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, 2012

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 companyx

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 August 1, 2012 there were 11,289,122 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, 2012

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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, 2012		December 31, 2011
ASSETS			
Current assets:			
Cash and cash equivalents	$	10,035	$ 34,290
Short-term restricted cash		52	50
Contract receivables, net of allowance for doubtful accounts of $22 and $52 at June 30, 2012 and December 31, 2011, respectively		5,161	4,540
Unbilled work-in-progress		2,890	1,361
Prepaid and other current assets		1,114	1,259
Interest receivable, long-term investments, related parties			357
Total current assets		19,252	41,857
Long-term investments, related party			16,448
Property and equipment, net		280	369
Amortizable intangible assets, net		393	584
Goodwill		15,947	15,782
Long-term restricted cash			2
Total assets	$	35,872	$ 75,042
LIABILITIES AND STOCKHOLDERS EQUITY			
Current liabilities:			
Current portion of capital lease obligations	$	4	$ 8
Accounts payable and accrued liabilities		3,944	3,657
Income taxes payable		359	848
Dividends payable			22,271
Unearned revenue		2,411	3,401
Total current liabilities		6,718	30,185
Long-term liabilities:			
Capital lease obligations, net of current portion		18	
Deferred income taxes		387	145
Total liabilities		7,123	30,330
Commitments and contingencies (Note 10)			
Stockholders equity:			
Preferred stock, $0.001 par value; 2,000,000 shares authorized; no shares issued and outstanding as of June 30, 2012 and December 31, 2011			

Common stock, $0.001 par value; 40,000,000 shares authorized; 11,465,462 shares issued and 11,286,573 outstanding as of June 30, 2012 and 11,314,493 shares issued and 11,135,604 outstanding as of December 31, 2011		11		11
Additional paid-in capital		90,553		90,062
Treasury stock 178,889 shares as of June 30, 2012 and December 31, 2011, at cost		(1,253)		(1,253)
Accumulated other comprehensive loss		(4,148)		(4,247)
Unrealized losses on investments, related parties, net of tax				(284)
Accumulated deficit		(56,414)		(39,577)
Total stockholders equity		28,749		44,712
Total liabilities and stockholders equity	$	35,872	$	75,042

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)

	For the Three Months Ended June 30, 2012	For the Three Months Ended June 30, 2011	For the Six Months Ended June 30, 2012	For the Six Months Ended June 30, 2011
REVENUE				
License fees and services	$ 4,507	$ 2,053	$ 8,291	$ 5,195
Customer support	2,147	2,391	4,271	4,640
Total revenue	6,654	4,444	12,562	9,835
COSTS OF REVENUE AND OPERATING EXPENSES				
Costs of license fees and services, excluding depreciation and amortization	1,524	1,193	3,342	2,427
Costs of customer support, excluding depreciation and amortization	387	733	747	1,419
Sales and marketing	1,223	1,458	2,564	3,309
General and administrative	994	858	1,907	1,960
Product development	778	555	1,507	1,234
Depreciation	79	87	152	175
Amortization	100	181	199	359
Restructuring and other recovery		569		569
Total costs of revenue and operating expenses	5,085	5,634	10,418	11,452
Income (loss) from operations	1,569	(1,190)	2,144	(1,617)
Other income (expense)				
Interest income	29	6	50	14
Interest income, related party	100		532	
Interest expense		(1)	(1)	(13)
Gain on sale of investments	891		891	
Foreign currency exchange gain (loss)	46	7	(50)	117
Other income (expense), net	1,066	12	1,422	118
Income (loss) from continuing operations before income taxes	2,635	(1,178)	3,566	(1,499)
Income tax expense (benefit)	504	(125)	678	(217)
Income (loss) from continuing operations	$ 2,131	$ (1,053)	$ 2,888	$ (1,282)
Income from discontinued operations, net of tax		12,470		13,632
Net income	$ 2,131	$ 11,417	$ 2,888	$ 12,350
Basic income (loss) per common share - continuing operations	$ 0.19	$ (0.10)	$ 0.26	$ (0.12)
Diluted income (loss) per common share - continuing operations	$ 0.19	$ (0.10)	$ 0.25	$ (0.12)
	$	$ 1.15	$	$ 1.26

Basic income per common share - discontinued operations								
Diluted income per common share - discontinued operations	$		$	1.11	$		$	1.22
Basic income per common share - net income	$	0.19	$	1.05	$	0.26	$	1.14
Diluted income per common share - net income	$	0.19	$	1.02	$	0.25	$	1.10
Cash dividend declared per common share	$	1.70	$	0.05	$	1.75	$	0.10
Weighted average basic shares outstanding		11,261		10,833		11,213		10,793
Weighted average diluted shares outstanding		11,511		11,201		11,440		11,212

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

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EVOLVING SYSTEMS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME

(in thousands except per share data)

(unaudited)

	For the Three Months Ended June 30, 2012	For the Three Months Ended June 30, 2011	For the Six Months Ended June 30, 2012	For the Six Months Ended June 30, 2011
Net income	$ 2,131	$ 11,417	$ 2,888	$ 12,350
Other comprehensive income:				
Foreign currency translation gain (loss)	(683)	746	99	736
Unrealized gains on available-for-sale securities				
Unrealized holding gain (loss) arising during period	(319)		453	
Other comprehensive income, before tax	(1,002)	746	552	736
Income tax benefit (expense) related to components of other comprehensive income	120		(169)	
Other comprehensive income, net of tax	(882)	746	383	736
Comprehensive income	$ 1,249	$ 12,163	$ 3,271	$ 13,086

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

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EVOLVING SYSTEMS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

(in thousands, except share data)

(unaudited)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Accumulated (Deficit)	Total Stockholders Equity
Balance at December 31, 2011	**11,135,604**	**$ 11**	**$ 90,062**	**$ (1,253)**	**$ (4,531)**	**$ (39,577)**	**$ 44,712**
Stock option exercises	152,206		349				349
Common Stock issued pursuant to the Employee Stock Purchase Plan	637		3				3
Stock-based compensation expense			139				139
Restricted stock issuance, net of cancellations	(1,874)						
Common stock cash dividends						(19,725)	(19,725)
Comprehensive income (loss):							
Net income						2,888	
Net unrealized losses on investments, related party, net of tax					284		
Foreign currency translation adjustment					99		
Comprehensive income							3,271
Balance at June 30, 2012	**11,286,573**	**$ 11**	**$ 90,553**	**$ (1,253)**	**$ (4,148)**	**$ (56,414)**	**$ 28,749**

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

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EVOLVING SYSTEMS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	For the Six Months Ended June 30, 2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 2,888	$ 12,350
Income from discontinued operations		13,632
Income (loss) from continuing operations	2,888	(1,282)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	152	175
Amortization of intangible assets	199	359
Amortization of debt issuance costs		11
Stock based compensation	139	322
Accretion of discount on marketable securities	(6)	
Gain on sale of marketable securities	(891)	
Unrealized foreign currency transaction (gains) and losses, net	50	(117)
Provision for (recovery of) bad debt	187	
(Benefit) expense from deferred income taxes	71	(821)
Change in operating assets and liabilities:		
Contract receivables	(585)	2,787
Unbilled work-in-progress	(1,711)	131
Prepaid and other assets	466	160
Accounts payable and accrued liabilities	(190)	643
Unearned revenue	(1,009)	(1,454)
Net cash (used in) provided by operating activities of continuing operations	(240)	914
Net cash provided by operating activities of discontinued operations		6,051
Net cash (used in) provided by operating activities	(240)	6,965
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(57)	(58)
Proceeds from sale of marketable securities, related party	17,831	
Restricted cash		(3)
Net cash provided by (used in) investing activities of continuing operations	17,774	(61)
Net cash used in investing activities of discontinued operations		(345)
Net cash provided by (used in) investing activities	17,774	(406)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Capital lease payments	(12)	(6)
Common stock cash dividends	(41,997)	(1,070)
Purchase of treasury stock		(849)
Proceeds from the issuance of stock	353	784
Net cash used in financing activities of continuing operations	(41,656)	(1,141)
Net cash used in financing activities of discontinued operations		(4)
Net cash used in financing activities	(41,656)	(1,145)
Effect of exchange rate changes on cash	(133)	54

Net (decrease) increase in cash and cash equivalents		(24,255)		5,468
Cash and cash equivalents at beginning of period		34,290		10,801
Cash and cash equivalents at end of period	$	10,035	$	16,269
Supplemental disclosure of other cash and non-cash financing transactions:				
Interest paid	$		$	2
Income taxes paid		693		89
Common stock dividend declared		19,725		548
Property and equipment purchased and included in accounts payable		5		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 network operators 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 three and six months ended June 30, 2012 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, 2011 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 $39.4 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. There was no post-closing working capital adjustment. 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 9, Discontinued Operations, for more information regarding the Asset Sale.

Revisions and Reclassifications We have changed the classification of revenue totaling approximately $1,000 from continuing operations to discontinued operations and depreciation expense of approximately $20,000 from discontinued operations to continuing operations for the three months ended June 30, 2011. Net income for the period remained at $11.4 million. There was no effect on earnings per share of continuing or discontinued operations for the three months ended June 30, 2011 as a result of the reclassifications. We have changed the classification of revenue totaling approximately $64,000 from continuing operations to discontinued operations and depreciation expense of approximately $42,000 from discontinued operations to continuing operations for the six months ended June 30, 2011. Net income for the period remained at

$12.4 million. Basic and diluted loss per common share - continuing operations declined from ($0.11) to ($0.12) as a result of the aforementioned reclassification for the six months ended June 30, 2011. Discontinued operations basic income per common share and diluted income per common share increased from $1.25 to $1.26 and $1.21 to $1.22, respectively, as a result of the aforementioned reclassification for the six months ended June 30, 2011.

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

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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 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. Application of the goodwill impairment test requires judgment, including the identification of reporting units, assignment of assets and liabilities to reporting units, assignment of goodwill to reporting units, and determination of the fair value of each reporting unit.

We performed our annual goodwill impairment test as of July 31, 2011, when we had $16.9 million of goodwill which included the following reporting units, License and Services (L&S) UK of $7.6 million and Customer Support (CS) UK of $9.3 million. The fair value of each reporting unit was estimated using both market and income based approaches. Specifically, we incorporated observed market valuation multiples data from selected guideline public companies and values arrived at through the application of discounted cash flow analyses which in turn were based upon our financial projections as of the valuation date. We believe that a market participant would weigh both possibilities without a bias to one or the other. Consequently, we gave equal consideration to both. This analysis requires significant judgments, including estimation of future cash flows, which is dependent on internal forecasts, estimation of the long-term rate of growth for our business, estimation of the useful life over which cash flows will occur, and determination of our weighted average cost of capital. Changes in these estimates and assumptions could materially affect the determination of fair value and goodwill impairment for each reporting unit. 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. If the projected future performance of either of our segments as estimated in the income valuation approach is adjusted downward or is lower than expected in the future, we could be required to record a goodwill impairment charge. As a result of the first step of the 2011 goodwill impairment analysis, the fair value of each reporting unit exceeded its carrying value. Therefore the second step was not necessary. A hypothetical 5% decrease in the estimated fair value of our CS-UK reporting unit still result in the estimated fair value exceeding its carrying value. However, a hypothetical 5% decrease in the estimated fair value of our L&S-UK reporting unit would result in its carrying value exceeding its estimated fair value and therefore require the second step, which could result in impairment for that reporting unit.

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 purchase of 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.

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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 Measurements Fair value is the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is estimated by applying the following hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Inputs that are generally unobservable and typically reflect management s estimate of assumptions that market participants would use in pricing the asset or liability.

The valuation techniques used to measure our marketable debt securities were derived from quoted prices in active markets for identical assets or liabilities.

Cash, Cash Equivalents and Marketable Securities - All highly liquid investments with maturities of three months or less at the date of purchase are classified as cash equivalents. Our marketable debt securities have been classified and accounted for as available-for-sale and are reported at fair value. Unrealized gains and losses related to changes in the fair value of securities are recognized in the accumulated other comprehensive income, net of tax in our consolidated balance sheets. Changes in the fair value of available-for-sale securities impact our net income only when such securities are sold or an other-than-temporary impairment is recognized. Realized gains and losses on the sale of securities are determined by specific identification of each security s cost basis. We review our marketable debt securities to determine if the securities are other-than-temporarily impaired, which would require us to record an impairment charge in the period any such determination is made. In making the judgment, we evaluate, among other things, the duration and extent to which the fair value of the securities are less than its cost, the financial condition of the issuer and any changes thereto, our intent to sell, or whether it is more likely than not we will be required to sell, the securities before recovery of the investment s amortized cost basis. Management s assessment on whether a security is other-than-temporarily impaired could change in the future due to new developments or changes in assumptions related to our security. Management determines the appropriate classification of its investments at the time of purchase and re-evaluates the available-for-sale designations as of each balance sheet date. We classify our marketable debt securities as either short-term or long-term based on each instrument s underlying contractual maturity date. Marketable debt securities with maturities of 12 months or less are classified as short-term and marketable debt securities with maturities greater than 12 months are classified as long-term.

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.

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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 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.

Comprehensive Income - Comprehensive income consists of two components, net income and other comprehensive income. Other comprehensive income refers to revenue, expenses, gains, and losses that under GAAP are recorded as an element of shareholders equity but are excluded from net income. Other comprehensive income consists of foreign currency translation adjustments from those subsidiaries not using the U.S. dollar as their functional currency and unrealized gains and losses on marketable securities categorized as available-for-sale.

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 condensed 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.

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 was effective for us beginning March 31, 2012 and resulted in presentation changes only.

In September 2011, the Financial Accounting Standards Board issued guidance on testing goodwill for impairment. The new guidance provides an entity the option to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If an entity determines that this is the case, it is required to perform the currently prescribed two-step goodwill impairment test to identify potential goodwill impairment and measure the amount of goodwill impairment loss to be recognized for that reporting unit (if any). If an entity determines that the fair value of a reporting unit is greater than its carrying amount, the two-step goodwill impairment test is not required. The new guidance will be effective for us beginning July 1, 2012.

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NOTE 2 FINANCIAL INSTRUMENTS

All highly liquid investments with maturities of three months or less at the date of purchase are classified as cash equivalents. Marketable debt securities have been classified and accounted for as available-for-sale. Management determines the appropriate classification of its investments at the time of purchase and reevaluates the available-for-sale designations as of each balance sheet date. We classify our marketable debt securities as either short-term or long-term based on each instrument s underlying contractual maturity date. Marketable debt securities with maturities of 12 months or less are classified as short-term and marketable debt securities with maturities greater than 12 months are classified as long-term.

As of April 23, 2012 the investments were sold for approximately $17.8 million and we realized a gain on sale of approximately $891,000.

NOTE 3 GOODWILL AND INTANGIBLE ASSETS

We recorded goodwill as a result of the acquisition of 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 UK	Customer Support UK	Total Goodwill
Balance as of December 31, 2011	$ 7,059	$ 8,723	$ 15,782
Effects of changes in foreign currency exchange rates	74	91	165
Balance as of June 30, 2012	$ 7,133	$ 8,814	$ 15,947

We conducted our annual goodwill impairment test as of July 31, 2011, and we determined that goodwill was not impaired as of the test date. From July 31, 2011 through the date of this report, 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, 2012 and December 31, 2011, identifiable intangibles were as follows (in thousands):

	June 30, 2012			December 31, 2011			
	(1) Gross Amount	Accumulated Amortization	Net Carrying Amount	(1) Gross Amount	Accumulated Amortization	Net Carrying Amount	Weighted-Average Amortization Period
Purchased software	$ 1,391	$ 1,391	$	$ 1,376	$ 1,376	$	4.6 yrs

Trademarks and tradenames		701		601		100		694		545		149	7.0 yrs
Business partnerships		114		114				113		113			5.0 yrs
Customer relationships		2,053		1,760		293		2,031		1,596		435	5.3 yrs
	$	4,259	$	3,866	$	393	$	4,214	$	3,630	$	584	5.2 yrs

(1) Changes in intangible gross values as of June 30, 2012 compared to December 31, 2011 are the direct result of the changes in foreign currency exchange rates for the periods then ended.

All U.S. intangible assets were sold as part of the Asset Sale. Amortization expense of identifiable intangible assets was $0.1 million and $0.2 million for the three months ended June 30, 2012 and 2011, and $0.2 million and $0.4 million for the six months ended June 30, 2012 and 2011, 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, 2012 was as follows (in thousands):

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For the Six Months Ended June 30,		
2012	$	236
2013		157
	$	393

NOTE 4 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):

	For the Three Months Ended June 30,				For the Six Months Ended June 30,			
	2012		2011		2012		2011	
Basic income (loss) per share:								
Income (loss) from continuing operations	$	2,131	$	(1,053)	$	2,888	$	(1,282)
Income from discontinued operations, net of tax	$		$	12,470	$		$	13,632
Net income	$	2,131	$	11,417	$	2,888	$	12,350
Basic weighted average shares outstanding		11,261		10,833		11,213		10,793
Basic income (loss) per share:								
Continuing operations	$	0.19	$	(0.10)	$	0.26	$	(0.12)
Discontinued operations	$		$	1.15	$		$	1.26
Net Income	$	0.19	$	1.05	$	0.26	$	1.14
Diluted income (loss) per share:								
Income (loss) from continuing operations	$	2,131	$	(1,053)	$	2,888	$	(1,282)
Income from discontinued operations, net of tax	$		$	12,470	$		$	13,632
Net income	$	2,131	$	11,417	$	2,888	$	12,350
Weighted average shares outstanding		11,261		10,833		11,213		10,793
Effect of dilutive securities - options		250		368		227		419
Diluted weighted average shares outstanding		11,511		11,201		11,440		11,212
Diluted income per share:								
Continuing operations	$	0.19	$	(0.10)	$	0.25	$	(0.12)
Discontinued operations	$		$	1.11	$		$	1.22
Net Income	$	0.19	$	1.02	$	0.25	$	1.10

For the three months ended June 30, 2012 and 2011, 0.2 million and 0.4 million shares, respectively, of common stock were excluded from the dilutive stock calculation because their exercise prices were greater than the average fair value of our common stock for the period.

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For the six months ended June 30, 2012 and 2011, 0.2 million and 0.3 million shares, respectively of common stock were excluded from the dilutive stock calculation because their exercise prices were greater than the average fair value of our common stock for the period.

NOTE 5 SHARE-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, and record compensation cost for all stock awards granted after January 1, 2006 and awards modified, repurchased, or cancelled after that date, using the modified prospective method. We record compensation costs associated with the vesting of unvested options on a straight-line basis over the vesting period. We recognized $0.1 million and $0.2 million of compensation expense in the consolidated statements of operations, with respect to our stock-based compensation plans for the three months ended June 30, 2012 and 2011 and $0.1 million and $0.3 million for the six months ended June 30, 2012 and 2011, respectively. The following table summarizes stock-based compensation expenses recorded in the consolidated statement of operations (in thousands):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2012	**2011**	**2012**	**2011**
Cost of license fees and services, excluding depreciation and amortization	$ 5	$ 11	$ 10	$ 22
Cost of customer support, excluding depreciation and amortization	1	1	2	3
Sales and marketing	6	16	12	39
General and administrative	52	108	105	224
Product development	5	10	10	34
Share based compensation - continuing operations	69	146	139	322
Discontinued operations		7		19
Total share based compensation	$ 69	$ 153	$ 139	$ 341

Stock Incentive Plans

In January 1996, our stockholders approved an Amended and Restated Stock Option Plan (the Option Plan). Under the Option Plan, as amended, 4,175,000 shares were reserved for issuance. 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. At June 30, 2012 and December 31, 2011, 0.4 million options remained outstanding under the Option Plan, respectively.

In June 2007, our stockholders approved the 2007 Stock Incentive Plan (the 2007 Stock Plan) with a maximum of 1,000,000 shares reserved for issuance. In June 2010, our stockholders approved an amendment to the 2007 Stock Plan which increased the maximum shares that may be awarded under the plan to 1,250,000. 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 for employees and one year for directors and expire no more than ten years from the date of grant. At June 30, 2012, there were approximately 0.1