



**Corporate Governance Guidelines  
For  
Evolving Systems, Inc.**



## I. Introduction

The Board of Directors of Evolving Systems, Inc. (the “Company”), acting on the recommendation of its Nominating and Corporate Governance Committee, has developed and adopted a set of corporate governance principles (the “Guidelines”) to promote the functioning of the Board and its committees and to set forth a common set of expectations as to how the Board should perform its functions.

## II. Board Composition

The composition of the Board should balance the following goals:

- **Board Size.** The size of the Board should facilitate substantive discussions of the whole Board in which each director can participate meaningfully. The Board currently believes that 7-9 is an appropriate size based upon the Company’s current circumstances. The Board will periodically evaluate whether a larger or smaller slate of directors would be preferable.
- **Board Membership Criteria.** The Nominating and Corporate Governance Committee works with the Board on an annual basis to determine the appropriate characteristics, skills and experience for the Board as a whole and its individual members. The Board has established, through the Nominating and Corporate Governance Committee, selection criteria that identify desirable skills and experience for prospective Board members and address the issue of diversity and background. In evaluating the suitability of individual members, the Board takes into account many factors relative to the success of a small publicly-traded company in today’s business environment. Directors should have demonstrated the ability to exercise sound business judgment and independence, and be willing to devote sufficient time to fulfill their responsibilities to the Company and its stockholders. In determining whether to recommend a director for re-election, the Nominating and Corporate Governance Committee also considers the director’s past attendance at meetings and participation in and contributions to the activities of the Board.
- **Independence.** A majority of the Board shall consist of directors who are neither officers nor employees of the Company or its subsidiaries (and have not been officers or employees within the previous three years), do not have a relationship which, in the opinion of the Board, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director, and who are otherwise “independent” under the rules of The Nasdaq Stock Market, Inc. (the “Nasdaq Stock Market”).

## III. Term or Age Limits

The Board does not believe it should establish term or age limits for Board members. While such limits could help insure that there are fresh ideas and viewpoints available to the Board, they hold the disadvantage of losing the contribution of directors who have been able to develop, over a period of time, increasing insight into the Company and its operations and, therefore, provide an increasing contribution to the Board as a whole. As an alternative to age limits, the Nominating Committee will review each director’s continuation on the Board prior to re-nomination for an additional term.

#### **IV. Selection of Chairman of the Board and Chief Executive Officer**

The Board is free to select its Chairman and the Company's Chief Executive Officer in the manner it considers in the best interests of the Company and its stockholders at any given point in time. These positions may be filled by one individual or by two different individuals.

#### **V. Selection of Directors**

- **Nominations.** The Nominating and Corporate Governance Committee is responsible for recommending, for the Board's selection, the slate of director nominees for election to the Company's Board of Directors and for filling vacancies occurring between annual meetings of stockholders.
- **Invitation.** The invitation to join the Board should be extended by the Board itself, via the Chairman of the Board of the Company, when deemed appropriate.

#### **VI. Directors with Significant Job Changes That May Cause a Conflict of Interest**

The Board believes that any director who materially changes his or her position where such change could result in a potential conflict of interest (such as becoming employed with one of the Company's customers), should tender resignation to the Board. The Board, and specifically the Nominating and Corporate Governance Committee, would then evaluate whether the Board should accept the resignation based on a review of whether the individual continues to satisfy the Board's membership criteria in light of his or her new occupational status.

#### **VII. Board Meetings**

The Board currently plans at least four meetings each year at which it reviews and discusses reports by Management on the performance of the Company, its plans and prospects, as well as immediate issues facing the Company. Additional meetings may occur (or action may be taken by unanimous consent) at the discretion of the Board. The meetings will usually consist of select committee meetings (such as an Audit Committee meeting) and the Board meeting.

The agenda for each meeting will be prepared by the Company's Secretary, taking into account suggestions from Management and members of the Board. Management will seek to provide to all directors an agenda and appropriate materials in advance of meetings, although the Board recognizes that this will not always be consistent with the timing of transactions and the operations of the business and that in certain cases it may not be possible.

#### **VIII. Executive Sessions**

To ensure free and open discussion and communication among the independent directors of the Board, the independent directors will have at least two regularly scheduled executive sessions each year, and more frequently as necessary or desirable. These meetings will usually be held in conjunction with regularly scheduled meetings of the Board, at which only independent directors are present. The independent directors may designate the director who will preside at the executive sessions. These executive session discussions may include such topics as the independent directors determine.

#### **IX. Assessing the Board's Performance**

The Board believes it is appropriate to evaluate Board and Committee performance on an annual basis with a focus on the overall performance of the Board and the Committees and not necessarily individual Board or Committee member performance.

## X. The Committees of the Board

The Company shall have at least the committees required by the Nasdaq Stock Market. Currently the Board has an Audit Committee, a Compensation Committee and a nominations committee, which in our Company is called the Nominating and Corporate Governance Committee. Each of these three committees must have a written charter satisfying the rules of the Nasdaq Stock Market. The Audit Committee must also satisfy the requirements of SEC Rule 10A-3. Copies of the charters are published on the Company's website. The charters set forth the purposes, goals and responsibilities of the committees as well as qualifications for membership. The Board may, from time to time, establish or maintain additional committees as necessary or appropriate. Committee duties may be described briefly as follows:

- **Audit Committee.** The Audit Committee is directly responsible for the appointment, compensation, retention and oversight of the Company's independent auditors.
- **Compensation Committee.** The Compensation Committee stays informed about market levels of compensation and recommends compensation levels and systems to the Board. Compensation of the Chief Executive Officer will be determined by the Compensation Committee or by a majority of the independent directors.
- **Nominating and Corporate Governance Committee.** This Committee is responsible for recommending to the Board individuals to be nominated as directors. The Committee evaluates new candidates and current directors. It also assists the Board with a variety of corporate governance matters.

The chairperson of each committee is responsible for developing, together with relevant Company managers, the committee's general agenda and objectives and for setting the specific agenda for committee meetings. All directors, whether members of a committee or not, are invited to make suggestions to a committee chairperson for additions to the agenda of his or her committee or to request that an item from a committee agenda be considered by the Board. The chairperson and committee members will determine the frequency and length of committee meetings consistent with the committee's charter. Each committee chairperson will give a periodic report of his or her committee's activities to the Board.

Except as permitted by Nasdaq Rule 435(c), each of the Nominating and Corporate Governance Committee, the Audit Committee and the Compensation Committee shall be composed of directors who are not officers or employees of the Company or its subsidiaries (and have not been officers or employees within the previous three years), who do not have relationships which, in the opinion of the Board, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director, and who are otherwise "independent" under the rules of the Nasdaq Stock Market. As of the date of the adoption of these Guidelines, all of the members of each committee qualify as independent under the criteria established by the Nasdaq Stock Market. A director may serve on more than one committee for which he or she qualifies.

## XI. Succession Planning

At least annually, the Compensation Committee works with the CEO to plan for CEO succession, both in an emergency situation and in the ordinary course of business. The succession plan should include an assessment of the experience, performance, skills and planned career paths for possible successors to the CEO. The Compensation Committee will report its plans to the Board. Succession planning may be reviewed more frequently by the Compensation Committee or the Board as they deem warranted.

## XII. Executive Compensation

- **Evaluating and Approving Salary for the CEO.** The Compensation Committee leads the independent directors in evaluating the performance of the CEO at least annually. The independent directors, upon advice or with the assistance of the Compensation Committee, determine the compensation level of the CEO.

- **Evaluating and Approving the Compensation of Management.** The Compensation Committee, comprised solely of the independent directors, evaluates and determines overall compensation policies applicable to, and compensation for, executive officers.

### **XIII. Board Compensation**

The Board believes that compensation for non-management directors should be competitive. Company management should report to the Board on an annual basis as to how the Company's director compensation practices compare with those of other similarly situated companies. The form and amount of director compensation will be recommended to the Board by the Nominating and Corporate Governance Committee. Management directors serving on the Board will not receive any additional compensation for their service as directors.

### **XIV. Expectations for Directors**

The business and affairs of the Company shall be managed by or under the direction of the Board in accordance with Delaware law. In performing their duties, the primary responsibility of the directors is to exercise their business judgment in the best interests of the Company. The Board has developed a number of expectations of directors to promote the discharge of this responsibility and the efficient conduct of the Board's business.

- **Commitment and Attendance.** All independent and management directors should make every effort to attend meetings of the Board and meetings of committees of which they are members. Members may attend by telephone to mitigate conflicts.
- **Participation in Meetings.** Each director should be sufficiently familiar with the business of the Company, including its financial statements and capital structure, and the risks and competition it faces to facilitate active and effective participation in the deliberations of the Board and each committee on which he or she serves. Upon request, Management will make appropriate personnel available to answer any questions a director may have about any aspect of the Company's business. Directors should also review the materials provided by Management and advisors in advance of the meetings of the Board and its committees and should arrive prepared to discuss the issues presented.
- **Loyalty and Ethics.** In their roles as directors, all directors owe a duty of loyalty to the Company. This duty of loyalty requires that the best interests of the Company take precedence over any interests possessed by the director.

The Company has adopted a Code of Business Conduct. Certain portions of the Code deal with activities of directors, particularly with respect to transactions in the securities of the Company, potential conflicts of interest, the taking of corporate opportunities for personal use, and competing with the Company. Directors should be familiar with the Code's provisions in these areas and should consult with the Company's counsel in the event of any issues.

- **Other Directorships.** The Company values the experience directors bring from other boards on which they serve, but recognizes that those boards may also present conflicts or legal issues. Directors should advise the Chairperson of the Nominating and Corporate Governance Committee and the Chairman of the Board before accepting membership on other boards of directors or other significant commitments involving affiliation with other businesses or governmental units where such commitments have the potential for a conflict of interest.
- **Contact with Management.** All directors are invited to contact the CEO at any time to discuss any aspect of the Company's business. Directors also have complete access to other members of Management. The Board expects that there will be frequent opportunities for directors to meet with the CEO and other members of Management in Board and committee meetings and in other formal or informal settings.

- **Board Interaction with Stockholders, Employees, the Press and Customers.** The Board believes that in most instances, Management should speak for the Company. However, persons desiring to communicate with the non-management members of the Board may do so by calling the anonymous hotline (in the case of employees) or sending a letter to the Company's Secretary addressed to the director. Such communication may be confidential and/or anonymous if desired.
- **Confidentiality.** The proceedings and deliberations of the Board and its committees are confidential. Each director is expected to maintain the confidentiality of information received in connection with his or her service as a director, unless the Board determines that such information should be publicly disseminated.

#### **XV. Access to Independent Advisors**

The Board and its committees have the authority to hire independent legal, financial or other consultants and advisors as they deem necessary, without consulting or obtaining the approval of any officer of the Company in advance.

#### **XVI. Ownership of Company Stock**

The Board strongly recommends that members of the Board of Directors, as well as Executive Officers of the Company, own stock in the Company within one year of becoming a Director or Executive Officer of the Company.

#### **XVII. Modifications to Corporate Governance Guidelines**

The operation of a Board of Directors is a dynamic and evolving process and so these Corporate Governance Guidelines need also to be periodically reviewed and revised. While no guidelines can cover each and every issue that may surface, we believe these principles set the proper tone for the operation of the Evolving Systems board and will assist us in fulfilling our obligations to the diverse group of Evolving Systems owners and other stakeholders.

Adopted July 27, 2004.