

EVOLVING SYSTEMS INC
Form 10-Q
August 14, 2018
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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2018

OR

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

For the transition period from to

Commission File Number: 001-34261

EVOLVING SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

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Delaware

(State or other jurisdiction of incorporation or organization)

84-1010843

(I.R.S. Employer Identification No.)

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)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

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

As of August 9, 2018, there were 12,117,014 shares outstanding of Registrant's Common Stock (par value \$0.001 per share)

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EVOLVING SYSTEMS, INC.

Quarterly Report on Form 10-Q

June 30, 2018

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	June 30, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 9,293	\$ 7,562
Contract receivables, net of allowance for doubtful accounts of \$854 and \$970 at June 30, 2018 and December 31, 2017, respectively	9,335	10,151
Unbilled work-in-progress, net of allowance for doubtful accounts of \$559 and \$107 at June 30, 2018 and December 31, 2017, respectively	4,709	5,823
Prepaid and other current assets	1,777	2,053
Total current assets	25,114	25,589
Property and equipment, net	215	258
Amortizable intangible assets, net	5,095	5,613
Goodwill	25,074	25,216
Deferred income taxes	406	274
Total assets	\$ 55,904	\$ 56,950
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Term loan - current portion	\$ 3,577	\$ 2,805
Accounts payable and accrued liabilities	5,904	6,890
Contingent earn-out	847	396
Income taxes payable	485	1,107
Unearned revenue	6,327	5,397
Total current liabilities	17,140	16,595
Long-term liabilities:		
Term loan, net of current portion	4,156	5,942
Total liabilities	21,296	22,537
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.001 par value; 2,000,000 shares authorized; no shares issued and outstanding as of June 30, 2018 and December 31, 2017, respectively		
Common stock, \$0.001 par value; 40,000,000 shares authorized; 12,295,903 shares issued and 12,117,014 outstanding as of June 30, 2018 and 12,119,961 shares issued and 11,941,072 outstanding as of December 31, 2017	12	12

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Additional paid-in capital	99,010	98,517
Treasury stock 178,889 shares as of June 30, 2018 and December 31, 2017, at cost	(1,253)	(1,253)
Accumulated other comprehensive loss	(9,143)	(8,202)
Accumulated deficit	(54,018)	(54,661)
Total stockholders' equity	34,608	34,413
Total liabilities and stockholders' equity	\$ 55,904	\$ 56,950

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

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EVOLVING SYSTEMS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except share data)

(unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
REVENUE				
License fees	\$ 249	\$ 720	\$ 584	\$ 1,063
Services	7,888	5,502	15,711	11,034
Total revenue	8,137	6,222	16,295	12,097
COSTS OF REVENUE AND OPERATING EXPENSES				
Costs of revenue, excluding depreciation and amortization	2,891	1,564	5,748	3,109
Sales and marketing	1,599	978	3,236	2,046
General and administrative	2,188	1,020	3,928	1,993
Product development	955	669	1,808	1,143
Depreciation	49	50	81	101
Amortization	251	196	493	392
Total costs of revenue and operating expenses	7,933	4,477	15,294	8,784
Income from operations	204	1,745	1,001	3,313
Other income (expense)				
Interest income	2	1	30	1
Interest expense	(123)	(71)	(249)	(143)
Other income (expense)	18		(13)	
Foreign currency exchange income (loss)	224	(219)	136	(392)
Other income (expense), net	121	(289)	(96)	(534)
Income from operations before income taxes	325	1,456	905	2,779
Income tax expense	167	354	262	704
Net income	\$ 158	\$ 1,102	\$ 643	\$ 2,075
Basic income per common share - net income	\$ 0.01	\$ 0.09	\$ 0.05	\$ 0.17
Diluted income per common share - net income	\$ 0.01	\$ 0.09	\$ 0.05	\$ 0.17
Weighted average basic shares outstanding	12,112	11,935	12,094	11,928
Weighted average diluted shares outstanding	12,124	11,972	12,145	11,958

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

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EVOLVING SYSTEMS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

(in thousands)

(unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Net income	\$ 158	\$ 1,102	\$ 643	\$ 2,075
Other comprehensive (loss) income				
Foreign currency translation (loss) income	(1,663)	813	(941)	1,167
Comprehensive (loss) income	\$ (1,505)	\$ 1,915	\$ (298)	\$ 3,242

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

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EVOLVING SYSTEMS, INC.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY

(in thousands, except share data)

(unaudited)

	Common Stock		Additional	Treasury	Accumulated	Accumulated	Total
	Shares	Amount	paid-in	stock	other	deficit	stockholders
			capital		comprehensive		equity
					(loss) income		
Balance at							
December 31, 2017	11,941,072	\$ 12	\$ 98,517	\$ (1,253)	\$ (8,202)	\$ (54,661)	\$ 34,413
Stock option exercises	1,857						
Common stock issued pursuant to the Employee Stock Purchase Plan	85						
Restricted stock vested	174,000						
Share based compensation expense			493				493
Net income							