

Evolving Systems Limited

**Directors' report and financial
statements**

Registered number 2325854

31 December 2010

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Contents

Officers and professional advisers	1
Directors' report	2
Statement of directors' responsibilities in respect of the Directors' Report and the financial statements	6
Independent auditors' report to the members of Evolving Systems Limited	7
Profit and loss account	8
Balance sheet	9
Reconciliation of movements in shareholders' funds	10
Notes	11

Officers and professional advisers

Directors

T Dupper
BR Ervine

Secretary

BR Ervine (Appointed 1 July 2011)

Auditors

Grant Thornton UK LLP
Grant Thornton House
Melton Street
Euston Square
London
NW1 2EP

Registered office

One Angel Square
Torrens Street
London
EC1V 1PL

Directors' report

The directors present their directors' report and financial statements for the year ended 31 December 2010

Results and Dividends

The results of the company for the year are set out on page 8

Dividends of £nil were provided in the year (2009 £336,523) from Evolving Systems GmbH Dividends of £760,000 were paid in the year (2009 £2,925,400)

Business Review and Principal Activities

Evolving Systems Limited is a leading provider of software solutions and services to the wireless, wireline and IP carrier market We maintain long-standing relationships with many of the largest wireline, wireless and IP Communications carriers worldwide Our customers rely on us to develop, deploy, enhance, maintain and integrate complex, highly reliable software solutions for a range of Operations Support Systems ("OSS") and Network Support Systems We offer software products and solutions in three core areas

- Service activation solutions used to activate complex bundles of voice, video and data services for traditional and next generation wireless and wireline networks,
- SIM card activation solutions used to dynamically allocate and assign resources to a wireless device when it is first used, and
- Mediation solutions supporting data collection for both service assurance and billing applications

Our products support traditional and next generation network technologies, convergent service offerings, and advanced wireless and other broadband networks

Evolving Systems Limited's core product suite includes its activation solution, *Tertio*TM, and a mediation solution, *Evident*TM

Our service activation solution, Tertio, is employed by carriers to activate a new subscriber or to add a new service to an existing subscriber Our Tertio product provides a flexible operating environment and can be used by carriers to manage their voice, data, and content service needs for both their traditional and broadband IP networks Our solution is deployed as the service activation engine for over 70 networks around the world including two of the world's largest wireless carriers

Our Dynamic SIM Allocation ("DSA") solution offers carriers a new way to provision wireless services by dynamically activating a wireless device when it is first used In countries around the world, the wireless Subscriber Identity Module (SIM) card is central to the provision of wireless access and services Typically, SIM cards are either pre-provisioned before they are distributed to the retail environment or are provisioned at the point-of-sale Pre-provisioning SIM cards means that phone numbers are allocated a long time before the SIM card is available for sale, leading to poor utilization of numbers, increased network costs, and a poor user experience since users cannot choose their phone number Provisioning SIM cards at the point-of-sale overcomes some of these issues but at a high cost, as retail and back-office infrastructure needs to be in place and consequently distribution is constrained Our Dynamic SIM Allocation ("DSA") solution offers carriers the user experience and resource efficiency benefits of provisioning at the point-of-sale without demanding the retail and back-office infrastructure usually required

Our mediation portfolio consists of billing mediation Our billing mediation product is Evident Billing mediation is the process of collecting network usage data and verifying that usage data is accurate, and is a required precondition for generating accurate bills for a carrier's customers Billing mediation's importance lies in its ability to provide a systematic point of reliability and assurance between network consumption and the billing system input Our Evident product supports convergent voice, data, and content services Evident software enables the accurate management of data, allowing reconciliation of data inputs and outputs In addition, it provides support for compliance with relevant regulatory, accounting and data integrity requirements This product also provides service usage data for business intelligence, revenue assurance, and next-generation billing solutions Our Evident solution can be used by wireline, broadband and wireless carriers and provides carrier-grade support in terms of reliability, performance, and scalability

Directors' report *(continued)*

Business Review and Principal Activities *(continued)*

We have become a company with global reach, with development capabilities in three continents, and a sales and deployment capability targeting nearly all regions of the world. Our customer base includes many of the world's largest and fastest growing communications carriers. We are well positioned as a provider of OSS solutions with comprehensive systems integration capabilities. These complementary competencies allow us to implement solutions across much of a carrier's back office, addressing core needs in service fulfilment.

Recent Developments

The market is moving to add a wide array of connected devices to wireless and broadband networks. It has been described as the creation of an "internet of things". This represents an opportunity for Evolving Systems to leverage our *Dynamic SIM Allocation* ("DSA") technology to provide technical solutions for SIM-based devices such as M2M monitors, e-readers, network connected building management systems, network attached health monitoring systems as well as smart meters and wirelessly connected vending machines.

The arrival and proliferation of 4G services. As consumers continue to exhibit an appetite for faster network connections to support devices such as Smartphones and tablets – operators are investing to increase the bandwidth of their networks. Often this is labeled by a carrier as offering 4G services. This industry direction should provide opportunities for us with our DSA and service activation solutions.

Overview

Turnover decreased to £13.9 million from £14.4 million, for the years ended 31 December 2010 and 2009, respectively, representing a 3% decrease. This decline is primarily due to a longer sales cycle for the company's DSA product. As a result, profit for the year ended 31 December 2010 decreased by 13% to £1.9 million from £2.2 million for the year ended 31 December 2009.

Current Markets

The rapid introduction of new technologies such as wireless and broadband services has created a growing market for telecommunications solutions worldwide. This emergence of new technologies in telecommunications networks and end-user devices, consumer electronics, and personal computers, has created an industry that is in the midst of significant change. Carriers not only compete with companies from other industries, such as media and entertainment, but also with companies providing applications and services over the Internet. In such a competitive market, companies are increasingly bundling voice, messaging and data services in order to meet market demand. This bundling of services is just one facet of what is called convergence. In order to facilitate convergence, carriers are implementing a variety of network transformation programs that include the migration to packet-switching transmission networks based on the Internet protocol (often called all-Internet Protocol ("IP") networks), the migration to new service creation and delivery platforms that enable the provision of multimedia services over IP-based networks, and the introduction of one or more broadband access networks over existing wired infrastructure, new fiber deployments, cable access networks, and evolved wireless broadband networks including Global System for Mobile Communication ("GSM")/EDGE, 3G/WCDMA/HSPA, and 4G/Long Term Evolution. Along with the continued development of new technologies, carriers are facing increasing levels of competition due to the varying demand in connection types, subscribers and service usage, as well as pricing declines due to competitive and regulatory pressures. Given the increased competitive climate in the telecommunication market many carriers are pursuing network expansions in order to provide new value-added services ("VAS"). Carriers are at the same time are continually looking to reduce operational costs which often leads to the rationalising of their back office and OSS. This complex and rapidly changing landscape is further affected by the continued consolidation of carriers and their suppliers.

Directors' report *(continued)*

Current Markets *(continued)*

In response to these market changes, we have broadened our product portfolio through internal R&D, customer-funded initiatives and the acquisition of key new products and technologies. The competitive landscape is continuously changing as the communications industry consolidates through M&A activity among carriers in almost every geographic market.

Principal risks and uncertainties

The risks of the business are unexpected changes in, or impositions of, the size of new contracts and when we are able to recognise the related revenue, our rate of progress under our contracts, 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 third-party contractors' delivery of software and hardware, actual or anticipated changes in U.K. or foreign laws and regulations related to the telecommunications market, judicial or administrative actions about these laws or regulations, level and timing of expenses for product development and sales, general and administrative expenses, changes in our strategy, and general economic conditions.

Key Performance Indicators

The key performance indicators for the company remain maintaining certain margin levels on every contract the company enters into. These margin levels are maintained through diligent cost controls by using offshore development whenever possible. Each contract goes through a strict process which involves Professional Service, Sales, Legal and Finance. The groups must collectively agree that the project is capable to be delivered on time, collections of invoices will be received and the project will achieve a certain level of profitability.

Financial Instruments

At the present time, the Company does 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. To the extent that translation and transaction gain and losses become significant, we will consider various options to reduce this risk.

Business Structure and Strategy for Growth

We have developed a combined product solutions business model that leverages our products and strong telecommunications domain expertise with a worldwide work force. This business model combines our U.S. presence and United Kingdom presence with the lower-cost offshore development capabilities provided by our parent's Indian subsidiary.

Our strategy for growth revolves around *Dynamic SIM Allocation*. We have recently made investments in this product and will focus on both traditional and emerging markets as we build plans to add significant new functionality to this product. These investments target growth in the market around wireless convergence of services on IP networks.

Directors' report *(continued)*

Research and Development

We are continuing to invest in research and development ("R&D"), particularly for new products and/or for enhancements of existing products. The majority of all new R&D investments in 2010 have gone into enhancing our Tertio wireless service activation product as well as the further development of the DSA solution.

We focus our product development efforts on identifying specific industry and customer business needs as well as market requirements and then developing solutions that leverage our existing product capabilities. Based upon the identified customer business needs, our product development efforts comprise a combination of design and development of new products or features to enhance our existing products, and design and development of new product functionality as identified in our product "roadmaps". 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.

Directors and their interests

The directors during the year were as follows:

T Dupper
BR Ervine

No Directors benefited from qualifying third party indemnity provisions during the financial year or at the date of this report.

Political and charitable contributions

The Company made no political or charitable contributions during the year (2009: £nil).

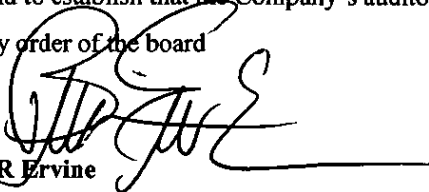
Auditors

Grant Thornton UK LLP, have expressed willingness to continue in office. In accordance with section 489(4) of the Companies Act 2006 a resolution to reappoint Grant Thornton UK LLP will be proposed at the Annual General Meeting.

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

By order of the board


BR Ervine
Secretary

One Angel Square
Torrens Street
London EC1V 1PL
15 September 2011

Statement of directors' responsibilities in respect of the Directors' Report and the financial statements

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with United Kingdom Accounting Standards and applicable law (United Kingdom Generally Accepted Accounting Practice)

The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for the year.

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable United Kingdom Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Independent auditors' report to the members of Evolving Systems Limited

We have audited the financial statements of Evolving Systems Limited for the year ended 31 December 2010 which comprise the Principal Accounting Policies, Profit and Loss Account, the Balance Sheet, Reconciliation of Movements in Shareholders' Funds and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 6 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm

Opinion on the financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2010 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Grant Thornton UK LLP

Marc Summers, FCA
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London
15 September 2011

Profit and loss account
for the year ended 31 December 2010

	<i>Note</i>	2010 £000	2009 £000
Turnover	2	13,924	14,398
Cost of sales		(5,917)	(5,609)
Gross profit		8,007	8,789
Administrative expenses		(5,647)	(6,231)
Operating profit		2,360	2,558
Interest receivable and similar income	6	6	15
Interest payable and similar charges	7	(111)	(51)
Profit on ordinary activities before taxation	3	2,255	2,522
Taxation on profit on ordinary activities	8	(392)	(369)
Profit for the financial year	17	1,863	2,153

A note on historical gains and losses has not been included as part of the financial statement as the results as disclosed in the profit and loss account are prepared on an unmodified historical cost basis

The profit and loss account has been prepared on the basis that all operations are continuing operations

There are no recognised gains or losses other than the profit for the financial year. Accordingly, no statement of total recognised gains and losses is given.

Balance sheet

Registered number 2325854
 at 31 December 2010

	Note	2010 £000	2009 £000
Fixed assets			
Tangible assets	10	206	185
Investments	11	16	16
		<u>222</u>	<u>201</u>
Current assets			
Debtors	12	5,220	4,857
Cash at bank and in hand		3,629	2,072
		<u>8,849</u>	<u>6,929</u>
Creditors: amounts falling due within one year	13	<u>(2,905)</u>	<u>(3,684)</u>
Net current assets		<u>5,944</u>	<u>3,245</u>
Total assets less current liabilities		<u>6,166</u>	<u>3,446</u>
Creditors: amounts falling due after more than one year	14	<u>(2,421)</u>	<u>(942)</u>
Net assets		<u>3,745</u>	<u>2,504</u>
Capital and reserves			
Called up share capital	16	157	157
Share premium account	17	1,138	1,138
Other reserves	17	78	78
Profit and loss account	17	2,372	1,131
Shareholders' funds		<u>3,745</u>	<u>2,504</u>

These financial statements were approved by the board of directors on 15 September 2011 and were signed on its behalf by:



BR Ervine
 Director

Reconciliation of movements in shareholders' funds
for the year ended 31 December 2010

	- 2010 £000	2009 £000
Profit for the financial year	1,863	2,153
Dividends on shares classified in shareholders' funds	(760)	(2,925)
Dividends received from German Subsidiary	-	337
Credit in relation to share based payments	138	137
	<hr/>	<hr/>
Net (reduction in) / increase to shareholders' funds	1,241	(298)
Opening shareholders' funds	2,504	2,802
	<hr/>	<hr/>
Closing shareholders' funds	3,745	2,504
	<hr/>	<hr/>

Notes (forming part of the financial statements)

1 Principal accounting policies

The principal accounting policies of the Company have remained unchanged from the previous year and are set out below.

Basis of preparation

The financial statements have been prepared in accordance with applicable United Kingdom accounting standards and under the historical cost accounting rules, and in accordance with the Companies Act 2006 and applicable UK accounting standards (United Kingdom Generally Accepted Accounting Practice)

The Company is exempt by virtue of s401 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about its group.

Under FRS 1 the Company is exempt from the requirement to prepare a cash flow statement on the grounds that its parent undertaking includes the company in its own published consolidated financial statements.

As the Company is a wholly owned subsidiary of Evolving Systems, Inc., the Company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group. The consolidated financial statements of Evolving Systems, Inc., within which the Company is included, can be obtained from the address given in note 24.

Tangible fixed assets and depreciation

Depreciation is provided to write off the cost less estimated residual value of tangible fixed assets by equal instalments over their estimated useful value as follows:

Leasehold improvements	-	10% per annum straight line basis or over term of lease if lower
Computer hardware	-	33 1/3% per annum straight line basis
Computer software	-	Straight line over two years
Fixtures, fittings and equipment	-	20% per annum straight line basis

The carrying values of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

Classification of financial instruments issued by the Company

Financial instruments issued by the Company are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the following two conditions:

- they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company, and
- where the instruments will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

Notes (continued)

1 Accounting policies (continued)

Classification of financial instruments issued by the Company (continued)

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges. Finance payments associated with financial instruments that are classified as part of shareholders' funds (see dividends policy), are dealt with as appropriations in the reconciliation of movements in shareholders' funds.

Investments

Fixed asset investments are stated at cost less provision for impairment in value.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date and any differences are taken to the profit and loss account.

Leases

Assets acquired under finance leases are capitalised and the outstanding future obligations are shown in creditors.

Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

Post-retirement benefits

The Company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The amount charged to the profit and loss account represents the contribution payable to the scheme in respect of the accounting period.

Research and development

Expenditure on research and development is written off to the profit and loss account in the year in which it is incurred.

Long-term contracts

The amount of profit attributable to the stage of completion of a long term contract is recognised when the outcome of the contract can be foreseen with reasonable certainty. Turnover for such contracts is stated at the cost appropriate to their stage of completion plus attributable profits, less amounts recognised in previous years. Provision is made for any losses as soon as they are foreseen.

Contract work in progress is stated at costs incurred, less those transferred to the profit and loss account, after deducting foreseeable losses and payments on account not matched with turnover.

Amounts recoverable on contracts are included in debtors and represent turnover recognised in excess of payments on account.

Notes (continued)

1 Accounting policies (continued)

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19

Turnover

Turnover, which is stated net of value added tax, represents amounts invoiced to third parties, except in respect of fixed price long-term contracts where turnover represents the sales value of work done in the year, including estimates in respect of amounts not invoiced. Turnover in respect of fixed price long-term contracts is calculated as that proportion of total contract value which hours of labour worked to date bear to total expected labour hours to work budgeted for the contract

Dividends on shares

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements

Share based payments

The share option programme allows employees to acquire shares in the ultimate parent company, Evolving Systems, Inc. The fair value of options granted after 7 November 2002 and those not yet vested as of 1 January 2009 is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting

Notes (continued)

2 Analysis of turnover

Turnover is attributable to one continuing principal activity and the split between turnover, by destination, in the United Kingdom and outside the United Kingdom is shown below

	2010 £000	2009 £000
United Kingdom	2,743	2,943
Europe	4,596	4,902
Rest of World	6,585	6,553
	<u>13,924</u>	<u>14,398</u>

3 Notes to the profit and loss account

	2010 £000	2009 £000
<i>Profit on ordinary activities before taxation is stated after charging:</i>		
Amounts receivable by the auditors and their associates in respect of		
Audit of these financial statements - UK	21	23
Audit of these financial statements - USA	77	44
Depreciation of owned fixed assets	110	94
Operating lease rentals		
Plant and machinery	-	-
Other assets	161	285
Research and development expenditure	<u>1,527</u>	<u>1,337</u>

Notes (continued)

4 Remuneration of directors

	2010 £000	2009 £000
Directors emoluments	135	47

According to the register of directors' interests, no rights to subscribe for shares in or debentures of the Company or any other group company were granted to any of the directors or their immediate families, or exercised by them, during the financial year except as indicated below

	Number of options granted	Number of options exercised
T Dupper	54,000	-
BR Irvine	12,750	-

The options were granted to the directors on 7 January 2010 and are options of the ordinary share capital of the Company's ultimate parent company, Evolving Systems, Inc

5 Staff numbers and costs

	2010 £000	2009 £000
The aggregate payroll costs of these persons were as follows		
Wages and salaries	4,757	4,971
Share based payments (see notes 20 and 21)	138	137
Social security costs	519	531
Other pension costs	184	182
	<u>5,598</u>	<u>5,821</u>

The average number of persons employed by the Company (including directors) during the year, analysed by category, was as follows

	2010	2009
Administrative staff	2	2
Operational staff	71	68
	<u>73</u>	<u>70</u>

6 Interest receivable and similar income

	2010 £000	2009 £000
Other interest	6	15

Notes (continued)

7 Interest payable and similar charges

	2010 £000	2009 £000
On bank loan	49	51
On Intercompany Loan	62	-
	<hr/>	<hr/>
Total interest payable and similar charges	111	51
	<hr/>	<hr/>

8 Taxation

Analysis of charge in period

	2010 £000	2009 £000
<i>UK corporation tax</i>		
Current tax on profits of the year	384	385
Double taxation relief	(314)	(380)
<i>Foreign tax</i>		
Current tax on income for the period	314	380
	<hr/>	<hr/>
Total current tax	384	385
Deferred tax (see note 15)	8	(16)
	<hr/>	<hr/>
Tax on profit on ordinary activities	392	369
	<hr/>	<hr/>

Factors affecting the tax charge for the current period

The current tax charge for the period is the same as the standard rate of corporation tax in the UK 28% (2009 28%)
The differences are explained below

	2010 £000	2009 £000
<i>Current tax reconciliation</i>		
Profit on ordinary activities before tax	2,255	2,522
	<hr/>	<hr/>
Current tax at 28% (2009 28%)	631	706
<i>Effects of</i>		
Expenses not deductible for tax purposes	25	4
Capital allowances for year in excess of depreciation	(22)	(23)
Other timing differences	20	39
Research and development expenditure	(253)	(341)
Schedule 23 share scheme deduction	(17)	-
	<hr/>	<hr/>
Total current tax charge (see above)	384	385
	<hr/>	<hr/>

Notes (continued)

9 Dividends

	2010 £000	2009 £000
The aggregate amount of dividends comprises		
Final dividends paid in respect of prior year but not recognised as liabilities in that year	760	889
Interim dividend paid in respect of the current year	-	2,036
	<u>760</u>	<u>2,925</u>

10 Tangible fixed assets

	Leasehold improvements £000	Computer hardware and software £000	Fixtures, fittings and equipment £000	Total £000
Cost				
At beginning of year	545	1,565	286	2,396
Additions	88	40	3	131
Disposals	(188)	(118)	-	(306)
	<u>445</u>	<u>1487</u>	<u>289</u>	<u>2,221</u>
Depreciation				
At beginning of year	532	1,396	283	2,211
Charge for the year	26	81	3	110
Adjustments for disposals	(188)	(118)	-	(306)
	<u>370</u>	<u>1,359</u>	<u>286</u>	<u>2,015</u>
Net book value				
At 31 December 2010	<u>75</u>	<u>128</u>	<u>3</u>	<u>206</u>
At 31 December 2009	<u>13</u>	<u>169</u>	<u>3</u>	<u>185</u>

Notes (continued)

11 Fixed asset investments

	Shares in group undertakings £000
<i>Cost</i>	
At beginning and end of year	16

The company in which the company's interest at the year end is more than 20% is as follows

Subsidiary undertakings	Country of incorporation	Class and percentage of shares held	Nature of business
Evolving Systems GmbH	Germany	100% ordinary shares	Software consultants, systems integrators and designers

As of signing these accounts the 2010 information is not available. For the year ended 31 December 2009 Evolving Systems GmbH made a profit of £26,000 and as at 31 December 2009 the aggregated capital and reserves of the company were £53,000

12 Debtors

	2010 £000	2009 £000
Trade debtors	3,298	2,499
Amounts recoverable on contracts	1,149	963
Amounts owed by group undertakings	199	488
Corporation tax recoverable	193	147
Deferred tax asset (see note 15)	163	171
Other debtors	23	43
Prepayments and accrued income	195	546
	<u>5,220</u>	<u>4,857</u>

Notes (continued)

13 Creditors: amounts falling due within one year

	2010 £000	2009 £000
Payments received on account	865	1,365
Trade creditors	250	472
Taxation and social security	198	157
Other creditors	1	1
Accruals and deferred income	1,591	1,689
	<u>2,905</u>	<u>3,684</u>

14 Creditors: amounts falling due after one year

	2010 £000	2009 £000
Bank loan	-	942
Intercompany loan	2,421	-
	<u>2,421</u>	<u>-</u>

The Company has an existing US\$3.5 million Revolving Facility which bears interest at the U.S.A. Prime Rate plus 0.5%. Prime Rate was 3.25% as of 31 December 2010. Borrowings under the Revolving Facility are limited to a percentage of our eligible accounts receivable and cash. The Revolving Facility is secured by all assets of Evolving Systems Holdings Limited and Evolving Systems Limited and subjects the company to certain affirmative and negative covenants, including financial covenants related to maintaining a specified ratio of debt to EBITDA, as defined, minimum EBITDA, minimum liquidity, and a specified fixed charge ratio. All accrued interest on outstanding borrowings under the Senior Revolving Facility is paid monthly, with any outstanding balance due with a final maturity of 22 February 2011. As of 31 December 2010, there was a £nil borrowing outstanding under this Revolving Facility (2009 £942,000).

On 16 April 2010, the Company entered into a new loan facility agreement with Evolving Systems, Inc, the ultimate parent company of which Evolving Systems Limited may borrow up to \$5.0 million.

The \$5.0 million loan facility bears interest at the U.S.A. Prime Rate plus 0.5%. Prime Rate was 3.25% as of 31 December 2010. The loan is secured by all assets of Evolving Systems Holdings Limited and Evolving Systems Limited. All accrued interest on outstanding borrowings under the loan is paid quarterly, with any outstanding balance due with a final maturity of 30 April 2013. As of 31 December 2010, there was a balance of \$3.7 million outstanding under this loan facility (2009 £nil).

Debt can be analysed as falling due

	2010 £000	2009 £000
Between two and five years	2,421	942
	<u>2,421</u>	<u>942</u>

Notes (continued)

15 Deferred tax asset

	2010 £000
At beginning of year	171
Credit to the profit and loss for the year	(2)
Effect of change of tax rate on opening balances, 2010 27%, (2009 28%)	(6)
	<hr/>
At end of year	163
	<hr/>

The elements of deferred taxation are as follows

	2010 £000	2009 £000
Differences between accumulated depreciation and capital allowances	45	69
Other timing differences	118	102
	<hr/>	<hr/>
Undiscounted provision	163	171
	<hr/>	<hr/>
Net deferred tax asset (see note 12)	163	171
	<hr/>	<hr/>

16 Called up share capital

	2010 No.	2009 No	2010 £000	2009 £000
Authorised				
Ordinary shares of 5p each	4,000,000	4,000,000	200	200
New ordinary shares of 5p each	2,000,000	2,000,000	100	100
Deferred ordinary shares of 5p each	2,000,000	2,000,000	100	100
Ordinary 'B' shares of £1 each	90,000	90,000	90	90
Ordinary redeemable shares of £1 each	10,000	10,000	10	10
	<hr/>	<hr/>	<hr/>	<hr/>
Allotted, called up and fully paid				
Ordinary shares of 5p each	1,488,205	1,488,205	74	74
New ordinary shares of 5p each	180,703	180,703	9	9
Deferred ordinary shares of 5p each	1,475,104	1,475,104	74	74
	<hr/>	<hr/>	<hr/>	<hr/>
	3,144,012	3,144,012	157	157
	<hr/>	<hr/>	<hr/>	<hr/>

The ordinary shares and the new ordinary shares carry equal voting rights. The ordinary 'B' shares carry no voting rights, and only the paid up capital amounts is payable in the event of a winding up. The deferred ordinary shares have minimal rights in the event of winding up. In all other respects, the categories of shares shown above rank *pari passu*.

Notes (continued)

17 Share premium and reserves

	Share premium account £000	Other reserves £000	Profit and loss account £000
At beginning of year	1,138	78	1,131
Profit for the year	-	-	1,863
Dividends on shares classified on shareholders' funds	-	-	(760)
Credit in relation to share based payments	-	-	138
At end of year	<u>1,138</u>	<u>78</u>	<u>2,372</u>

18 Commitments

Annual commitments under non-cancellable operating leases are as follows

	Land and buildings 2010 £000	2009 £000
Operating leases which expire		
Within one year	124	114
In two to five years	470	241
	<u>594</u>	<u>355</u>

19 Pension scheme

The Company operates a defined contribution pension scheme. The pension cost charge for the period represents contributions payable by the Company to the scheme and amounted to £184,000 (2009 £182,000).

There was an outstanding balance of £33,000 (2009 £33,000) at the end of the financial year. There were no prepaid contributions at either the beginning or end of the financial year.

20 Employee share scheme

The Company's ultimate parent company Evolving Systems, Inc. has a share option scheme and an employee stock purchase plan whereby employees are able to subscribe for ordinary shares in the ultimate parent company, Evolving Systems, Inc.

Under FRS No 20, *Share based payments*, the Company is required to apply a fair-value-based measurement method in accounting for share-based payment transactions with employees and record compensation cost for all share awards granted after 1 January 2007 and awards modified, repurchased, or cancelled after that date. In addition, the Company is required to record compensation costs associated with the vesting of unvested options outstanding at 1 January 2007 using the guidance under FRS 20. From 1 January 2007, share option grants and employee stock purchase plan purchases were accounted for under FRS 20. The Company uses 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 the ultimate parent company's shares.

Notes (continued)

20 Employee share scheme (continued)

The fair value of each option grant is estimated on the date of grant using the Black-Scholes model. The Black-Scholes model uses four assumptions to calculate the fair value of each option grant. The expected term of share options granted is derived using the simplified method prescribed by the SEC Staff Accounting Bulletin 107, "Share-Based Payment". The risk-free interest rate is based upon the rate currently available on zero-coupon U.S. Treasury instruments with a remaining term equal to the expected term of the stock options. The expected volatility is based upon historical volatility of our common stock over a period equal to the expected term of the share options. The expected dividend yield is zero and is based upon historical and anticipated payment of dividends.

The terms and conditions of grants are as follows, whereby all options are settled by physical delivery of shares:

Grant date/ Employees entitled/ nature of scheme	Number of instruments	Vesting conditions	Contractual life of options
Share option plan open to all employees with various grant dates	458,342	4 years of continuous service	10 years

The number and weighted average exercise prices of share options are as follows:

	2010 Weighted average exercise price	2010 Number of options	2009 Weighted average exercise price	2009 Number of options
Outstanding at the beginning of the period	\$5.18	422,312	\$5.22	417,562
Granted during the period	\$6.16	67,985	\$1.80	5,000
Exercised	\$3.98	(29,561)	\$0.00	-
Forfeited during the period	\$3.48	(2,394)	\$0.00	-
Lapsed during the period	\$0.00	-	\$9.28	(250)
Outstanding at the end of the period	\$5.41	458,342	\$5.18	422,312
Exercisable at the end of the period	\$5.72	351,740	\$5.91	323,018

The weighted average share price at the date of exercise of share options exercised during the period was £3.98 (2009: £ nil).

The options outstanding at the year end have an exercise price in the range of \$1.56 to \$9.28 and a weighted average contractual life of 5.99 years.

The expected volatility for 2010 was 73.76% (2009: 77.32%).

The total expenses recognised for the period arising from share based payments are as follows:

	2010 £000	2009 £000
Equity settled share based payments	137	136

Notes (continued)

21 Employee Stock Purchase Plan

Under the Employee Stock Purchase Plan ("ESPP"), the Company is authorised to issue up to 550,000 (adjusted for the reverse stock split) shares of the ultimate parent company's common shares 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 salaries withheld through payroll deduction to purchase the ultimate parent company's common shares, capped at £12,500 annually and no more than 10,000 shares per offering period. The purchase price of the stock is 85% of the lower of the market price at the beginning or end of each three-month participation period. As of 31 December 2010, there were 79,000 shares available for purchase. For the year ended 31 December 2010 the Company recorded compensation expense of £1,000 (2009 £800) 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 based upon employee participation.

The fair value of each grant made under our ESPP is estimated on the date of grant using the Black-Scholes model. The Black-Scholes model uses four variables to calculate the fair value of each option grant. The expected term of each grant is based upon the three-month participation period of each grant. The risk-free interest rate is based upon the rate currently available on zero-coupon U.S. Treasury instruments with a remaining term equal to the expected term of each grant. The expected volatility is based upon historical volatility of the ultimate parent company's common shares. The expected dividend yield is based upon historical and anticipated payment of dividends. The weighted average assumptions used in the fair value calculations are as follows:

	2010	2009
Expected term (years)	0.25	0.25
Risk-free interest rate	0.13%	0.12%
Expected volatility	61.38%	65.30%
Expected dividend yield	1.20%	0.00%

Cash received from employee stock plan purchases for the year ended 31 December 2010 was £4,000 (2009 £3,000).

22 Contingent liabilities

The Company has guaranteed a Revolving Credit Facility. Consequently the Company has given a debenture to the lender whereby there are fixed and floating charges over the undertaking and all property and assets present and future including goodwill, book debts, uncalled share capital, buildings, fixtures, fittings, fixed plant and machinery. The Company's guaranteed value of the loan as of 31 December 2010 was £nil (2009 £942,000).

Evolving Systems Limited has a loan facility agreement with Evolving Systems, Inc, the ultimate parent company. The \$50 million loan facility bears interest at the U.S.A. Prime Rate plus 0.5%. Prime Rate was 3.25% as of 31 December 2010. The loan is secured by all assets Evolving Systems Limited. All accrued interest on outstanding borrowings under the loan is paid quarterly, with any outstanding balance due with a final maturity of 30 April 2013. As of 31 December 2010, there was a balance of \$3.7 million (2009 \$nil) outstanding under this loan facility.

23 Subsequent events

On 21 April 2011, the ultimate parent, Evolving Systems, Inc, announced the execution of an Asset Purchase Agreement, dated as of 21 April 2011 (the "Purchase Agreement"), with NeuStar, Inc, a Delaware corporation (the "Buyer"). Under the terms of the Purchase Agreement, the company agreed to sell its Numbering Solutions Business (the "Numbering Business") to the Buyer for \$39 million in cash, subject to increase or decrease in accordance with a post-closing working capital adjustment and the assumption of certain liabilities related to the Numbering Business (the "Asset Sale"). On 1 July 2011, Evolving Systems, Inc, completed the Asset Sale of the Numbering Business.

24 Ultimate parent company and parent undertaking of larger group of which the company is a member

The Company is a subsidiary undertaking of Evolving Systems, Inc, which is the ultimate parent company and ultimate controlling party, incorporated in USA.

The largest group in which the results of the Company are consolidated is that headed by Evolving Systems, Inc , incorporated in USA. Evolving Systems, Inc is Nasdaq listed under the ticker symbol EVOL. No other group financial statements include the results of the Company. The consolidated financial statements of the group are available to the public and may be obtained from 9777 Pyramid Court, Suite 100, Englewood, CO 80112, USA or on Evolving Systems, Inc 's website at www.evolving.com/investor_relations.html