EVOLVING SYSTEMS INC
Form 10-Q
August 12, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2011

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

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

Large accelerated filer o	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company x

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

As of August 5, 2011 there were 10,862,988 shares outstanding of Registrant s Common Stock (par value $0.001 per share).

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EVOLVING SYSTEMS, INC.

Quarterly Report on Form 10-Q

June 30, 2011

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

EVOLVING SYSTEMS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands except share data)

(unaudited)

	June 30, 2011	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 16,269	$ 10,801
Contract receivables, net of allowance for doubtful accounts of $22 and $520 at June 30, 2011 and December 31, 2010, respectively	2,979	5,502
Unbilled work-in-progress	1,452	1,519
Deferred income taxes	13,716	
Prepaid and other current assets	1,105	1,251
Current assets of discontinued operations	1,738	7,374
Total current assets	37,259	26,447
Property and equipment, net	530	625
Amortizable intangible assets, net	807	1,123
Goodwill	16,359	15,797
Long-term restricted cash	53	50
Long-term deferred income taxes	2,372	
Other long-term assets	1	2
Long-term assets of discontinued operations	6,649	6,407
Total assets	$ 64,030	$ 50,451
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Current portion of capital lease obligations	$ 22	$ 13
Accounts payable and accrued liabilities	4,283	3,586
Dividends payable	548	532
Deferred income taxes	23	21
Unearned revenue	1,518	2,863
Current liabilities of discontinued operations	5,708	7,620
Total current liabilities	12,102	14,635
Long-term liabilities:		
Capital lease obligations, net of current portion		4
Deferred income taxes		51
Long-term liabilities of discontinued operations		4
Total liabilities	12,102	14,694

Commitments and contingencies (Note 11)				
Stockholders equity:				
Preferred stock, $0.001 par value; 2,000,000 shares authorized; no shares issued and outstanding as of June 30, 2011 and December 31, 2010				
Common stock, $0.001 par value; 40,000,000 shares authorized; 11,006,977 shares issued and 10,884,926 outstanding as of June 30, 2011 and 10,651,431 shares issued and outstanding as of December 31, 2010		11		11
Additional paid-in capital		88,560		87,435
Treasury stock, 122,051, and shares as of June 30, 2011 and December 31, 2010, respectively, at cost		(849)		
Accumulated other comprehensive loss		(2,968)		(3,704)
Accumulated deficit		(32,826)		(47,985)
Total stockholders equity		51,928		35,757
Total liabilities and stockholders equity	$	64,030	$	50,451

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

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EVOLVING SYSTEMS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands except per share data)

(unaudited)

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
REVENUE				
License fees and services	$ 2,053	$ 4,070	$ 5,258	$ 8,265
Customer support	2,392	1,918	4,641	3,877
Total revenue	4,445	5,988	9,899	12,142
COSTS OF REVENUE AND OPERATING EXPENSES				
Costs of license fees and services, excluding depreciation and amortization	1,193	1,454	2,427	3,137
Costs of customer support, excluding depreciation and amortization	733	594	1,419	1,268
Sales and marketing	1,458	1,618	3,309	3,328
General and administrative	858	1,212	1,960	2,441
Product development	555	660	1,234	1,209
Depreciation	67	81	133	158
Amortization	181	166	359	340
Restructuring	569		569	
Total costs of revenue and operating expenses	5,614	5,785	11,410	11,881
Income (loss) from operations	(1,169)	203	(1,511)	261
Other income (expense)				
Interest income	6	1	14	4
Interest expense	(1)	(22)	(13)	(61)
Foreign currency exchange gain (loss)	7	(107)	117	(149)
Other income (expense), net	12	(128)	118	(206)
Income (loss) from continuing operations before income taxes	(1,157)	75	(1,393)	55
Income tax expense (benefit)	(2,008)	8	(2,100)	6
Income from continuing operations	851	67	707	49
Income from discontinued operations, net of tax	14,461	1,375	15,538	2,565
Net income	$ 15,312	$ 1,442	$ 16,245	$ 2,614
Basic income per common share - continuing operations	$ 0.08	$ 0.01	$ 0.07	$ 0.00
Diluted income per common share - continuing operations	$ 0.08	$ 0.01	$ 0.06	$ 0.00
Basic income per common share - discontinued operations	$ 1.33	$ 0.14	$ 1.44	$ 0.26

Diluted income per common share - discontinued operations	$	1.29	$	0.13	$	1.39	$	0.24
Basic income per common share - net income	$	1.41	$	0.14	$	1.51	$	0.26
Diluted income per common share - net income	$	1.37	$	0.13	$	1.45	$	0.24
Cash dividend declared per common share	$	0.05	$	0.05	$	0.10	$	0.05
Weighted average basic shares outstanding		10,833		10,050		10,793		10,022
Weighted average diluted shares outstanding		11,201		10,753		11,212		10,673

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

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EVOLVING SYSTEMS, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY AND COMPREHENSIVE INCOME (LOSS)

(in thousands, except share data)

(unaudited)

	Common Stock Shares	Amount	Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders Equity
Balance at December 31, 2010	**10,651,431**	**$ 11**	**$ 87,435**	**$**	**$ (3,704)**	**$ (47,985)**	**$ 35,757**
Stock option exercises	349,299		767				767
Common Stock issued pursuant to the Employee Stock Purchase Plan	2,653		17				17
Stock-based compensation expense			341				341
Restricted stock issuance, net of cancellations	3,594						
Treasury stock	(122,051)			(849)			(849)
Common stock cash dividends						(1,086)	(1,086)
Comprehensive income:							
Net income						16,245	
Foreign currency translation adjustment					736		
Comprehensive income							16,981
Balance at June 30, 2011	**10,884,926**	**$ 11**	**$ 88,560**	**$ (849)**	**$ (2,968)**	**$ (32,826)**	**$ 51,928**

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)

	Six Months Ended June 30, 2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 16,245	$ 2,614
Less: Income from discontinued operations	15,538	2,565
Income from continuing operations	707	49
Adjustments to reconcile net income from continuing operations to net cash provided by operating activities:		
Depreciation	133	158
Amortization of intangible assets	359	340
Amortization of debt issuance costs	11	45
Stock-based compensation	322	479
Unrealized foreign currency transaction (gains) and losses, net	(117)	149
Benefit from deferred income taxes	(2,581)	(125)
Change in operating assets and liabilities:		
Contract receivables	2,787	700
Unbilled work-in-progress	131	(1,694)
Prepaid and other assets	160	330
Accounts payable and accrued liabilities	643	271
Unearned revenue	(1,454)	(1,354)
Net cash provided by (used in) operating activities of continuing operations	1,101	(652)
Net cash provided by operating activities of discontinued operations	5,864	6,088
Net cash provided by operating activities	6,965	5,436
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(58)	(259)
Restricted cash	(3)	
Net cash used in investing activities of continuing operations	(61)	(259)
Net cash used in investing activities of discontinued operations	(345)	(40)
Net cash used in investing activities	(406)	(299)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Capital lease payments	(6)	(6)
Principal payments on long-term debt		(1,811)
Common stock cash dividends	(1,070)	
Purchase of treasury stock	(849)	
Proceeds from the issuance of stock	784	590
Net cash used in financing activities of continuing operations	(1,141)	(1,227)
Net cash used in financing activities of discontinued operations	(4)	(5)
Net cash used in financing activities	(1,145)	(1,232)
Effect of exchange rate changes on cash	54	(100)
Net increase in cash and cash equivalents	5,468	3,805
Cash and cash equivalents at beginning of period	10,801	5,369

Cash and cash equivalents at end of period	$	16,269	$	9,174
Supplemental disclosure of other cash and non-cash financing transactions:				
Interest paid	$	2	$	18
Income taxes paid		89		17
Common stock cash dividend declared		548		502
Property and equipment purchased and included in accounts payable		11		

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

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EVOLVING SYSTEMS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 BASIS OF PRESENTATION

Organization - We are a provider of software solutions and services to the wireless, wireline and cable markets. We maintain long-standing relationships with many of the largest wireless, wireline and cable companies 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 focused on activation and provisioning: our service activation solution, *TertioTM* (TSA) used to activate complex bundles of voice, video and data services for traditional and next generation wireless and wireline networks; our SIM card activation solution, *Dynamic SIM Allocation TM* (DSA) used to dynamically allocate and assign resources to wireless devices that rely on SIM cards, and our connected devices activation solution, *Intelligent M2M Controller* that support the activation of M2M devices with intermittent or infrequent usage patterns.

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 six months ended June 30, 2011 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, 2010 included in our Annual Report on Form 10-K.

Discontinued Operations - On April 21, 2011, we announced the execution of an Asset Purchase Agreement, dated as of April 21, 2011 (the Purchase Agreement), with NeuStar, Inc., a Delaware corporation (the Buyer). Under the terms of the Purchase Agreement, we agreed to sell our Numbering Solutions Business (the Numbering Business) to the Buyer for $39 million in cash, subject to increase or decrease in accordance with a post-closing working capital adjustment and the assumption of certain liabilities related to the Numbering Business (the Asset Sale). The Asset Sale qualified for treatment as discontinued operations during the second quarter of 2011 upon receipt of shareholder approval at a special meeting of shareholders on June 23, 2011. On July 1, 2011, we completed the Asset Sale of the Numbering Business. This divested business is reflected in these consolidated financial statements as discontinued operations and historical information related to the divested business has been reclassified accordingly. Refer to Note 8, Discontinued Operations, for more information regarding the Asset Sale.

Use of Estimates - The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, at the date of the 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 - 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 consolidated statements of operations in the period in which they occur.

Principles of Consolidation - The consolidated financial statements include the accounts of Evolving Systems, Inc. and subsidiaries, all of which are wholly owned. All significant intercompany transactions and balances have been eliminated in

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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. Goodwill recorded in conjunction with our purchases of CMS Communications, Inc. (CMS) and Telecom Software Enterprises, LLC (TSE) were sold as part of the Asset Sale of our Numbering Business and the related U.S. customer support goodwill was classified as long-term assets of discontinued operations in the June 30, 2011 and December 31, 2010 Condensed Consolidated Balance Sheets.

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

We assess the impairment of identifiable intangibles if events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. Factors that we consider significant which could trigger an impairment analysis include 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 one or more of the above 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 recognize an impairment loss representing the excess of the asset s carrying value over its estimated fair value.

Intangible assets acquired in conjunction with our purchases of TSE and CMS were fully amortized as of December 31, 2009 and were part of the Asset Sale of our Numbering Business.

Fair Value of Financial Instruments - The carrying amounts for certain financial instruments, including cash and cash equivalents, contract receivables and accounts payable, approximate fair value due to their short maturities.

Revenue Recognition - We recognize revenue when an agreement is signed, the fee is fixed or determinable and collectability is reasonably assured. We recognize revenue from two primary sources: license fees and services, and customer support. 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. When the customization 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 these types of arrangements, we do not typically have vendor specific objective evidence (VSOE) of fair value on the license fee/services portion (services are related to customizing the software) of the arrangement due to the large amount of customization required by our customers; however, we do have VSOE for the warranty/maintenance services based on the renewal rate of the first year of maintenance in the arrangement. The license/services portion is recognized using the percentage-of-completion method of accounting and the warranty/maintenance services are separated based on the renewal rate in the contract and recognized ratably over the warranty or maintenance period. We estimate the percentage-of-completion for each contract based on the ratio of direct labor hours incurred to total estimated direct labor hours and recognize revenue based on the percent complete multiplied by the contract amount allocated to the license fee/services. Since estimated direct labor hours, and changes thereto, can have a significant impact on revenue recognition, these estimates are critical and we review them regularly. If the arrangement includes a customer acceptance provision, the hours to complete the acceptance testing are included in the total estimated direct labor hours; therefore, the related revenue is recognized as the acceptance testing is performed. Revenue is not recognized in full until the customer has provided proof of acceptance on the arrangement. Generally, our contracts are accounted for individually. However, when certain criteria are met, it may be necessary to account for two or more contracts as one to reflect the substance of the group of contracts. We record amounts billed in advance of services being performed 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. We make adjustments to cost estimates in the period in which the facts requiring such revisions become known. We record estimated losses, if any, in the period in which current estimates of total contract revenue and contract costs indicate a loss. If revisions to cost estimates are

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obtained after the balance sheet date but before the issuance of the interim or annual financial statements, we make adjustments to the interim or annual financial statements accordingly.

In arrangements where the services are not essential to the functionality of the delivered software, we recognize license revenue when a license agreement has been signed, delivery and acceptance have occurred, the fee is fixed or determinable and collectability is reasonably assured. Where applicable, we unbundle and record as revenue fees from multiple element arrangements as the elements are delivered to the extent that VSOE of fair value of the undelivered elements exist. If VSOE for the undelivered elements does not exist, we defer fees from such arrangements until the earlier of the date that VSOE does exist on the undelivered elements or all of the elements have been delivered.

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

We recognize customer support, including maintenance revenue, ratably over the service contract period. When maintenance is bundled with the original 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 by applying a fair-value-based measurement method to account for share-based payment transactions with employees and directors. We record compensation costs associated with the vesting of unvested options on a straight-line basis over the vesting period. Stock-based compensation is a non-cash expense because we settle these obligations by issuing shares of our common stock instead of settling such obligations with cash payments. We use the Black-Scholes model to estimate the fair value of each option grant on the date of grant. This model requires the use of estimates for expected term of the options and expected volatility of the price of our common stock.

Income Taxes - We record deferred tax assets and liabilities for the estimated future tax effects of temporary differences between the tax bases of assets and liabilities and amounts reported in the accompanying consolidated balance sheets, as well as operating loss and tax credit carry-forwards. We measure deferred tax assets and liabilities using enacted tax rates expected to be applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. We reduce deferred tax assets by a valuation allowance if, based on available evidence, it is more likely than not that these benefits will not be realized.

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

As of June 30, 2011 and December 31, 2010, we had no liability for unrecognized tax benefits. We do not believe there will be any material changes to our unrecognized tax positions over the next twelve months.

Recent Accounting Pronouncements - In June 2011, the Financial Accounting Standards Board issued guidance on presentation of comprehensive income. The new guidance eliminates the current option to report other comprehensive income and its components in the statement of changes in equity. Instead, an entity will be required to present either a continuous statement of net income and other comprehensive income or in two separate but consecutive statements. The new guidance will be effective for us beginning March 31, 2012 and will have presentation changes only.

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			
	US	**UK**	**US**	**UK**	**Disc. Operations**	**Total Goodwill**
Balance as of December 31, 2010	$	$ 7,066	$ 6,033	$ 8,731	$ (6,033)	$ 15,797
Additions			325		(325)	
Effects of changes in foreign currency exchange rates		251		311		562
Balance as of June 30, 2011	$	$ 7,317	$ 6,358	$ 9,042	$ (6,358)	$ 16,359

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On April 19, 2011, we entered into an agreement with Lisa Marie Maxson and Peter McGuire (collectively, the TSE Sellers) to amend certain terms and conditions of the Acquisition Agreement entered into by and among the parties on October 15, 2004 (TSE Acquisition Agreement), in which we acquired all of the issued and outstanding ownership interests of the TSE Sellers in TSE. Under the terms of TSE Acquisition Agreement, the TSE Sellers were entitled to payment of up to $1 million (NPAC Deferred Payment) if we entered into certain dispositions or restrictions relative to the TSE software product referred to in the Acquisition Agreement as the NPAC SMS Simulator. The Asset Sale included certain assets of ours including the NPAC SMS Simulator. All U.S. customer support goodwill is associated with TSE and CMS and is classified as long-term assets of discontinued operations in the June 30, 2011 and December 31, 2010 Condensed Consolidated Balance Sheets.

Under the terms of the agreement we agreed to pay the TSE Sellers $325,000 on or before May 2, 2011 and $325,000 upon closing of the Asset Sale.

We conducted our annual goodwill impairment test as of July 31, 2010, and we determined that goodwill was not impaired as of the test date. From July 31, 2010 through June 30, 2011, no events have occurred that we believe may have impaired goodwill.

We amortized identifiable intangible assets 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 June 30, 2011 and December 31, 2010, identifiable intangibles were as follows (in thousands):

	June 30, 2011			December 31, 2010			
	(1) Gross Amount	**Accumulated Amortization**	**Net Carrying Amount**	**(1) Gross Amount**	**Accumulated Amortization**	**Net Carrying Amount**	**Weighted-Average Amortization Period**
Purchased software	$ 1,721	$ 1,721	$	$ 1,672	$ 1,534	$ 138	4.6 yrs
Purchased licenses	227	227		227	227		2.3 yrs
Trademarks and tradenames	719	513	206	694	446	248	7.0 yrs
Business partnerships	117	117		113	102	11	5.0 yrs
Customer relationships	3,189	2,588	601	3,117	2,391	726	5.3 yrs
	$ 5,973	$ 5,166	$ 807	$ 5,823	$ 4,700	$ 1,123	5.2 yrs

(1) Changes in intangible gross values as of June 30, 2011 compared to December 31, 2010 are the direct result of changes in foreign currency exchange rates for the periods then ended.

Amortization expense of identifiable intangible assets was $0.2 million for the three months ended June 30, 2011 and 2010, and $0.4 million and $0.3 million for the six months ended June 30, 2011 and 2010, respectively. As Evolving Systems U.K. uses the British Pound Sterling 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 June 30, 2011 was as follows (in thousands):

Twelve Months Ending June 30:	
2012	$ 404

2013		403
	$	807

NOTE 3 EARNINGS PER COMMON SHARE

We compute basic earnings per share (EPS) 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. We compute diluted EPS 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.

Our policy is to treat unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents, whether paid or unpaid, as participating securities, included in the computation of both basic and diluted earnings per share.

The following is the reconciliation of the denominator of the basic and diluted EPS computations (in thousands, except per share data):

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	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Basic income per share:				
Income from continuing operations	$ 851	$ 67	$ 707	$ 49
Income from discontinued operations, net of tax	$ 14,461	$ 1,375	$ 15,538	$ 2,565
Net income	$ 15,312	$ 1,442	$ 16,245	$ 2,614
Basic weighted average shares outstanding	10,833	10,050	10,793	10,022