EVOLVING SYSTEMS INC
Form 10-Q
November 08, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2007

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: 0-24081

EVOLVING SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**84-1010843**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
9777 Pyramid Court, Suite 100 Englewood, Colorado	**80112**
(Address of principal executive offices)	(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 x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer: in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o Accelerated filer o Non-accelerated filer x

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

As of October 31, 2007 there were 17,777,270 shares outstanding of Registrant s Common Stock (par value $0.001 per share).

EVOLVING SYSTEMS, INC.

Quarterly Report on Form 10-Q

September 30, 2007

Table of Contents

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

EVOLVING SYSTEMS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands except share data)

(unaudited)

		September 30, 2007		December 31, 2006
ASSETS				
Current assets:				
Cash and cash equivalents	$	7,607	$	5,076
Current portion of restricted cash				300
Contract receivables, net of allowance of $72 at September 30, 2007 and $70 at December 31, 2006		4,940		9,206
Unbilled work-in-progress		2,253		1,064
Deferred foreign income taxes				15
Prepaid and other current assets		1,384		1,686
Total current assets		16,184		17,347
Property and equipment, net		1,013		1,349
Amortizable intangible assets, net		5,180		6,155
Goodwill		26,931		26,027
Long-term restricted cash		100		
Other long-term assets		343		460
Total assets	$	49,751	$	51,338
LIABILITIES AND STOCKHOLDERS EQUITY				
Current liabilities:				
Current portion of capital lease obligations	$	19	$	37
Current portion of long-term debt		2,375		2,000
Accounts payable and accrued liabilities		4,746		4,428
Deferred foreign income taxes		52		
Unearned revenue		7,137		10,079
Total current liabilities		14,329		16,544
Long-term liabilities:				
Capital lease obligations, net of current portion		85		34
Other long-term obligations		1,281		749
Long-term debt, net of current portion		9,311		11,370
Deferred foreign income taxes		1,052		1,202
Total liabilities		26,058		29,899
Commitments and contingencies (Note 10)				
Series B convertible redeemable preferred stock		5,892		11,281
Stockholders equity:				
Preferred stock, $0.001 par value; 2,000,000 shares authorized; 504,915 and 966,666 shares of Series B issued and outstanding as of September 30, 2007 and December 31, 2006, respectively (shown above)				
		18		16

Common stock, $0.001 par value; 40,000,000 shares authorized; 17,685,969 and 16,233,646 shares issued and outstanding as of September 30, 2007 and December 31, 2006, respectively				
Additional paid-in capital		74,826		68,825
Accumulated other comprehensive income		2,792		1,466
Accumulated deficit		(59,835)		(60,149)
Total stockholders equity		17,801		10,158
Total liabilities and stockholders equity	$	49,751	$	51,338

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

EVOLVING SYSTEMS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands except per share data)

(unaudited)

	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
REVENUE				
License fees and services	$ 4,692	$ 3,990	$ 13,425	$ 11,855
Customer support	4,619	4,677	13,468	13,180
Total revenue	9,311	8,667	26,893	25,035
COSTS OF REVENUE AND OPERATING EXPENSES				
Costs of license fees and services, excluding depreciation and amortization	2,097	1,991	5,962	5,523
Costs of customer support, excluding depreciation and amortization	1,532	1,235	4,741	4,412
Sales and marketing	2,003	2,123	6,228	6,919
General and administrative	1,350	1,171	4,549	3,959
Product development	665	848	1,572	2,394
Depreciation	189	285	729	861
Amortization	396	336	1,176	2,126
Impairment of goodwill and intangible assets				16,516
Restructuring and other expense (recovery)			(1)	(23)
Total costs of revenue and operating expenses	8,232	7,989	24,956	42,687
Income (loss) from operations	1,079	678	1,937	(17,652)
Other income (expense):				
Interest income	86	46	231	120
Interest expense	(419)	(498)	(1,334)	(1,503)
Gain on extinguishment of debt			42	
Foreign currency exchange gain (loss)	168	(8)	7	(38)
Other expense, net	(165)	(460)	(1,054)	(1,421)
Income (loss) before income taxes	914	218	883	(19,073)
Income tax expense (benefit)	345	176	569	(1,278)
Net income (loss)	$ 569	$ 42	$ 314	$ (17,795)
Basic and diluted income (loss) per common share	$ 0.03	$ 0.00	$ 0.02	$ (0.93)
Weighted average basic shares outstanding	19,201	19,112	19,178	19,089
Weighted average diluted shares outstanding	19,550	19,310	19,546	19,089

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

4

EVOLVING SYSTEMS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

AND COMPREHENSIVE INCOME

(in thousands, except share data)

(unaudited)

	Common Stock		Additional Paid-in	Accumulated Other Comprehensive	Accumulated	Total
	Shares	Amount	Capital	Income	Deficit	Stockholders Equity
Balance at December 31, 2006	16,233,646	$ 16	$ 68,825	$ 1,466	$ (60,149)	$ 10,158
Stock option exercises	19,688		19			19
Common stock issued pursuant to the Employee Stock Purchase Plan	47,382	1	51			52
Stock-based compensation expense			543			543
Preferred stock conversion	1,385,253	1	5,388			5,389
Comprehensive income:						
Net income					314	
Foreign currency translation adjustment				1,326		
Comprehensive income						1,640
Balance at September 30, 2007	17,685,969	$ 18	$ 74,826	$ 2,792	$ (59,835)	$ 17,801

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

EVOLVING SYSTEMS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Nine Months Ended September 30, 2007		Nine Months Ended September 30, 2006	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income (loss)	$	314	$	(17,795)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Depreciation		729		861
Amortization of intangible assets		1,176		2,126
Amortization of debt issuance costs		181		204
Stock-based compensation		543		625
Impairment of goodwill and intangible assets				16,516
Gain on disposal of property and equipment		(1)		(20)
Gain on extinguishment of debt		(42)		
Foreign currency transaction (gains) losses, net		(7)		38
Benefit from foreign deferred income taxes		(132)		(1,810)
Change in operating assets and liabilities:				
Contract receivables		4,616		5,211
Unbilled work-in-progress		(1,118)		(89)
Prepaid and other current assets		299		(143)
Accounts payable and accrued liabilities		358		(756)
Unearned revenue		(3,035)		(2,396)
Other		532		171
Net cash provided by operating activities		4,413		2,743
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchases of property and equipment		(445)		(397)
Proceeds from sale of property and equipment		1		20
Earnout payments from business combinations		(24)		(153)
Reduction in restricted cash		200		
Net cash used in investing activities		(268)		(530)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Capital lease payments		(16)		(26)
Principal payments on long-term debt		(1,641)		(1,775)
Proceeds from issuance of common stock		71		109
Net cash used in financing activities		(1,586)		(1,692)
Effect of foreign exchange rate changes on cash		(28)		117
Net increase in cash and cash equivalents		2,531		638
Cash and cash equivalents at beginning of period		5,076		3,883
Cash and cash equivalents at end of period	$	7,607	$	4,521
Supplemental disclosure of other cash and non-cash transactions:				
Interest paid	$	640	$	820
Income taxes paid	$	79	$	569
Conversion of preferred stock into common stock	$	5,389	$	

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

EVOLVING SYSTEMS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 BASIS OF PRESENTATION

Organization We are a global 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). 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; numbering solutions that enable carriers to comply with government-mandated requirements regarding number portability as well as providing phone number management and assignment capabilities; and mediation solutions supporting data collection for both service assurance and billing applications.

Interim Consolidated Financial Statements The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and in conformity with the instructions to Form 10-Q and Article 10 of Regulation S-X and the related rules and regulations of the Securities and Exchange Commission (SEC). Accordingly, certain information and note disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. However, we believe that the disclosures included in these financial statements are adequate to make the information presented not misleading. The unaudited condensed consolidated financial statements included in this document have been prepared on the same basis as the annual consolidated financial statements, and in our opinion, reflect all adjustments, which include normal recurring adjustments necessary for a fair presentation in accordance with GAAP and SEC regulations for interim financial statements. The results for the nine months ended September 30, 2007 are not necessarily indicative of the results that we will have for any subsequent period. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes to those statements for the year ended December 31, 2006 included in our Annual Report on Form 10-K.

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

Foreign Currency Translation Our functional currency is the U.S. dollar. The functional currency of our foreign operations is the respective local currency for each foreign subsidiary. Assets and liabilities of foreign operations denominated in local currencies are translated at the spot rate in effect at the applicable reporting date. Our consolidated statements of operations are translated at the weighted average rate of exchange during the applicable period. The resulting unrealized cumulative translation adjustment, net of applicable income taxes, 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 and subsidiaries, all of which are wholly owned. All significant intercompany transactions and balances have been eliminated in consolidation.

Goodwill Goodwill is the excess of acquisition cost of an acquired entity over the fair value of the identifiable net assets acquired. Goodwill is not amortized, but tested for impairment annually or whenever indicators of impairment exist. These indicators may include a significant change in the business climate, legal factors, operating performance indicators, competition, sale or disposition of a significant portion of the business or other factors. For purposes of the goodwill evaluation, we compare the fair value of each of our reporting units to its respective carrying amount. If the carrying value of a reporting unit were to exceed its fair value, we would then compare the fair value of the reporting unit s goodwill to its carrying amount, and any excess of the carrying amount over the fair value would be charged to operations as an impairment loss.

Intangible Assets Amortizable intangible assets consist primarily of purchased software and licenses, customer contracts and relationships, trademark and tradenames, and business partnerships acquired in conjunction with our purchases of CMS Communications, Inc. (CMS), Telecom Software Enterprises, LLC (TSE) and Tertio Telecoms Ltd. (Evolving Systems U.K.). These finite life assets are amortized using the straight-line method over their estimated lives.

We assess the impairment of identifiable intangibles if events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. Factors that we consider significant which could trigger an impairment analysis include, but are not limited to, the following:

Significant under-performance relative to historical or projected future operating results;

Significant changes in the manner of use of the acquired assets or the strategy of the overall business;

Significant negative industry or economic trends; and/or

Significant decline in our stock price for a sustained period.

If, as a result of the existence of any indicators of impairment, 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 will recognize an impairment loss representing the excess of the asset s carrying value over its estimated fair value.

Revenue Recognition We recognize revenue from two primary sources: license fees and services, and customer support, in accordance with Statement of Position (SOP) 97-2, Software Revenue Recognition, as amended and interpreted by SOP 98-9, Modification of SOP 97-2, Software Revenue Recognition, With Respect to Certain Transactions. Staff Accounting Bulletin (SAB) No. 104, Revenue Recognition, provides further interpretive guidance for public companies on the recognition, presentation and disclosure of revenue in financial statements. In addition to the criteria described below, we generally recognize revenue when an agreement is signed, the fee is fixed or determinable and collectibility is reasonably assured.

The majority of our license fees and services revenue is generated from fixed-price contracts, which provide for licenses to our software products and services to customize such software to meet our customers use. Generally, when the services are determined to be essential to the functionality of the delivered software, we recognize revenue using the percentage-of-completion method of accounting, in accordance with SOP 97-2 and SOP 81-1, Accounting for Long-Term Construction Type Contracts. The percentage of completion for each contract is estimated based on the ratio of direct labor hours incurred to total estimated direct labor hours. Since estimated direct labor hours, and changes thereto, can have a significant impact on revenue recognition, these estimates are critical and are reviewed regularly. Amounts billed in advance of services being performed are recorded as unearned revenue. Unbilled work-in-progress represents revenue earned but not yet billable under the terms of the fixed-price contracts. All such amounts are expected to be billed and collected within 12 months.

We may encounter budget and schedule overruns on fixed price contracts caused by increased labor or overhead costs. Adjustments to cost estimates are made in the periods in which the facts requiring such revisions become known. Estimated losses, if any, are recorded in the period in which current estimates of total contract revenue and contract costs indicate a loss.

In arrangements where the services are not essential to the functionality of the software, we recognize license revenue upon delivery. To the extent that Vendor-Specific Objective Evidence (VSOE) of the fair value of undelivered elements exists, fees from multiple element arrangements are unbundled and recorded as revenue as the elements are delivered. If VSOE for the undelivered elements does not exist, fees from such arrangements are deferred until the earlier of the date that VSOE does exist on the undelivered elements or all of the elements have been delivered.

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

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

Stock-based Compensation We account for stock-based compensation under Statement of Financial Accounting Standards No. 123(Revised), Share-Based Payment (SFAS 123R). This statement replaced SFAS No. 123, Accounting for Stock-Based Compensation (SFAS 123) and superseded APB Opinion No. 25, Accounting for Stock Issued to Employees. Under SFAS 123R, we apply 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. In addition, we record compensation costs associated with the vesting of unvested options outstanding at January 1, 2006 using the guidance under SFAS 123. 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. Compensation cost for options is recognized on a straight-line basis over the vesting period using an estimated forfeiture rate. Effective January 1, 2006, stock option grants and employee stock purchase plan purchases were accounted for under SFAS 123R. We used 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.

Recent Accounting Pronouncements - In February 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 159, The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115 (SFAS 159). SFAS 159 permits entities to choose to measure eligible items at fair value at specific election dates (the fair value option). Unrealized gains and losses on items for which the fair value option has been elected shall be reported in earnings at each subsequent reporting period. This accounting standard is effective for us beginning January 1, 2008. We are currently assessing the impact of SFAS 159.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2007. We have not completed our evaluation of the impact of this standard on our consolidated financial statements or our future estimates of fair value.

NOTE 2 GOODWILL AND INTANGIBLE ASSETS

We recorded goodwill as a result of three acquisitions which occurred over the period from November 2003 to November 2004. We acquired CMS in November 2003, TSE in October 2004 and Evolving Systems U.K. in November 2004.

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

	License and Services		Customer Support		Total
	U.S.	U.K.	U.S.	U.K.	Goodwill
Balance as of December 31, 2006	$	$ 8,944	$ 6,033	$ 11,050	$ 26,027
Effects of changes in foreign currency exchange rates		404		500	904
Balance as of September 30, 2007	$	$ 9,348	$ 6,033	$ 11,550	$ 26,931

We conducted our annual goodwill impairment test as of July 31, 2007, and we determined that goodwill was not impaired as of the test date. From July 31, 2007 through September 30, 2007, no events have occurred that we believe may have impaired goodwill.

Identifiable intangible assets are amortized on a straight-line basis over estimated lives ranging from one to seven years and include the cumulative effects of foreign currency exchange rates. As of September 30, 2007 and December 31, 2006, identifiable intangibles were as follows (in thousands):

	September 30, 2007			December 31, 2006			
	Gross Amount	Accumulated Amortization	Net Carrying Amount	Gross Amount	Accumulated Amortization	Net Carrying Amount	Weighted-Average Amortization Period
Purchased software	$ 2,117	$ 597	$ 1,520	$ 2,038	$ 237	$ 1,801	4.7 yrs
Purchased licenses	227	121	106	227	49	178	2.3 yrs
Trademarks and tradenames	918	164	754	879	63	816	7.0 yrs
Business partnerships	150	38	112	143	14	129	5.0 yrs
Customer relationships	3,774	1,086	2,688	3,657	426	3,231	5.6 yrs
	$ 7,186	$ 2,006	$ 5,180	$ 6,944	$ 789	$ 6,155	5.4 yrs

Amortization expense of identifiable intangible assets was $0.4 million and $1.2 million for the three and nine months ended September 30, 2007, respectively, and $0.3 million and $2.1 million for the three and nine months ended September 30, 2006. As Evolving Systems U.K. uses the Great British pound as its functional currency, the amount of future amortization actually recorded will be based upon exchange rates in effect at that time. Expected future amortization expense related to identifiable intangibles based on our carrying amount as of September 30, 2007 was as follows (in thousands):

Twelve months ending September 30,		
2008	$	1,552
2009		1,003
2010		912
2011		811
2012		516
Thereafter		386
	$	5,180

NOTE 3 EARNINGS PER COMMON SHARE

Basic earnings per share (EPS) is computed by dividing net income or loss available to common stockholders by the weighted average number of shares outstanding during the period, including common stock issuable under participating securities, such as the Series B Convertible Redeemable Preferred Stock (Series B Preferred Stock). Diluted EPS is computed using the weighted average number of shares outstanding, including participating securities, plus all potentially dilutive common stock equivalents. Common stock equivalents consist of stock options and shares held in escrow. The following is the reconciliation of the denominator of the basic and diluted EPS computations (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Weighted average common shares outstanding	17,686	16,212	17,349	16,189
Participating securities	1,515	2,900	1,829	2,900
Basic weighted average shares outstanding	19,201	19,112	19,178	19,089
Effect of dilutive securities	349	198	368	
Diluted weighted average common shares outstanding	19,550	19,310	19,546	19,089

Weighted average options to purchase 3.5 million and 3.1 million shares of common stock were excluded from the dilutive stock calculation for the three and nine months ended September 30, 2007, respectively, because their exercise prices were greater than the average fair value of our common stock for those periods.

Weighted average options to purchase 1.0 million shares of common stock were excluded from the dilutive stock calculation for the nine months ended September 30, 2006 as their effect would have been anti-dilutive as a result of the net loss for the period. Weighted average options to purchase 3.6 million and 3.2 million shares of common stock were excluded from the dilutive stock calculation for the three and nine months ended September 30, 2006, respectively, because their exercise prices were greater than the average fair value of our common stock for those periods.

NOTE 4 SHARE-BASED COMPENSATION

We adopted SFAS 123R effective January 1, 2006 using the modified prospective method. We previously applied the intrinsic-value-based method in accounting for the recognition of stock-based compensation arrangements and the fair value method only for disclosure purposes. Our statements of operations from January 1, 2006 forward include charges for stock-based compensation. We recognized $162,000, or $0.01 per share, and $543,000, or $0.03 per share, of compensation expense in the statement of operations for the three and nine months ended September 30, 2007, respectively with respect to our stock-based compensation plans. We recognized $181,000, or $0.01 per share, and $625,000, or $0.03 per share, of compensation expense in the statement of operations for the three and nine months ended September 30, 2006, respectively with respect to our stock-based compensation plans. The following table summarizes stock-based compensation expenses recorded in the consolidated statements of operations (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Cost of license fee and services, excluding depreciation and amortization	$ 12	$ 13	$ 46	$ 44
Cost of customer support, excluding depreciation and amortization	1	2		7
Sales and marketing	40	39	108	145
General and administrative	103	115	371	394
Product development	6	12	18	35
	$ 162	$ 181	$ 543	$ 625

Stock Option/Incentive Plans

In January 1996, our stockholders approved The Amended and Restated Stock Option Plan (the Option Plan). Initially, 3,150,000 shares were reserved for issuance under the Option Plan. Subsequently, the Option Plan was amended, as approved by the stockholders, to increase the number of shares available for issuance to 8,350,000. Options issued under the Option Plan were at the discretion of the Board of Directors, including the vesting provisions of each stock option granted. Options were granted with an exercise price equal to the closing price of our common stock on the date of grant, generally vest over four years and expire no more than ten years from the date of grant. The Option Plan terminated on January 18, 2006; options granted before that date were not affected by the plan termination.

In March 2007 upon the hiring of our Vice President of World Wide Sales and Marketing, in accordance with NASDAQ Marketplace Rule 4350(i)(1)(a)(iv) the board of directors approved an inducement award under a stand-alone equity incentive plan. We granted 100,000 non-qualified options to purchase shares of our common stock at an exercise price equal to the closing price of our common stock on the date of grant. The options vest over four years and expire ten years from the date of grant.

In June 2007, our stockholders approved the 2007 Stock Incentive Plan (the 2007 Stock Plan). A maximum of 2,000,000 shares may be issued under the 2007 Stock Plan. 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 and expire no more than ten years from the date of grant.

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 stock options. The expected dividend yield is zero and is based upon historical and anticipated payment of dividends. The weighted-average assumptions used in the fair value calculations are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	**2006**	**2007**	**2006**
Expected term (years)	6.1	*	6.2	6.1
Risk-free interest rate	4.69%	*	4.70%	4.35%
Expected volatility	107.18%	*	107.68%	121.14%
Expected dividend yield	0%	*	0%	0%

* None granted.

The following is a summary of stock option activity under the three stock incentive plans for the nine months ended September 30, 2007:

	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, 2006	4,058	$ 3.14		
Options granted	255	$ 2.03		
Less options forfeited	(33)	$ 2.20		
Less options expired	(61)	$ 3.76		
Less options exercised	(20)	$ 0.98		
Options outstanding at September 30, 2007	4,199	$ 3.08	5.96	$ 539
Options exercisable at September 30, 2007	3,372	$ 3.31	5.30	$ 539

The weighted-average grant-date fair value of stock options granted during the three and nine months ended September 30, 2007 was $1.79 and $1.71, respectively.

As of September 30, 2007, there were approximately $1.2 million of total unrecognized compensation costs related to unvested stock options. These costs are expected to be recognized over a weighted average period of 1.3 years.

The total intrinsic value of stock option exercises for the three months ended September 30, 2007 and 2006 was $0 and $1,000, respectively. The total fair value of stock options vested during the three months ended September 30, 2007 and 2006 was $0.2 million and $0.1 million, respectively.

The total intrinsic value of stock option exercises for the nine months ended September 30, 2007 and 2006 was $23,000 and $14,000, respectively. The total fair value of stock options vested during the nine months ended September 30, 2007 and 2006 was $0.5 million and $0.4 million, respectively.

The deferred income tax benefits from stock option expense related to Evolving Systems U.K. totaled approximately $10,000 and $7,000 for the three months ended September 30, 2007 and 2006, respectively. The deferred income tax benefits from stock option expense related to Evolving Systems U.K. totaled approximately $30,000 and $20,000 for the nine months ended September 30, 2007 and 2006, respectively.

Cash received from stock option exercises for the three months ended September 30, 2007 and 2006 was $0 and $1,000, respectively. Cash received from stock option exercises for the nine months ended September 30, 2007 and 2006 was $19,000 and $13,000, respectively.

Employee Stock Purchase Plan

Under the Employee Stock Purchase Plan (ESPP), we are authorized to issue up to 1,100,000 shares of our common stock to full-time employees, nearly all of whom are eligible to participate. Under the terms of the ESPP, employees may elect to have up to 15% of their gross compensation withheld through payroll deduction to purchase our common stock, capped at $25,000 annually. The purchase price of the stock is 85% of the lower of the closing price on the first day or the last day of each three-month participation period. As of September 30, 2007, there were 305,000 shares available for purchase. For the three and nine months ended September 30, 2007, we recorded compensation expense of $6,000 and $17,000, respectively, and for the three and nine months ended September 30, 2006, we recorded compensation expense of $8,000 and $32,000, respectively, associated with grants under the ESPP which includes the fair value of the look-back feature of each grant as well as the 15% discount on the purchase price. This expense fluctuates each period 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 assumptions 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 our common stock. 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:

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2007	**2006**	**2007**	**2006**
Expected term (years)	0.25	0.25	0.25	0.25
Risk-free interest rate	3.99%	5.08%	4.73%	5.02%
Expected volatility	64.59%	73.43%	68.34%	79.35%
Expected dividend yield	0%	0%	0%	0%

Cash received from employee stock plan purchases for the three months ended September 30, 2007 and 2006 was approximately $19,000 and $23,000, respectively. Cash received from employee stock plan purchases for the nine months ended September 30, 2007 and 2006 was approximately $52,000 and $95,000, respectively.

NOTE 5 CONCENTRATION OF CREDIT RISK

For the nine months ended September 30, 2007, two significant customers accounted for 35% (21% and 14%, respectively) of total revenue. These customers were located in the U.S. and U.K., respectively. For the nine months ended September 30, 2006, two significant customers accounted for 26% (13% and 13%, respectively) of total revenue. These customers were located in the U.S. and U.K., respectively.

As of September 30, 2007, two significant customers accounted for approximately 27% (14% and 13%, respectively) of contract receivables. These customers are located in the U.K. and Chile, respectively. At December 31, 2006, two significant customers accounted for approximately 51% (40% and 11%) of contract receivables. These customers are large telecommunications operators located in the U.S. and Luxembourg, respectively.

NOTE 6 LONG-TERM DEBT

Notes payable consist of the following (in thousands):

	September 30, 2007	December 31, 2006
Senior note payable to financial institution, interest at one-month London InterBank Offered Rate (LIBOR) plus a margin of 5.25% at September 30, 2007 and 6.25% at December 31, 2006; however, the LIBOR rate cannot be less than 3.75%; interest rate was 10.74% at September 30, 2007 and 11.60% at December 31, 2006, respectively; interest payments are due monthly, principal installments are due quarterly with final maturity on November 14, 2010. The margin of 6.25% reduced to 5.25% since December 31, 2006 as we met and continue to maintain certain financial requirements (not met as of December 31, 2006). The loan is secured by substantially all of our assets and a pledge of the stock of our subsidiaries.	$ 4,919	$ 6,500
$4.5 million senior revolving credit facility payable to financial institution ($2.5 million availability at September 30, 2007), interest at one-month LIBOR plus 4.0%; however, the LIBOR rate cannot be less than 3.75%; interest rate was 9.49% at September 30, 2007 and 9.35% at December 31, 2006, respectively; interest payments are due monthly with final maturity on November 14, 2010. Loan is secured by substantially all of the assets of Evolving Systems U.K.	2,000	2,000
Long-term unsecured subordinated notes payable, interest ranges from 11-14% with a weighted average rate of 12.82% at September 30, 2007 and 12.84% at December 31, 2006, accrued interest and principal are due in full May 16, 2011.	4,767	4,870
Total notes payable	11,686	13,370
Less current portion	(2,375)	(2,000)
Long-term debt, excluding current portion	$ 9,311	$ 11,370

In accordance with the terms of our senior note payable agreement, we made an Excess Cash Flow payment (as defined in the agreement) to our senior lender in the amount of $81,000 during March 2007.

In March 2007, we paid $77,000 to retire $119,000 of subordinated debt and related accrued interest held by one of our subordinated note holders. The retirement included principal of $103,000 and accrued interest of $16,000. The $42,000 gain on extinguishment of this debt was reflected within other income (expense) on the consolidated statement of operations.

The senior note payable and senior revolving credit facility subject us to certain financial covenants. We were in compliance with these covenants as of September 30, 2007.

NOTE 7 INCOME TAXES

We adopted Financial Accounting Standards Board (FASB) Interpretation No. 48, Accounting for Uncertainty in Income Taxes An Interpretation of FASB Statement No. 109 (FIN 48) effective January 1, 2007. FIN 48 clarifies the accounting for uncertainty in income tax benefits recognized in an enterprise s financial statements in accordance with SFAS 109. FIN 48 also prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. In addition, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

Upon adoption of FIN 48, no adjustment to the Consolidated Financial Statements was required. As of the date of adoption, we had an unrecognized domestic tax benefit of approximately $0.4 million which did not change significantly during the nine months ended September 30, 2007. The application of FIN 48 would have resulted in a decrease to retained earnings of $0.4 million, except that the decrease was fully offset by the application of a valuation allowance. In addition, future changes in the unrecognized tax benefit will have no impact on the effective tax rate while the valuation allowance exists. We expect that the unrecognized tax benefit will not change significantly within the next twelve months.

We file our tax returns as prescribed by U.S. federal tax laws as well as tax laws of various state and foreign jurisdictions in which we operate. We may be subject to examination by the Internal Revenue Service (IRS) for calendar years 2003 through 2006

13

and HM Revenue and Customs in the U.K. for calendar years 2005 and 2006. Additionally, any domestic net operating losses that were generated in prior years and utilized in these years may also be subject to examination by the IRS.

Effective April 2007, our Indian subsidiary is subject to a 10% minimum alternative tax. This tax did not have a material effect on our results for the three and nine months ended September 30, 2007 and we do not expect this tax to have a material impact on future results.

We recorded income tax expense of $0.3 million and $0.2 million for the three months ended September 30, 2007 and September 30, 2006, respectively. The income tax expense during the three months ended September 30, 2007 consisted of current foreign income tax expense of $407,000 and a deferred tax benefit of $62,000. The $407,000 current foreign income tax expense is comprised of $398,000 and $9,000 current foreign income tax expense related to our UK-based operations and India-based operations, respectively. The $62,000 deferred tax benefit is comprised of a $118,000 deferred tax benefit related to our UK-based operations, partially offset by $56,000 of deferred income tax expense in the U.S. related to the estimated non-recoverability of foreign tax withholding due to the significant net operating loss carryforwards in our U.S. federal and state jurisdictions. The income tax benefit during the three months ended September 30, 2006 consisted of current foreign income tax expense of $0.2 million related to our UK-based operations.

We recorded income tax expense of $0.6 million for the nine months ended September 30, 2007 and income tax benefit of $1.3 million for the nine months ended September 30, 2006. The income tax expense during the nine months ended September 30, 2007 consisted of current foreign income tax expense of $670,000 and a deferred tax benefit of $101,000. The $670,000 current foreign income tax expense is comprised of $654,000 and $16,000 current foreign income tax expense related to our UK-based operations and India-based operations, respectively. The $101,000 deferred tax benefit is comprised of a $157,000 deferred tax benefit related to our UK-based operations, partially offset by $56,000 of deferred income tax expense in the U.S. related to the estimated non-recoverability of foreign tax withholding due to the significant net operating loss carryforwards in our U.S. federal and state jurisdictions. The income tax benefit during the nine months ended September 30, 2006 consisted of current foreign income tax expense of $0.5 million and a deferred foreign tax benefit of $1.8 million both of which are related to our UK-based operations.

In conjunction with the acquisition of Evolving Systems U.K., we recorded certain identifiable intangible assets. Since the amortization of these identifiable intangibles is not deductible for income tax purposes, we established a long-term deferred tax liability of $4.6 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. As of September 30, 2007 and December 31, 2006, this deferred tax liability was $1.3 million and $1.5 million, respectively. This deferred tax liability relates to Evolving Systems U.K., and has no impact on our ability to recover U.S.-based deferred tax assets. This deferred tax liability will be recognized as a reduction of deferred income tax expense as the identifiable intangibles are amortized.

As of September 30, 2007 and December 31, 2006, we continued to maintain a full valuation allowance on our domestic net deferred tax asset as we determined it was more likely than not that we will not realize our domestic deferred tax assets. Such assets primarily consist of net operating loss carryforwards. 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 reasonably foreseeable future periods. We are required to reassess conclusions regarding the realization of 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.

NOTE 8 STOCKHOLDERS EQUITY

On March 15, 2007, holders of 441,377 shares of Series B Preferred Stock with a carrying value of $5.1 million, or approximately 46% of the outstanding preferred stock, converted their shares of preferred stock into 1,324,131 shares of our common stock in accordance with the conversion provisions of the Series B Preferred Stock. On April 13, 2007, holders of 20,374 shares of Series B Preferred Stock with a carrying value of $0.2 million, or approximately 4% of the outstanding shares, converted their shares of preferred stock into 61,122 shares of our common stock in accordance with the conversion provisions of the Series B Preferred Stock. As we previously included the Series B Preferred Stock as a participating security for basic EPS purposes, these conversions did not change our basic or diluted EPS calculations.

NOTE 9 SEGMENT INFORMATION

In accordance with SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, we define operating segments as components of an enterprise for which separate financial information is reviewed regularly by the chief operating decision-making group to evaluate performance and to make operating decisions. We have identified our Chief Executive Officer and Chief Financial Officer 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 two operating segments based on revenue type: license fees and services revenue and customer support revenue (as shown on the consolidated statements of operations). License fees and services (L&S) revenue represents the fees received from the license of software products and those services directly related to the delivery of the licensed products, as well as fees for custom development, integration services and time and materials work. Customer support (CS) revenue includes annual support fees, recurring maintenance fees, fees for maintenance upgrades and warranty services. Warranty services that are similar to software maintenance services are typically bundled with a license sale. Total assets by segment have not been disclosed as the information is not available to the CODM.

Segment information is as follows (in thousands):

	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Revenue				
License fees and services	$ 4,692	$ 3,990	$ 13,425	$ 11,855
Customer support	4,619	4,677	13,468	13,180
	9,311	8,667	26,893	25,035
Revenue less cost of revenue, excluding depreciation and amortization				
License fees and services	2,595	1,999	7,463	6,332
Customer support	3,087	3,442	8,727	8,768
	5,682	5,441	16,190	15,100
Unallocated costs				
Other operating expenses	4,018	4,142	12,349	13,272
Depreciation and amortization	585	621	1,905	2,987
Impairment of goodwill and intangible assets				16,516
Restructuring and other			(1)	(23)
Interest income	(86)	(46)	(231)	(120)
Interest expense	419	498	1,334	1,503
Gain on debt extinguishment			(42)	
Foreign currency exchange loss	(168)	8	(7)	38
Income (loss) before income taxes	$ 914	$ 218	$ 883	$ (19,073)

Geographic Regions

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

	Three Months Ended September 30, 2007			2006		
	L&S	**CS**	**Total**	**L&S**	**CS**	**Total**
Revenue						
United States	$ 221	$ 2,772	$ 2,993	$ 405	$ 3,023	$ 3,428
United Kingdom	1,868	654	2,522	2,077	631	2,708
Other	2,603	1,193	3,796	1,508	1,023	2,531
Total Revenue	$ 4,692	$ 4,619	$ 9,311	$ 3,990	$ 4,677	$ 8,667

	Nine Months Ended September 30, 2007			2006		
	L&S	**CS**	**Total**	**L&S**	**CS**	**Total**
Revenue						
United States	$ 1,169	$ 7,929	$ 9,098	$ 1,560	$ 8,378	$ 9,938
United Kingdom	4,625	2,001	6,626	4,987	1,663	6,650
Other	7,631	3,538	11,169	5,308	3,139	8,447

Total Revenue	$	13,425	$	13,468	$	26,893	$	11,855	$	13,180	$	25,035

	September 30, 2007	December 31, 2006
Long-lived assets, net		
United States	$ 7,352	$ 7,986
United Kingdom	25,680	25,406
Other	92	139
Total long-lived assets, net	$ 33,124	$ 33,531

Financial information relating to product groupings was as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
Revenue	**2007**	**2006**	**2007**	**2006**
Activation	$ 5,309	$ 3,997	$ 14,787	$ 12,473
Numbering solutions	2,678	2,912	8,759	8,243
Mediation	1,324	1,758	3,347	4,319
	$ 9,311	$ 8,667	$ 26,893	$ 25,035

NOTE 10 COMMITMENTS AND CONTINGENCIES

(a) Lease Commitments

During the nine months ended September 30, 2007, we entered into a lease amendment for our headquarters location in Englewood, Colorado. This amendment extended the term of our existing agreement for an additional 65 month period, reduced our rentable square footage and reduced our monthly rent obligation.

During the nine months ended September 30, 2007, we also terminated our existing capital lease agreement for certain assets at our headquarters location and replaced it with a new capital lease agreement.

Future minimum commitments at September 30, 2007 under these new agreements are:

	Operating Leases	Capital Leases
2007	$ 78	$ 8
2008	470	30
2009	482	30
2010	494	30
2011	506	30
Thereafter	430	11
Total minimum lease payments	$ 2,460	139
Less: Amount representing interest		(35)
Principal balance of capital lease obligations		104
Less: Current portion of capital lease obligations		(19)
Long-term portion of capital lease obligations		$ 85

There have been no other material changes to the contractual obligations as disclosed in our 2006 Annual Report on Form 10-K.

(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, there were no liabilities recorded for these agreements as of September 30, 2007 and December 31, 2006.

From time to time, we enter into standard indemnification terms with customers and suppliers, in the ordinary course of business. As we may subcontract the development of deliverables under customer contracts, we could be required to indemnify customers for work performed by subcontractors. Depending upon the nature of the customer indemnification, the potential amount of future payments we could be required to make under these indemnification agreements may be unlimited. We may be able to recover damages from a subcontractor if the indemnification to customers results from the subcontractor s failure to perform. To the extent we are unable to recover damages from a subcontractor, we could be required to reimburse the indemnified party for the full amount. We have never incurred costs to defend lawsuits or settle claims relating to indemnification arising out of subcontractors failure to perform. As a result, we believe the estimated fair value of these agreements is minimal. Accordingly, there were no liabilities recorded for these agreements as of September 30, 2007 and December 31, 2006.

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, there were no liabilities recorded for these product warranty provisions as of September 30, 2007 and December 31, 2006.

Our software arrangements generally include a product indemnification provision whereby we will indemnify and defend a customer in actions brought against the customer for claims that our products infringe upon a copyright, trade secret, or valid patent. We have not historically incurred any significant costs related to product indemnification claims. Accordingly, there were no liabilities recorded for these indemnification provisions as of September 30, 2007 and December 31, 2006.

In relation to the acquisitions of Evolving Systems U.K., TSE and CMS, we agreed to indemnify certain parties from any losses, actions, claims, damages or liabilities (or actions in respect thereof) resulting from any claim raised by a third party. We do not believe that there will be any claims related to these indemnifications. Accordingly, there were no liabilities recorded for these agreements as of September 30, 2007 and December 31, 2006.

During the fourth quarter of 2006, a previous software vendor filed a complaint in the Superior Court of New Jersey against us asserting we breached certain provisions of a license agreement. While the outcome of this matter is uncertain, we believe we have paid all fees due under our license agreement and we are vigorously defending this claim.

We are involved in various other 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.

NOTE 11 SUBSEQUENT EVENT

On October 1, 2007, a holder of 26,165 shares of Series B Preferred Stock with a carrying value of $0.3 million, or approximately 5% of the outstanding shares at September 30, 2007, converted his shares of preferred stock into 78,495 shares of our common stock in accordance with the conversion provisions of the Series B Preferred Stock. Because we previously included the Series B Preferred Stock as a participating security for basic EPS purposes, this conversion did not change our basic or diluted EPS calculations.

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

SPECIAL NOTE ABOUT FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q 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 maintenance revenue, annual savings associated with the organizational changes effected in prior years, and short- and long-term cash needs. In some cases, words such as anticipates, expects, intends, plans, believes, estimates, variations of these words, and similar expressions are intended to identify forward-looking statements. The statements are not guarantees of future performance and are subject to certain risks, uncertainties, and assumptions that are difficult to predict; therefore, actual results may differ materially from those expressed or forecasted in any forward-looking statements. Risks and uncertainties of our business include those set forth in our Annual Report on Form 10-K for the year ended December 31, 2006 under Item 1A. Risk Factors as well as additional risks described in this Form 10-Q. Unless required by law, we undertake no obligation to update publicly any forward-looking statements, whether as a result of new information, future events, or otherwise. However, readers should carefully review the risk factors set forth in other reports or documents we file from time to time with the Securities and Exchange Commission, particularly the Quarterly Reports on Form 10-Q and any Current Reports on Form 8-K.

OVERVIEW

We are a 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). Our activation solution is a leading packaged solution for service activation in the wireless industry.

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

RESULTS OF OPERATIONS

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
REVENUE				
License fees and services	50%	46%	50%	47%
Customer support	50%	54%	50%	53%
Total revenue	100%	100%	100	100%
COSTS OF REVENUE AND OPERATING EXPENSES				
Costs of license fees and services, excluding depreciation and amortization	23%	23%	22%	22%
Costs of customer support, excluding depreciation and amortization	16%	14%	18%	18%
Sales and marketing	22%	25%	23%	27%
General and administrative	14%	14%	17%	16%
Product development	7%	10%	6%	10%
Depreciation	2%	3%	3%	3%
Amortization	4%	4%	4%	9%
Impairment of goodwill and intangible assets	%	-%	%	66%
Restructuring and other	%	%	%	%
Total costs of revenue and operating expenses	88%	93%	93%	171%
Income (loss) from operations	12%	7%	7%	(71)%
Interest income	1%	1%	1%	1%
Interest expense	(5)%	(6)%	(5)%	(6)%
Gain on debt extinguishment	%	%	%	%
Foreign currency exchange loss	2%	%	%	%
Other expense, net	(2)%	(5)%	(4)%	(5)%
Income (loss) before income taxes	10%	2%	3%	(76)%
Income tax expense (benefit)	4%	2%	2%	(5)%
Net income (loss)	6%	0%	1%	(71)%

Revenue

Revenue is comprised of license fees/services and customer support. License fees and services revenue represent the fees we receive from the licensing of our software products and those services directly related to the delivery of the licensed product as well as integration services and time and materials work. Customer support revenue includes annual support, recurring maintenance, maintenance upgrades and warranty services. Warranty services consist of maintenance services and are typically bundled with a license sale and the related revenue, based on Vendor-Specific Objective Evidence (VSOE), is deferred and recognized ratably over the warranty period. The following table presents our revenue by product group (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006

Activation	$ 5,309	$ 3,997	$ 14,787	$ 12,473
Numbering solutions	2,678	2,912	8,759	8,243
Mediation	1,324	1,758	3,347	4,319
	$ 9,311	$ 8,667	$ 26,893	$ 25,035

License Fees and Services

License fees and services revenue increased 18%, or $0.7 million, to $4.7 million for the three months ended September 30, 2007 from $4.0 million for the three months ended September 30, 2006. This increase in license fees and services revenue was composed of an increase of $1.2 million in revenue from our activation products, reflecting our selling efforts in emerging international markets and follow on sales from our existing account base, offset by a decrease of $0.5 million in revenue from our mediation products, reflecting lower revenue from our existing account base.

License fees and services revenue increased 13%, or $1.6 million, to $13.4 million for the nine months ended September 30, 2007 from $11.9 million for the nine months ended September 30, 2006. This increase in license fees and services revenue was composed of an increase of $1.8 million in revenue from our activation products and an increase of $1.0 million in revenue from our numbering solutions products offset by a decrease of $1.2 million in revenue from our mediation products. This growth is due to our expansion into new international markets for both activation and number solutions (NumeriTrack®), follow on sales from our existing activation account base, partially offset by lower revenue from our existing mediation account base.

Customer Support

Customer support revenue decreased $0.1 million, or 1%, to $4.6 million for the three months ended September 30, 2007 from $4.7 million for the three months ended September 30, 2006. The decrease in customer support revenue resulted from a decrease of $0.2 million in our numbering solutions customer support revenue offset by an increase of $0.1 million in activation customer support revenue. The increase in activation customer support revenue was a result of our increased installed base. The decrease in numbering solutions customer support revenue was due to one of our products reaching its end of life.

Customer support revenue increased $0.3 million, or 2%, to $13.5 million for the nine months ended September 30, 2007 from $13.2 million for the nine months ended September 30, 2006. The increase in customer support revenue resulted from an increase of $0.5 million in our activation products and an increase of $0.2 million in mediation customer support revenue which were offset by a decrease of $0.4 million from our numbering solutions products. The increase in activation customer support revenue was a result of our increased installed base. The decrease in numbering solutions customer support revenue was due to one of our products reaching its end of life.

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, cost of third-party software and partner commissions. Costs of revenue, excluding depreciation and amortization, were $3.7 million and $3.2 million for the three months ended September 30, 2007 and 2006, respectively. Costs of revenue, excluding depreciation and amortization, were $10.7 million and $9.9 million for the nine months ended September 30, 2007 and 2006, respectively. These costs are discussed further below.

Costs of License Fees and Services, Excluding Depreciation and Amortization

Costs of license fees and services, excluding depreciation and amortization, were $2.1 million and $2.0 million for the three months ended September 30, 2007 and 2006, respectively. The increase in costs is attributed to increased labor necessary to support the increase in license fees and services revenue. As a percentage of license fees and services revenue, costs of license fees and services, excluding depreciation and amortization, decreased to 45% for the three months ended September 30, 2007 from 50% for the three months ended September 30, 2006, due to incremental revenues growing at a faster rate than incremental costs.

Costs of license fees and services, excluding depreciation and amortization, were $6.0 million and $5.5 million for the nine months ended September 30, 2007 and 2006, respectively. The increase in costs is attributed to increased labor necessary to support the increase in license fees and services revenue. As a percentage of license fees and services revenue, costs of license fees and services, excluding depreciation and amortization, decreased to 44% for the nine months ended September 30, 2007 from 47% for the nine months ended September 30, 2006, due to incremental revenues growing at a faster rate than incremental costs.

Costs of Customer Support, Excluding Depreciation and Amortization

Costs of customer support, excluding depreciation and amortization, increased $0.3 million, or 24%, to $1.5 million for the three months ended September 30, 2007 from $1.2 million for the three months ended September 30, 2006. As a percentage of customer support revenue, costs of customer support revenue, excluding depreciation and amortization, increased to 33% for the three months ended September 30, 2007 from 26%

for the three months ended September 30, 2006. These increases are due to higher support costs for recent numbering solutions releases.

Costs of customer support, excluding depreciation and amortization, increased $0.3 million, or 7%, to $4.7 million for the nine months ended September 30, 2007 from $4.4 million for the nine months ended September 30, 2006. As a percentage of customer support revenue, costs of customer support revenue, excluding depreciation and amortization, increased to 35% for the nine months ended September 30, 2007 from 33% for the nine months ended September 30, 2006. These increases are due to higher support costs for recent numbering solutions releases.

Sales and Marketing

Sales and marketing expenses primarily consist of compensation costs, including bonuses and commissions, travel expenses, advertising, marketing and facilities expenses. Sales and marketing expenses decreased $0.1 million, or 6%, to $2.0 million for the three months ended September 30, 2007 from $2.1 million for the three months ended September 30, 2006. As a percentage of total revenue, sales and marketing expenses decreased to 22% for the three months ended September 30, 2007 from 25% for the three months ended September 30, 2006. These decreases are the result of reduced headcount.

Sales and marketing expenses primarily consist of compensation costs, including bonuses and commissions, travel expenses, advertising, marketing and facilities expenses. Sales and marketing expenses decreased $0.7 million, or 10%, to $6.2 million for the nine months ended September 30, 2007 from $6.9 million for the nine months ended September 30, 2006. As a percentage of total revenue, sales and marketing expenses decreased to 23% for the nine months ended September 30, 2007 from 27% for the nine months ended September 30, 2006. These decreases are the result of reduced headcount.

General and Administrative

General and administrative expenses consist principally of employee related costs and professional fees for the following departments: facilities, finance, legal, human resources, and certain executive management. General and administrative expenses increased $0.2 million, or 15%, to $1.4 million from $1.2 million for the three months ended September 30, 2007 and 2006, respectively. As a percentage of total revenue, general and administrative expenses for the three months ended September 30, 2007 and 2006, increased to 15% from 14%, respectively. These increases were a result of increased professional and legal fees.

General and administrative expenses consist principally of employee related costs and professional fees for the following departments: facilities, finance, legal, human resources, and certain executive management. General and administrative expenses increased $0.6 million, or 15%, to $4.5 million from $3.9 million for the nine months ended September 30, 2007 and 2006, respectively. As a percentage of total revenue, general and administrative expenses for the nine months ended September 30, 2007 and 2006, increased to 17% from 16%, respectively. These increases were a result of increased professional and legal fees, as well as higher incentive compensation earned due to the improved results from operations.

Product Development

Product development expenses consist primarily of employee related costs and subcontractor expenses. Product development expenses decreased $0.2 million, or 22%, to $0.6 million from $0.8 million for the three months ended September 30, 2007 and 2006, respectively. As a percentage of revenue, product development expenses for the three months ended September 30, 2007 and 2006, decreased to 7% from 10%, respectively. These decreases were due to the completion of certain product release enhancements as well as the completion of the internationalization of our NumeriTrack® product, which were under production during the three months ended September 30, 2006.

Product development expenses consist primarily of employee related costs and subcontractor expenses. Product development expenses decreased $0.8 million, or 34%, to $1.6 million from $2.4 million for the nine months ended September 30, 2007 and 2006, respectively. As a percentage of revenue, product development expenses for the nine months ended September 30, 2007 and 2006, decreased to 6% from 10%, respectively. These decreases were due to the completion of certain product release enhancements as well as the completion of the internationalization of our NumeriTrack® product, which were under production during the nine months ended September 30, 2006.

Amortization

Amortization expense consists of amortization of identifiable intangible assets acquired through our acquisitions of CMS, TSE and Evolving Systems U.K. Amortization expense increased $0.1 million, or 18%, to $0.4 million from $0.3 million for the three months ended September 30, 2007 and 2006, respectively. This increase is primarily due to foreign currency exchange fluctuations related to the Evolving Systems U.K. acquired intangibles as they are denominated in Great British Pounds.

Amortization expense consists of amortization of identifiable intangible assets acquired through our acquisitions of CMS, TSE and Evolving Systems U.K. Amortization expense decreased $0.9 million, or 45%, to $1.2 million from $2.1 million for the nine months ended September 30, 2007 and 2006, respectively. This decrease was primarily the result of the impairment of certain intangible assets at June 30, 2006.

Interest Expense

Interest expense includes interest expense on our long-term debt and capital lease obligations as well as amortization of debt issuance costs. Interest expense was $0.4 million and $0.5 million for the three months ended September 30, 2007 and 2006, respectively, and interest expense was $1.3 million and $1.5 million for the nine months ended September 30, 2007 and 2006, respectively. These decreases of $0.1 million and $0.2 million, for the three and nine months ended September 30, 2007, respectively, were primarily related to reduced levels of debt.

Gain on Debt Extinguishment

In March 2007, we paid $77,000 to retire $119,000 of subordinated debt and related accrued interest held by one of our subordinated note holders. The retired debt included principal of $103,000 and accrued interest of $16,000.

Foreign Currency Exchange Gain (Loss)

Foreign currency transaction gains (losses) resulted from transactions denominated in a currency other than the functional currency of the respective subsidiary. We recorded foreign currency transactions gains of $168,000 and foreign currency transaction losses of $8,000 for the three months ended September 30, 2007 and 2006, respectively. We recorded foreign currency transactions gains of $7,000 and foreign currency transaction losses of $38,000 for the nine months ended September 30, 2007 and 2006, respectively. The gains (losses) were generated primarily through the remeasurement of certain non-functional currency denominated financial assets and liabilities of our Evolving Systems U.K. subsidiary.

Income Taxes

We recorded income tax expense of $0.3 million and $0.2 million for the three months ended September 30, 2007 and September 30, 2006, respectively. The income tax expense during the three months ended September 30, 2007 consisted of current foreign income tax expense of $407,000 and a deferred tax benefit of $62,000. The $407,000 current foreign income tax expense is comprised of $398,000 and $9,000 current foreign income tax expense related to our UK-based operations and India-based operations, respectively. The $62,000 deferred tax benefit is comprised of a $118,000 deferred tax benefit related to our UK-based operations, partially offset by $56,000 of deferred income tax expense in the U.S. related to the estimated non-recoverability of foreign tax withholding due to the significant net operating loss carryforwards in our U.S. federal and state jurisdictions. The income tax benefit during the three months ended September 30, 2006 consisted of current foreign income tax expense of $0.2 million related to our UK-based operations.

We recorded income tax expense of $0.6 million for the nine months ended September 30, 2007 and income tax benefit of $1.3 million for the nine months ended September 30, 2006. The income tax expense during the nine months ended September 30, 2007 consisted of current foreign income tax expense of $670,000 and a deferred tax benefit of $101,000. The $670,000 current foreign income tax expense is comprised of $654,000 and $16,000 current foreign income tax expense related to our UK-based operations and India-based operations, respectively. The $101,000 deferred tax benefit is comprised of a $157,000 deferred tax benefit related to our UK-based operations, partially offset by $56,000 of deferred income tax expense in the U.S. related to the estimated non-recoverability of foreign tax withholding due to the significant net operating loss carryforwards in our U.S. federal and state jurisdictions. The income tax benefit during the nine months ended September 30, 2006 consisted of current foreign income tax expense of $0.5 million and a deferred foreign tax benefit of $1.8 million both of which are related to our UK-based operations.

In conjunction with the acquisition of Evolving Systems U.K., we recorded certain identifiable intangible assets. Since the amortization of these identifiable intangibles is not deductible for income tax purposes, we established a long-term deferred tax liability of $4.6 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. As of September 30, 2007 and December 31, 2006, this deferred tax liability was $1.3 million and $1.5 million, respectively. This deferred tax liability relates to Evolving Systems U.K., and has no impact on our ability to recover U.S.-based deferred tax assets. This deferred tax liability will be recognized as a reduction of deferred income tax expense as the identifiable intangibles are amortized.

FINANCIAL CONDITION

Our working capital position increased $1.1 million to $1.9 million as of September 30, 2007 from $0.8 million as of December 31, 2006. The increase in our working capital position is attributable to the decrease in current liabilities, primarily in unearned revenue resulting from ratable revenue recognition on annual maintenance contracts, partially offset by an increase in the current portion of long-term debt, in accordance with the repayment schedule associated with our senior debt.

CONTRACTUAL OBLIGATIONS

During the nine months ended September 30, 2007, we entered into a lease amendment for our headquarters location in Englewood, Colorado. This amendment extended the term of our existing agreement for an additional 65 month period, reduced our rentable square footage and reduced our monthly rent obligation.

During the nine months ended September 30, 2007, we also terminated our existing capital lease agreement for certain assets at our headquarters location and replaced it with a new capital lease agreement.

Future minimum commitments at September 30, 2007 under these new agreements are:

	Operating Leases		Capital Leases	
2007	$	78	$	8
2008		470		30
2009		482		30
2010		494		30
2011		506		30
Thereafter		430		11
Total minimum lease payments	$	2,460		139
Less: Amount representing interest				(35)
Principal balance of capital lease obligations				104
Less: Current portion of capital lease obligations				(19)
Long-term portion of capital lease obligations			$	85

There have been no other material changes to the contractual obligations as disclosed in our 2006 Annual Report on Form 10-K.

LIQUIDITY AND CAPITAL RESOURCES

We have historically financed operations through cash flows from operations and equity transactions. At September 30, 2007, our principal source of liquidity was $7.6 million in cash and cash equivalents as well as $2.5 million available under our revolving line of credit. The following table summarizes our statements of cash flows (in thousands):

	Nine Months Ended September 30,			
	2007		2006	
Cash provided (used) by:				
Operating activities	$	4,413	$	2,743
Investing activities		(268)		(530)
Financing activities		(1,586)		(1,692)
Effect of exchange rates		(28)		117
Net cash provided	$	2,531	$	638

Net cash provided by operating activities for the nine months ended September 30, 2007 and 2006 was $4.4 million and $2.7 million, respectively. The primary contribution to the improvement in cash provided by operating activities is the result of net income of $0.3 million plus non-cash operating adjustments of $2.4 million for the nine months ended September 30, 2007 compared to a net loss of $17.8 million plus non-cash operating adjustments of $18.5 million for the nine months ended September 30, 2006. Changes in operating assets and liabilities reflected a net increase in cash from operating activities of $1.7 million for the nine months ended September 30, 2007 as compared to a net increase in cash of $2.0 million for the nine months ended September 30, 2006.

Net cash used by investing activities for the nine months ended September 30, 2007 and 2006 was $0.3 million and $0.5 million. The cash used for the nine months ended September 30, 2007 related primarily to purchases of property and equipment of $0.5 million, partially offset by reductions in restricted cash of $0.2 million. The cash used for the nine months ended September 30, 2006 related primarily to purchases of property and equipment of $0.4 million and acquisition related earnout payments of $0.1 million.

Financing activities in the nine months ended September 30, 2007 and 2006 consisted primarily of principal payments on notes payable. During the nine months ended September 30, 2007 and 2006, we paid $1.6 million and $1.8 million, respectively, in principal payments on notes payable. We paid $81,000 in Excess Cash Flow payments (as defined in our senior loan agreement) to our senior lender during the nine months ended September 30, 2007. In addition, of the $77,000 we paid during the nine months ended to retire subordinated debt and accrued interest held by one of our subordinated note holders, $61,000 was applied to principal and $16,000 to accrued interest.

23

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

Our cash and cash equivalents balance at September 30, 2007 of $7.6 million.

The availability under our revolving credit facility of $2.5 million at September 30, 2007.

Our demonstrated ability to generate positive cash flows from operations.

Our backlog as of September 30, 2007 of approximately $12.5 million, including $4.7 million in license fees and services and $7.8 million in customer support.

Our planned capital expenditures.

Our cash forecast which indicates that we will have sufficient liquidity to cover anticipated operating costs and capital expenditures as well as debt service payments.

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 nine months ended September 30, 2007, the effect of exchange rate changes resulted in a $28,000 decrease to consolidated cash. During the nine months ended September 30, 2006, the effect of exchange rate changes resulted in a $117,000 increase in consolidated cash. We do not currently hedge our foreign currency exposure, but we monitor rate changes and may hedge our exposures if we see significant negative trends in exchange rates.

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, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

ITEM 3. QUANTITATIVE AND QUALITATIVE MARKET RISK DISCLOSURES

In the ordinary course of business, we are exposed to certain market risks, including changes in interest rates and foreign currency exchange 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. We are exposed to interest rate risk related to our senior secured term note and our senior revolving credit facility entered into in November 2005. These obligations are variable interest rate notes based on short-term LIBOR. Fluctuations in LIBOR affect our interest rates. Assuming no change in the amounts outstanding, a hypothetical 10% increase in our existing variable interest rates would increase our annual interest expense by approximately $0.1 million.

Foreign Currency Risk

We are exposed to favorable and unfavorable 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 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. Cumulative translation adjustments are recorded 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 Great British pound, Indian rupee and the U.S. dollar, which is our functional currency, is shown below, per one U.S. dollar:

Spot rates:	**September 30, 2007**	**December 31, 2006**
Great British Pound	0.48860	0.51069
Indian Rupee	39.79376	44.11116

	Three months ended		**Nine months ended**	
Average rates:	**September 30, 2007**	**September 30, 2006**	**September 30, 2007**	**September 30, 2006**
Great British Pound	0.49494	0.53356	0.50352	0.55086
Indian Rupee	40.52512	46.24360	41.91718	45.24218

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

ITEM 4. 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) under the Securities Exchange Act of 1934 (the Exchange Act), that are designed to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

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

In designing and evaluating our disclosure controls and procedures, management recognized that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Additionally, in designing disclosure controls and procedures, our management necessarily was required to apply its 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.

Changes in internal control over financial reporting. During the three and nine months ended September 30, 2007, there were no changes in our internal controls over financial reporting or in other factors that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

During the fourth quarter of 2006, a previous software vendor filed a complaint in the Superior Court of New Jersey against us asserting we breached certain provisions of a license agreement. While the outcome of this matter is uncertain, we believe we have paid all fees due under our license agreement and we are vigorously defending this claim.

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

ITEM 1A. RISK FACTORS

This Quarterly Report on Form 10-Q should be read in conjunction with the risk factors defined in our Annual Report on Form 10-K for the year ended December 31, 2006 under Item 1A. Risk Factors.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

(a) Exhibits

Exhibit 31.1 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Exhibit 31.2 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Exhibit 32.1	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
Exhibit 32.2	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: November 8, 2007	/s/ BRIAN R. ERVINE Brian R. Ervine Executive Vice President, Chief Financial and Administrative Officer, Treasurer and Assistant Secretary (Principal Financial and Accounting Officer)