM acquisition, and \$0.3 million in professional fees related to audits and preparations of routine regulatory filings in connection with the addition of the Acquired Companies. This was partially offset by the reduction of \$0.3 million in legal and other costs related to closing of acquisitions and bank loans in 2017. As a percentage of total revenue, general and administrative expenses increased to 22% for the year ended December 31, 2018 from 21% for the year ended December 31, 2017. The increase in general and administrative expenses as a percentage of revenue is primarily due to the aforementioned higher costs.

## ***Product Development***

Product development expenses consist primarily of labor-related costs. Product development expenses increased 104%, or \$2.1 million, to \$4.1 million for the year ended December 31, 2018 from \$2.0 million for the year ended December 31, 2017. The

increase is primarily related to \$1.5 million in additional costs from the Acquired Companies and additional product development hours costing \$0.6 million by existing staff, as we utilize the larger technical staff for development work to build and enhance our product offerings. As a percentage of total revenue, product development expenses increased to 14% for the year ended December 31, 2018 from 7% for the year ended December 31, 2017. The increase in product development expenses as a percentage of revenue is primarily due to the aforementioned higher costs.

### ***Depreciation***

Depreciation expense consists of depreciation of long-lived property and equipment. Depreciation expenses decreased 52%, or \$0.1 million, to \$0.1 million for the year ended December 31, 2018 from \$0.2 million for the year ended December 31, 2017. The decrease of expense was due to older assets becoming fully depreciated in the prior year. As a percentage of revenue, depreciation expense decreased to less than 1% for the year ended December 31, 2018 from 1% for the year ended December 31, 2017.

### ***Amortization***

Amortization expense consists of amortization of identifiable intangibles related to our acquisitions of Evolving Systems Labs, Evolving Systems NC, EVOL BLS, and the Lumata Entities. Amortization expense increased 13%, or \$0.1 million, to \$1.0 million for the year ended December 31, 2018 from \$0.9 million for the year ended December 31, 2017. The increase in amortization expense was due to the having a full year in 2018 of amortization expense of the intangible assets relating to the acquisition of EVOL BLS on July 3, 2017 and the Lumata Entities on September 4, 2017. This was partially offset by a reduction in amortization expense related to intangibles acquired in the formation of Evolving Systems NC reaching the end of life of those assets during 2018. As a percentage of revenue, amortization expense remained 3% for the year ended December 31, 2018 and 2017.

### ***Restructuring***

Restructuring expense includes the costs associated with a reduction in workforce due to the consolidation of duplicative functions and alignment of staff with ongoing business activity as a result of the acquisition of EVOL BLS and the Lumata Entities in third quarter of 2017. Restructuring decreased 100%, or \$0.3 million, to \$0.0 million for the year ended December 31, 2018 from \$0.3 million for the year ended December 31, 2017. As a percentage of revenue, restructuring expense decreased to 0% for the year ended December 31, 2018 from 1% for the year ended December 31, 2017. The decrease of restructuring expense as a percentage of total revenue is related to their being no restructuring in 2018.

### ***Goodwill Impairment Loss***

During the quarter ended December 31, 2018, our market capitalization declined to a level that was less than the net book value of our stockholders' equity. We performed a goodwill impairment analysis as of December 31, 2018. As a result of the decline in the market capitalization (triggering event) and the associated impairment analysis, the Company recorded an impairment loss on goodwill of \$17.8 million. We had no goodwill impairment loss for the year ended December 31, 2017.

### ***Interest Expense***

Interest expense includes the amortization of debt issuance costs and interest expense from our term loans. Interest expense for the year ended December 31, 2018 increased 31%, or \$0.1 million, to \$0.5 million as compared to \$0.4 million for the year ended December 31, 2017. The increase is related to having a full year of the term loan borrowings used to acquire the Lumata Entities.

### ***Other Income (Expense)***

For the year ended December 31, 2018, we had \$0.8 million in other income, net, which consisted of: (1) when we acquired Telespree on October 24, 2013, we agreed to make a final cash payment on October 24, 2014 of \$0.5 million. This payment was subject to reduction for certain claims and we notified the seller's representative that we were asserting claims against the final cash payment and the contractually agreed time period has lapsed. Accordingly, we eliminated the liability as of June 30, 2018 and recognized \$0.5 million gain in other income; (2) at the end of the second quarter we agreed to a Mutual Release and Settlement Agreement and a Contribution Agreement (the "SSM Agreements") with certain parties related to our September 30, 2015 acquisition of SSM. The SSM Agreements settled a dispute with a former SSM contractor, of which \$0.1 million was on the Company's behalf and recorded as other expense; (3) When we acquired EVOL BLS on July 3, 2017, we agreed to make up to three annual cash payments equal to 50% of the EVOL BLS revenue in excess of \$4.8 million for the 12-month periods ending July 3, 2018, 2019 and 2020. The Company also agreed to guarantee the EVOL BLS obligations under the Purchase Agreement. As of June 30, 2018, EVOL BLS has exceeded their projected revenues and we estimated the total annual cash payments for the three 12-month periods to be \$0.8 million, which is a \$0.4 million increase. We recognized \$0.4 million in interest expense as a result of our increased obligation, and (4) \$0.4 million in other income from eliminating certain allowances, unearned revenue and accrued liabilities that primarily came from the BLS and Lumata entities at the time of our acquisition. Foreign currency exchange income resulted from transactions denominated in a currency other than the functional currency of the respective subsidiary increased 171%, or \$1.9 million, to a \$0.8

million gain for the year ended December 31, 2018 compared to a \$1.1 million loss for the year ended December 31, 2017. The income was generated primarily through the re-measurement of certain non-functional currency denominated financial assets and liabilities of our foreign subsidiaries.

For the year ended December 31, 2017, we had \$1.5 million in other expense, net.

### ***Income Tax Expense***

We recorded a net income tax benefit of \$0.4 million for the year ended December 31, 2018 and net income tax expense of \$1.4 million for the year ended December 31, 2017. The net expense for the year ended December 31, 2018 consisted of current income tax expense of \$0.5 million and a deferred tax benefit of \$0.9 million. The current tax expense consists of income tax primarily from our U.S. and U.K. based operations. The deferred tax benefit primarily consists of benefits from establishing deferred tax assets of \$0.5 million for our foreign tax credit (“FTC”) carryforwards, \$0.2 million for net operating losses from certain U.K. subsidiaries that are expected to be used by another U.K. subsidiary and \$0.2 million decrease in net deferred tax liabilities. The net expense during the year ended December 31, 2017 consisted of current income tax expense of \$1.9 million and a deferred tax benefit of \$0.5 million. The current tax expense consists of income tax from our U.S., U.K., France and India based operations and unrecoverable foreign withholding taxes in the U.K. The deferred tax benefit was related primarily to the increase of certain net deferred tax assets and amortization of stock options and the intangible assets related to the acquisition of Evolving Systems NC, Inc. in September 2015. 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.

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, 2018, and 2017, 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 decreased 10%, or \$0.9 million to \$8.1 million at December 31, 2018 from \$9.0 million at December 31, 2017. The decrease in working capital is related to decrease in cash, contract receivables, unbilled work in progress, prepaids and other assets along with an increase in current notes payable and partially offset by the decreases in accounts payable, accrued liabilities and unearned revenue along with the payment of a contingent earn-out and release of Telespree liability.

### **LIQUIDITY AND CAPITAL RESOURCES**

We have historically financed operations through cash flows from operations as well as debt and equity transactions. At December 31, 2018, our principal sources of liquidity were \$6.7 million in cash and cash equivalents and \$7.8 million in contract receivables, net of allowances. Our anticipated uses of cash in the future will be to fund the expansion of our business through both organic growth as well as possible acquisition activities, the expansion of our customer base internationally, and term loan payments. Other uses of cash may include capital expenditures and technology expansion.

During 2017, in connection with the Acquisition, EVOL Holdings entered into a Term Loan Facility Agreement, a Debenture and a Subordination Deed with East West Bank as lender in the amount of \$4.7 million. We used the full amount of the Lumata Facility to fund the acquisition. The Lumata Facility requires the Company to make monthly principal payments of approximately \$131,400 commencing July 31, 2018 and interest at the greater of (a) 3.5% or (b) the variable rate of interest that appears in the Wall Street Journal on a monthly measurement date, plus in either case 1.5%. The Lumata Facility is secured by substantially all of the assets of the Company. The unpaid balance of the Lumata Facility is due on August 16, 2021.

On February 29, 2016, we retired the Revolving Facility and 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 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.

Both the Lumata Facility and the Term Loan (collectively, “Loans”) include 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. We must also 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. As of

December 31, 2018, our fixed charge coverage ratio was 0.81, which failed to meet the minimum required 1.25 fixed charge coverage ratio. On March 29, 2019, we received a letter from East West Bank that waived the violation and are currently negotiating modifications to the minimum required fixed charge ratio for the four quarters of the fiscal year ending December 31, 2019.

Net cash provided by operating activities for the year ended December 31, 2018 and 2017 was \$2.6 million and \$3.5 million, respectively. Cash provided by operating activities for the year ended December 31, 2018 was primarily due to a net loss of \$14.8 million offset by non-cash goodwill impairment loss of \$17.8 million, and net decrease in operating assets and liabilities of \$0.4 million.

The cash provided by operating activities for the year ended December 31, 2017 was primarily due to increase in contract receivables related to the acquisitions and additional expenses related to the acquisitions as well as a decrease in accounts payable and current liabilities.

Net cash used in investing activities was \$0.2 million and \$6.0 million for the years ended December 31, 2018 and 2017, respectively. Cash used in investing activities for the year ended December 31, 2018 was due to the purchase of property and equipment. Cash used in investing activities for the year ended December 31, 2017 was primarily due to the acquisition of the Acquired Companies of \$5.9 million. 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 acquisitions.

Net cash (used in) provided by financing activities was (\$3.2) million and \$2.7 million for the years ended December 31, 2018 and 2017, respectively. The cash used in 2018 financing activities was for principal payments on our term loans and payment of contingent earn-out. The cash provided by our 2017 financing activities was primarily related to the proceeds from the Lumata Facility entered into August 2017 to acquire the Lumata Entities offset by the principal payments on our term loan and the payment for second year debt issuance costs.

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 as of the date this Form 10-K was filed. In making this assessment, we considered the following:

- Our cash and cash equivalents balance at December 31, 2018 of \$6.7 million;
- Our working capital balance of \$8.1 million; and,
- Our ability to historically generate positive operating cash flows.

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, 2018 and 2017, the effect of exchange rate changes resulted in a less than \$0.1 million decrease and a \$0.2 million decrease to consolidated cash, respectively. We do not currently hedge our foreign currency exposure, but we closely monitor the rate changes and may hedge our exposures in the future.

#### 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, 2018 (in thousands):

	Total	Payments due by period				Thereafter
		2019	2020	2021	2022	
Operating Leases.....	\$ 1,470	\$ 509	\$ 357	\$ 253	\$ 252	\$ 99
Term Loans .....	5,938	3,573	1,577	788	—	—
Total Commitments .....	\$ 7,048	\$ 4,082	\$ 1,934	\$ 1,041	\$ 252	\$ 99

## 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.

### *Business Combinations*

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.

### *Use of Estimates*

The preparation of consolidated financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, at the date of the consolidated 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 progress toward completion and direct profit or loss on contracts, 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 statements of income are translated at the weighted average rate of exchange during the applicable period. The resulting unrealized cumulative translation adjustment is recorded as a component of accumulated other comprehensive 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 an other than temporary decline in our market capitalization that is calculated as our common stock's market price multiplied by the number of shares of common stock outstanding, 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 the reporting unit, and determination of the fair value of the reporting unit. In 2018, the Company adopted ASU 2017-04, Intangibles — Goodwill and Other (Topic 350), Simplifying the Test for Goodwill Impairment, which simplifies the subsequent measurement of goodwill by eliminating the second step from the quantitative goodwill impairment test. Under this guidance, annual or interim goodwill impairment testing will be performed by comparing the fair value of a reporting unit with its carrying amount. An impairment charge will then be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value, not to exceed the carrying value of goodwill.

### ***Intangible Assets***

Amortizable intangible assets consist primarily of purchased software and licenses, customer relationships, trademarks and tradenames, non-competition and purchased software acquired in conjunction with our purchase of Telespree Communications (“Evolving Systems Labs, Inc.”), Evolving Systems NC, Inc., EVOL BLS and the Lumata Entities. 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.

### ***Revenue Recognition***

Effective January 1, 2018, we adopted Financial Accounting Standards Board (“FASB”) Topic 606, Revenue from Contracts with Customers (“ASC 606”). ASC 606 was applied using the modified retrospective method. Accordingly, comparative periods have not been adjusted and continue to be reported under FASB ASC Topic 605, Revenue Recognition (“ASC 605”). There was no cumulative effect of the initial application to be recognized as an adjustment to opening retained earnings at January 1, 2018 as the adoption did not have a material impact on the Company’s results of operations or financial condition.

The majority of our license fees and services revenue is generated from fixed-price contracts, this provides for licenses to our software products and services that customize such software to meet our customers’ needs. In most instances, customization services are determined to be essential to the functionality of the delivered software. Under ASC 606, revenue is recognized when our customer obtains control of promised goods or services in an amount that reflects the consideration we expect to receive in exchange for those goods or services. We measure revenue based on consideration specified in a contract with a customer and exclude any sales incentives. Furthermore, we recognize revenue when we satisfy a performance obligation by transferring control over the service to our customer.

A performance obligation is a promise in a contract to transfer a distinct service to the customer. The transaction price of a contract is allocated to each distinct performance obligation and recognized as revenue when or as the customer receives the benefit of the performance obligation. Our customers typically receive the benefit of our services as they are performed. Substantially all customer contracts provide that we are compensated for services performed to date. Losses on fixed-price projects are recorded when identified. Taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction, that are collected by us from a customer, are excluded from revenue.

### ***Nature of goods and services***

The following is a description of our products and services from which we generate revenue, as well as the nature, timing of satisfaction of performance obligations, and significant payment terms for each:

#### ***i. License Revenue***

License fees represent the fees we receive from the licensing of our software products. In most instances, customization services are determined to be essential to the functionality of the delivered software. The license along with the customization services are transferred to our customers over time. In arrangements where the services are not essential to the functionality of the delivered software, we recognize license revenue when the license agreement has been approved and the software has been delivered. We can identify each party's rights, payment terms, and commercial substance of the content. Where applicable, we identify multiple performance obligations and record as revenue as the performance obligations are fulfilled based on their estimated allocated value. The selection of the method to measure progress towards completion requires judgment and is based on the extent of progress towards completion of the performance obligation.

#### ***ii. Customer Support Revenue***

Customer support services includes annual support fees, recurring maintenance fees, warranty support fees and minor product upgrades. The warranty support fees represent a separate performance obligation that is provided for up to a year with initial license purchase. The Company allocates the contract transaction price related to warranty support fees based on pricing consistent with what we would offer to other market participants. Upon the conclusion of the warranty period, the customer can choose to continue to receive support and maintenance services via our customer support offerings. We recognize revenue from our support ratably over the service contract period.

#### ***iii. Services Revenue***

We recognize revenue from fixed-price service contracts using the input method of accounting. Under the input method, revenue is recognized revenue on the basis of an entity's efforts or inputs toward satisfying a performance obligation. 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 performance obligation to our customers under such arrangements is fulfilled.

#### ***iv. Managed Services***

We recognize revenue from our managed services contracts primarily 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 input method of accounting, as previously described.

### ***Contract balances***

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. The contract assets are transferred to the receivables when invoiced.

The contract liabilities primarily relate to unearned revenue. Amounts billed in advance of performance obligations being satisfied are booked as unearned revenue.

### ***Transaction price allocated to the remaining performance obligations***

Remaining performance obligations represent the transaction price of firm orders for which work has not been performed as of the period end date and excludes unexercised contract options and potential orders under ordering-type contracts (e.g., indefinite-delivery, indefinite-quantity). As of December 31, 2018, the aggregate amount of the transaction price allocated to remaining performance obligations with lives greater than one-year totals \$1.5 million. The Company expects approximately 80% of remaining performance obligations to be recognized into revenue within the next twelve months, with the remaining 20% recognized thereafter.

We apply the practical expedient in paragraph ASC 606-10-50-14 and do not disclose information about remaining performance obligations that have original expected durations of one-year or less. We apply the transition practical expedient in paragraph ASC 606-10-65-1(f)(3) and do not disclose the amount of the transaction price allocated to the remaining performance obligations and an explanation of when we expect to recognize that amount as revenue. Additionally, applying the practical expedient in paragraph ASC 340-40-25-4, the Company recognizes the incremental costs of obtaining contracts (i.e., commissions) as an expense when incurred if the amortization period of the assets that the Company otherwise would have recognized is one-year or less.



### ***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.

### ***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.

In March 2016, the FASB issued ASU 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. We adopted this ASU during the first quarter 2017. The key effects of the adoption on our financial statements include that the Company will now recognize windfall tax benefits as deferred tax assets instead of tracking the windfall pool and recording such benefits in equity. Additionally, we have elected to recognize forfeitures as they occur rather than estimating them at the time of grant.

Stock-based payments made to non-employees, including grants of stock options, are recognized in the statements of operations based on their estimated fair values. The fair value of these options will be re-measured on each reporting date until the options vest. The re-measured fair value will be recognized as compensation expense over the remaining vesting term of the options.

### ***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 losses and tax credit carry-forwards. We measure deferred tax assets and liabilities using enacted tax rates expected to be applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. We reduce deferred tax assets by a valuation allowance if, based on available evidence, it is more likely than not that these benefits will not be realized.

We use a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more likely than not to be sustained upon examination by taxing authorities.

## 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, 2018, we had \$5.9 million outstanding under our term loans, which under the loan agreements bear 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. A 1% change in the interest rates on our Loans would change our interest expense by approximately \$0.1 million.

### *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:

<b>Spot rates:</b>	<b>December 31, 2018</b>	<b>December 31, 2017</b>
British pound sterling.....	0.78524	0.74071
Euro.....	0.87440	0.83348
Indian rupee .....	69.78890	63.84000
<b>Average rates:</b>	<b>For the Years Ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
British pound sterling.....	0.75005	0.77673
Euro.....	0.84746	0.88675
Indian rupee .....	68.39725	65.11189

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

To the Board of Directors and  
Stockholders of Evolving Systems, Inc.

#### Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Evolving Systems, Inc. (a Delaware corporation, the “Company”) as of December 31, 2018 and 2017, and the related consolidated statements of operations, comprehensive (loss) income, stockholders’ equity, and cash flows for each of the years in the two-year period ended December 31, 2018, and the related notes (collectively referred to as the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

#### Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, 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.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Friedman LLP

We have served as the Company’s auditor since 2012  
East Hanover, NJ  
April 4, 2019

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

	<u>December 31,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents .....	\$ 6,732	\$ 7,562
Contract receivables, net of allowance for doubtful accounts of \$771 and \$970 at December 31, 2018 and December 31, 2017, respectively .....	7,757	10,151
Unbilled work-in-progress, net of allowance for doubtful accounts of \$552 and \$107 at December 31, 2018 and December 31, 2017, respectively .....	3,044	5,823
Prepaid and other current assets .....	1,351	1,633
Income taxes receivable .....	1,137	—
Total current assets .....	<u>20,021</u>	<u>25,169</u>
Property and equipment, net .....	303	258
Amortizable intangible assets, net .....	4,550	5,613
Goodwill .....	6,738	25,216
Deferred income taxes, net .....	1,140	274
Total assets .....	<u>\$ 32,752</u>	<u>\$ 56,530</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Term loans - current portion .....	\$ 3,573	\$ 2,805
Accounts payable and accrued liabilities .....	4,483	6,678
Contingent earn-out .....	—	396
Unearned revenue .....	3,911	5,397
Income taxes payable .....	—	899
Total current liabilities .....	<u>11,967</u>	<u>16,175</u>
Long-term liabilities:		
Term loans, net of current portion .....	<u>2,365</u>	<u>5,942</u>
Total liabilities .....	<u>14,332</u>	<u>22,117</u>
Commitments and contingencies (Note 11) .....		
Stockholders' equity:		
Preferred stock, \$0.001 par value; 2,000,000 shares authorized; no shares issued and outstanding as of December 31, 2018 and December 31, 2017, respectively .....	—	—
Common stock, \$0.001 par value; 40,000,000 shares authorized; 12,305,597 shares issued and 12,126,708 outstanding as of December 31, 2018 and 12,119,961 shares issued and 11,941,072 outstanding as of December 31, 2017 .....	12	12
Additional paid-in capital .....	99,224	98,517
Treasury stock, 178,889 shares as of December 31, 2018 and December 31, 2017, at cost .....	(1,253)	(1,253)
Accumulated other comprehensive loss .....	(10,115)	(8,202)
Accumulated deficit .....	(69,448)	(54,661)
Total stockholders' equity .....	<u>18,420</u>	<u>34,413</u>
Total liabilities and stockholders' equity .....	<u>\$ 32,752</u>	<u>\$ 56,530</u>

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

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

	<b>For the Years Ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
<b>REVENUE</b>		
License fees.....	\$ 1,433	\$ 3,438
Services.....	29,203	25,374
Total revenue .....	30,636	28,812
<b>COSTS OF REVENUE AND OPERATING EXPENSES</b>		
Costs of revenue, excluding depreciation and amortization.....	10,349	8,680
Sales and marketing .....	6,592	5,214
General and administrative .....	6,677	6,065
Product development .....	4,170	2,042
Depreciation.....	121	250
Amortization .....	970	860
Restructuring.....	—	286
Goodwill impairment loss.....	17,760	—
Total costs of revenue and operating expenses .....	46,639	23,397
(Loss) income from operations .....	(16,003)	5,415
Other income (expense).....		
Interest income.....	65	1
Interest expense.....	(478)	(365)
Other income.....	393	23
Foreign currency exchange income (loss).....	810	(1,137)
Other income (expense), net .....	790	(1,478)
(Loss) income from operations before income taxes .....	(15,213)	3,937
Income tax (benefit) expense .....	(426)	1,421
Net (loss) income .....	\$ (14,787)	\$ 2,516
Basic (loss) income per common share - net (loss) income .....	\$ (1.22)	\$ 0.21
Diluted (loss) income per common share - net (loss) income .....	\$ (1.22)	\$ 0.21
Weighted average basic shares outstanding .....	12,108	11,934
Weighted average diluted shares outstanding .....	12,108	11,981

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

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

	<b>For the Years Ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
<b>Net (loss) income</b> .....	\$ (14,787)	\$ 2,516
<b>Other comprehensive (loss) income</b> .....		
Foreign currency translation (loss) income.....	(1,913)	1,790
Comprehensive (loss) income.....	<u>\$ (16,700)</u>	<u>\$ 4,306</u>

*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 per share data)

	Common Stock		Additional paid-in capital	Treasury stock	Accumulated other comprehensive loss	Accumulated deficit	Total stockholders' equity
	Shares	Amount					
<b>Balance at December 31,</b>							
<b>2016</b> .....	<b>11,907,391</b>	<b>\$ 12</b>	<b>\$ 97,744</b>	<b>\$ (1,253)</b>	<b>\$ (9,992)</b>	<b>\$ (57,177)</b>	<b>\$ 29,334</b>
Stock option exercises.....	32,904	—	30	—	—	—	30
Common stock issued pursuant to the Employee Stock Purchase Plan.....	777	—	2	—	—	—	2
Share-based compensation expense .....	—	—	742	—	—	—	742
Net income.....	—	—	—	—	—	2,516	2,516
Foreign currency translation income.....	—	—	—	—	1,790	—	1,790
<b>Balance at December 31,</b>							
<b>2017</b> .....	<b>11,941,072</b>	<b>\$ 12</b>	<b>\$ 98,517</b>	<b>\$ (1,253)</b>	<b>\$ (8,202)</b>	<b>\$ (54,661)</b>	<b>\$ 34,413</b>
Stock option exercises.....	9,676	—	4	—	—	—	4
Common stock issued pursuant to the Employee Stock Purchase Plan.....	85	—	1	—	—	—	1
Restricted stock vested.....	175,875	—	—	—	—	—	—
Share-based compensation expense .....	—	—	702	—	—	—	702
Net loss .....	—	—	—	—	—	(14,787)	(14,787)
Foreign currency translation loss .....	—	—	—	—	(1,913)	—	(1,913)
<b>Balance at December 31,</b>							
<b>2018</b> .....	<b><u>12,126,708</u></b>	<b><u>\$ 12</u></b>	<b><u>\$ 99,224</u></b>	<b><u>\$ (1,253)</u></b>	<b><u>\$ (10,115)</u></b>	<b><u>\$ (69,448)</u></b>	<b><u>\$ 18,420</u></b>

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

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

	For the Years Ended December 31,	
	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net (loss) income .....	\$ (14,787)	\$ 2,516
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation .....	121	250
Amortization of intangible assets .....	970	860
Amortization of debt issuance costs .....	9	13
Share-based compensation expense .....	702	742
Change in fair value of contingent earn-out .....	413	(4)
Payment of contingent purchase consideration .....	(445)	—
Unrealized foreign currency transaction (income) loss, net .....	(810)	1,136
Bad debt expense, net .....	431	861
Release of Telespree liability .....	(496)	—
Provision for deferred income taxes .....	(946)	(491)
Goodwill impairment loss .....	17,760	—
Change in operating assets and liabilities:		
Contract receivables .....	2,473	(2,971)
Unbilled work-in-progress .....	1,803	(1,032)
Prepaid and other assets .....	(25)	1,983
Accounts payable and accrued liabilities .....	(1,326)	(1,905)
Income taxes receivable .....	(2,036)	264
Unearned revenue .....	(1,244)	856
Other long-term obligations .....	—	380
Net cash provided by operating activities .....	2,567	3,458
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property and equipment .....	(185)	(80)
Business combinations, net of cash received .....	—	(5,936)
Net cash used in investing activities .....	(185)	(6,016)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Capital lease payments .....	—	(1)
Payment of contingent earn-out .....	(380)	—
Principal payments on notes payable .....	(2,788)	(2,025)
Proceeds from term loans .....	—	4,730
Proceeds from the issuance of stock .....	5	33
Net cash (used in) provided by financing activities .....	(3,163)	2,737
Effect of exchange rate changes on cash and cash equivalents .....	(49)	(231)
Net decrease in cash and cash equivalents .....	(830)	(52)
Cash and cash equivalents at beginning of period .....	7,562	7,614
Cash and cash equivalents at end of period .....	\$ 6,732	\$ 7,562
Supplemental disclosure of cash and non-cash transactions:		
Interest paid .....	\$ 499	\$ 345
Income taxes paid .....	\$ 887	\$ 1,504
Measurement period adjustment to goodwill and intangible assets .....	\$ 281	\$ —

*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** — Evolving Systems, Inc. (the “Company”) is a provider of real-time digital engagement solutions and services of software solutions and services to the wireless carrier and consumer financial services markets. We maintain long-standing relationships with many of the largest wireless companies worldwide. The Company’s portfolio includes market-leading solutions and services for real-time analytics, customer acquisition and activation, customer value management and loyalty for the telecom industry promoting partnerships into retail and financial services.

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 capital expenditure license and services to operating expenditure models based on recurring managed services with performance fees. Our software solution platforms enable carriers’ marketing departments to innovate, execute and manage highly-personalized and contextually-relevant, interactive campaigns that engage consumers in real-time, and enhance customer retention through deploying loyalty programs. 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”).

In July 2017 we completed the acquisition of Business Logic Systems (“BLS”). BLS, headquartered in Newbury, United Kingdom, specializes in data-driven customer value management and customer engagement solutions that have been implemented in over 20 mobile operators in Europe, Africa, Asia-Pacific and the Caribbean. BLS solutions turn customer data into actionable insights and personalized contextual offers. Customer engagement occurs through in-bound and out-bound offers and is further extended through a suite of loyalty and retention solutions.

In September 2017 we completed the acquisition of four business operating units of Lumata Holdings Ltd. (“the Lumata Entities”). The Lumata Entities are a leading global provider of real-time, next generation loyalty and customer lifecycle management software and services that helps businesses gain value from their customer data for relevant and contextual insights and actions of value to both customers and enterprises. Its customers include mobile operators including Orange, Telefonica and other Tier-1 and emerging operators in Europe and around the world.

We believe the acquisitions of BLS and the Lumata Entities further reinforced our commitment to the customer acquisition and customer value management (“CVM”) domains that began with the acquisition of Sixth Sense Media (“Evolving Systems NC, Inc.”). With these recent acquisitions, we now have a customer base of more than 100 customers spanning 65 countries across the world. The experienced team and technology from BLS, which provides actionable insights and relevant offers based on customer data, greatly complements our software portfolio and 25 years of expertise in customer acquisition, activation and retention. The technology further expands our Managed Services platform for delivering on-tap strategic and tactical solutions. The Lumata Entities’ value lies in its patented technology, industry expertise and strong customer relationships. Led by the explosive growth in mobile, the next generation of CVM is moving beyond traditional CRM and points-based loyalty systems to highly personalized and contextual, real-time, omni-channel consumer engagement in multiple verticals including telecom, finance, and retail.

**Business Combinations** — In July 2017 and September 2017 we acquired Business Logic Systems which became BLS Limited (“EVOL BLS”) and the four business operating units of Lumata Holdings Ltd. These business combinations are reflected in these consolidated financial statements since the acquisition date. Refer to Note 2, Acquisitions, for more information regarding the acquisitions.

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.

**Use of Estimates** — The preparation of consolidated financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, at the date of the consolidated 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 progress toward completion and direct profit or loss on contracts, 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 statements of income are translated at the weighted average rate of exchange during the applicable period. The resulting unrealized cumulative translation adjustment is recorded as a component of accumulated other comprehensive 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.

**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.

**Reclassification** — Certain reclassifications have been made to conform the 2017 amounts to the 2018 classifications for comparative purposes.

**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 an other than temporary decline in our market capitalization that is calculated as our common stock's market price multiplied by the number of shares of common stock outstanding, 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 the reporting unit, and determination of the fair value of the reporting unit. In 2018, the Company adopted ASU 2017-04, Intangibles — Goodwill and Other (Topic 350), Simplifying the Test for Goodwill Impairment, which simplifies the subsequent measurement of goodwill by eliminating the second step from the quantitative goodwill impairment test. Under this guidance, annual or interim goodwill impairment testing will be performed by comparing the fair value of a reporting unit with its carrying amount. An impairment charge will then be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value, not to exceed the carrying value of goodwill.

**Intangible Assets** — Amortizable intangible assets consist primarily of purchased software and licenses, customer relationships, trademarks and tradenames, non-competition and purchased software acquired in conjunction with our purchase of Telespree Communications ("Evolving Systems Labs, Inc."), Evolving Systems NC, Inc., EVOL BLS and the Lumata Entities. 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** — Effective January 1, 2018, we adopted Financial Accounting Standards Board (“FASB”) Topic 606, Revenue from Contracts with Customers (“ASC 606”). ASC 606 was applied using the modified retrospective method. Accordingly, comparative periods have not been adjusted and continue to be reported under FASB ASC Topic 605, Revenue Recognition (“ASC 605”). There was no cumulative effect of the initial application to be recognized as an adjustment to opening retained earnings at January 1, 2018 as the adoption did not have a material impact on the Company’s results of operations or financial condition.

The majority of our license fees and services revenue is generated from fixed-price contracts, this provides for licenses to our software products and services that customize such software to meet our customers’ needs. In most instances, customization services are determined to be essential to the functionality of the delivered software. Under ASC 606, revenue is recognized when our customer obtains control of promised goods or services in an amount that reflects the consideration we expect to receive in exchange for those goods or services. We measure revenue based on consideration specified in a contract with a customer and exclude any sales incentives. Furthermore, we recognize revenue when we satisfy a performance obligation by transferring control over the service to our customer.

A performance obligation is a promise in a contract to transfer a distinct service to the customer. The transaction price of a contract is allocated to each distinct performance obligation and recognized as revenue when or as the customer receives the benefit of the performance obligation. Our customers typically receive the benefit of our services as they are performed. Substantially all customer contracts provide that we are compensated for services performed to date. Losses on fixed-price projects are recorded when identified. Taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction, that are collected by us from a customer, are excluded from revenue.

### ***Nature of goods and services***

The following is a description of our products and services from which we generate revenue, as well as the nature, timing of satisfaction of performance obligations, and significant payment terms for each:

#### ***i. License Revenue***

License fees represent the fees we receive from the licensing of our software products. In most instances, customization services are determined to be essential to the functionality of the delivered software. The license along with the customization services are transferred to our customers over time. In arrangements where the services are not essential to the functionality of the delivered software, we recognize license revenue when the license agreement has been approved and the software has been delivered. We can identify each party’s rights, payment terms, and commercial substance of the content. Where applicable, we identify multiple performance obligations and record as revenue as the performance obligations are fulfilled based on their estimated allocated value. The selection of the method to measure progress towards completion requires judgment and is based on the extent of progress towards completion of the performance obligation.

*ii. Customer Support Revenue*

Customer support services includes annual support fees, recurring maintenance fees, warranty support fees and minor product upgrades. The warranty support fees represent a separate performance obligation that is provided for up to a year with initial license purchase. The Company allocates the contract transaction price related to warranty support fees based on pricing consistent with what we would offer to other market participants. Upon the conclusion of the warranty period, the customer can choose to continue to receive support and maintenance services via our customer support offerings. We recognize revenue from our support ratably over the service contract period.

*iii. Services Revenue*

We recognize revenue from fixed-price service contracts using the input method of accounting. Under the input method, revenue is recognized revenue on the basis of an entity's efforts or inputs toward satisfying a performance obligation. 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 performance obligation to our customers under such arrangements is fulfilled.

*iv. Managed Services*

We recognize revenue from our managed services contracts primarily 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 input method of accounting, as previously described.

**Disaggregation of revenue**

In the following table, revenue is disaggregated by primary geographical market, major products/service lines, and timing of revenue recognition (in thousands):

	<b>For the Years Ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
<b>Primary geographical markets</b> .....		
United Kingdom .....	\$ 6,222	\$ 5,521
Other .....	24,414	23,291
	<u>\$ 30,636</u>	<u>\$ 28,812</u>
 <b>Major products/service lines</b> .....		
Licensing fees .....	\$ 1,433	\$ 3,438
Customer support, including warranty support fees .....	9,984	9,134
Services .....	8,880	8,711
Managed services .....	10,339	7,529
Total services .....	<u>29,203</u>	<u>25,374</u>
	<u>\$ 30,636</u>	<u>\$ 28,812</u>
 <b>Timing of revenue recognition</b> .....		
Products transferred at a point in time .....	\$ 882	\$ 914
Products and services transferred over time .....	29,754	27,898
	<u>\$ 30,636</u>	<u>\$ 28,812</u>

**Contract balances**

The following table provides information about receivables, assets, and liabilities from contracts with customers (in thousands):

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
<b>Assets</b> .....		
Contract receivables, net .....	<u>\$ 7,757</u>	<u>\$ 10,151</u>
Unbilled work-in-progress, net .....	<u>\$ 3,044</u>	<u>\$ 5,823</u>
<b>Liabilities</b> .....		
Unearned revenue .....	<u>\$ 3,911</u>	<u>\$ 5,397</u>

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. The contract assets are transferred to the receivables when invoiced.

The contract liabilities primarily relate to unearned revenue. Amounts billed in advance of performance obligations being satisfied are booked as unearned revenue.

***Transaction price allocated to the remaining performance obligations***

Remaining performance obligations represent the transaction price of firm orders for which work has not been performed as of the period end date and excludes unexercised contract options and potential orders under ordering-type contracts (e.g., indefinite-delivery, indefinite-quantity). As of December 31, 2018, the aggregate amount of the transaction price allocated to remaining performance obligations with lives greater than one-year totals \$1.5 million. The Company expects approximately 80% of remaining performance obligations to be recognized into revenue within the next twelve months, with the remaining 20% recognized thereafter.

We apply the practical expedient in paragraph ASC 606-10-50-14 and do not disclose information about remaining performance obligations that have original expected durations of one-year or less. We apply the transition practical expedient in paragraph ASC 606-10-65-1(f)(3) and do not disclose the amount of the transaction price allocated to the remaining performance obligations and an explanation of when we expect to recognize that amount as revenue. Additionally, applying the practical expedient in paragraph ASC 340-40-25-4, the Company recognizes the incremental costs of obtaining contracts (i.e., commissions) as an expense when incurred if the amortization period of the assets that the Company otherwise would have recognized is one-year or less.

**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.

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>
2018	Allowance for doubtful accounts.....	\$ 970	\$ (86)	\$ (124)	\$ 11	\$ 771
2017	Allowance for doubtful accounts.....	\$ 221	\$ 789	\$ (41)	\$ 1	\$ 970

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>
2018	Allowance for unbilled work-in-progress.....	\$ 107	\$ 454	\$ 2	\$ (11)	\$ 552
2017	Allowance for unbilled work-in-progress.....	\$ —	\$ 107	\$ —	\$ —	\$ 107

**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.

In March 2016, the FASB issued ASU 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. We adopted this ASU during the first quarter 2017. The key effects of the adoption on our financial statements include that the Company will now recognize windfall tax benefits as deferred tax assets instead of tracking the windfall pool and recording such benefits in equity. Additionally, we have elected to recognize forfeitures as they occur rather than estimating them at the time of grant.

Stock-based payments made to non-employees, including grants of stock options, are recognized in the statements of operations based on their estimated fair values. The fair value of these options will be re-measured on each reporting date until the options vest. The re-measured fair value will be recognized as compensation expense over the remaining vesting term of the options.

**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.

**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 year ended December 31, 2018, one significant customer accounted for 11% of revenue from operations. This customer is a large telecommunications operator in Europe. For the year ended December 31, 2017, one significant customer accounted for 11% of revenue from operations. This customer is a large telecommunications operator in Europe.

As of December 31, 2018, and 2017 no customers accounted for 10% of contract receivables and unbilled work-in-progress.

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 cash and cash equivalents are not under any FDIC program were \$6.5 million and \$5.4 million as of December 31, 2018 and 2017, respectively.

**Sales, Use and Other Value Added Tax** — Applicable revenue-based state, use and other value added taxes are included in revenue.

**Advertising and Promotion Costs** — Advertising and promotion costs are expensed as incurred. Advertising costs totaled approximately \$0.2 million and \$0.1 million for the years ended December 31, 2018 and 2017, respectively.

**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 two years ended December 31, 2018. In addition, we did not have any capitalized internal software development costs included in our December 31, 2018 and 2017 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 losses and tax credit carry-forwards. We measure deferred tax assets and liabilities using enacted tax rates expected to be applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. We reduce deferred tax assets by a valuation allowance if, based on available evidence, it is more likely than not that these benefits will not be realized.

We use a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more likely than not to be sustained upon examination by taxing authorities.

**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 Senior Vice President of Finance as our chief operating decision-makers (“CODM”). These chief operating decision makers review revenues 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 income). 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.

**Recently Adopted Accounting Pronouncements** — In May 2014, the FASB issued Accounting Standards Update (“ASU”) 2014-09, Revenue from Contracts with Customers, Topic 606 and various updates to the ASU thereafter. We adopted the new standard effective January 1, 2018, using the modified retrospective transition method. Accordingly, comparative periods have not been adjusted and continue to be reported under FASB ASC Topic 605, Revenue Recognition (“ASC 605”). There was no cumulative effect of the initial application to be recognized as an adjustment to opening retained earnings at January 1, 2018 as the adoption did not have a material impact on the Company’s results of operations or financial condition.

In November 2016, the FASB issued ASU 2016-18, Restricted Cash (Topic 230): Statement of Cash Flows (“ASU 2016-18”). ASU 2016-18 requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. Restricted cash and restricted cash equivalents will be included with cash and cash equivalents when reconciling the beginning of period and end of period balances on the statement of cash flows upon adoption of this standard.

In January 2017, the FASB issued ASU 2017-04, Intangibles — Goodwill and Other (Topic 350), Simplifying the Test for Goodwill Impairment, which eliminates the second step of the two-step quantitative approach for testing goodwill for potential impairment. An entity will therefore perform the goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and recognize an impairment charge for the amount by which the carrying amount exceeds the fair value, not to exceed the total amount of goodwill allocated to the reporting unit. An entity still has the option to perform a qualitative assessment to determine if the quantitative impairment test is necessary. ASU 2017-04 is effective for fiscal years beginning after December 15, 2019 on a prospective basis, with early adoption permitted. The provisions of ASU 2017-04 were adopted during the fourth quarter of 2018, see Note 3 for the impact on our consolidated financial statements.

**Recent Accounting Pronouncements** — In February 2016, the FASB established Topic 842, Leases, by issuing ASU 2016-02, which requires lessees to recognize leases on-balance sheet and disclose key information about leasing arrangements. Topic 842 was subsequently amended by ASU 2018-01, Land Easement Practical Expedient for Transition to Topic 842; ASU 2018-10, Codification Improvements to Topic 842, Leases; and ASU 2018-11, Targeted Improvements. The new standard establishes a right-of-use model (ROU) that requires a lessee to recognize a ROU asset and lease liability on the balance sheet for all leases with a term longer than 12 months. Leases will be classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the income statement.

The new standard is effective for us on January 1, 2019. We expect to adopt the new standard on its effective date. A modified retrospective transition approach is required, applying the new standard to all leases existing at the date of initial application. An entity may choose to use either (1) its effective date or (2) the beginning of the earliest comparative period presented in the financial statements as its date of initial application. If an entity chooses the second option, the transition requirements for existing leases also apply to leases entered into between the date of initial application and the effective date. The entity must also recast its comparative period financial statements and provide the disclosures required by the new standard for the comparative periods. We expect to adopt the new standard on January 1, 2019 and use the effective date as our date of initial application. Consequently, financial information will not be updated, and the disclosures required under the new standard will not be provided for dates and periods before January 1, 2019.

The new standard provides several optional practical expedients in transition. We expect to elect the ‘package of practical expedients’, which permits us not to reassess under the new standard our prior conclusions about lease identification, lease classification and initial direct costs. We do not expect to elect the use-of hindsight or the practical expedient pertaining to land easements; the latter not being applicable to us. We expect to elect all the new standard’s available transition practical expedients.

We expect that this standard will have a material effect on our financial statements. While we continue to assess all of the effects of adoption, we currently believe the most significant effect relates to the recognition of new ROU assets and lease liabilities on our balance sheet for our real estate operating leases and providing significant new disclosures about our leasing activities. We do not expect a significant change in our leasing activities between now and adoption.

On adoption, we currently expect to recognize additional operating liabilities of approximately \$1.6 million with corresponding ROU assets of the same amount based on the present value of the remaining minimum rental payments under current leasing standards for existing operating leases.

The new standard also provides practical expedients for an entity’s ongoing accounting. We currently expect to elect the short-term lease recognition exemption for all leases that qualify. This means, for those leases that qualify, we will not recognize ROU assets or lease liabilities, and this includes not recognizing ROU assets or lease liabilities for existing short-term leases of those assets in transition. We also currently expect to elect the practical expedient to not separate lease and non-lease components for all our leases.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326) — Measurement of Credit Losses on Financial Instruments (ASU 2016-13). ASU 2016-13 requires entities to establish an allowance for credit losses for most financial assets. Prior GAAP was based on an incurred loss methodology for recognizing credit losses on financial assets measured at amortized cost and available-for sale debt securities. The update is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted for fiscal years beginning after December 31, 2018. We have not yet assessed the impact on our consolidated financial statements or related disclosures.

In February 2018, the FASB issued ASU 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220) - Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. The amendments in this ASU allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Act. Consequently, the amendments eliminate the stranded tax effects resulting from the Act and will improve the usefulness of information reported to financial statement users. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018. Early adoption is permitted in any period after issuance of the ASU. We do not expect the amendments in this ASU to have a material impact on our consolidated financial statements.

In June 2018, the FASB issued ASU 2018-07, Compensation - Stock Compensation (Topic 718) - Improvements to Nonemployee Share-Based Payment Accounting. ASU 2018-07 is intended to reduce cost and complexity and to improve financial reporting for share-based payments issued to nonemployees. This ASU expands the scope of ASC Topic 718, Compensation - Stock Compensation, which currently only includes share-based payments issued to employees, to also include share-based payments issued to nonemployees for goods and services. Consequently, the accounting for share-based payments to nonemployees and employees will be substantially aligned. ASU 2018-07 supersedes ASC Subtopic 505-50, Equity - Equity-Based Payments to Non-Employees. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018. We do not expect this ASU will have a material impact on our consolidated financial statements.



In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (ASC 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement. ASU 2018-13 removes certain disclosures, modifies certain disclosures and adds additional disclosures. ASU 2018-13 is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2019. Early adoption is permitted. We have not yet assessed the impact on our consolidated financial statements or related disclosures.

Management has evaluated other recently issued accounting pronouncements and does not believe that any of these pronouncements will have a significant impact on our consolidated financial statements and related disclosures.

## NOTE 2 — ACQUISITIONS

### *Business Logic Systems*

On July 3, 2017, we completed the purchase by EVOL BLS, a wholly owned subsidiary of the Company, of Business Logic Systems Limited (“Seller”). EVOL BLS and Seller are both companies incorporated under the laws of England and Wales. Under the terms of the Asset Purchase Agreement, dated as of May 5, 2017 (the “Purchase Agreement”), the Seller agreed to sell substantially all of its assets and transfer certain liabilities relating to Seller’s business of providing customer value management solutions and data driven marketing solutions for £1.2 million (\$1.6 million) in cash, plus (a) an additional sum of £100,000 (\$134,000), which was reduced in full by the sums paid by EVOL BLS to certain employees’ severance obligations (collectively, the “Cash Payments”); (b) a percentage of collections on certain receivables over a 24 month period; and (c) an earnout equal to 50% of BLS based revenue over \$4.8 million per year for 3 years after the closing date. The Company agreed to guarantee EVOL BLS’ obligations under the Purchase Agreement.

The Purchase Agreement contains a two year “no solicitation” provision which restricts the Seller’s ability to compete with EVOL BLS with respect to the BLS business or to solicit BLS customers or BLS employees serving in an executive, managerial, sales or technical role.

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 \$0.3 million, was recorded as goodwill. The results of EVOL BLS’s operations have been included in the consolidated financial statements since the acquisition date. The amortization of the intangible assets is deductible for tax purposes.

During the second quarter of 2018, we identified and recorded measurement period adjustments to our preliminary purchase price allocation that was disclosed in our Form 10-K for the fiscal year ended December 31, 2017. These adjustments are reflected in the tables below. If the measurement period adjustments were reflected in the previously filed Form 10-K, it would have increased operating expenses by approximately \$1,000 consisting of increases to amortization expense. The measurement period adjustments were the result of additional analysis performed and updated information.

When we acquired EVOL BLS on July 3, 2017, we agreed to make up to three annual cash payments equal to 50% of the EVOL BLS revenue in excess of \$4.8 million for the 12-month periods ending July 3, 2018, 2019 and 2020. The Company also agreed to guarantee the EVOL BLS obligations under the Purchase Agreement. As of June 30, 2018, we estimated the total annual cash payments for the three 12-month periods to be \$0.8 million which is a \$0.4 million increase from our \$0.4 million estimate as of December 31, 2017. We recognized \$0.4 million expense in the other income (expense) financial statement line item for the fiscal year ending December 31, 2018 as a result of our increased obligation.

On November 2, 2018, we paid the \$0.8 million in contingent earn-out liability for the EVOL BLS acquisition. No future payments are expected at this time.

The following table summarizes the purchase price and fair values of the assets acquired and liabilities assumed at the date of acquisition as adjusted for measurement period adjustments identified during the current year (in thousands):

	<u>At July 3, 2017 (preliminary)</u>	<u>Measurement Period Adjustments</u>	<u>At July 3, 2017 (adjusted)</u>
Cash Consideration .....			
Total Cash Consideration.....	\$ 1,553	\$ —	\$ 1,553
Earnout.....	380	47	427
Total purchase price.....	<u>\$ 1,933</u>	<u>\$ 47</u>	<u>\$ 1,980</u>
Contract receivables.....	\$ 1,037	\$ —	\$ 1,037
Unbilled work-in-progress.....	1,039	—	1,039

	At July 3, 2017 (preliminary)	Measurement Period Adjustments	At July 3, 2017 (adjusted)
Intangible assets .....	246	18	264
Prepaid and other current assets .....	437	—	437
Other assets, non-current .....	55	—	55
Total identifiable assets acquired .....	<u>2,814</u>	<u>18</u>	<u>2,832</u>
Accounts payable and accrued liabilities .....	792	—	792
Deferred revenue .....	338	—	338
Total identifiable liabilities acquired .....	<u>1,130</u>	<u>—</u>	<u>1,130</u>
Net identifiable assets acquired .....	<u>1,684</u>	<u>18</u>	<u>1,702</u>
Goodwill .....	249	29	278
Net assets acquired .....	<u>\$ 1,933</u>	<u>\$ 47</u>	<u>\$ 1,980</u>

We recorded \$0.2 million in intangible assets as of the acquisition date with a weighted-average amortization period of approximately six years and are amortizing the value of the purchased software, trademarks and trade names, non-competition and customer relationships over an estimated useful life of 5, 0.5, 2 and 7 years, respectively. Amortization expense of less than \$0.1 million related to the acquired intangible assets was recorded for the years ended December 31, 2018 and 2017.

The \$0.3 million of the goodwill recognized was attributed primarily to expected synergies and the assembled workforce of EVOL BLS. Goodwill was adjusted by less than \$0.1 million related to changes in the opening client balances for contract receivables and unbilled work in progress.

Intangible assets related to the EVOL BLS's acquisition as of December 31, 2018 and 2017 were as follows (in thousands):

	Gross Amount	Accumulated Amortization	Net Carrying Amount	Weighted-Average Amortization Period
Purchased software .....	\$ 98	\$ 29	\$ 69	4 yrs.
Trademarks and tradenames .....	9	9	—	0 yrs.
Non-competition .....	4	3	1	1 yrs.
Customer relationships .....	149	32	117	6 yrs.
	<u>\$ 260(1)</u>	<u>\$ 73(1)</u>	<u>\$ 187</u>	<u>4.9 yrs.</u>
	Gross Amount	Accumulated Amortization	Net Carrying Amount	Weighted- Average Amortization Period
Purchased software .....	\$ 102	\$ 9	\$ 93	5 yrs.
Trademarks and tradenames .....	10	7	3	0.5 yrs.
Non-competition .....	4	1	3	1.5 yrs.
Customer relationships .....	139	8	131	7 yrs.
	<u>\$ 255(1)</u>	<u>\$ 25(1)</u>	<u>\$ 230</u>	<u>5.9 yrs.</u>

(1) Includes functional currency adjustment of less than \$0.1 million.

## Lumata

On September 4, 2017, Evolving Systems Holdings Limited (“EVOL Holdings”), a wholly owned subsidiary of Evolving Systems, Inc., completed the acquisition under a Share Purchase Agreement (the “Purchase Agreement”) with Lumata Holdings Limited (“Lumata Holdings” or “Seller”) and Francisco Partners III (Cayman) L.P., as Guarantor (the “Acquisition”). EVOL Holdings acquired all of the issued and outstanding shares of four (4) Lumata Holdings subsidiaries, Lumata France SAS, Lumata Spain S.L., Lumata UK Ltd and Lumata Deutschland GmbH (collectively, “Lumata Entities”) in exchange for a cash payment totaling €4.0 million (\$4.8 million), subject to certain adjustments. The Seller and certain members of the Seller’s management entered into Management Warranty Deeds to secure Lumata Holdings’ representations and warranties under the Purchase Agreement and, to the extent the amounts provided under the Management Warranty Deeds are not sufficient to satisfy post-closing claims, EVOL Holdings may seek recovery from the Guarantor in an amount not to exceed €0.4 million (\$0.5 million). EVOL Holdings and Seller are both companies incorporated under the laws of England and Wales.

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 \$3.1 million, was recorded as goodwill. The results of the Lumata Entities’ operations have been included in the consolidated financial statements since the acquisition date. The amortization of the intangible assets is not deductible for tax purposes.

During 2018, we identified and recorded measurement period adjustments to our preliminary purchase price allocation that was disclosed in our Form 10-K for the fiscal year ended December 31, 2017. These adjustments are reflected in the tables below. If the measurement period adjustments were reflected in the Form 10-K, it would have resulted in no change in operating expenses. The measurement period adjustments were the result of additional analysis performed and information identified during the second quarter of 2018 based on facts and circumstances that existed as of the purchase date.

The following table summarizes the purchase price and fair values of the assets acquired and liabilities assumed at the date of acquisition as adjusted for measurement period adjustments identified during the current year (in thousands):

	<u>At September 4, 2017 (preliminary)</u>	<u>Measurement Period Adjustments</u>	<u>At September 4, 2017 (adjusted)</u>
Cash Consideration .....	\$ 4,766	\$ —	\$ 4,766
Total purchase price .....	<u>\$ 4,766</u>	<u>\$ —</u>	<u>\$ 4,766</u>
	<u>At September 4, 2017 (preliminary)</u>	<u>Measurement Period Adjustments</u>	<u>At September 4, 2017 (adjusted)</u>
Cash and cash equivalents .....	\$ 386	\$ —	\$ 386
Contract receivables .....	1,444	—	1,444
Unbilled work-in-progress .....	110	(82)	28
Intangible assets .....	1,935	—	1,935
Prepaid and other current assets .....	1,539	—	1,539
Other assets, non-current .....	19	—	19
Total identifiable assets acquired .....	<u>5,433</u>	<u>(82)</u>	<u>5,351</u>
Accounts payable and accrued liabilities .....	3,086	—	3,086
Deferred tax liability .....	329	—	329
Deferred revenue .....	325	152	477
Total identifiable liabilities acquired .....	<u>3,740</u>	<u>152</u>	<u>3,892</u>
Net identifiable assets acquired .....	<u>1,693</u>	<u>(234)</u>	<u>1,459</u>
Goodwill .....	3,073	234	3,307
Net assets acquired .....	<u>\$ 4,766</u>	<u>\$ —</u>	<u>\$ 4,766</u>

We recorded \$1.9 million in intangible assets as of the acquisition date with a weighted-average amortization period of approximately ten years and are amortizing the value of the purchased software, trademarks and tradename, non-competition and customer relationships over an estimated useful life of 7, 5, 1.5 and 13 years, respectively. Amortization expense of \$0.2 million and less than \$0.1 million related to the acquired intangible assets was recorded during the years ended December 31, 2018 and 2017, respectively.

The \$3.1 million of goodwill recognized is attributed to expected synergies and the assembled workforce and residual goodwill of the Lumata Entities. Goodwill was adjusted by \$0.2 million related to changes in the opening client balances for contract receivables and unbilled work in progress.

Intangible assets related to the Lumata Entities' acquisition as of December 31, 2018 and 2017 (in thousands):

	<u>Gross Amount</u>	<u>Accumulated Amortization</u>	<u>Net Carrying Amount</u>	<u>Weighted-Average Amortization Period</u>
Purchased software .....	\$ 661	\$ 126	\$ 535	6 yrs.
Trademarks and tradenames .....	109	29	80	4 yrs.
Non-competition .....	2	2	—	0.5 yrs.
Customer relationships.....	1,131	116	1,015	12 yrs.
	<u>\$ 1,903(1)</u>	<u>\$ 273(1)</u>	<u>\$ 1,630</u>	<u>9.4 yrs.</u>

  

	<u>Gross Amount</u>	<u>Accumulated Amortization</u>	<u>Net Carrying Amount</u>	<u>Weighted- Average Amortization Period</u>
Purchased software .....	\$ 700	\$ 33	\$ 667	7 yrs.
Trademarks and tradenames .....	115	8	107	5 yrs.
Non-competition .....	2	—	2	1.5 yrs.
Customer relationships.....	1,200	31	1,169	13 yrs.
	<u>\$ 2,017(1)</u>	<u>\$ 72(1)</u>	<u>\$ 1,945</u>	<u>10.4 yrs.</u>

(1) Includes functional currency adjustment of \$0.1 million.

### **Pro Forma**

The following table presents the unaudited pro forma results of the Company for the years ended December 31, 2018 and 2017 as if the acquisitions of EVOL BLS and Lumata Entities occurred on January 1, 2017. The pro forma results include estimates and assumptions which management believes are necessary. However, pro forma results do not include an anticipated cost savings or their effects of the planned integration of EVOL BLS and Lumata Entities and are not necessarily indicative of the result that would have occurred if the business combination had been in effect on the dates indicated, or which may result in the future. The unaudited pro forma revenue and net loss for EVOL BLS was approximately \$1.4 million and \$ 2.0 million, respectively, for the pre-acquisition period during 2017. The unaudited pro forma revenue and net loss for the Lumata Entities was approximately \$4.6 million and \$0.2 million, respectively, for the pre-acquisition period during 2017. However, the pro forma results do not include any anticipated cost savings or their effects of the planned integration of EVOL BLS and Lumata Entities and are not necessarily indicative of the results that would have occurred if the business combination had been in effect on the dates indicated, or which may result in the future. The pro forma information includes adjustments of \$0.2 million in 2017 for the amortization of intangible assets.

	<u>For the year Ended December 31,</u>	
	<u>2018</u>	<u>2017</u>
Revenue .....	\$ 30,636	\$ 34,821
Net (loss) income .....	\$ (14,787)	\$ 144

EVOL BLS or the Lumata Entities 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):

	<b>Total Goodwill</b>
Balance at December 31, 2016 .....	\$ 20,599
Goodwill acquired during the year.....	3,322
Effects of changes in foreign currency exchange rates (1) .....	1,295
Balance at December 31, 2017 .....	<u>\$ 25,216</u>
Measurement period adjustments.....	263
Goodwill impairment loss.....	(17,760)
Effects of changes in foreign currency exchange rates (1) .....	(981)
Balance at December 31, 2018 .....	<u><u>\$ 6,738</u></u>

(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, 2018, at which time we had \$25.0 million of goodwill. The fair value of the reporting unit was estimated using both market and income-based approaches. Due to a sustained decline in the market capitalization of our common stock during the fourth quarter of 2018, we performed an interim goodwill impairment test in accordance with the provisions of ASU 2017-04. The outcome of this goodwill impairment test resulted in a charge for the impairment of goodwill of \$17.8 million, which was recorded in the consolidated financial statements for the year ended December 31, 2018. Management considered that, along with other possible factors affecting the assessment of the Company's reporting unit for the purposes of performing a goodwill impairment assessment, including management assumptions about expected future revenue forecasts and discount rates, changes in the overall economy, trends in the stock price, estimated control premium and other operating conditions. Changes in estimates and assumptions could materially affect the determination of fair value and goodwill. 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 additional events through the date this Form 10-K was filed which impact our assumptions on the determination of the fair value of our goodwill.

We amortized identifiable intangible assets for Evolving Systems Labs, Evolving Systems NC, EVOL BLS, and the Lumata entities on a straight-line basis over their estimated lives ranging from one to eight years. As of December 31, 2018, and December 31, 2017, identifiable intangibles were as follows (in thousands):

	<b>December 31, 2018</b>			<b>Weighted- Average Amortization Period</b>
	<b>Gross Amount</b>	<b>Accumulated Amortization</b>	<b>Net Carrying Amount</b>	
Purchased software .....	\$ 2,877	\$ (1,121)	\$ 1,756	6.7 yrs.
Trademarks and tradenames .....	303	(223)	80	2.7 yrs.
Non-competition .....	39	(38)	1	1.0 yrs.
Customer relationships.....	4,303	(1,590)	2,713	7.7 yrs.
	<u>\$ 7,522(1)</u>	<u>\$ (2,972)(2)</u>	<u>\$ 4,550</u>	<u>5.8 yrs.</u>
	<b>December 31, 2017</b>			
	<b>Gross Amount</b>	<b>Accumulated Amortization</b>	<b>Net Carrying Amount</b>	<b>Weighted- Average Amortization Period</b>
Purchased software .....	\$ 2,921	\$ (743)	\$ 2,178	7.7 yrs.
Trademarks and tradenames .....	310	(189)	121	3.7 yrs.
Non-competition .....	40	(35)	5	2.0 yrs.
Customer relationships.....	4,363	(1,054)	3,309	8.7 yrs.
	<u>\$ 7,634(2)</u>	<u>\$ (2,021)(2)</u>	<u>\$ 5,613</u>	<u>6.8 yrs.</u>

(1) 2018 increase in gross amount due to measurement period adjustments relating to the EVOL BLS purchase price allocation. See Note 2 — Acquisitions for additional information. Includes functional currency adjustment of \$0.1 million

(2) Includes functional currency adjustment of less than \$0.1 million.

Amortization expense of identifiable intangible assets was \$1.0 million and \$0.9 million for the years ended December 31, 2018 and 2017, respectively. Expected future amortization expense related to identifiable intangibles based on our carrying amount as of December 31, 2018 was as follows (in thousands):

Year ending December 31,	
2019 .....	\$ 938
2020 .....	937
2021 .....	923
2022 .....	738
2023 .....	360
Thereafter.....	654
	\$ 4,550

#### NOTE 4 — BALANCE SHEET COMPONENTS

The components of accounts payable and accrued liabilities are as follows (in thousands):

	December 31, 2018	December 31, 2017
<b>Accounts payable and accrued liabilities:</b>		
Accounts payable.....	\$ 1,276	\$ 1,530
Accrued compensation and related expenses.....	1,863	1,749
Accrued liabilities.....	1,344	3,399
	\$ 4,483	\$ 6,678

#### NOTE 5 — LONG-TERM DEBT

On August 16, 2017, we entered into a Term Loan Facility Agreement with East West Bank as lender in the amount of \$4.7 million (the “Loan Facility”). The purpose of the Loan Facility is to provide funds in connection with the Company’s entry into a Share Purchase Agreement with Lumata Holdings Limited for a cash payment totaling €4 million (\$4.8 million). See Note 2 Acquisitions for the Lumata Entities acquisition. The Loan Facility requires the Company to make monthly principal payments of approximately \$0.1 million that commenced on July 31, 2018 and interest at the greater of (a) 3.5% or (b) the variable rate of interest that appears in the Wall Street Journal on a monthly measurement date plus in either case 1.5%. As of December 31, 2018, the U.S.A. Prime Rate was 5.5%. EVOL Inc. entered into the Loan Facility as the Parent Guarantor; Evolving Systems BLS LTD and Evolving Systems Limited entered into the Loan Facility as Original Guarantors (the “Original Guarantors”). The Loan Facility is secured by all of the assets of EVOL Holdings and the Original Guarantors in accordance with the terms of a Debenture entered into by EVOL Holdings and the Original Guarantors in favor of East West Bank. EVOL Holdings, EVOL Inc. and the Original Guarantors also entered into a Subordination Deed whereby each of the parties agreed to subordinate all loans by and among each other to East West Bank. Following completion of the Lumata Acquisition, Lumata France SAS and Lumata UK Ltd are also bound to adhere to the finance documents as additional obligors.

The Loan Facility requires the Company to pay an Arrangement Fee (“Origination Fee”) of \$23,650, payable in four equal installments, with the first payment due on the date of the Loan Facility and the remaining three payments on the first, second and third anniversary thereof. The Company also agreed to pay East West Bank’s legal fees in connection with the transaction. The Company may prepay the Loan Facility at any time, in a minimum amount of \$250,000 and increments of \$50,000, subject to a prepayment fee of 2% of the amount prepaid, on any prepayment made before the second anniversary date of the Agreement. The unpaid balance of the Loan Facility is due on August 16, 2021.

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 Term Loan bears interest at a floating rate equal to the U.S.A. Prime Rate plus 1.0%. As of December 31, 2018, the U.S.A. Prime Rate was 5.5%. 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. 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 and a legal fee equal to less than \$0.1 million. The Term Loan matures on January 1, 2020.

The Term Loan and the Loan Facility (collectively, “Loans”) include 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, 2018, we are in compliance with the covenants except for our fixed charge coverage ratio, which was 0.81 and failed to meet the minimum requirement of 1.25 fixed charge coverage ratio for the quarter ended December 31, 2018. On March 29, 2019, we received a letter from East West Bank that waived the violation. We are negotiating amendments to the 2019 quarterly ratios. We have a \$5.9 million balance under the Term Loan, net of approximately \$5,000 of debt issuance costs.

**NOTE 6 — INCOME TAXES**

We recorded net income tax benefit of \$0.4 million for the year ended December 31, 2018 and net income tax expense of \$1.4 million for the year ended December 31, 2017. The net benefit for the year ended December 31, 2018 consisted of current income tax expense of \$0.5 million and a deferred tax benefit of \$0.9 million. The current tax expense consists of income tax primarily from our U.S. and U.K. based operations. The deferred tax benefit primarily consists of benefits from establishing deferred tax assets of \$0.5 million for our foreign tax credit (“FTC”) carryforwards, \$0.2 million for net operating losses from certain U.K. subsidiaries that are expected to be used by another U.K. subsidiary and \$0.2 million decrease in net deferred tax liabilities. The net expense during the year ended December 31, 2017 consisted of current income tax expense of \$1.9 million and a deferred tax benefit of \$0.5 million. The current tax expense consists of income tax from our U.S., U.K., France and India based operations and unrecoverable foreign withholding taxes in the U.K. The deferred tax benefit was related primarily to the increase of certain net deferred tax assets and amortization of stock options and the intangible assets related to the acquisition of Evolving Systems NC, Inc. in September 2015.

On December 22, 2017, the Tax Cuts and Jobs Act (the “Tax Act”) was enacted in the United States. The Tax Act includes a number of changes to existing U.S. tax laws that impact the Company including the reduction of the U.S. corporate income tax rate from 34 percent to 21 percent for tax years beginning after December 31, 2017. The Tax Act also provides for a one-time transition tax on indefinitely reinvested foreign earnings and the acceleration of depreciation for certain assets placed into service after September 27, 2017, as well as prospective changes beginning in 2018, including the elimination of certain domestic deductions and credits, capitalization of research and development expenditures, and additional limitations on the deductibility of executive compensation and interest. We adjusted our deferred tax assets and liabilities in the U.S. at December 31, 2017, using the new federal corporate tax rate of 21%.

***Global Intangible Low-taxed Income***

We recognize the tax on global intangible low-taxed income (“GILTI”) as a period cost in the period the tax is incurred. Under this policy, we have not provided deferred taxes related to temporary differences that upon their reversal will affect the amount of income subject to GILTI in the period. For the year ended December 31, 2018, there is no GILTI inclusion.

***Transfer pricing adjustments, net***

The Company’s tax positions include the Company’s intercompany transfer pricing policies and the associated taxable income and deductions arising from intercompany charges between subsidiaries within the consolidated group. During fiscal 2018, the Company finalized an Advance Pricing Arrangement (“APA”) with the Evolving Systems, Inc. and its subsidiaries. This APA determined the amount of income which is taxable in each respective jurisdiction. In accordance with the APA, the adjustments necessary to reflect the reduction in 2018 U.S. pre-tax income in the resulted in an increase in domestic income before income tax expense of \$5.5 million and a corresponding decrease in foreign income before income tax expense in the year ended 2018.

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

	<b>For the Years Ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
Domestic .....	\$ (17,820)	\$ (4,168)
Foreign .....	2,607	8,105
Total .....	<u>\$ (15,213)</u>	<u>\$ 3,937</u>

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

	For the Years Ended December 31,	
	2018	2017
Current:		
Federal.....	\$ 340	\$ (108)
Foreign.....	155	1,998
State.....	25	22
Total Current.....	<u>520</u>	<u>1,912</u>
Deferred:		
Federal.....	41	(444)
Foreign.....	(987)	(47)
Total Deferred.....	<u>(946)</u>	<u>(491)</u>
Total.....	<u>\$ (426)</u>	<u>\$ 1,421</u>

As of December 31, 2018, and 2017 we had no Federal NOL carryforwards remaining. As of December 31, 2018, and 2017, we had state NOL's of approximately \$27.5 million and \$28.9 million, respectively. The state NOL carryforwards expire at various times beginning in 2019 and ending in 2037. As of December 31, 2018, and 2017, we had foreign NOLs of \$5.5 million and \$5.6 million, respectively. The foreign NOL carryforwards expire at various times beginning in 2019 and ending in 2037. In addition, we have research and experimentation credit carryforwards of approximately \$0.3 million which may expire in 2019 and Alternative Minimum Tax ("AMT") credits of \$0.8 million. For tax years beginning after 2018 and before 2023, the AMT credit is refundable in an amount equal to 50% of excess of the credit for the tax year over the amount of the credit allowable for the year against regular tax liability.

In our U.S. Federal income tax returns we historically deducted income taxes paid to various countries. Our income tax calculations have historically been under the regular and AMT regulations 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 ("Foreign Tax Credit" or "FTC"). An election to either claim a deduction or FTC on such foreign income taxes can be made each tax year, independent from elections made in other years. An FTC 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. As the election to claim the FTC or deduction is made on an annual basis, we intend to compare benefits to either claim a deduction or FTC on an annual basis. We had approximately \$4.8 million of FTC's to carryforward into 2019 and subsequent years as a deferred tax asset. As of December 31, 2018, our FTC deferred tax asset balance was approximately \$0.5 million, net of its valuation allowance. We utilized \$0.5 million of Foreign Tax Credits for the year ended December 31, 2017 to offset the one-time transition tax on indefinitely reinvested and unrepatriated foreign earnings. The determination of the transition tax required analysis regarding the amount and composition of our historical earnings, the amount of available Foreign Tax Credits and our ability to utilize certain Foreign Tax Credits.

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):

	December 31, 2018	December 31, 2017
<b>Deferred tax assets:</b>		
Foreign tax credits carryforwards.....	\$ 4,788	\$ 4,731
Net operating loss carryforwards – Foreign.....	5,531	5,596
Net operating loss carryforwards – State.....	887	914
Research & development credits.....	303	303
AMT credit.....	770	770
Stock compensation.....	559	570
Depreciable assets.....	38	33
Accrued liabilities and reserves.....	67	66
Total deferred tax assets.....	<u>12,943</u>	<u>12,983</u>
<b>Deferred tax liabilities:</b>		
Intangibles.....	(697)	(1,045)
Accrued liabilities and reserves.....	(174)	(120)
Total deferred tax liability.....	<u>(871)</u>	<u>(1,165)</u>
Net deferred tax assets, before valuation allowance.....	12,072	11,818
Valuation allowance.....	(10,932)	(11,544)
Net deferred tax asset.....	<u>\$ 1,140</u>	<u>\$ 274</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. In September 2017, we established a deferred tax liability of \$0.4 million as a result of the acquisition of the Lumata Entities. As of December 31, 2018, and 2017, there was a net deferred tax liability of \$0.7 million and a net deferred tax liability of \$0.8 million, respectively. This net deferred tax liability will be recognized as the identifiable intangibles are amortized.

We maintain a valuation allowance on the domestic net deferred tax assets other than \$0.7 million in AMT credits and \$0.5 million in FTC, and \$0.3 million of foreign net deferred tax assets, 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, research and development credits and, Foreign Tax 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 and state combined income tax rate of 25.6% for 2018 and 38.0% for 2017 to (loss) income to (loss) income before income tax (benefit) expense as follows (in thousands):

	<u>For the Years Ended December 31,</u>	
	<u>2018</u>	<u>2017</u>
U.S. federal income tax expense at statutory rates.....	\$ (3,920)	\$ 1,776
State income tax expense, net of federal impact .....	23	22
Foreign Tax Credit .....	—	(848)
Foreign rate differential .....	540	(1,312)
Foreign deemed dividends .....	—	1,311
Change in valuation allowance .....	(274)	844
Research and development expenses .....	(1,167)	(305)
Foreign taxes.....	—	18
Section 78 Gross-up.....	—	311
US Tax Reform.....	—	(108)
Goodwill impairment loss.....	4,188	—
Permanent differences and other, net.....	184	(288)
Total tax (benefit) expense.....	<u>\$ (426)</u>	<u>\$ 1,421</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, 2018, and 2017, 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, 2018 and 2017, which would be reflected as income tax expense or benefit in the statement of operations.

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 U.K., France, 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.

## **NOTE 7 — STOCKHOLDERS' EQUITY**

### **Common Stock Dividends**

There were no accrued dividends as of December 31, 2018 and 2017, respectively.

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

As of December 31, 2018, and 2017, we hold 178,669, respectively shares of our common stock that we purchased prior to the expiration of our stock purchase program on December 31, 2014.

### 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, 2018, and 2017, 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 \$0.7 million for the years ended December 31, 2018 and 2017, 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):

	<u>For the Years Ended December 31,</u>	
	<u>2018</u>	<u>2017</u>
Cost of revenue, excluding depreciation and amortization .....	\$ 52	\$ 26
Sales and marketing .....	39	28
General and administrative .....	590	611
Product development .....	21	77
Total share-based compensation .....	<u>\$ 702</u>	<u>\$ 742</u>

### Stock Option/Incentive Plans

In June 2007, our stockholders approved the 2007 Stock Incentive Plan (the “2007 Stock Plan”) with a maximum of 1.0 million 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 1.25 million. 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 1.5 million. 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 2.0 million. 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, 2018 and 2017, there were no shares available for grant under the 2007 Stock Plan. At December 31, 2018 and 2017, 0.5 million and 0.7 million options and restricted shares 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 0.25 million shares reserved for issuance. In June 2018, our stockholders approved an amendment to the 2016 Stock Plan which increased the maximum shares that may be awarded under the plan to 0.85 million 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, 2018 and December 31, 2017, 0.4 million and 0.6 million options and restricted shares were issued and outstanding under the 2016 Stock Plan, respectively. At December 31, 2018 and December 31, 2017, there were approximately 0.4 million and 0.1 million shares available for grant under the 2016 Stock Plan, respectively.

	<b>Restricted Stock Number of Shares (in thousands)</b>
Unvested restricted stock at December 31, 2016 .....	15
Add restricted stock granted .....	622
Less restricted stock vested .....	(5)
Less restricted stock forfeited/expired .....	(35)
Unvested restricted stock at December 31, 2017 .....	597
Less restricted stock vested .....	(181)
Less restricted stock forfeited/expired .....	(67)
Unvested restricted stock at December 31, 2018 .....	349

During the year ended December 31, 2017 we awarded a total of 0.6 million shares of restricted stock to members of our senior management. During the years ended December 31, 2018 and 2017, approximately 0.18 million and 0.01 million shares of restricted stock vested, respectively. There were forfeitures of approximately 0.07 million shares of restricted stock during the year ended December 31, 2018. There were forfeitures of approximately 0.03 million shares of restricted stock during year ended December 31, 2017.

The fair market value of restricted shares 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 \$0.5 million and \$0.6 million for the years ended December 31, 2018 and 2017, respectively for restricted stock. The shares of restricted stock granted to our Board of Directors and senior management team in 2017 include 0.2 million shares subject to achievement of annual performance goals established by our Board of Directors. The restricted shares vest over four years.

Of the restrictions on the stock awards granted during the periods ended March 31, 2017 and June 30, 2017, 20% will be released in January 2018, and 10% annually beginning on the one-year anniversary of their offering thereafter for four years. The remaining 40% will be released evenly over four years beginning in 2018 contingent upon the attainment of annual performance goals established by our Board of Directors. Of the restrictions on the stock awards granted during the third quarter of 2017, one-fourth will be released on the one-year anniversary of the date of the grant and the balance will be released quarterly over a three-year period. Of the restrictions on the stock awards granted during the fourth quarter of 2017, one-fourth will be released on the one-year anniversary of the date of the grant and the balance will be released quarterly over a three-year period. Of the restrictions on the stock awards granted during the period ended December 31, 2017, one-fourth was released on the one-year anniversary of the date of the grant and the balance is being released quarterly over a three-year period. For the year ended December 31, 2018, we did not attain the annual performance goals. Vested shares are included in the number of Common Stock outstanding shares referenced on the cover of this Annual Report on Form 10-K and referenced in the table above for the year ended December 31, 2018.

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

	<b>For the Years Ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
Expected term (years) .....	6.0	6.4
Risk-free interest rate .....	2.9%	2.15%
Expected volatility .....	38.43%	38.86%
Expected dividend yield .....	0.0%	0.0%

The following is a summary of stock option activity under the stock option plans for the years ended December 31, 2018 and 2017:

	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, 2016 .....	684	\$ 6.17	7.30	\$ 139
Less options forfeited/cancelled.....	(233)	5.50		
Less options exercised .....	(108)	2.46		
Add options granted.....	370	4.53		
Options outstanding at December 31, 2017 .....	713	\$ 5.71	8.23	\$ 128
Less options forfeited/cancelled.....	(142)	5.20		
Less options exercised .....	(10)	0.40		
Add options granted.....	30	2.25		
Options outstanding at December 31, 2018 .....	591	\$ 5.75	7.39	\$ —
Options exercisable at December 31, 2018.....	368	\$ 6.51	6.67	\$ —

The following is a summary of stock options outstanding under the plans as of December 31, 2018:

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	\$ 4.46	40,608	7.82	\$ 2.65	10,608	\$ 3.78	
\$ 4.47	\$ 4.55	171,875	8.84	\$ 4.50	59,375	\$ 4.50	
\$ 4.56	\$ 5.90	91,175	7.97	\$ 5.00	45,532	\$ 5.27	
\$ 5.91	\$ 6.23	179,500	6.75	\$ 6.00	145,843	\$ 6.00	
\$ 6.24	\$ 10.90	107,851	5.49	\$ 9.13	106,570	\$ 9.13	

The weighted-average grant-date fair value of stock options granted during the years ended December 31, 2018 and 2017 was \$1.84 and \$1.87, respectively.

As of December 31, 2018, there were approximately \$1.0 million of total time-based unrecognized compensation costs related to unvested stock options and restricted stock. These costs are expected to be recognized over a weighted average period of 2.3 years.

The total intrinsic value of stock option exercises for the years ended December 31, 2018 and 2017 was \$0.1. The total fair value of stock awards vested during the years ended December 31, 2018 and 2017 was \$0.2 million.

The deferred income tax benefits from stock options expense related to Evolving Systems U.K. totaled less than \$0.1 million for the years ended December 31, 2018 and 2017, respectively.

Cash received from stock option exercises was less than \$0.1 million for the years ended December 31, 2018 and 2017, respectively. There were no net settlement exercises during the year ended December 31, 2018.

Net settlement exercises during the year ended December 31, 2017, resulted in approximately 0.02 million shares issued and 0.08 million options cancelled in settlement of shares issued, respectively.

### Employee Stock Purchase Plan

Under the Employee Stock Purchase Plan (“ESPP”), we are authorized to issue up to 0.55 million 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 0.01 million 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, 2018, there were approximately 0.05 million

shares available for purchase. For the years ended December 31, 2018 and 2017, we recorded compensation expense of \$0.0 million 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.

Cash received from employee stock plan purchases was a de minimis amount for the years ended December 31, 2018 and 2017, respectively. We issued a de minimis number of shares related to the ESPP for the years ended December 31, 2018 and 2017, 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 2018 and 2017, we recorded a consolidated expense of \$0.4 million and \$0.2 million, under the aforementioned plans, respectively.

#### NOTE 10 — (LOSS) EARNINGS PER SHARE

Basic (loss) earnings per share is computed by dividing net (loss) or income available to common stockholders by the weighted average number of shares of common stock outstanding during the period, including common stock issuable under participating securities. Diluted earnings per share 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 and restricted stock. The following is the reconciliation of the numerators and denominators of the basic and diluted earnings per share computations (in thousands except per share data):

	<b>For the Years Ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
<b>Basic (loss) income per common share:</b>		
Net (loss) income .....	\$ (14,787)	\$ 2,516
Basic weighted average shares outstanding .....	12,108	11,934
Basic (loss) income per common share:	<u>\$ (1.22)</u>	<u>\$ 0.21</u>
<b>Diluted (loss) income per common share:</b>		
Net (loss) income .....	\$ (14,787)	\$ 2,516
Weighted average shares outstanding .....	12,108	11,934
Effect of dilutive securities - options and restricted stock .....	—	47
Diluted weighted average shares outstanding .....	<u>12,108</u>	<u>11,981</u>
Diluted (loss) income per common share:	<u>\$ (1.22)</u>	<u>\$ 0.21</u>

Weighted average options to purchase approximately 0.6 million shares, and 0.4 million shares of common stock equivalents were excluded from the computation of diluted weighted average shares outstanding for the years ended December 31, 2018, and 2017, 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 under non-cancelable operating leases. Current facility leases include our offices in Englewood, Colorado, New York, New York, Durham, North Carolina, London, England Bangalore, Kolkata and Delhi India, Johannesburg, South Africa, Kuala Lumpur, Malaysia, Mexico City, Mexico, Grenoble, France, Cluj-Napoca, Romania and Madrid, Spain. Rent expense was \$0.7 million and \$0.6 million for the years ended December 31, 2018 and 2017, respectively. There was no sublease rental income for the years ended December 31, 2018 and 2017.

Our former headquarters office facility lease in Englewood, Colorado terminated on November 30, 2017 at the end of the lease term. Any leasehold improvements had been fully amortized, and equipment disposed of related to the office closure was fully depreciated. We entered into a monthly lease for new office facilities in Englewood Colorado. We account for the effect of any free rent or escalating lease payments as if the lease rate were consistent over the lease term. Future minimum commitments under non-cancelable operating leases gross of sublease payments as of December 31, 2018 are as follows (in thousands):

	Payments due by period					Thereafter
	Total	2019	2020	2021	2022	
Operating Leases.....	\$ 1,470	\$ 509	\$ 357	\$ 253	\$ 252	\$ 99
Total Commitments .....	\$ 1,470	\$ 509	\$ 357	\$ 253	\$ 252	\$ 99

**(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. As a result of our insurance policy coverage, we believe the estimated fair value of these indemnification agreements is minimal. Accordingly, we did not record any liabilities for these agreements as of December 31, 2018 and 2017.

We enter into standard indemnification terms with customers and suppliers, in the ordinary course of business, for third party claims arising under our contracts. In addition, 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 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 or other supplier if the indemnification results from the subcontractor’s or supplier’s failure to perform. To the extent we are unable to recover damages from a subcontractor or other supplier, 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 an indemnification. As a result, we believe the estimated fair value of these agreements is minimal. We did not record any liabilities for these agreements as of December 31, 2018 and 2017.

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, 2018 and 2017.

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 of a third party. 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, 2018 and 2017.

When we acquired Telespree on October 24, 2013, we agreed to make a final cash payment on October 24, 2014 of \$0.5 million. This payment was subject to reduction for certain claims and we notified the seller’s representative that we were asserting claims against the final cash payment prior to October 24, 2014. The contractually agreed time period for mandatory arbitration, as well as the applicable Delaware state law, has lapsed. Accordingly, we eliminated the liability as of June 30, 2018 and recognized \$0.5 million gain in other income for the fiscal year ending December 31, 2018.

**(c) Litigation**

In June 2018, we agreed to a Mutual Release and Settlement Agreement and a Contribution Agreement (the “SSM Agreements”) with certain parties related to our September 30, 2015 acquisition of SSM. The SSM Agreements settled a dispute with a former SSM contractor, for which the Company asserted indemnification from the SSM sellers. Under the SSM Agreements, in July 2018 we paid \$0.3 million toward the settlement, \$0.1 million of which was on the Company’s behalf and recorded as other expense for the fiscal year ending December 31, 2018. The Company and the SSM sellers agreed to offset the Company’s contribution to the settlement against the final payment due to the SSM sellers and, therefore, we were released from a \$0.3 million final payment due to the sellers of SSM.

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 — GEOGRAPHICAL INFORMATION

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 and support to our global operations. Financial information relating to operations by geographic region exceeding the threshold (defined as contributing at least 10%) of revenue from operations is as follows (in thousands):

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
<b>Long-lived assets, net</b> .....		
United States .....	\$ 2,741	\$ 11,276
United Kingdom .....	7,098	17,968
Other .....	1,752	1,843
	<u>\$ 11,591</u>	<u>\$ 31,087</u>

## NOTE 13 — RESTRUCTURING

There were no restructuring charges during the fiscal year ending December 31, 2018. During the second half of 2017, we undertook a reduction in workforce involving the termination of employees resulting in an expense of \$0.3 million primarily related to severance for the affected employees. The reduction in workforce was related to the consolidations of duplicative functions and alignment of staff with ongoing business activity as a result of the acquisition of EVOL BLS in the third quarter of 2017.

There was no restructuring liability as of December 31, 2018 and 2017, respectively.

## 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 Senior Vice President of Finance, as appropriate, to allow timely decisions regarding required disclosure.

Our management, with the participation of the Chief Executive Officer and the Senior Vice President of Finance, 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 Senior Vice President of Finance 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 Senior Vice President of Finance, 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, 2018.

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, 2018, 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**

As of December 31, 2018, we are in compliance with the covenants of our East West Bank loans except for our fixed charge coverage ratio, which was 0.81 and failed to meet the minimum requirement of 1.25 fixed charge coverage ratio. On March 29, 2019, we received a letter from East West Bank that waived the violation. We are negotiating amendments to the 2019 quarterly ratios. A copy of the waiver is filed as Exhibit 10.32 to this Annual Report on Form 10-K.

## **PART III**

### **ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

Incorporated by reference to the sections of Evolving Systems, Inc. 2018 Proxy Statement, anticipated to be filed within 120 days of December 31, 2018, 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. 2018 Proxy Statement, anticipated to be filed within 120 days of December 31, 2018, 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. 2018 Proxy Statement, anticipated to be filed within 120 days of December 31, 2018, 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. 2018 Proxy Statement, anticipated to be filed within 120 days of December 31, 2018, 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. 2018 Proxy Statement, anticipated to be filed within 120 days of December 31, 2018, 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 10, 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, 2009 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.).

<u>Exhibit No.</u>	<u>Description of Document</u>
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 22, 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 amended, as filed as Appendix A to the Registrant's Definitive Proxy Statement on Schedule 14A filed with the Commission on April 26, 2018 and incorporated herein by reference.
10.21	Asset Purchase Agreement, dated as of May 5, 2017 by BLS Limited and Business Logic Systems Limited and incorporated herein by reference.
10.22*	Employment Agreement dated June 5, 2017, entered into between Evolving Systems, Inc. and Richard A. Dinkel, as filed as Exhibit 10.1 to the Registrant's Form 8-K filed on June 6, 2017 and incorporated herein by reference.
10.23	Completion of Acquisition or Disposition of Assets entered into by BLS Limited and Business Logic Systems Limited dated as of May 5, 2017, as filed as Exhibit 2.1 to the Registrant's Form 8-K filed on July 6, 2017 and incorporated herein by reference.
10.24	Share Purchase Agreement entered into between Evolving Systems Holdings Limited and Lumata Holdings Limited and Francisco Partners III (Cayman) L.P., dated August 12, 2017, as filed as Exhibit 10.1 to the Registrant's Form 8-K filed on August 17, 2017 and incorporated herein by reference.
10.25	Form of Management Warranty Deed, as filed as Exhibit 10.2 to the Registrant's Form 8-K filed on August 17, 2017 and incorporated herein by reference.
10.26	Term Loan Facility Agreement entered into by and among Evolving Systems, Inc. as Parent Guarantor, Evolving Systems Holdings Limited, as Original Borrower, Evolving Systems Limited and Evolving Systems BLS Limited, as further Original Guarantors and East West Bank as Lender dated August 16, 2017, as filed as Exhibit 10.1 to the Registrant's Form 8-K filed on August 22, 2017 and incorporated herein by reference.
10.27	Debenture entered into by and among Evolving Systems Holdings Limited, the Original Guarantors and East West Bank, dated August 16, 2017, as filed as Exhibit 10.2 to the Registrant's Form 8-K filed on August 22, 2017 and incorporated herein by reference.
10.28	Subordination Deed entered into by and among Evolving Systems, Inc., Evolving Systems Holdings Limited, the Original Guarantors and East West Bank, dated August 16, 2017, as filed as Exhibit 10.3 to the Registrant's Form 8-K filed on August 22, 2017 and incorporated herein by reference.
10.29*	Consulting Services Agreement dated October 1, 2017, entered into between Evolving Systems, Inc. and Richard A. Dinkel, as filed as Exhibit 10.1 to the Registrant's Form 8-K filed on September 26, 2017 and incorporated herein by reference.

<u>Exhibit No.</u>	<u>Description of Document</u>
10.30*	Employment Agreement dated September 23, 2017, entered into between Evolving Systems, Inc. and Julie Gosal Hoarau, as filed as Exhibit 10.2 to the Registrant's Form 8-K filed on September 26, 2017 and incorporated herein by reference.
10.31*	Employment Agreement dated December 4, 2017, entered into between Evolving Systems, Inc. and Mark P. Szynkowski, as filed as Exhibit 10.1 to the Registrant's Form 8-K filed on December 4, 2017 and incorporated herein by reference.
10.32	East West Bank Fixed Coverage Charge Waiver Letter dated March 29, 2019
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 and Executive Chairman 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 and Executive Chairman 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, 2018, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets as of December 31, 2018 and 2017 (ii) Consolidated Statements of Operations for the years ended December 31, 2018, 2017 and 2016 (iii) Consolidated Statements of Other Comprehensive Income for the years ended December 31, 2018, 2017 and 2016 (iv) Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2018, 2017 and 2016 (v) Consolidated Statements of Cash Flows for the years ended December 31, 2018, 2017 and 2016 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.





Date: 3/29/19

Mark Szyrkowski  
Sr. VP Finance  
Evolving Systems, Inc.

Dear Mark,

I would like to inform you that the Bank has agreed to waive the violation of the Fixed Charge Coverage Ratio covenant for the quarter ended 12/31/18. The Bank has further agreed to adjust the covenant levels for the Fixed Charge Coverage Ratio for the four quarters of FY2019.

An amendment to the loan agreement is being prepared for the above agreements and will be provided for your review and execution.

Sincerely,

/s/ Piseth Leng

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Piseth Leng

VP-Portfolio Manager  
Technology - West  
Main: 408.330.2058 | Cell: 408.658.7894  
Piseth.Leng@eastwestbank.com

**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 NC, Inc. (formerly RateIntegration, Inc. d/b/a Sixth Sense Media)  
RateIntegration Software Technologies Private Limited  
Evolving Digital Data Solutions Limited  
Evolving Systems BLS Limited  
Lumata UK Limited  
Lumata France SAS  
Lumata Deutschland GmbH  
Lumata Spain SL

**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. 333-227667, File No. 333-222091, File No. 333-212538, File No. 333-205795, and File No. 333-191046) of our report dated April 4, 2019, 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, 2018.

/s/ Friedman LLP  
East Hanover, New Jersey  
April 4, 2019

## CERTIFICATION

I, Matthew Stecker, 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: April 4, 2019

/s/ Matthew Stecker

Matthew Stecker

Chief Executive Officer and Executive Chairman



## CERTIFICATION

I, Mark P. Szykowski, 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: April 4, 2019

/s/ Mark P. Szykowski

\_\_\_\_\_  
Mark P. Szykowski  
Senior Vice President of Finance and Secretary  
(Principal Financial and Accounting 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, Matthew Stecker, 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, 2018 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/ Matthew Stecker

Matthew Stecker  
Chief Executive Officer and Executive Chairman  
April 4, 2019

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, Mark P. Szykowski, 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, 2018 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/ Mark P. Szykowski

Mark P. Szykowski  
Senior Vice President of Finance and Secretary  
(Principal Financial and Accounting Officer)  
April 4, 2019

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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Important Notice of Availability of Proxy Materials for the Stockholder Meeting of

# EVOLVING SYSTEMS, INC.

To Be Held On:

June 19, 2019 at 9:00 a.m. local time

at 9800 Pyramid Court, Suite 400, Englewood, CO 80112

COMPANY NUMBER	
ACCOUNT NUMBER	
CONTROL NUMBER	

This communication presents only an overview of the more complete proxy materials that are available to you on the Internet. We encourage you to access and review all of the important information contained in the proxy materials before voting.

If you want to receive a paper or e-mail copy of the proxy materials you must request one. There is no charge to you for requesting a copy. To facilitate timely delivery please make the request as instructed below before 6/5/19.

Please visit <https://www.evolving.com/evol/investors> where the following materials are available for view:

- Notice of Annual Meeting of Stockholders
- Proxy Statement
- Form of Electronic Proxy Card
- Annual Report on Form 10-K

**TO REQUEST MATERIAL:** TELEPHONE: 1-844-SEC-EVOL (1-844-732-3865)

E-MAIL: [proxy@evolving.com](mailto:proxy@evolving.com)

WEBSITE: <https://www.evolving.com/investors>

**TO VOTE:**



**ONLINE:** To access your online proxy card, please visit [www.voteproxy.com](http://www.voteproxy.com) and follow the on-screen instructions or scan the QR code with your smartphone. You may enter your voting instructions at [www.voteproxy.com](http://www.voteproxy.com) up until 11:59 PM Eastern Time the day before the meeting date.

**IN PERSON:** You may vote your shares in person by attending the Annual Meeting.

**TELEPHONE:** To vote by telephone, please visit [www.voteproxy.com](http://www.voteproxy.com) to view the materials and to obtain the toll free number to call.

**MAIL:** You may request a card by following the instructions above.

1. To elect four (4) directors to the Board of Directors of the Company to serve until the next annual meeting of stockholders and until their successors are duly elected and qualified.

**NOMINEES:** David J. Nicol  
David S. Oros  
Julian D.Singer  
Matthew Stecker

2. To approve, on a non-binding advisory basis, the compensation paid to our named executive officers.
3. To cast an advisory vote on the frequency of having an advisory vote on executive compensation.
4. To ratify the appointment of Marcum LLP as the Company's independent auditors.
5. To consider such other business as may properly come before the meeting or any adjournment or postponement thereof.

These items of business are more fully described in the proxy statement. The record date for the Annual Meeting is April 22, 2019. Only stockholders of record at the close of business on that date may vote at the meeting or any adjournment thereof.

Please note that you cannot use this notice to vote by mail.

# ANNUAL MEETING OF STOCKHOLDERS OF EVOLVING SYSTEMS, INC.

June 19, 2019

## PROXY VOTING INSTRUCTIONS

**INTERNET** - Access "[www.voteproxy.com](http://www.voteproxy.com)" and follow the on-screen instructions or scan the QR code with your smartphone. Have your proxy card available when you access the web page.



**TELEPHONE** - Call toll-free **1-800-PROXIES** (1-800-776-9437) in the United States or **1-718-921-8500** from foreign countries from any touch-tone telephone and follow the instructions. Have your proxy card available when you call.

Vote online/phone until 11:59 PM EDT the day before the meeting.

**MAIL** - Sign, date and mail your proxy card in the envelope provided as soon as possible.

**IN PERSON** - You may vote your shares in person by attending the Annual Meeting.

**GO GREEN** - e-Consent makes it easy to go paperless. With e-Consent, you can quickly access your proxy material, statements and other eligible documents online, while reducing costs, clutter and paper waste. Enroll today via [www.astfinancial.com](http://www.astfinancial.com) to enjoy online access.

<b>COMPANY NUMBER</b>	
<b>ACCOUNT NUMBER</b>	

**NOTICE OF INTERNET AVAILABILITY OF PROXY MATERIAL:**  
The Notice of meeting, proxy statement and proxy card are available at <https://www.evolving.com/investors>

↓ Please detach along perforated line and mail in the envelope provided IF you are not voting via telephone or the Internet. ↓

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**THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" THE ELECTION OF DIRECTORS AND "FOR" PROPOSALS 2 AND 4, AND FOR "2 YEARS" ON PROPOSAL 3.**  
PLEASE MARK, SIGN, DATE AND RETURN PROMPTLY IN THE ENCLOSED ENVELOPE. PLEASE MARK YOUR VOTE IN BLUE OR BLACK INK AS SHOWN HERE

**1. ELECTION OF DIRECTORS**

- FOR ALL NOMINEES
- WITHHOLD AUTHORITY FOR ALL NOMINEES
- FOR ALL EXCEPT (See instructions below)
- NOMINEES:**
- David J. Nicol
  - David S. Oros
  - Julian D. Singer
  - Matthew Stecker

2. APPROVAL OF THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS. FOR  AGAINST  ABSTAIN
3. APPROVAL OF THE FREQUENCY OF AN ADVISORY VOTE ON EXECUTIVE COMPENSATION. 1 YEAR  2 YEARS  3 YEARS  ABSTAIN
4. RATIFICATION OF SELECTION OF MARCUM LLP AS THE COMPANY'S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM. FOR  AGAINST  ABSTAIN

You are encouraged to specify your choices by marking the appropriate boxes, but you need not mark any boxes if you wish to vote in accordance with the Board of Directors' recommendations. The persons named herein as agents and proxies cannot vote your shares unless you sign and return this card.

In their discretion, the proxies are entitled to vote upon such other matters as may properly come before the meeting.

This proxy when properly executed will be voted in the manner directed herein by the undersigned. **If no direction is made, this proxy will be voted FOR Proposals 1, 2 and 4 and FOR 2 Years on Proposal 3.**

**INSTRUCTIONS:** To withhold authority to vote for any individual nominee(s), mark "FOR ALL EXCEPT" and fill in the circle next to each nominee you wish to withhold, as shown here: ●

To change the address on your account, please check the box at right and indicate your new address in the address space above. Please note that changes to the registered name(s) on the account may not be submitted via this method.

Signature of Stockholder  Date:  Signature of Stockholder  Date:

**Note:** Please sign exactly as your name or names appear on this Proxy. When shares are held jointly, each holder should sign. When signing as executor, administrator, attorney, trustee or guardian, please give full title as such. If the signer is a corporation, please sign full corporate name by duly authorized officer, giving full title as such. If signer is a partnership, please sign in partnership name by authorized person.