EBIX INC
Form 10-Q
August 09, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

R	QUARTERLY REPORT UNDER 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

Commission file number 0-15946
Ebix, Inc.
(Exact name of registrant as specified in its charter)

DELAWARE	77-0021975
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

5 CONCOURSE PARKWAY, SUITE 3200	
ATLANTA, GEORGIA	30328
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: 678-281-2020
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 R 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes R No o N/A o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No R
As of August 7, 2012 the number of shares of common stock outstanding was 37,116,243
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PART I — FINANCIAL INFORMATION

Item 1: CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Ebix, Inc. and Subsidiaries
Condensed Consolidated Statements of Income
(In thousands, except per share data)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Operating revenue	$47,716	$42,267	$91,543	$82,317
Operating expenses:				
Cost of services provided	9,157	8,914	18,186	16,221
Product development	5,814	4,802	10,086	9,421
Sales and marketing	4,296	3,261	8,108	6,113
General and administrative	8,577	4,694	15,021	12,455
Amortization and depreciation	2,161	1,991	4,102	3,868
Total operating expenses	30,005	23,662	55,503	48,078
Operating income	17,711	18,605	36,040	34,239
Interest income	110	129	277	329
Interest expense	(312)	(159)	(565)	(374)
Other non-operating income (loss)	262	(464)	262	(818)
Foreign currency exchange gain	2,591	1,397	2,295	2,865
Income before income taxes	20,362	19,508	38,309	36,241
Income tax benefit (expense)	(2,295)	2,840	(4,557)	1,271
Net income	$18,067	$22,348	$33,752	$37,512
Basic earnings per common share	$0.49	$0.57	$0.92	$0.97
Diluted earnings per common share	$0.47	$0.53	$0.86	$0.90
Basic weighted average shares outstanding	36,908	39,159	36,679	38,658
Diluted weighted average shares outstanding	38,827	42,344	39,175	41,882

See accompanying notes to the condensed consolidated financial statements.

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Ebix, Inc. and Subsidiaries
Condensed Consolidated Statements of Comprehensive Income
(In thousands)
(Unaudited)

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Net income	$ 18,067	$ 22,348	$ 33,752	$ 37,512
Other comprehensive income (loss):				
Foreign currency translation adjustments	(7,705)	2,829	(3,378)	4,882
Total other comprehensive income	(7,705)	2,829	(3,378)	4,882
Comprehensive income	$ 10,362	$ 25,177	$ 30,374	$ 42,394

See accompanying notes to the condensed consolidated financial statements.

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Ebix, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets
(In thousands, except share amounts)

	June 30, 2012 (Unaudited)	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$25,313	$23,696
Short-term investments	1,458	1,505
Trade accounts receivable, less allowances of $1,195 as of June 30, 2012 and $1,719 as of December 31, 2011	33,096	31,133
Deferred tax asset, net	2,632	2,981
Other current assets	6,102	4,502
Total current assets	68,601	63,817
Property and equipment, net	10,319	8,834
Goodwill	320,238	259,218
Intangibles, net	50,852	38,386
Indefinite-lived intangibles	30,798	30,453
Deferred tax asset, net	5,432	9,412
Other assets	3,238	1,062
Total assets	$489,478	$411,182
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$21,927	$18,719
Accrued payroll and related benefits	5,517	5,034
Short term debt	10,656	6,667
Current portion of long term debt and capital lease obligations, net of discount of $49 and $0, respectively	872	165
Deferred revenue	18,060	16,460
Current deferred rent	279	266
Other current liabilities	117	2,468
Total current liabilities	57,428	49,779
Revolving line of credit	32,840	31,750
Long term debt and capital lease obligations, less current portion, net of discount of $68 and $0, respectively	36,380	8,468
Other liabilities	4,313	3,803
Contingent liability for accrued earn-out acquisition consideration	15,066	—
Put option liability	1,114	—
Deferred revenue	130	328
Long term deferred rent	1,586	939
Total liabilities	148,857	95,067
Commitments and Contingencies, Note 5		
Stockholders' equity:		
	—	—

Preferred stock, $0.10 par value, 500,000 shares authorized, no shares issued and outstanding at June 30, 2012 and December 31, 2011		
Common stock, $0.10 par value, 60,000,000 shares authorized, 37,431,635 issued and 37,391,126 outstanding at June 30, 2012 and 36,418,385 issued and 36,377,876 outstanding at December 31, 2011	3,748	3,638
Additional paid-in capital	176,836	179,518
Treasury stock (40,509 shares as of June 30, 2012 and December 31, 2011)	(76)	(76)
Retained earnings	168,015	137,559
Accumulated other comprehensive loss	(7,902)	(4,524)
Total stockholders' equity	340,621	316,115
Total liabilities and stockholders' equity	$489,478	$411,182

See accompanying notes to the condensed consolidated financial statements.

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Ebix, Inc. and Subsidiaries
Condensed Consolidated Statements Stockholders' Equity
(unaudited)
(In thousands, except share amounts)

	Common Stock							
	Issued Shares	Amount	Treasury Stock Shares	Treasury Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance, December 31, 2011	36,418,385	$3,638	(40,509)	$ (76)	$179,518	$137,559	$ (4,524)	$316,115
Net income	—	—	—	—	—	33,752	—	33,752
Cumulative translation adjustment	—	—	—	—	—	—	(3,378)	(3,378)
Repurchase and retirement of common stock	(506,700)	(51)			(9,345)			(9,396)
Vesting of restricted stock	65,390	14	—	—	(13)	—	—	1
Exercise of stock options	1,158,000	117	—	—	597	—	—	714
Deferred compensation and amortization related to options and restricted stock	—	—	—	—	1,059	—	—	1,059
Share subscribed for business acquisition	296,560	30	—	—	4,970	—	—	5,000
Tax benefit related to share-based compensation	—	—	—	—	50	—	—	50
Dividends paid	—	—	—	—	—	(3,296)	—	(3,296)
Balance, June 30, 2012	37,431,635	$3,748	(40,509)	$ (76)	$176,836	$168,015	$ (7,902)	$340,621

See accompanying notes to the condensed consolidated financial statements.

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Ebix, Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Six Months Ended June 30, 2012	2011
Cash flows from operating activities:		
Net income	$33,752	$37,512
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,102	3,868
Benefit for deferred taxes	(956)	(2,954)
Share based compensation	1,059	1,143
Provision for doubtful accounts	316	337
Debt discount amortization on convertible debt	13	21
Unrealized foreign exchange gain on forward contracts	—	(238)
Unrealized foreign exchange gain	(593)	(1,769)
(Gain) loss on put option	(263)	925
Reduction of acquisition earnout accruals	—	(1,868)
Changes in assets and liabilities, net of effects from acquisitions:		
Accounts receivable	2,163	(3,693)
Other assets	(1,009)	825
Accounts payable and accrued expenses	(858)	(3,482)
Accrued payroll and related benefits	(384)	(850)
Deferred revenue	(225)	(781)
Deferred rent	(56)	(120)
Other current liabilities	(2,338)	867
Net cash provided by operating activities	34,723	29,743
Cash flows from investing activities:		
Acquisition of ADAM, net of cash acquired	—	3,529
Investment in MCN, net of cash acquired	(1,537)	(381)
Acquisition of BSI, net of cash acquired	(992)	—
Acquisition of Taimma, net of cash acquired	(5,003)	—
Acquisition of Fintechnix, net of cash acquired	(4,713)	—
Acquisition of Planetsoft, net of cash acquired	(33,967)	—
Investment in Curepet, Inc.	(2,000)	—
Investment in ConfirmNet	—	(184)
Maturities of marketable securities	979	7,600
Purchases of marketable securities	(785)	(3,080)
Capital expenditures	(1,079)	(1,335)
Net cash provided by/(used in) investing activities	(49,097)	6,149
Cash flows from financing activities:		
Repayments on revolving line of credit, (net of proceeds)	1,090	(16,250)
Proceeds from term loan	45,000	16,250
Principal payments of term loan obligation	(15,000)	(3,074)
Repurchases of common stock	(9,396)	(26,198)

Settlement on conversion of convertible debt	—	(6,761)
Excess tax benefit from share-based compensation	50	127
Proceeds from the exercise of stock options	714	14
Dividend payments	(3,296)	—
Principal payments of debt obligations	(600)	—
Payments of capital lease obligations	(165)	(186)
Net cash provided by/ (used in) financing activities	18,397	(36,078)
Effect of foreign exchange rates on cash	(2,406)	416
Net change in cash and cash equivalents	1,617	230
Cash and cash equivalents at the beginning of the period	23,696	23,397
Cash and cash equivalents at the end of the period	$25,313	$23,627
Supplemental disclosures of cash flow information:		
Interest paid	$567	$361
Income taxes paid	$4,842	$1,505

See accompanying notes to the condensed consolidated financial statements.

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Supplemental schedule of noncash financing activities:

Effective June 1, 2012, Ebix acquired PlanetSoft, Inc. for aggregate consideration in the amount of $40.0 million. Under terms of the merger agreement, the former PlanetSoft shareholders received, as part of the aggregate purchase consideration, 296,560 shares of Ebix common stock with a fair value of $5.0 million.

Effective February 7, 2011, Ebix acquired ADAM for aggregate consideration in the approximate amount of $88.4 million. Under the terms of the merger agreement, all of the ADAM shareholders received 3.65 million shares of Ebix common stock with a fair value of $87.5 million as part of the purchase consideration.

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Ebix, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements

Note 1: Description of Business and Summary of Significant Accounting Policies

Description of Business— Ebix, Inc. and subsidiaries ("Ebix" or the "Company") is an international supplier of on-demand software and e-commerce solutions to the insurance industry. Ebix provides various application software products for the insurance industry ranging from data exchanges, carrier systems, and agency systems, to custom software development for business entities across the insurance and financial industries. The Company's products feature fully customizable and scalable on-demand software designed to streamline the way insurance professionals manage distribution, marketing, sales, customer service, and accounting activities. The Company has its headquarters in Atlanta, Georgia and also conducts operating activities Australia, Canada, China, India, Japan, New Zealand, Singapore, and Brazil. International revenue accounted for 29.3% and 28.5% of the Company's total revenue for the six months ended June 30, 2012 and 2011, respectively.

The Company's revenues are derived from four product/service groups. Presented in the table below is the breakout of our revenue streams for each of those product/service groups for the three and six months ended June 30, 2012 and 2011.

	Three Months Ended June 30,		Six Months Ended June 30,	
(dollar amounts in thousands)	2012	2011	2012	2011
Exchanges	$38,182	$32,222	$72,828	$63,287
Broker Systems	4,422	4,824	9,176	8,666
Business Process Outsourcing ("BPO")	3,890	3,753	7,461	7,372
Carrier Systems	1,222	1,468	2,078	2,992
Totals	$47,716	$42,267	$91,543	$82,317

Summary of Significant Accounting Policies

Basis of Presentation—The accompanying unaudited condensed consolidated financial statements and these notes have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission and in accordance with U.S. generally accepted accounting principles with the effect of inter-company balances and transactions eliminated. Certain information and note disclosures normally included in annual financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to those rules and regulations, although the Company believes that the disclosures made are adequate to make the information not misleading. In the opinion of management these unaudited condensed consolidated financial statements contain adjustments (consisting only of normal recurring items) necessary to fairly present the consolidated financial position of the Company and its consolidated results of operations and cash flows. Operating results for the six months ended June 30, 2012 and 2011 are not necessarily indicative of the results that may be expected for the full year. The condensed consolidated December 31, 2011 balance sheet included in this interim period filing has been derived from the audited financial statements at that date but does not include all of the information and related notes required by GAAP for complete financial statements. These condensed interim financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

Fair Value of Financial Instrument—The Company follows the relevant GAAP guidance regarding the determination and measurement of the fair value of financial instruments in which fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction value hierarchy which requires an entity to maximize the use of observable inputs when measuring fair value. The guidance describes the following three levels of inputs that may be used in the methodology to measure fair value:

- Level 1 - Quoted prices available in active markets for identical investments as of the reporting date;
- Level 2 - Inputs other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date; and,
- Level 3 - Unobservable inputs, which are to be used in situations where there is little or no market activity for the asset or liability and wherein the reporting entity makes estimates and assumptions related to the pricing of the asset or liability including assumptions regarding risk.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

As of June 30, 2012 the Company has the following financial instruments to which it had to consider fair values and

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had to make fair assessments:

- Common share-based put option for which the fair value was measured as Level 2 instrument.
- Short-term investments for which the fair values are measured as a Level 1 instrument.
- Contingent accrued earn-out business acquisition consideration liabilities for which fair values are measured as a level 3 instrument.

Additional information regarding the Company's assets and liabilities that are measured at fair value on a recurring basis is presented in the following table:

	Fair Values at Reporting Date Using*			
Descriptions	Balance at June 30, 2012	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(In thousands)			
Assets				
Available-for-sale securities:				
Commercial bank certificates of deposits	$ 1,458	$ 1,458	$—	$—
Total assets measured at fair value	$ 1,458	$ 1,458	$—	$—
Liabilities				
Derivatives:				
Common share-based put option (a)	$ 1,114	$—	$ 1,114	$—
Foreign exchange contracts (b)	$—	$—	$—	$—
Contingent accrued earn-out acquisition consideration (c)	20,907	—	—	20,907
Total liabilities measured at fair value	$ 22,021	$—	$ 1,114	$ 20,907

(a) In connection with the acquisition of PlanetSoft effective June 1, 2012, Ebix issued a put option to the PlanetSoft's three shareholders. The put option, which expires in June 2014, is exercisable during the thirty-day period immediately following the two-year anniversary date of the business acquisition, which if exercised would enable them to sell the underlying 296,560 shares of Ebix common stock they received as part of the purchase consideration, back to the Company at a price of $16.86 per share, which represents a 10% discount off of the per-share value established on the effective date of the closing of Ebix's acquisition of PlanetSoft. In accordance with the relevant authoritative accounting literature a portion of the total purchase consideration was allocated to this put liability based on its initial fair value, which was determined to be $1.4 million using a Black-Scholes model. The inputs used in the valuation of the put option include term, stock price volatility, current stock price, exercise price, and the risk free rate of return.
(b) The market valuation approach is applied and the valuation inputs include foreign currency exchange spot rates, forward premiums, forward foreign currency exchange rates, term, and maturity dates. As of June 30, 2012 all the companies derivative instruments in the form of foreign currency hedge instruments had been settled.
(c) The income valuation approach is applied and the valuation inputs include the contingent payment arrangement terms, projected cash flows, rate of return, and probability assessments.
* During the six months ended June 30, 2012 there were no transfers between fair value levels 1, 2 or 3.

For the Company's assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3), the following table provides a reconciliation of the beginning and ending balances for each category therein, and gains or losses recognized during the six months ending June 30, 2012:

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Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

	Contingent Liability for Accrued Earn-out Acquisition Consideration (in thousands)	
Beginning balance at January 1, 2012	$ 7,590	
Total remeasurement adjustments:		
(Gains) or losses included in earnings **	104	
(Gains) or losses recorded against goodwill	—	
Foreign currency translation adjustments ***	(309	)
Acquisitions and settlements		
Business acquisitions	15,568	
Settlements	(2,046	)
Ending balance at June 30, 2012****	$ 20,907	
The amount of total (gains) or losses for the year included in earnings or changes to net assets, attributable to changes in unrealized (gains) or losses relating to assets or liabilities still held at year-end.	$ —	

** recorded as an adjustment to reported general and administrative expenses
*** recorded as a component of other comprehensive income within stockholders' equity
**** Short term portion of $5.84 million is recorded in Accounts payable and accrued liabilities in the currently liability section of the Condensed Consolidated Balance Sheets

The Company believes the carrying amount of cash and cash equivalents, short-term investments, accounts receivable, accounts payable, accrued expenses, accrued payroll and related benefits, line of credit, long-term debt obligations, and capital lease obligations is a reasonable estimate of their fair value due to the short remaining maturity of these items and/or their fluctuating interest rates.

Revenue Recognition—The Company derives its revenues primarily from subscription and transaction fees pertaining to services delivered over our exchanges or from our ASP platforms, fees for business process outsourcing services, and fees for software development projects including associated fees for consulting, implementation, training, and project management provided to customers with installed systems. Sales and value-added taxes are not included in revenues, but rather are recorded as a liability until the taxes assessed are remitted to the respective taxing authorities.

In accordance with Financial Accounting Standard Board (“FASB”) and Securities and Exchange Commission ("SEC") accounting guidance on revenue recognition, the Company considers revenue earned and realizable when: (a) persuasive evidence of the sales arrangement exists, provided that the arrangement fee is fixed or determinable, (b) delivery or performance has occurred, (c) customer acceptance has been received, if contractually required, and (d) collectability of the arrangement fee is probable. The Company uses signed contractual agreements as persuasive evidence of a sales arrangement. We apply the provisions of the relevant generally accepted accounting principles related to all transactions involving the license of software where the software deliverables are considered more than inconsequential to the other elements in the arrangement.

For contracts that contain multiple deliverables, we analyze the revenue arrangements in accordance with the relevant technical accounting guidance, which provides criteria governing how to determine whether goods or services that are delivered separately in a bundled sales arrangement should be considered as separate units of accounting for the purpose of revenue recognition. Generally these types of arrangements include deliverables pertaining to software licenses, system set-up, and professional services associated with product customization or modification. Delivery of the various contractual elements typically occurs over periods of less than eighteen months. These arrangements generally do not have refund provisions or have very limited refund terms.

Software development arrangements involving significant customization, modification or production are accounted for in accordance with the appropriate technical accounting guidance issued by FASB using the percentage-of-completion method. The Company recognizes revenue using periodic reported actual hours worked as a percentage of total expected hours required to complete the project arrangement and applies the percentage to the total arrangement fee.

Accounts Receivable and the Allowance for Doubtful Accounts Receivable—Reported accounts receivable include $25.4 million of trade receivables stated at invoice billed amounts net of the estimated allowance for doubtful accounts receivable, and $7.7 million of unbilled receivables. Approximately $7.3 million of deferred revenue is included in accounts receivable at June 30, 2012. Bad debt expense incurred during the three and six month periods ended June 30, 2012 was approximately $50 thousand and $316 thousand, respectively and $326 thousand and $337 thousand for the three and six month periods ended June 30, 2011, respectively. Accounts receivable are written off against the allowance account when the Company has exhausted all reasonable collection efforts.

Goodwill and Other Indefinite-Lived Intangible Assets—Goodwill represents the cost in excess of the fair value of the net assets of acquired businesses. Indefinite-lived intangible assets represent the fair value of acquired contractual customer relationships for which future cash flows are expected to continue indefinitely. In accordance with the relevant FASB accounting guidance, goodwill and indefinite-lived intangible assets are not amortized but are tested for impairment at the reporting unit level on an annual basis or on an interim basis if an event occurs or circumstances change that would likely have reduced the fair value of a reporting unit below its carrying value. Potential impairment indicators include a significant change in the business climate, legal factors, operating performance indicators, competition, and the sale or disposition of a significant portion of the business. The impairment evaluation process involves an assessment of certain qualitative factors to determine whether the existence of events or circumstances would indicate that it is more likely than not that the fair value of any of our reporting units was less than their than its carrying amount. If after assessing the totality of events or circumstances, we were to determine that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then we would not perform the two-step quantitative impairment testing described further below.

The aforementioned two-step quantitative testing process involves comparing the reporting unit carrying values to their respective fair values; we determine fair value of our reporting units by applying the discounted cash flow method using the present value of future estimated net cash flows. If the fair value of a reporting unit exceeds its carrying value, then no further testing is required. However, if a reporting unit's fair value were to be less than its carrying value, we would then determine the amount of the impairment charge, if any, which would be the amount that the carrying value of the reporting unit's goodwill exceeded its implied value. Projections of cash flows are based on our views of growth rates, operating costs, anticipated future economic conditions and the appropriate discount rates relative to risk and estimates of residual values. We believe that our estimates are consistent with assumptions that marketplace participants would use in their estimates of fair value. The use of different estimates or assumptions for our projected discounted cash flows (e.g., growth rates, future economic conditions, discount rates and estimates of terminal values) when determining the fair value of our reporting units could result in different values and may result in a goodwill impairment charge. We perform our annual goodwill impairment evaluation and testing as of September 30th of each year. During the year ended December 31, 2011 we had no impairment of our reporting unit goodwill balances.

Changes in the carrying amount of goodwill for the six months ended June 30, 2012 are as follows:

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	(In thousands)
Beginning Balance (December 31, 2011)	$259,218
Additions, net (see Note 3)	61,421
Foreign currency translation adjustments	(401)
Ending Balance (June 30, 2012)	$320,238

Finite-lived Intangible Assets—Purchased intangible assets represent the estimated acquisition date fair value of customer relationships, developed technology, trademarks and non-compete agreements obtained in connection with the businesses we acquire. We amortize these intangible assets on a straight-line basis over their estimated useful lives, as follows:

Category	Life (yrs)
Customer relationships	7-15
Developed technology	3–20
Trademarks	3–15
Non-compete agreements	5
Database	10

The carrying value of finite-lived and indefinite-lived intangible assets at June 30, 2012 and December 31, 2011 are as follows:

	June 30, 2012	December 31, 2011
	(In thousands)	
Finite-lived intangible assets:		
Customer relationships	$54,132	$40,289
Developed technology	12,798	11,640
Trademarks	2,188	2,188
Non-compete agreements	418	418
Backlog	140	140
Database	211	207
Total intangibles	69,887	54,882
Accumulated amortization	(19,035)	(16,496)
Finite-lived intangibles, net	$50,852	$38,386
Indefinite-lived intangibles:		
Customer/territorial relationships	$30,798	$30,453

Amortization expense recognized in connection with acquired intangible assets was $1.4 million and $2.5 million for the three and six months ended June 30, 2012 and $1.2 million and $2.4 million for the three and six months ended June 30, 2011, respectively.

Income Taxes—Deferred income taxes are recorded to reflect the estimated future tax effects of differences between the financial statement and tax basis of assets, liabilities, operating losses, and tax credit carry forwards using the tax rates expected to be in effect when the temporary differences reverse. Valuation allowances, if any, are recorded to reduce deferred tax assets to the amount management considers more likely than not to be realized. Such valuation allowances are recorded for the portion of the deferred tax assets that are not expected to be realized based on the levels of historical taxable income and projections for future taxable income over the periods in which the temporary differences will be deductible.

The Company also applies FASB accounting guidance on accounting for uncertainty in income taxes positions. This guidance clarifies the accounting for uncertainty in income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. In this regard we recognize the tax benefit from uncertain tax positions only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position.

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Recent Relevant Accounting Pronouncements—The following is a brief discussion of recently released accounting pronouncements that are pertinent to the Company's business:

In July 2012 the FASB issued new Accounting Standards Update No. 2012-02, "Testing Indefinite-Lived Intangible Assets for Impairment" (the revised standard). The revised standard is intended to reduce the cost and complexity of testing indefinite-lived intangible assets other than goodwill for impairment. It allows companies to perform a "qualitative" assessment to determine whether further impairment testing of indefinite-lived intangible assets is necessary, similar in approach to the goodwill impairment test. The revised standard is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption is permitted. The Company will adopt this new standard in 2013.

In September 2011, the FASB issued technical guidance regarding an entity's evaluation of goodwill for possible impairment. Under this new guidance an entity has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If after assessing the totality of events or circumstances, an entity determines that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step quantitative impairment test is unnecessary. This new technical guidance was effective for fiscal years beginning after December 15, 2011. Early adoption was permitted for annual and interim goodwill impairment evaluations performed as of a date before September 2011, if an entity's financial statements for the most recent annual or interim period have not yet been issued. The Company elected to adopt this technical guidance early and accordingly applied it to the 2011 annual impairment evaluation of goodwill.

In June 2011, the Financial Accounting Standards Board ("FASB") issued new financial reporting guidance regarding the reporting of "other comprehensive income, or (OCI)". This guidance revises the manner in which entities present comprehensive income in their financial statements. The new guidance requires entities to report components of comprehensive income in either (1) a continuous statement of comprehensive income, or (2) two separate but consecutive statements. Under the two-statement approach, the first statement would include components of net income, which is consistent with the income statement format used currently, and the second statement would include components of OCI. Under either method, entities must display adjustments for items that are reclassified from OCI to net income in both net income and OCI. The new reporting guidance does not change the items that must be reported in OCI. This new reporting standard is effective for interim and annual periods beginning after December 15, 2011. After adoption, the guidance must be applied retrospectively for all periods presented in the financial statements. The Company adopted this new guidance in the first quarter of 2012.

In December 2010, the Emerging Issues Task Force of the FASB reached consensus regarding the disclosure of pro forma information for business combinations. This new guidance addressed the diversity in practice concerning the interpretation of the pro forma revenue and earnings disclosure requirements for business combinations. The guidance specifies that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination had occurred as of the beginning of the comparable prior annual reporting period only. The amendments also expand the supplemental pro forma disclosures to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. The amendments affect any public entity that enters into business combinations that are material on an individual or aggregate basis. The new guidance was applicable to business combinations for which the acquisition date is on or after the first annual reporting period beginning on or after December 15, 2010. The Company adopted this new guidance in 2011.

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Note 2: Earnings per Share

A reconciliation between basic and diluted earnings per share is as follows (in thousands, except per share data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011