

EBIX INC  
Form 10-Q  
November 20, 2006

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

**QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended September 30, 2006**

**OR**

**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**

(State or other jurisdiction of incorporation or  
organization)

**77-0021975**

(I.R.S. Employer Identification No.)

**1900 E. GOLF ROAD  
SCHAUMBURG, IL**

(Address of principal executive offices)

**60173**

(Zip Code)

Registrant's telephone number, including area code: **847-789-3047**

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  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

As of November 10, 2006, the number of shares of Common Stock outstanding was 2,772,274.



**Ebix, Inc. and Subsidiaries**

FORM 10-Q

FOR THE QUARTER ENDED SEPTEMBER 30, 2006

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## Ebix, Inc. and Subsidiaries

## Condensed Consolidated Balance Sheets

(In thousands, except for share and per share amounts)

	September 30, 2006	December 31, 2005
	(Unaudited)	
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 5,334	\$ 6,733
Accounts receivable, less allowance of \$20 and \$11, respectively	5,002	3,502
Other current assets	724	444
<b>Total current assets</b>	11,060	10,679
Property and equipment, net	1,598	1,488
Goodwill	13,040	12,204
Intangible assets, net	4,897	3,293
Other assets	285	317
<b>Total assets</b>	\$ 30,880	\$ 27,981
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>Current liabilities:</b>		
Accounts payable and accrued expenses	\$ 1,019	\$ 1,962
Accrued payroll and related benefits	1,312	1,450
Current portion of long term debt	975	969
Current portion of capital lease obligations	3	
Current deferred rent	44	
Deferred revenue	2,601	2,794
<b>Total current liabilities</b>	5,954	7,175
Long term debt, less current portion	920	1,844
Long term capital lease obligation, less current portion	10	
Long term deferred rent	241	
Redeemable common stock (0 shares issued and outstanding at September 30, 2006 and 157,728 outstanding at December 31, 2005, respectively) stated at redemption price		1,461
<b>Stockholders equity:</b>		
Convertible Series D Preferred stock, \$.10 par value, 500,000 shares authorized, no shares issued and outstanding		
Common stock, \$.10 par value, 10,000,000 shares authorized, 2,781,164 issued and 2,772,274 outstanding at September 30, 2006 and 2,740,516 shares issued and outstanding, at December 31, 2005	277	274
Additional paid-in capital	94,416	92,539
Treasury stock (8,890 shares repurchased as of September 30, 2006)	(148)	)
Accumulated deficit	(71,397)	(75,689)
Accumulated other comprehensive income	607	377
<b>Total stockholders equity</b>	23,755	17,501
<b>Total liabilities and stockholders equity</b>	\$ 30,880	\$ 27,981

See accompanying notes to condensed consolidated financial statements.

## Ebix, Inc. and Subsidiaries

## Condensed Consolidated Statements of Income

(In thousands, except per share data)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
<b>Revenue:</b>				
Software	\$ 326	\$ 390	\$ 1,251	\$ 1,000
Services and other (Including revenues from related parties of \$1,062, \$963, \$2,477 and \$2,720, respectively- See Note 6.)	6,970	5,506	18,724	16,934
<b>Total revenue</b>	<b>7,296</b>	<b>5,896</b>	<b>19,975</b>	<b>17,934</b>
<b>Operating expenses:</b>				
Services and other costs	1,480	1,594	4,170	4,503
Product development	1,297	892	3,265	2,459
Sales and marketing	729	547	1,969	1,547
General and administrative	1,531	1,413	4,892	4,928
Amortization and depreciation	435	317	1,166	965
<b>Total operating expenses</b>	<b>5,472</b>	<b>4,763</b>	<b>15,462</b>	<b>14,402</b>
<b>Operating income</b>	<b>1,824</b>	<b>1,133</b>	<b>4,513</b>	<b>3,532</b>
Interest income	52	125	190	290
Interest expense	(22 )	(142 )	(109 )	(357 )
Foreign exchange (loss) gain	(72 )	(17 )	16	58
<b>Income before income taxes</b>	<b>1,782</b>	<b>1,099</b>	<b>4,610</b>	<b>3,523</b>
Income tax (expense) benefit	(123 )	127	(318 )	(145 )
<b>Net income</b>	<b>\$ 1,659</b>	<b>\$ 1,226</b>	<b>\$ 4,292</b>	<b>\$ 3,378</b>
<b>Basic earnings per common share</b>	<b>\$ 0.60</b>	<b>\$ 0.45</b>	<b>\$ 1.56</b>	<b>\$ 1.20</b>
<b>Diluted earnings per common share</b>	<b>\$ 0.53</b>	<b>\$ 0.40</b>	<b>\$ 1.37</b>	<b>\$ 1.08</b>
Basic weighted average shares outstanding	2,763	2,734	2,757	2,808
Diluted weighted average shares outstanding	3,119	3,089	3,131	3,123

See accompanying notes to condensed consolidated financial statements.

## Ebix, Inc. and Subsidiaries

## Condensed Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2006	2005
<b>Cash flows from operating activities:</b>		
Net income	\$ 4,292	\$ 3,378
<b>Adjustments to reconcile net income to net cash provided by (used in) operating activities:</b>		
Depreciation and amortization	1,166	965
Stock-based compensation	65	(13)
Restricted stock compensation	112	48
Provision for doubtful accounts	10	6
<b>Changes in assets and liabilities net of acquisition:</b>		
Accounts receivable	(1,510)	9
Other assets	(248)	(21)
Accounts payable and accrued expenses	(943)	(84)
Accrued payroll and related benefits	(138)	(352)
Deferred revenue	(284)	170
Net cash provided by operating activities	2,522	4,106
<b>Cash flows from investing activities:</b>		
Investment in Infinity	(3,040)	)
Deferred rent	231	)
Capital expenditures	(370)	(382)
Net cash used in investing activities	(3,179)	(382)
<b>Cash flows from financing activities:</b>		
Proceeds from the exercise of the stock options	322	65
Payments on the line of credit	)	(91)
Repurchase of stock guarantee	)	(2,700)
Repurchase of common stock	(148)	)
Capital leases	13	)
Principal payments under debt obligations	(966)	(949)
Net cash used in financing activities	(779)	(3,675)
Effect of foreign exchange rates on cash	37	(75)
Net change in cash and cash equivalents	(1,399)	(26)
Cash and cash equivalents at the beginning of the period	6,733	5,843
Cash and cash equivalents at the end of the period	\$ 5,334	\$ 5,817
<b>Supplemental disclosures of cash flow information:</b>		
Interest paid	\$	\$ 155
Income taxes paid	\$ 384	\$ 260

See accompanying notes to condensed consolidated financial statements.

Ebix, Inc. and Subsidiaries

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Note 1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of presentation** These condensed consolidated financial statements are unaudited, include the accounts of Ebix, Inc. and its wholly-owned subsidiaries (Ebix or the Company ), and reflect all adjustments (consisting only of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the results of the interim periods.

These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements, and accompanying notes thereto, included in the Company's Annual Report on Form 10-K for the year ended December 31, 2005.

The results of operations for the current interim period are not necessarily indicative of results to be expected for the entire current year.

Certain prior period amounts have been reclassified to conform to the current period presentation.

**Summary of significant accounting policies**

**Revenue Recognition** We apply the provisions of Statement of Position ( SOP ) 97-2, Software Revenue Recognition, as amended by Statement of Position 98-9, Modification of SOP 97-2, Software Revenue Recognition, With Respect to Certain Transactions, to all transactions involving the sale of software.

In May 2003, the Financial Accounting Standards Board ( FASB ) finalized the terms of Emerging Issues Task Force Issue No. 00-21, Revenue Arrangements with Multiple Deliverables (EITF 00-21), which provides criteria governing how to identify whether goods or services that are to be delivered separately in a bundled sales arrangement should be accounted for separately. Deliverables are accounted for separately if they meet all of the following: a) the delivered items have stand-alone value to the customer; b) the fair value of any undelivered items can be reliably determined; and c) if the arrangement includes a general right of return, delivery of the undelivered items is probable and substantially controlled by the seller. The Company adopted EITF 00-21 on July 1, 2003 for all new revenue arrangements executed subsequent to June 30, 2003 (or significant modification to arrangements existing prior to July 1, 2003). The Company's current policy is to analyze all new revenue arrangements.

To the extent arrangements contain multiple deliverables, the Company performs an analysis of the nature of the deliverables to determine to what extent the deliverables of the arrangement are governed by any higher level literature (as defined in EITF 00-21). EITF 00-21 recognizes arrangements that qualify for treatment under SOP 97-2 and certain arrangements that qualify for contract accounting (i.e. SOP 81-1) as falling under the definition of higher level literature . The Company applies the provisions of SOP 97-2, as amended by Statement of Position 98-9, Modifications of SOP 97-2, Software Revenue Recognition, With Respect to Certain Transactions, to all arrangements which include software deliverables that are considered more than inconsequential to the other elements in the arrangements. For 2006, all of the Company's contracts with multiple deliverables have fallen under higher level accounting literature under the provisions of SOP 97-2 and/or SOP 81-1.

The Company recognizes revenue for license fees from its software products upon delivery, provided that the fee is fixed and determinable, acceptance has occurred, collectibility is probable and persuasive evidence of an arrangement exists. Revenue from third party software is derived from the licensing of third party software products in connection with sales of the Company's software licenses, and is generally recognized upon delivery together with the Company's license revenue. Training, data conversion, installation, and consulting services are generally recognized as revenue when the services are performed and collectibility is probable. Revenue for maintenance and support service is recognized ratably over the term of the support agreement.

For arrangements containing multiple elements, revenue is recognized on delivered elements when vendor-specific





objective evidence ( VSOE ) of fair value has been established on the undelivered elements, applying the residual method of SOP 98-9. Fair value is determined for each undelivered element based on the price charged for the sale of each element separately. In contracts that contain first year maintenance bundled with software fees, unbundling of maintenance is based on the price charged for renewal maintenance. Revenue for maintenance and support service is recognized ratably over the term of the support agreement.

Revenues related to hosting arrangements, including monthly fees as well as any initial registration fees and related custom programming, are recognized ratably over the term of the agreement in accordance with Staff Accounting Bulletin ( SAB ) No. 104 Revenue Recognition . Transaction fees are recognized as revenue as the transactions occur and revenue is earned. Revenue is only recognized when collectibility is probable.

Deferred revenue includes maintenance and support payments that have been received or billings recorded prior to performance and, in certain cases, cash collections, amounts received under multi-element arrangements in which VSOE of undelivered elements does not exist, and initial registration fees and related service fees under hosting agreements. Revenue is recognized when VSOE of the undelivered elements is established, the elements are delivered, or the obligation to deliver the elements is extinguished.

Software arrangements involving significant customization, modification or production are accounted for in accordance with American Institute of Certified Public Accountants Statement of Position 81-1, Accounting for Performance on Construction-Type and Certain Production-Type Contracts, using the percentage-of-completion method. The Company recognizes revenue using actual hours worked as a percentage of total expected hours required by the arrangement, provided that the fee is fixed and determinable, there is evidence of an arrangement and recovery of any related recorded asset is considered probable.

For business process outsourcing agreements, which include call center services, services are primarily performed on a time and materials basis. Revenue is recognized when the service is performed.

**New accounting pronouncements** In June 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 ( Interpretation ). This Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The Interpretation is effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating the requirements of this Interpretation, but does not expect that the adoption will have a material effect on the Company's financial statements or tax returns.

In September 2006, the SEC issued Staff Accounting Bulletin No. 108 ( SAB 108 ), Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements. SAB 108 is effective for fiscal years ending on or after November 15, 2006 and addresses how financial statement errors should be considered from a materiality perspective and corrected. The literature provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. Historically there have been two common approaches used to quantify such errors: (i) the rollover approach, which quantifies the error as the amount by which the current year income statement is misstated, and (ii) the iron curtain approach, which quantifies the error as the cumulative amount by which the current year balance sheet is misstated. The SEC Staff believes that companies should quantify errors using both approaches and evaluate whether either of these approaches results in quantifying a misstatement that, when all relevant quantitative and qualitative factors are considered, is material. The Company is currently evaluating the impact, if any, of adopting the provisions of SAB 108 on our financial statements.

**Employee Stock Options** At September 30, 2006, the Company has two stock-based employee compensation plans. Prior to January 1, 2006, the Company accounted for stock options issued to employees in accordance with APB Opinion No. 25, Accounting for Stock Issued to Employees. The Company had adopted the disclosure only provisions of SFAS No. 123, Accounting for Stock Based Compensation, and SFAS No. 148, Accounting for Stock Based Compensation Transition and Disclosure an Amendment to FASB Statement No. 123, for options and warrants issued to employees. Under APB Opinion No. 25, compensation expense is based on the difference, if any, on the measurement date, between the estimated fair value of the Company's stock and the exercise price of options to purchase that stock. Any resulting compensation expense is amortized on a straight-line basis over the vesting period of the options.

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In December 2004, the FASB issued SFAS No. 123 (revised 2004), *Share-Based Payment* ( FAS 123R ), which revises and replaces SFAS No. 123, *Accounting for Stock-Based Payment* and supercedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*. FAS 123R requires the measurement of all share-based payments to employees, including grants of employee stock options, using a fair-value based method and the recording of such expense in the Company's consolidated statements of operations. The pro forma disclosures previously permitted under SFAS No. 123 are no longer an alternative to financial statement recognition. The provisions of FAS 123R were to have been effective for reporting periods beginning after June 15, 2005. At the end of March 2005, the SEC staff released Staff Accounting Bulletin No. 107 (SAB 107), providing guidance for implementing FAS No. 123R. Subsequently, the Commission delayed the implementation dates for FAS 123R to the start of the Company's fiscal year. The Company accounts for stock options issued to employees in accordance with (SFAS 123(R)), applying the

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modified prospective method, see Note 3 for additional information.

**Non-employee Stock Compensation Prior to January 1, 2006** the Company accounted for stock based compensation issued to non-employees in accordance with SFAS No. 123 and Emerging Issues Task Force ( EITF ) Issue No. 96-18, Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in conjunction with Selling Goods or Services. SFAS No. 123 establishes a fair value based method of accounting for stock-based compensation plans. Under the fair value based method, compensation cost is measured at the grant date based on the value of the award, which is calculated using an option pricing model, and is recognized over the service period, which is usually the vesting period. Beginning on January 1, 2006, the Company accounts for stock based compensation issued to non-employees in accordance with SFAS 123(R), applying the modified prospective method, see Note 3 for additional information.

#### Note 2. STOCK OPTIONS

During the third quarter of 2006, the Company did not grant any stock options. During the first quarter of 2006, the Company did not grant any stock options to employees; however, options to purchase a total of 1,500 shares of the Company's Common Stock were issued to one non-employee director subsequent to his appointment to the Company's Board of Directors on January 3, 2006. These options were granted at an exercise price per share of 100% of the fair market value of a share of Common Stock on the date of the grant. These options become exercisable with respect to (a) 500 shares on the day prior to the first anniversary of the date of the grant and (b) 125 shares on the last day of each of the eight calendar quarters commencing on the last day of the calendar quarter ending on or after the first anniversary of the date of the grant. Each option has a term of ten years beginning on the date of the grant.

The Company has granted stock options outside the Company's stock option plans to non-employee consultants to purchase up to an aggregate of 57,000 shares of the Company's common stock, of which options to purchase 29,500 shares were outstanding at September 30, 2006. These options were granted at prices determined by the Board of Directors (at no less than 100 percent of the market price on the date of grant). The options have a four-year vesting period and must be exercised within ten years of the date of the grant. These non-employee options were valued using the fair value method as prescribed by SFAS No. 123 using the following assumptions: volatility of 51%, risk free interest rate of 4.59% and a 10-year term. Options issued prior to 2001 are performance-based awards, with no service commitment and subject to vesting only if the Company's stock price reaches a certain level. Options issued in 2001 vest over four years, but vesting accelerates if a performance target is achieved. At September 30, 2006, non-employee options to purchase 3,437 shares were vested. The Company recognized a credit to compensation expense of approximately \$12,000 and \$38,000 related to these options during the three and nine-month periods ended September 30, 2005, respectively. There was no compensation expense related to these options during the three and nine-month periods ended September 30, 2006 as the options were vested.

On August 11, 2003, the Company granted 25,000 options to purchase the Company's common stock to an employee who is the brother of the Chief Executive Officer, in connection with his joining the Company as an employee. The option grantee was an employee when he received the grant. The options vest over four years from the date of grant, expire ten years from the date of grant, and were issued with an exercise price below the fair market value of the stock on the date of grant. This grant was not subject to any of the Company's stock option plans. The total intrinsic value associated with the granting of these options was \$96,250, which will be recognized ratably as compensation expense over the four-year vesting period in accordance with APB Opinion No. 25. The Company recognized compensation expense of approximately \$6,000 and \$18,000 related to these options during each of the three-month and nine-month periods ended September 30, 2006 and September 30, 2005.

On October 20, 2006, the Company held the annual meeting of stockholders. Immediately following that annual meeting of stockholders, each non-employee director received options to purchase 1,500 shares of Common Stock, including the options automatically awarded under the 1998 Director Option Plan, at an exercise price per share of 100% of the fair market value of a share of Common Stock on the date of the grant. These options become exercisable on the last day of each of the four calendar quarters beginning with the first calendar quarter ending on or after the date of the grant, and have a term of ten years beginning on the date of grant. In addition, each non-employee director is to receive an annual cash retainer of \$14,000. Each member of the Audit Committee and Compensation Committee, other than its Chairman, will receive \$2,500 following the October 20,

2006 meeting. Mr. Keller and Benz will receive \$5,000 following the October 20, 2006 meeting for serving on both the Audit and Compensation Committees. The Audit Committee Chairman, Mr. Bhalla will receive \$5,000 following the October 20, 2006 meeting.

Note 3. STOCK BASED COMPENSATION

Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), Share Based Payment, applying the modified prospective method. Prior to the adoption of SFAS 123(R), the Company applied the provisions of APB Opinion No. 25, Accounting for Stock Issued to Employees, in accounting for its stock-based awards, and accordingly, recognized no compensation cost for its stock plans other than for its restricted stock awards. Under the modified prospective method, SFAS 123(R) applies to new awards and to awards that were outstanding as of December 31, 2005 that are subsequently vested, modified, repurchased or cancelled. Compensation expense recognized during 2006 includes the portion vesting during the period for (1) all share-based payments granted prior to, but not yet vested as of December 31, 2005, based on the grant date fair value estimated in accordance with the original provisions of Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation (SFAS 123) and (2) all share-based payments granted subsequent to December 31, 2005, based on the grant-date fair value estimated using the Black-Scholes option-pricing model. No stock options were granted to employees during the first, second or third quarters of 2006; however, options were granted to a Director. Stock compensation expense of \$16,000 and \$48,000 was recognized during the three and nine-month period ended September 30, 2006 on existing stock options. As a result of the Company's decision to adopt the modified prospective method, prior period results have not been restated.

The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS 123 for the three and nine months ended September 30, 2005:

	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2005
Net income, as reported	\$ 1,226,000	\$ 3,378,000
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	5,000	14,000
Deduct: Total stock-based employee compensation expense determined under fair-value based method for all awards, net of related tax effects	(55,000)	(594,000)
Pro forma net income	\$ 1,176,000	\$ 2,798,000
Basic earnings per share, as reported	\$ 0.45	\$ 1.20
Diluted earnings per share, as reported	\$ 0.40	\$ 1.08
Basic earnings per share, pro forma	\$ 0.43	\$ 1.00
Diluted earnings per share, pro forma	\$ 0.38	\$ 0.90

Before adoption of SFAS 123(R), pro forma disclosures reflected the fair value of each option grant estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions for stock options granted during the nine months ended September 30, 2005:

	Nine Months Ended September 30, 2005
Expected volatility	97 %
Expected dividends	None
Weighted average risk-free interest rate	4.36 %
Expected life of stock options	10 years

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A summary of stock based compensation activity within the Company's stock-based compensation plans for the three and nine months ended September 30, 2006 is as follows:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at December 31, 2005	685,912	\$ 11.89		
Granted	1,500	\$ 19.65		
Exercised	(2,977)	\$ 14.70		
Canceled		\$		
Outstanding at March 31, 2006	684,435	\$ 11.91	6.08	\$ 5,706,956
Granted		\$		
Exercised	(10,475)	\$ 8.81		
Canceled		\$		
Outstanding at June 30, 2006	673,960	\$ 11.96	5.81	\$ 3,396,758
Granted		\$		
Exercised	(16,336)	\$ 12.19		
Canceled	(139)	\$ 29.10		
Outstanding at September 30, 2006	657,485	\$ 11.95	5.53	\$ 5,621,037
Exercisable at September 30, 2006	623,466	\$ 10.48	5.58	\$ 6,248,439

The aggregate intrinsic value for stock options outstanding and exercisable is defined as the difference between the market value of the Company's stock as of the end of the period and the exercise price of the stock options. The total intrinsic value of stock options exercised during the first, second and third quarters of 2006 was \$30,000, \$86,000 and \$136,000, respectively. As a result of the stock options exercised, the Company recorded additional paid-in-capital of \$31,000 in the first quarter, \$91,000 in the second quarter and \$197,000 in the third quarter of 2006. During the first quarter of 2006, cash received from stock options exercised was \$32,000. During the second quarter of 2006, cash received from stock options exercised was \$98,000. During the third quarter of 2006, cash received from the stock options exercised were \$214,000. The following is a summary of nonvested stock option activity for the three and nine months ended September 30, 2006:

	Number of Shares	Weighted Average Grant-Date Fair Value
Nonvested at December 31, 2005	6,623	\$ 18.26
Granted	1,500	\$ 19.65
Vested	(998)	\$ 16.09
Canceled		
Nonvested at March 31, 2006	7,125	\$ 16.51
Granted		
Vested	(1,002)	\$ 16.09
Canceled		
Nonvested at June 30, 2006	6,123	\$ 16.58
Granted		
Vested	(998)	\$ 18.01
Canceled		
Nonvested at September 30, 2006	5,125	\$ 18.82

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The Company had 22,644 of stock options that were unvested at September 30, 2006 that were expensed in 1999. In addition the Company has 6,250 of stock options that were unvested related to Rahul Raina; see Note 2 for additional information.

At September 30, 2006, there was \$85,000 of total unrecognized compensation cost related to nonvested stock options. This cost will be recognized over 2.5 years.

The Company also grants restricted stock to certain employees. On June 1, 2005, the Compensation Committee of the Board of Directors of the Company gave final approval to awards of 9,758 shares of restricted stock to Robin Raina, the Company's Chairman, Chief Executive Officer and President, and 4,382 shares of restricted stock to Richard J. Baum, the Company's Executive Vice President, Chief Financial Officer and Secretary, under the Company's 1996 Incentive Plan. The awards were made pursuant to a 2004 incentive compensation program (the 2004 Program) approved by the Company's Board of Directors on December 4, 2004 (as described in a Form 8-K filed by the Company on December 9, 2004) and were subject to a determination by the Compensation Committee and the Board, after the Company's release of its 2004 operating results, that such operating results were substantially consistent with the operating results of the Company for the first nine months of 2004, as they compared to those for the same period of the prior year (excluding executive incentive compensation). The Compensation Committee and the Board made such determination in April 2005, at which time the grants of the restricted stock (along with 2004 cash bonus compensation) were approved, subject to the Compensation Committee's approval of certain terms of the restricted stock awards and of the forms of restricted stock agreements to represent such awards.

On June 1, 2005, the Compensation Committee approved such terms and forms of restricted stock agreements, and the shares of restricted stock were issued to each of Messrs. Raina and Baum on such date. In accordance with the 2004 Program, the number of shares of restricted stock issued to each of Messrs. Raina and Baum represents 10% of the aggregate of the total salary and cash bonus compensation earned by him for 2004 (such aggregate compensation being \$1,013,000 in the case of Mr. Raina and \$455,000 in the case of Mr. Baum), divided by the market price of the Company's stock on April 11, 2005, the date the Board approved the restricted stock grants. The Company recognized compensation expense of approximately \$8,000 and \$25,000 related to these shares during the three and nine months ended September 30, 2006. There was compensation expense of approximately \$8,000 and \$57,000 related to this restricted stock for the three and nine months ended September 30, 2005.

On February 3, 2006, the Compensation Committee of the Board of Directors of the Company gave final approval to awards of 8,354 shares of restricted stock to Robin Raina, the Company's Chairman, Chief Executive Officer and President, and 2,506 shares of restricted stock to Richard J. Baum, the Company's Executive Vice President, Chief Financial Officer and Secretary, under the Company's 1996 Incentive Plan. The awards were made pursuant to a 2005 incentive compensation program (the 2005 Program) approved by the Company's Board of Directors. In accordance with the 2005 Program, the number of shares of restricted stock issued to each of Messrs. Raina and Baum represents 15% of the aggregate of the total salary and cash bonus compensation earned by him for 2005 (such aggregate compensation being \$1,100,000 in the case of Mr. Raina and \$330,000 in the case of Mr. Baum), divided by the market price of the Company's stock on February 3, 2006, the date the Board approved the restricted stock grants. The Company recognized compensation expense of approximately \$14,000 and \$86,000 related to these shares for the three and nine months ended September 30, 2006. There was no compensation expense related to this restricted stock for the three and nine months ended September 30, 2005.

Pursuant to the restricted stock agreements, the restricted stock vests in three equal annual installments. The restricted stock also vests with respect to any unvested shares upon the applicable officer's death, Disability (as defined) or Retirement (as defined), the Company's termination of the officer other than for Cause (as defined) or a Change in Control (as defined) of the Company. If the officer terminates his employment other than due to death, Disability or Retirement or the Company terminates the officer's employment for Cause, any unvested shares held by the officer will be forfeited.

## Note 4. EARNINGS PER SHARE

Basic earnings per share (EPS) is equal to net income divided by the weighted average number of shares of common stock outstanding for the period. The weighted average number of shares outstanding for the three and nine months ended September 30, 2006 was 2,762,878 and 2,756,669, respectively. The weighted average number of shares outstanding for the three and nine months ended September 30, 2005 was 2,734,112 and 2,807,518, respectively. Diluted EPS is calculated as if the Company had additional common stock outstanding from the beginning of the year or the date of grant for all common stock equivalents, net of assumed repurchased shares using the treasury stock method. Diluted EPS recognizes the dilutive effect of common stock equivalents and is equal to net income divided by the sum of the weighted average number of shares outstanding and common stock equivalents. For the three and nine months ended September 30, 2006 and September 30, 2005, the Company's common stock equivalents consisted of restricted stock and stock options. For the three and nine months ended September 30, 2006, the effect of this calculation resulted in an increase in the weighted average number of shares outstanding of 356,375 and 374,001. At September 30, 2006, the fully diluted weighted average number of shares outstanding for the three and nine months was 3,119,253 and 3,130,670. For the three and nine months ended September 30, 2005, the effect of this calculation resulted in an increase in the weighted average number of shares outstanding of 355,020 and 315,519. At September 30, 2005, the fully diluted weighted average number of shares outstanding for the three and six months was 3,089,132 and 3,132,037. At September 30, 2006, there were 283,484 shares potentially issuable with respect to stock options, which could dilute EPS in the future but which were excluded from the diluted EPS calculation because their effect was antidilutive. At September 30, 2005, there were 372,155 shares potentially issuable with respect to stock options, which could dilute EPS in the future but which were excluded from the diluted EPS calculation because their effect was antidilutive.

## Note 5. COMPREHENSIVE INCOME

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Net income	\$ 1,659,000	\$ 1,226,000	\$ 4,292,000	\$ 3,378,000
Other comprehensive income (loss) foreign currency translation adjustment	572,000	(45,000)	229,000	(272,000)
Comprehensive income	\$ 2,231,000	\$ 1,181,000	\$ 4,521,000	\$ 3,106,000

## Note 6. RELATED PARTY TRANSACTIONS AND SIGNIFICANT CUSTOMERS

In 2001, the Company issued 868,000 shares of its common stock to Brit Insurance Holdings PLC (Brit), for \$7,000,000. The total shares held by Brit at September 30, 2006 was 930,163, representing an equity ownership of approximately 34%. At September 30, 2006, Brit owned approximately 78% of CF Epic Insurance and General Fund, which owned approximately 8% of the Company's common stock.

The Company has entered into various software and service agreements with Brit. During the three and nine months ended September 30, 2006 approximately \$1,062,000 (15%) and \$2,477,000 (12%) was recognized as revenue from Brit and its affiliates. During the three and nine months ended September 30, 2005, approximately \$963,000 (16%) and \$2,720,000 (15%) was recognized as revenue from Brit and its affiliates. Total accounts receivable from Brit and its affiliates at September 30, 2006 and December 31, 2005 were \$1,255,000 and \$988,000, respectively.

During the three and nine months ended September 30, 2006, approximately \$192,000 (3%) and \$1,400,000 (7%), respectively, was recognized as revenue from another significant customer, AON. During the three and nine months ended September 30, 2005, approximately \$617,000 (11%) and \$1,122,000 (6%), respectively, was recognized as revenue from AON. Total accounts receivable from AON at September 30, 2006 and December 31, 2005 were \$350,000 and \$181,000, respectively.

## Note 7. ACQUISITION OF LIFELINK

On February 23, 2004, the Company acquired LifeLink Corporation ( LifeLink ), and the operations of LifeLink have been included in the Company's financial statements since that date. Under terms of the agreement, the Company acquired all of the outstanding capital stock of LifeLink from its shareholders in exchange for an aggregate purchase price of \$10,354,000 payable as follows: \$5,000,000 paid in cash at closing, \$2,500,000 in a non-interest bearing note payable in cash in annual installments of \$500,000 over five years (present value computed as \$2,226,000), and \$3,000,000 payable in 200,000 shares of the common stock of the Company issued at the time of closing to one of the LifeLink shareholders who received the right to sell such shares (the LifeLink Redeemable Shares) back to the Company as described below. The Company also capitalized approximately \$128,000 of transaction costs in conjunction with the LifeLink acquisition.

At any time during the one month period commencing on August 23, 2005, the holder of the LifeLink Redeemable Shares had a one-time right to require the Company to purchase all of the LifeLink Redeemable Shares, originally valued at \$15.00 per share in the acquisition of LifeLink, for a discounted price of \$13.50 per share minus the aggregate purchase price received by the holder from any sales of these shares of common stock prior to the exercise of the put option. The Company classified \$2,700,000 of the value of the common stock issued as temporary equity, redeemable common stock, in the consolidated balance sheet due to the existence of the holder's embedded put option. The Company and LifeLink's former shareholder agreed to accelerate the exercisability of the put option and on April 28, 2005, the Company repurchased the LifeLink Redeemable Shares at a price of \$13.50 per share. On May 2, 2005, the LifeLink name was changed to EbixLife Inc. The following table summarizes the fair value of the LifeLink assets acquired and liabilities assumed at the date of acquisition.

Current assets	\$ 1,199,000
Property and equipment	119,000
Intangible assets	3,518,000
Goodwill	5,989,000
Total assets acquired	10,825,000
Current liabilities	471,000
Total liabilities assumed	471,000
Net assets acquired	\$ 10,354,000

Of the \$3,518,000 of intangible assets acquired, \$977,000 was assigned to developed technology with a remaining estimated useful life of five years, \$299,000 was assigned to trademarks with a remaining estimated useful life of five years and \$2,242,000 was assigned to customer relationships with a remaining estimated useful life of seven years. The Company recorded \$144,000 and \$432,000 of amortization expense related to these intangible assets for the three and nine months ended September 30, 2006, respectively and \$144,000 and \$432,000 of amortization expense related to these intangibles for the three and nine months ended September 30, 2005.

*Estimated Amortization Expenses:*

For the year ending December 31, 2006	\$ 575,000
For the year ending December 31, 2007	\$ 575,000
For the year ending December 31, 2008	\$ 575,000
For the year ending December 31, 2009	\$ 358,000
For the year ending December 31, 2010	\$ 320,000
Thereafter	\$ 47,000

The acquisition of EbixLife was consistent with the Company's overall focus on marketing software to insurance agents and brokers. This acquisition increased sales and revenue of the consolidated total while providing significant sales opportunities for the Company's other existing services. The Company performed an annual impairment assessment, as required by SFAS No. 142, Goodwill and Other Intangible Assets, of the EbixLife goodwill and intangible assets as of September 30, 2005 and it was determined that the assets were not impaired. The Company will perform its annual impairment assessment as of September 30, 2006 during the fourth quarter of 2006.



**Note 8. ACQUISITION OF HEART**

On July 1, 2004, Ebix Australia Pty Ltd, which is a wholly-owned subsidiary of the Company, acquired certain of the operating assets of Heart Consulting Services Pty Ltd ( Heart ), and the operations of Heart have been included in the Company's financial statements since that date. Under terms of the agreement, the Company acquired the operating assets of Heart in exchange for an aggregate purchase price of \$7,116,000 payable as follows: \$3,619,000 paid in cash at closing (subsequent to closing the former owner of Heart paid the Company \$467,000 for deferred revenue and a vacation accrual settlement), \$1,399,000 payable under stand-by letters of credit issued by the Company's lender on the Company's line of credit in three equal annual installments on each of the first, second and third anniversaries of the closing (present value computed as \$1,293,000), and \$2,098,000 payable in 157,728 shares of the common stock of the Company issued at the time of closing. The Company also capitalized approximately \$241,000 of transaction costs in conjunction with the Heart acquisition. In connection with the 157,728 shares of common stock issued, the owners of Heart received from Ebix the option to sell their stock back to Ebix subject to specified time frames and prices.

In 2005, the Company had classified \$1,461,000 of the value of the common stock issued as temporary equity, redeemable common stock, in the condensed consolidated balance sheet due to the existence of the holder's embedded put option. At any time during the one month period commencing January 3, 2006 and ending February 3, 2006, the holder of the redeemable common stock had a one-time right to require the Company to purchase all of the holder's 157,728 shares at a price of AU\$2,000,000 minus the aggregate purchase price received by the holder from any sales of these shares of common stock prior to the exercise of the put option. As of December 31, 2005, the holder had not sold any shares of common stock received from this transaction. The holder did not exercise the right to require the Company to purchase all of the holder's 157,728 shares as of February 3, 2006; as such, the redeemable common stock was reclassified in first quarter 2006 as it is no longer redeemable.

Concurrent with the acquisition, the Company ascribed a preliminary value to each of the assets and liabilities assumed from the acquisition of Heart. Upon final review of the acquisition, the purchase price was reallocated. The following table summarizes the fair value of the Heart assets acquired and liabilities assumed at the date of acquisition subsequent to the reallocation.

<b>Current assets</b>	<b>\$ 467,000</b>
Property and equipment	43,000
<b>Intangible assets</b>	<b>1,229,000</b>
Goodwill	5,945,000
<b>Total assets acquired</b>	<b>7,684,000</b>
<b>Current liabilities</b>	<b>467,000</b>
<b>Total liabilities assumed</b>	<b>467,000</b>
<b>Net assets acquired</b>	<b>\$ 7,217,000</b>

Of the \$1,229,000 of intangible assets acquired, \$630,000 was assigned to customer relationships with a remaining useful life of four years, \$410,000 was assigned to developed technology and \$189,000 was assigned to trademarks with a remaining estimated useful lives of five years. The Company recorded \$71,000 and \$218,000 of amortization expense related to these intangible assets for the three and nine months ended September 30, 2006, respectively and \$61,000 and \$199,000 of amortization expense related to these intangibles for the three and nine months ended September 30, 2005.

*Estimated Amortization Expenses:*

<b>For the year ended December 31, 2006</b>	<b>\$ 300,000</b>
For the year ended December 31, 2007	\$ 300,000
For the year ended December 31, 2008	\$ 215,000
For the year ended December 31, 2009	\$ 65,000
For the year ended December 31, 2010	\$

The acquisition of Heart was consistent with the Company's overall focus on marketing software to insurance agents and brokers. This acquisition increased sales and revenue of the consolidated total while providing significant sales opportunities for the Company's other existing services. The Company performed an annual impairment assessment, as required by SFAS No. 142, "Goodwill and Other Intangible Assets", of the Heart goodwill and intangible assets as of September 30, 2005 and it was determined that the assets were not impaired. The Company will perform its annual impairment assessment as of September 30, 2006 during the fourth quarter of 2006.

#### Note 9 -LINE OF CREDIT AND OTHER COMMITMENTS

##### Bank Line of Credit

In October 2002, the Company obtained from LaSalle Bank National Association a \$1,000,000 revolving line of credit, secured by a perfected first security interest in substantially all of the Company's assets. The line of credit was increased to \$5,000,000 during February 2004. On February 23, 2005, the Company entered into an amendment to the credit agreement amending certain financial covenants. Major features of the line, as amended, included an interest rate equal to the prime rate, security at 60% of the amount of the line in a restricted interest-bearing account and timely financial reporting requirements.

In October 2005, the Company entered into an amendment to the credit agreement, which deleted the security at 60% of the amount of the line in a restricted interest-bearing account and extended the expiration date to October 31, 2006. In November 2005, the line of credit was paid.

In August 2006, the Company entered into an amendment to the credit agreement, which increased the line to \$12,000,000. Total borrowings on this line were zero as of September 30, 2006. On November 10, 2006, there was \$11,000,000 outstanding on the line of credit. The line of credit agreement expires on August 31, 2007.

##### Letters of Credit

Under terms of the agreement with Heart Consulting Services Pty Ltd. (see note 8), \$1,399,000 is payable by the Company under stand-by letters of credit issued by the Company's lender on the Company's line of credit in three equal annual installments on each of the first, second and third anniversaries of the closing of the Heart asset acquisition (present value computed as \$1,293,000). The three letters of credit expire on July 31, 2005, July 31, 2006 and July 31, 2007, respectively. On July 1, 2005 the Company paid the first installment of \$508,000. On July 3, 2006 the Company paid the second installment of \$496,000.

##### Self Insurance:

The Company is currently self-insured for its health insurance and has a stop loss policy that limits the individual liability to \$75,000 per person and the aggregate liability to 125% of the expected claims based upon the number of participants and historical claims. As of September 30, 2006, the maximum aggregate liability calculated was \$805,000 for the annual contract period, which ends in September 2007.

#### Note 10 DEBT MATURITIES

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	Year Ended December 31,				Total
	2006	2007	2008	2009	
EbixLife	\$	\$ 500,000	\$ 500,000	\$ 500,000	\$ 1,500,000
Heart	\$	\$ 498,000	\$	\$	\$ 498,000
	\$	\$ 998,000	\$ 500,000	\$ 500,000	\$ 1,998,000

The EbixLife debt is a result of the EbixLife acquisition on February 23, 2004 and represents a \$2,500,000 non-interest bearing note payable. The note is payable in annual installments of \$500,000 over five years. The Company has imputed interest on this debt of 4%. The debt on the balance sheet is net of imputed interest. The first installment was paid on February 23, 2005 and the second installment was paid on February 23, 2006.

The Heart debt is a result of the Heart acquisition on July 1, 2004 and represents \$1,399,000 payable under stand by letters of credit issued by the Company's lender under the Company's line of credit in three equal annual installments on each of the first, second and third anniversaries of the closing. The Company has imputed interest on this debt at 4%. The first installment was paid on July 1, 2005 and the second installment was made on July 3, 2006.

Note 11 ACQUISITION OF INFINITY ON MAY 9, 2006

On May 9, 2006, Ebix, Inc. (Ebix) announced the acquisition of substantially all of the operating assets of Infinity Systems Consulting, Inc. (Infinity). This acquisition was effective as of May 1, 2006. Ebix acquired these assets for an upfront payment of \$2.9 million in cash and a potential future payment not exceeding \$4.5 million in cash if Infinity meets certain future revenue projections as a division of Ebix. The Company capitalized approximately \$140,000 of transaction costs in conjunction with the Infinity acquisition.

Concurrent with the acquisition, the Company ascribed a preliminary value to each of the assets and liabilities assumed from the acquisition of Infinity. The following table summarizes the fair value of the Infinity assets acquired and liabilities assumed at the date of acquisition subsequent to the reallocation.

Property and equipment	\$ 93,000
Intangible assets	2,399,000
Goodwill	693,000
Total assets acquired	3,185,000
Deferred revenue	91,000
Deferred rent	54,000
Total liabilities assumed	145,000
Net assets acquired	\$ 3,040,000

Of the \$2,399,000 of intangible assets acquired, \$656,000 was assigned to customer relationships with a remaining useful life of ten years, \$1,525,000 was assigned to developed technology with a remaining useful life of 5 years and \$218,000 was assigned to trade name with a remaining estimated useful life of ten years. The Company recorded \$98,000 and \$163,000 of amortization expense related to these intangible assets for the three and nine months ended September 30, 2006. There was no amortization expense related to these intangibles for the three and nine months ended September 30, 2005 as the acquisition was consummated in May 2006.

*Estimated Amortization Expenses:*

For the year ended December 31, 2006	\$ 262,000
For the year ended December 31, 2007	\$ 392,000
For the year ended December 31, 2008	\$ 392,000
For the year ended December 31, 2009	\$ 392,000
For the year ended December 31, 2010 and thereafter	\$ 961,000

The acquisition of Infinity was consistent with the Company's overall focus on providing software solutions to insurance carriers agents and brokers. This acquisition increased sales and revenue of the consolidated total while providing significant sales opportunities for the Company's other existing services.

Note 12 PRO FORMA FINANCIALS

The following unaudited pro forma financial information for the three and nine months ended September 30, 2006 and September 30, 2005, presents the consolidated operations of the Company as if the Infinity acquisition had been made on January 1, 2005, after giving effect to certain adjustments for the pro forma acquisition as of the acquisition. The Company made adjustments primarily for the amortization of intangible assets related to the acquisition. The unaudited pro forma financial information is provided for informational purposes only and does not project the Company.



	<b>Three Months Ended September 30, 2006</b>	<b>Nine Months Ended September 30, 2006</b>	<b>Three Months Ended September 30, 2005</b>	<b>Nine Months Ended September 30, 2005</b>
Revenue	\$ 7,296,000	\$ 21,625,000	\$ 7,134,000	\$ 21,647,000
Net income	\$ 1,659,000	\$ 4,490,000	\$ 1,375,000	\$ 3,824,000
Basic earnings per share	\$ 0.60	\$ 1.63	\$ 0.50	\$ 1.36
Diluted earnings per share	\$ 0.53	\$ 1.43	\$ 0.44	\$ 1.22

Note 13 STOCK REPURCHASE

On June 2, 2006, the Board of Directors of Ebix, Inc. announced a share repurchase of up to \$1 million of Ebix's current outstanding shares of common stock. Under the terms of the Board's authorization, Ebix retains the right to purchase up to \$1 million in shares but does not have to repurchase this entire amount. All repurchases are expected to be made with cash on hand.

The repurchase program's terms have been structured to comply with the SEC's Rule 10b-18, and is subject to market conditions and applicable legal requirements. The program does not obligate the Company to acquire any specific number of shares and may be suspended or terminated at any time. All purchases will be on the open market and are expected to be funded from existing cash.

For the three and nine months ended September 30, 2006, the Company repurchased 7,788 and 8,890 shares of common stock at prices ranging from \$15.00 to \$18.50. The Company has not repurchased any shares of common stock since September 30, 2006.

Note 14 FINETRE ACQUISITION

On October 2, 2006, Ebix, Inc. (Ebix) announced the merger with Finetre Corporation (Finetre) effective October 1, 2006. Finetre will become a separate division within Ebix. Ebix has paid Finetre shareholders \$13,000,000 for substantially all of Finetre stock, and Finetre shareholders retain the right to earn up to \$3,000,000 in additional payments over two years if certain revenue and net income targets of the Finetre division of Ebix are met. Finetre previously operated as a Northern Virginia-based ASP software technology firm focusing on transaction processing and compliance automation in the financial services industry.

## Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following information should be read in conjunction with the unaudited condensed consolidated financial statements and the notes thereto included in Part I, Item 1 of this Quarterly Report, and the audited consolidated financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2005.

### Overview

The Company's product and service strategy focuses on the following five areas: (1) providing software development services to insurance carriers, brokers and agents; (2) worldwide sale, customization, development, implementation and support of its insurance carrier system product, named Business Reinsurance and Insurance Company System (BRICS); (3) worldwide sales and support of agency management systems including EbixASP and eGlobal; (4) expansion of connectivity between consumers, agents, carriers and third party providers through its exchange family of products worldwide namely, EbixLife and EbixExchange; and (5) business process outsourcing services, which include call center and back office, either off site or at the Company's facilities. Software delivered online through application service provider (ASP) models and connectivity products are recorded as services by the Company. The Company anticipates that future revenue will be provided principally by development services, system sales, the sale and licensing of BRICS, international operations, EbixLife, EbixExchange, call center services and support.

As discussed in note 11, on May 9, 2006 the Company, for a cash payment of \$2.9 million of internally generated funds, acquired substantially all of the operating assets of Infinity Consulting, Inc. effective May 1, 2006. There is a contingent future payment of \$4.5 million to be made upon attaining performance criteria. This acquisition is consistent with the Company's overall focus on providing software solutions to insurance carriers, agents and brokers. Along with the Company's other acquisitions over the last two years, the acquisition of Infinity provides the Company with a stronger base of insurance customers who are a target for cross marketing of the Company's other products.

As discussed on note 14, effective October 1, 2006 the Company purchased Finetre Corp (Finetre) for \$13 million. Finetre was privately held and sells servicing and processing solutions to the \$225 billion annuity industry. Finetre processes over \$12 billion of the \$225 billion in annuity premiums per year on an ASP basis and is responsible for managing the software, hardware and maintenance upgrades without incremental cost to the user. Pricing is based on variable fees based on the level of volume processed through the platform. The opportunity to cross sell our other insurance products makes this acquisition especially appealing for synergistic increases in revenue.

### Critical Accounting Policies

The Company's critical accounting policies are those that require application of management's most difficult, subjective or complex judgements, often as a result of the need to make estimates about matters that are inherently uncertain and may change in future periods. The Company has identified the following as its critical accounting policies: revenue recognition, estimating the allowance for doubtful accounts receivable and accounting for income taxes. For a discussion of these policies, see Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies in the Company's Annual Report on Form 10-K for the year ended December 31, 2005.

### Results of Operations

#### Three-Month Period Ended September 30, 2006 Compared to the Three-Month Period Ended September 30, 2005

**Total Revenue** - The Company's revenue has been derived from the licensing and sale of proprietary software and third party software (Software) and from professional services and support services (Services). Services include consulting, implementation, training and project management provided to the Company's customers with installed

systems and those in the process of installing systems. Also included in Services are fees for software license maintenance, Infinity services, EbixLife services, Heart services, initial registration and ongoing monthly subscription fees for the EbixASP product and transaction fees generated from the Ebix.mall website, as well as software development and call center revenue. Total revenue for the quarter ended September 30, 2006 increased \$1,400,000, or 23.7%, to \$7,296,000 from \$5,896,000 for the comparable quarter of the prior year.

**Software Revenue** - Software revenue is comprised of revenue from the sale of Ebix (formerly cd ) products, legacy products, and other third party software. Total software revenue for the third quarter of 2006 decreased \$64,000, or 16.4%, to \$326,000 from \$390,000 for the comparable quarter of the prior year. This decrease was primarily due to a decrease in both domestic and international software revenue.

**Services Revenue** Total services revenue for the third quarter of 2006 increased \$1,464,000, or 26.6%, from \$5,506,000 for the comparable quarter of the prior year. This increase was primarily due to an increase in consulting revenue of \$951,000 primarily due to the acquisition of Infinity, an increase in international revenue of \$442,000 and an increase in EbixLife revenue of \$274,000 partially offset by a decrease in support revenue associated with legacy products of \$134,000, a decrease in EbixMall revenue of \$20,000, a decrease in hosting revenue of \$18,000 and decrease of \$31,000 in other various revenue.

During the third quarter of 2006 and 2005, approximately \$1,062,000 and \$963,000, respectively was recognized as services revenue from Brit Insurance Holdings PLC ( Brit ) and its affiliates. The amounts represented 15% and 16%, of the Company s total revenues for the third quarters of 2006 and 2005, respectively. Brit owned approximately 34% of the Company s common stock as of September 30, 2006. In addition, the Company has been informed that, as of September 30, 2006, Brit owned approximately 78% of the equity interests of CF Epic Insurance and General Fund, which at September 30, 2006 owned approximately 8% of the Company s outstanding common stock. For the three-month periods ended September 30, 2006 and September 30, 2005, 3% and 11% of the Company s total revenues were from AON. Neither Brit and its affiliates nor AON have long-term agreements with the Company that provide certainty that such revenues will be recurring.

Support revenue associated with the Company s legacy products is decreasing due to a trend of declining renewals for these older product offerings.

	<b>Support Revenue</b>	<b>Total Revenue</b>
Third quarter of 2006	\$ 507,000	\$ 7,296,000
Third quarter of 2005	\$ 641,000	\$ 5,896,000

Support revenue decreased \$134,000, or 21%, and as a percentage of total revenue decreased to 7% from 11%, in the third quarter of 2006, compared to the third quarter of 2005.

Based on historical data, the Company expects that legacy support revenue will continue to decrease by approximately 20% each year on a declining balance. The Company expects the legacy support revenue will continue as long as it is economically feasible for the Company to maintain and support the legacy products. As revenue from the legacy support decreases, costs will be reduced. When income from legacy support falls below breakeven, operations will be reviewed to determine if costs can be further reduced for the activity to be profitable, and if not, the Company plans to discontinue supporting the legacy products. The Company cannot predict when this will occur.

The Company expects that future Services revenue will be derived from the sale of BRICS as well as EbixASP registration and monthly fees, EbixLife services, Heart services, Infinity services, software development and legacy support and, to a much lesser extent all transaction revenues from Ebix.mall, EbixExchange, conversion and training. The Company expects future service revenue from the acquisition of Finetre which occurred on October 1, 2006. See note 14.



**Services and other costs** – Cost of services revenue includes costs associated with support, call center, consulting, implementation and training services. Total services and other costs for the quarter decreased \$114,000, or 7.2%, from \$1,594,000 for the comparable quarter of the prior year. This decrease was due to a decrease in international support costs of \$160,000, a decrease in facility costs of \$23,000 and a decrease in other costs of \$5,000 partially offset by an increase in expenses for required services to support the Company's products of \$60,000 and an increase in payroll expenses of \$14,000.

**Product Development Expenses** – Total product development expenses for the third quarter of 2006 increased \$405,000, or 45%, from \$892,000 for the comparable quarter of the prior year. This increase was due to an increase in domestic payroll expenses of \$363,000 primarily due to the acquisition of Infinity, and travel expenses of \$22,000. In addition, facility costs increased \$59,000 as a result of the increases in allocations based on headcount in various locations. These increases were partially offset by a decrease in international payroll expenses of \$39,000.

**Sales and Marketing Expenses** – Total sales and marketing expenses for the third quarter of 2006 increased \$182,000, or 33.3%, from \$547,000 for the comparable quarter of the prior year. This increase was attributable to an increase in payroll expenses of \$207,000 primarily due to the acquisition of Infinity, an increase in advertising expenses of \$9,000 and an increase in facility costs of \$9,000 partially offset by a decrease in international advertising expenses of \$39,000 and other expenses of \$4,000.

**General and Administrative Expenses** - Total general and administrative expenses for the quarter increased \$118,000, or 8.4%, from \$1,413,000 for the comparable quarter of the prior year. This increase was due to an increase in payroll and benefits of \$192,000, increases in travel and entertainment of \$114,000, rent expense of \$44,000, office expense of \$45,000, charitable contributions of \$23,000 and a decrease in the amount of facility costs allocated to other departments of \$442,000 partially offset by a decrease in international expenses of \$622,000, a decrease in legal and audit expense of \$65,000 and a decrease in consulting expenses of \$55,000.

**Amortization and Depreciation Expenses** Total amortization and depreciation expenses for the quarter increased \$118,000, or 37.2%, from \$317,000 for the comparable quarter of the prior year. This increase is primarily due to the increase in depreciation and amortization of intangibles related to the acquisition of Infinity.

**Income tax expense** The effective tax rate for the third quarter of 2006 was higher than the rate for the comparable quarter of the prior year due to a different income mix among the various tax jurisdictions in which the Company does business.

**Nine-Month Period Ended September 30, 2006 Compared to the Nine-Month Period Ended September 30, 2005**

**Total Revenue** - Total revenue for the nine-month period ended September 30, 2006 increased \$2,041,000, or 11.4%, to \$19,975,000 from \$17,934,000 for the comparable period of the prior year.

**Software Revenue** - Total software revenue for the nine-month period ended September 30, 2006 increased \$251,000, or 25.1%, to \$1,251,000 from \$1,000,000 for the comparable period of the prior year. This increase was primarily due to the increase in domestic software revenue.

**Services Revenue** Total services revenue for the nine-month period ended September 30, 2006 increased \$1,790,000, or 10.6%, from \$16,934,000 for the comparable period of the prior year. This increase was primarily due to an increase in consulting revenue of \$1,193,000 primarily due to the acquisition of Infinity, an increase in international service revenue of \$966,000 and an increase in EbixLife revenue of \$501,000 partially offset by a decrease in support revenue associated with legacy products of \$467,000, a decrease in EbixMall revenue of \$229,000, a decrease in hosting revenue of \$79,000, a decrease in call center revenue of \$52,000 and a decrease in other revenues of \$43,000.

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During the nine-month period ended September 30, 2006 and 2005, approximately \$2,477,000 and \$2,720,000, respectively was recognized as services revenue from Brit Insurance Holdings PLC ( Brit ) and its affiliates. The amounts represented 12% and 15%, of the Company s total revenues for the nine-month periods ended September

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30, 2006 and 2005, respectively. Brit owned approximately 34% of the Company's common stock as of September 30, 2006. In addition, the Company has been informed that, as of September 30, 2006, Brit owned approximately 78% of the equity interests of CF Epic Insurance and General Fund, which at September 30, 2006 owned approximately 8% of the Company's outstanding common stock. For the nine-month periods ended September 30, 2006 and 2005, 7% and 6% of the Company's total revenues were from AON. Neither Brit and its affiliates nor AON have long-term agreements with the Company that provide certainty that such revenues will be recurring.

Support revenue associated with the Company's legacy products is decreasing due to a trend of declining renewals for these older product offerings.

	<b>Support Revenue</b>	<b>Total Revenue</b>
Nine-months ended September 30, 2006	\$ 1,628,000	\$ 19,975,000
Nine-months ended September 30, 2005	\$ 2,095,000	\$ 17,934,000

Support revenue decreased \$467,000, or 22%, and as a percentage of total revenue decreased to 8% from 12%, in the nine-month period ended September 30, 2006 compared to the same period in 2005.

Based on historical data, the Company expects that legacy support revenue will continue to decrease by approximately 20% each year on a declining balance. The Company expects the legacy support revenue will continue as long as it is economically feasible for the Company to maintain and support the legacy products. As revenue from the legacy support decreases, costs will be reduced. When income from legacy support falls below breakeven, operations will be reviewed to determine if costs can be further reduced for the activity to be profitable, and if not, the Company plans to discontinue supporting the legacy products. The Company cannot predict when this will occur.

The Company expects that future Services revenue will be derived from the sale of BRICS as well as EbixASP registration and monthly fees, EbixLife services, Heart services, Infinity services, software development and legacy support and, to a much lesser extent all transaction revenues from Ebix.mall, EbixExchange, conversion and training. The Company expects future service revenue from the acquisition of Finetre which occurred on October 1, 2006. See note 14.

**Services and other costs** – Cost of services revenue includes costs associated with support, call center, consulting, implementation and training services. Total services and other costs for the nine-month period ended September 30, 2006 decreased \$333,000, or 7.4%, from \$4,503,000 for the comparable period of the prior year. This decrease was due to a decrease in payroll expenses of \$40,000, a decrease in expenses for required services to support the Company's products of \$32,000, and a decrease in facility costs of \$53,000 a decrease in international support costs of \$206,000 and a decrease in other expenses of \$2,000.

**Product Development Expenses** – Total product development expenses for the nine-month period ended September 30, 2006 increased \$806,000, or 32.8%, from \$3,265,000 for the comparable period of the prior year. This increase was due to an increase in domestic payroll expenses of \$591,000, primarily due to the acquisition of Infinity, an increase in international payroll of \$26,000 and an increase in travel and entertainment expenses of \$22,000. In addition, facility costs increased \$167,000 as a result of the increases in headcount in various locations.

**Sales and Marketing Expenses** – Total sales and marketing expenses for the nine-month period ended September 30, 2006 increased \$422,000, or 27.3%, from \$1,547,000 for the comparable period of the prior year. This increase was attributable to an increase in payroll expenses of \$460,000 primarily due to the acquisition of Infinity, an increase in travel and entertainment expenses of \$9,000, an increase in consulting expenses of \$9,000, an increase in facility costs of \$22,000 and an increase in office supplies of \$6,000 partially offset by a decrease in advertising expenses of \$40,000 and a decrease in international expenses of \$44,000.

**General and Administrative Expenses** - Total general and administrative expenses for the nine-month period ended September 30, 2006 decreased \$36,000, or 0.7%, from \$4,928,000 for the comparable period of the prior year.



This decrease was due to a decrease in international expenses of \$545,000 and a decrease in audit and legal fees of \$274,000, a decrease in consulting fees of \$106,000, a decrease in insurance expense of \$11,000 and an increase in the amount of facility costs allocated to other departments of \$18,000 partially offset by an increase in payroll of \$435,000, and increase in travel and entertainment expenses of \$268,000, an increase in office expense of \$124,000, an increase in rent expense of \$58,000, an increase in charitable contributions of \$33,000.

**Amortization and Depreciation Expenses** Total amortization and depreciation expenses for the nine-month period ended September 30, 2006 increased \$201,000, or 20.8%, from \$965,000 for the comparable period of the prior year. This increase is primarily due to the increase in depreciation and amortization of intangibles related to the acquisition of Infinity.

**Income tax expense** **The effective tax rate for the nine months ended September 30, 2006 was higher than the rate for the comparable period of the prior year due to a different income mix among the various tax jurisdictions in which the Company does business.**

**Liquidity and Capital Resources**

The Company had cash and cash equivalents of \$5,334,000 at September 30, 2006, compared to cash and cash equivalents of \$6,733,000 at December 31, 2005.

During the nine months ended September 30, 2006, the Company generated operating cash flow of \$2,522,000 as compared to \$4,106,000 of operating cash flow for the nine months ended September 30, 2005. The cash flow from operations in the nine months ended September 30, 2006 is principally due to a growth in net income partially offset by an increase in net accounts receivable of \$1,510,000, and a decrease in accounts payable and accrued expenses of \$943,000. These balance sheet fluctuations are normal consequences of timing differences between accruals and their cash settlement.

Cash used in investing activities of \$3,179,000 in the nine months ended September 30, 2006 represented expenditures made primarily related to the Company's acquisition of Infinity. Cash used in financing activities of \$779,000 resulted from the Company's payment of a long-term debt obligation, partially offset by the proceeds from the exercise of stock options.

In the nine months ended September 30, 2006, 12% and 7% of the Company's total revenues were from two customers Brit and its affiliates and AON, respectively. Neither Brit nor AON have long-term agreements with the Company that provide certainty that such revenues and related cash flows will be recurring. AON International continues to acquire licenses for more locations resulting in more reliance on the e-Global system.

In October 2002, the Company obtained from LaSalle Bank National Association a \$1,000,000 revolving line of credit, secured by a perfected first security interest in substantially all of the Company's assets. The line of credit was increased to \$5,000,000 during February 2004 and expired on October 31, 2006. In November 2005, the line of credit was paid and the total borrowings on this line were zero. In August 2006, the Company entered into an amendment to the credit agreement, which increased the line to \$12,000,000. Total borrowings on this line were zero as of September 30, 2006. On November 10, 2006, there was \$11,000,000 outstanding on the line of credit. The line of credit agreement expires on August 31, 2007.

On May 9, 2006, Ebix, Inc. (Ebix) announced the acquisition of substantially all of the operating assets of Infinity Systems Consulting, Inc. (Infinity). This acquisition was post-dated to be effective as of May 1, 2006. Ebix acquired these assets for an upfront payment of \$2.9 million in cash and a potential future payment not exceeding \$4.5 million in cash if Infinity meets certain future revenue projections as a division of Ebix.

On October 2, 2006, Ebix, Inc. (Ebix) announced the merger with Finetre Corporation (Finetre) effective October 1, 2006. Finetre will become a separate division within Ebix. Ebix has paid Finetre shareholders \$13,000,000 for substantially all of Finetre stock, and Finetre shareholders retain the right to earn up to \$3,000,000 in additional payments over two years if certain revenue and net income targets of the Finetre division of Ebix are met.

In planning for its capital needs, the Company takes into account its sources of cash, which include operating cash flow, cash balances and funds from credit facilities, and anticipated future cash needs, which include working capital requirements for operations, capital expenditures, and expenditures for business acquisitions. Based on these considerations, the Company believes it will have sufficient cash from operations to satisfy its contractual obligations for at least the next several years.

The following summarizes the Company's contractual obligations at September 30, 2006, and the effect such obligations are expected to have on the Company's liquidity and cash in future periods (in thousands):

	Payment Due by Period				
	Total (in thousands)	Less Than 1 Year	1 - 3 Years	3- 5 Years	More Than 5 Years
<b>Contractual Obligations:</b>					
Long-Term Debt Obligations (1)	\$ 1,966	\$ 966	\$ 1,000	\$	\$
Operating Leases Obligations	3,562	897	1,504	758	403
Capital Leases Obligations	13	2	7	4	
<b>Total</b>	<b>\$ 5,541</b>	<b>\$ 1,865</b>	<b>\$ 2,511</b>	<b>\$ 762</b>	<b>\$ 403</b>

(1) Includes interest of approximately \$166,000 at an imputed interest rate of 4% as of the date of acquisition.

### Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The majority of the Company's operations are based in the U.S. and, accordingly, the majority of our transactions are denominated in U.S. dollars. However, the Company has foreign-based operations where transactions are denominated in foreign currencies and are subject to market risk with respect to fluctuations in the relative value of currencies. Currently, the Company and its subsidiaries have operations in Australia, Canada, India, New Zealand and Singapore and conduct transactions in the local currencies of each location. There can be no assurance that fluctuations in the value of foreign currencies will not have a material adverse effect on the Company's business, operating results, revenues or financial condition. The impact of fluctuations in these currencies resulted in a net transaction losses of \$72,000 and \$17,000 for the three months ended September 30, 2006 and 2005, respectively and net transaction gains of \$16,000 and \$58,000 for the nine months ended September 30, 2006 and 2005, respectively. The Company considered the historical trends in currency exchange rate and determined that it was reasonably possible that adverse changes in exchange rates of 20% for all currencies could be experienced in the near term. Such adverse changes would have resulted in a positive impact on income before taxes of approximately \$26,000 for the three months ended September 30, 2006 and an adverse impact on income before taxes of approximately \$30,000 for the three months ended September 30, 2005, respectively. Such adverse changes would have resulted in an adverse impact on income before taxes of approximately \$140,000 and \$265,000 for the nine months ended September 30, 2006 and 2005, respectively.

There have been no material changes in the Company's interest rate risk during the three and nine months ended September 30, 2006. For additional information on interest rate risk, refer to the "Quantitative Disclosures About Market Risk" section of the Company's Annual Report on Form 10-K for the year ended December 31, 2005.

### Item 4. CONTROLS AND PROCEDURES

*Disclosure Controls and Procedures.* The Company maintains controls and procedures designed to ensure that it is able to collect the information we are required to disclose in the reports we file with the SEC, and to process, summarize and disclose this information within the time periods specified in the rules of the SEC. Management, with the participation of the Chief Executive Officer and Chief Financial Officer, has evaluated our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934 as amended (the Exchange Act)).

Based on such evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of

The following summarizes the Company's contractual obligations at September 30, 2006, and the effect such obligations



the end of such period, the Company's controls and procedures are effective to ensure that we are able to collect, process and disclose the information it is required to disclose in the report we file with the SEC within the required time periods.

*Changes in Internal Control Over Financial Reporting.* There has been no change in our internal control over financial reporting for the three and nine months ended September 30, 2006, that has materially affected, or is reasonably likely to materially affect, internal control over financial reporting.

## Part II OTHER INFORMATION

**Safe Harbor for Forward-Looking Statements under the Securities Litigation Reform Act of 1995** This Quarterly Report on Form 10-Q contains various forward-looking statements and information that are based on management's beliefs, as well as assumptions made by, and information currently available to management, including statements regarding future economic performance and financial condition, liquidity and capital resources, acceptance of the Company's products by the market and management's plans and objectives. The Company has tried to identify such forward looking statements by use of words such as expects, intends, anticipates, plans, believes, will, should, and similar words, but these words are not the exclusive means of identifying such statements. The forward looking statements included in this Quarterly Report are subject to various risks, uncertainties and other factors which could cause actual results to vary materially from those expressed in, or implied by, the forward looking statements. Such risks, uncertainties and other factors include those discussed in Risk Factors below. Except as expressly required by the federal securities laws, the Company undertakes no obligation to update any such factors or to publicly announce the results of any of the forward-looking statements contained herein to reflect changed circumstances or future events or developments or for any other reason.

### Item 1A. RISK FACTORS

#### **Risk Factors**

You should carefully consider the risks, uncertainties and other factors described below, along with all of the other information included in this quarterly report on Form 10-Q, because they could materially and adversely affect our business, financial condition, operating results, cash flows and prospects and/or the market price of our common stock. This risk factors section is written in response to the Securities and Exchange Commission's plain English guidelines. In this section, the words we, us, our and ours refer to the Company and not any other person.

#### *Risks Related To Our Business and Our Industry*

**You may have difficulty evaluating our business because of our limited history of Internet, call center and other business process outsourcing.**

Although our predecessor began operations in 1976, we did not begin any Internet operations until September 1999 and did not begin generating revenues from these operations until the fourth quarter of 2000. We did not begin any call center or other business process outsourcing operations or begin generating revenues from these operations until the first quarter of 2003. Accordingly, there is a limited history of these operations on which you can evaluate our company and prospects. We cannot be certain that our Internet, call center and other business process outsourcing strategies will be successful, because these strategies are new. Our early-stage Internet, call center and other business process outsourcing operations will be particularly susceptible to the risks and uncertainties described in these risk factors and more likely to incur the expenses associated with addressing them. Our prospects must be considered in light of the risks, uncertainties, expenses and difficulties frequently encountered by companies in a transitional stage of development, particularly companies in new and rapidly evolving markets, such as electronic commerce, and using new and unproven business models.

**Because the support revenue that we have traditionally relied upon has been steadily declining, it is important that new sources of revenue continue to be developed.**

Our revenue from the support services we offer in connection with our legacy software products has been

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decreasing significantly over the course of the past few years. This decline can be attributed to the fact that many of our support clients are not renewing their support agreements with us, in many cases because they are no longer using our legacy software. Even if they are continuing to use our legacy software, our support clients may choose not to renew their support agreements if their legacy software products no longer require support or they use third party support. In addition, some of the clients who use our support services have reduced the level of support that we provide them, which in turn reduces our support revenue. This downward trend in our support revenue makes us particularly dependent upon our other sources of revenue.

**Two customers currently provide a significant percentage of our total revenue.**

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Revenues from one customer, Brit Insurance Holdings PLC and its affiliates, which at September 30, 2006 owned approximately 34.0% of our common stock and approximately 78% of CF Epic Insurance and General Fund, which at that date owned approximately 8% of our common stock, represented approximately 12% (\$2,477,000) and 15% (\$2,720,000) of our total revenue for the nine-month periods ended September 30, 2006 and September 30, 2005, respectively. If revenues from this customer were to discontinue, our operating results could be adversely affected.

Revenues from another customer, AON, represented approximately 7% (\$1,400,000) and 6% (\$1,122,000) of our total revenue for the nine-month periods ended September 30, 2006 and September 30, 2005, respectively. If revenues from this customer were to discontinue, our operating results could be adversely affected.

**Adverse insurance industry economics could adversely affect our revenues.**

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We are dependent on the insurance industry, which may be adversely affected by current economic and world political conditions.

**Our operating results may fluctuate dramatically.**

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Our quarterly operating results may fluctuate significantly in the future due to a variety of factors that could affect our revenues or our expenses in any particular quarter. You should not rely on our results of operations during any particular quarter as an indication of our results for a full year or any other quarter. Factors that may affect our quarterly results may include the loss of a significant insurance agent, carrier or broker relationship or the merger of any of our participating insurance carriers with one another.

Our operating expenses are based in part on our expectations of our future revenues and are relatively fixed in the short term. We may be unable to adjust spending quickly enough to offset any unexpected revenue shortfall.

**We cannot predict our future capital needs and we may not be able to secure additional financing when we need it.**

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We may need to raise additional funds in the future in order to fund more aggressive brand promotion or more rapid expansion, to develop new or enhanced services, to respond to competitive pressures or to make acquisitions. Any required additional financing may not be available on terms favorable to us, or at all. If adequate funds are not available on acceptable terms, we may be unable to meet our business or strategic objectives or compete effectively. If additional funds are raised by our issuing equity securities, stockholders may experience dilution of their ownership interests, and the newly issued securities may have rights superior to those of our common stock. If additional funds are raised by our issuing debt, we may be subject to limitations on our activities.

**Our recent acquisitions of Infinity and Finetre as well as any future acquisitions that we undertake could be difficult to integrate, disrupt our business, dilute stockholder value and harm our operating results.**



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The acquisitions of Infinity and Finetre and any other future acquisitions, may cause us to be subject to a variety of risks, including risks associated with an ability to integrate acquired assets or operations into our existing operations, higher costs or unexpected difficulties or problems with acquired assets or entities, outdated or incompatible technologies, labor difficulties or an inability to realize anticipated synergies and efficiencies, whether within anticipated timeframes or

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at all, one or more of which risks, if realized, could have an adverse impact on our operations.

**We may not be able to continue to develop new products to effectively adjust for rapid technological changes.**

To be successful, we must adapt to rapidly changing technological and market needs, by continually enhancing our website and introducing new products and services to address our users' changing demands.

The marketplaces in which we operate are characterized by:

- rapidly changing technology;
- evolving industry standards;
- frequent new product and service introductions;
- shifting distribution channels; and
- changing customer demands.

Our future success will depend on our ability to adapt to this rapidly evolving marketplace. We could incur substantial costs if we need to modify our services or infrastructure in order to adapt to changes affecting our market, and we may be unable to adapt to these changes.

**The markets for our products are highly competitive and are likely to become more competitive, and our competitors may be able to respond more quickly to new or emerging technology and changes in customer requirements.**

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We operate in highly competitive markets. In particular, the online insurance distribution market, like the broader electronic commerce market, is rapidly evolving and highly competitive. Our software business also experiences some competition from certain large hardware suppliers that sell systems and systems components to independent agencies and from small, independent or freelance developers and suppliers of software, who sometimes work in concert with hardware vendors to supply systems to independent agencies. Our Internet business may also face indirect competition from insurance carriers that have subsidiaries which perform in-house agency and brokerage functions.

Some of our current competitors have longer operating histories, larger customer bases, greater brand recognition and significantly greater financial, marketing and other resources than we do. In addition, we believe we will face increasing competition as the online financial services industry develops and evolves. Our current and future competitors may be able to:

- undertake more extensive marketing campaigns for their brands and services;

- devote more resources to website and systems development;

- adopt more aggressive pricing policies; and

- make more attractive offers to potential employees, online companies and third-party service providers.

**If we are unable to protect our intellectual property, our reputation and competitiveness in the marketplace may be materially damaged.**

We regard our intellectual property in general and our software in particular as critical to our success. It may be possible for third parties to copy aspects of our products or, without authorization, to obtain and use information that we regard as trade secrets. Existing copyright law affords only limited practical protection, and our software is unpatented.

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**If we infringe on the proprietary rights of others, we may be at a competitive disadvantage, and any related litigation could be time consuming and costly.**

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Third parties may claim that we have violated their intellectual property rights. Any of these claims, with or without merit, could subject us to costly litigation and divert the attention of key personnel. To the extent that we violate a patent or other intellectual property right of a third party, we may be prevented from operating our business as planned, and we may be required to pay damages, to obtain a license, if available, to use the right or to use a non-infringing method, if possible, to accomplish our objectives.

**We depend on the continued services of our senior management and our ability to attract and retain other key personnel.**

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Our future success is substantially dependent on the continued services and continuing contributions of our senior management and other key personnel, particularly Robin Raina, our President and Chief Executive Officer. The loss of the services of any of our executive officers or other key employees could harm our business. We have no long-term employment agreements with any of our key personnel, nor do we maintain key man life insurance policies on any of our key employees.

Our future success depends on our continuing to attract, retain and motivate highly skilled employees. If we are not able to attract and retain new personnel, our business will be harmed. Competition for personnel in our industry is intense. We may be unable to retain our key employees or attract, assimilate or retain other highly qualified employees in the future.

**Our international operations are subject to a number of risks that could affect our income and growth.**

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We market our software internationally and plan to expand our Internet services to locations outside of the United States. In 2004, we acquired certain assets from Heart Consulting Services Pty. Ltd. in Australia. In addition, commencing in 2002, we began development activities, call center services and other operations in India. Our international operations may not produce enough revenue to justify our investments in establishing them and are subject to other inherent risks, including:

the impact of recessions in foreign economies on the level of consumers insurance shopping and purchasing behavior;

greater difficulty in collecting accounts receivable;

difficulties and costs of staffing and managing foreign operations;

reduced protection for intellectual property rights in some countries;

seasonal reductions in business activity during the summer months in Europe and other parts of the world;

burdensome regulatory requirements, other trade barriers and differing business practices;

fluctuations in exchange rates;

potentially adverse tax consequences; and

political and economic instability.

Furthermore, our entry into additional international markets requires significant management attention and financial resources, which could lessen our ability to manage our existing business effectively.



**Laws and regulations that govern the insurance industry could expose us or the agents, brokers and carriers who participate in our online marketplace to legal penalties.**

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We perform functions for licensed insurance agents, brokers and carriers and are, therefore, required to comply with a complex set of rules and regulations that often vary from state to state. These rules and regulations can be difficult to comply with and are ambiguous and open to interpretation. If we fail to properly interpret and/or comply with these rules and regulations, we, the insurance agents, brokers or carriers doing business with us, our officers, or agents with whom we contract could be subject to various sanctions, including censure, fines, cease-and-desist orders, loss of license or other penalties. This risk, as well as other laws and regulations affecting our business and changes in the regulatory climate or the enforcement or interpretation of existing law, could expose us to additional costs, including indemnification of participating insurance agents, brokers or carriers for their costs, and could require changes to our business or otherwise harm our business. Furthermore, because the application of online commerce to the consumer insurance market is relatively new, the impact of current or future regulations on our business is difficult to anticipate. To the extent that there are changes in the rules and regulations regarding the manner in which insurance is sold, our business could be adversely affected.

**Governmental regulation of the telemarketing industry may increase our costs and restrict the operation and growth of our call center business.**

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The telemarketing industry and, therefore, our call center business are subject to an increasing amount of governmental regulation. In particular, telemarketers are now barred from contacting persons who have registered their phone numbers on the National Do Not Call Registry maintained by the Federal Trade Commission. We could be subject to a variety of enforcement or private actions for our failure or the failure of our clients to comply with these regulations. Furthermore, our costs may increase as a result of having to comply with these regulations, and these regulations may limit our call center activities or reduce the demand for our call center services.

### *Risks Related to Our Conduct of Business on The Internet*

**Any disruption of our Internet connections could affect the success of our Internet based products.**

Any system failure, including network, software or hardware failure, that causes an interruption in our network or a decrease in responsiveness of our website could result in reduced user traffic and reduced revenue. Continued growth in Internet usage could cause a decrease in the quality of Internet connection service. Websites have experienced service interruptions as a result of outages and other delays occurring throughout the Internet network infrastructure. In addition, there have been several incidents in which individuals have intentionally caused service disruptions of major e-commerce websites. If these outages, delays or service disruptions frequently occur in the future, usage of our website could grow more slowly than anticipated or decline, and we may lose revenues and customers.

If the computer hardware operations that host our website were to experience a system failure, the performance of our website would be harmed. These systems are also vulnerable to damage from fire, floods, earthquakes, acts of terrorism, power loss, telecommunications failures, break-ins and similar events. Our property and business interruption insurance coverage may not be adequate to compensate us for all losses that may occur. In addition, our users depend on Internet service providers, online service providers and other website operators for access to our website. Each of these providers has experienced significant outages in the past, and could experience outages, delays and other difficulties due to system failures unrelated to our systems. Concerns regarding security of transactions or the transmission of confidential information over the Internet or security problems we experience may prevent us from expanding our business or subject us to legal exposure.

If we do not offer sufficient security features in our online product and service offerings, our products and services may not gain market acceptance, and we could be exposed to legal liability. Despite the measures that we may take, our infrastructure will be potentially vulnerable to physical or electronic break-ins, computer viruses or similar problems. If a person circumvents our security measures, that person could misappropriate proprietary information or disrupt or damage our operations. Security breaches that result in access to confidential information could damage our reputation and subject us to a risk of loss or liability. We may be required to make significant expenditures to protect against or remedy security breaches. Additionally, if we are unable to adequately address our

customers' concerns about security, we may have difficulty selling our goods and services.

**Uncertainty in the marketplace regarding the use of Internet users' personal information, or proposed legislation limiting such use, could reduce demand for our services and result in increased expenses.**

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Concern among consumers and legislators regarding the use of personal information gathered from Internet users could create uncertainty in the marketplace. This could reduce demand for our services, increase the cost of doing business as a result of litigation costs or increased service delivery costs, or otherwise harm our business. Legislation has been proposed that would limit the users of personally identifiable information of Internet users gathered online or require online services to establish privacy policies. Many state insurance codes limit the collection and use of personal information by insurance agencies, brokers and carriers or insurance service organizations. Moreover, the Federal Trade Commission has settled a proceeding against one online service that agreed in the settlement to limit the manner in which personal information could be collected from users and provided to third parties.

**Future government regulation of the Internet could place financial burdens on our businesses.**

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Because of the Internet's popularity and increasing use, new laws and regulations directed specifically at e-commerce may be adopted. These laws and regulations may cover issues such as the collection and use of data from website visitors, including the placing of small information files, or cookies, on a user's hard drive to gather information, and related privacy issues; pricing; taxation; telecommunications over the Internet; content; copyrights; distribution; domain name piracy; and quality of products and services. The enactment of any additional laws or regulations, including international laws and regulations, could impede the growth of our revenue from our Internet operations and place additional financial burdens on our business.

### *Risks Related To Our Common Stock*

**The price of our common stock may be extremely volatile.**

In some future periods, our results of operations may be below the expectations of public market investors, which could negatively affect the market price of our common stock. Furthermore, the stock market in general has experienced extreme price and volume fluctuations in recent years. We believe that, in the future, the market price of our common stock could fluctuate widely due to variations in our performance and operating results or because of any of the following factors which are, in large part, beyond our control:

announcements of new services, products, technological innovations, acquisitions or strategic relationships by us or our competitors;

trends or conditions in the insurance, software, business process outsourcing and Internet markets;

changes in market valuations of our competitors; and

general political, economic and market conditions.

In addition, the market prices of securities of technology companies, including our own, have been volatile and have experienced fluctuations that have often been unrelated or disproportionate to operating performance. As a result, you may not be able to sell shares of our common stock at or above the price at which you purchase them. In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been instituted against that company. If any securities litigation is initiated against us, we could incur substantial costs and our management's attention and resources could be diverted from our business.

**The significant concentration of ownership of our common stock will limit your ability to influence corporate actions.**



The concentration of ownership of our common stock may have the effect of delaying, preventing or deterring

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a change in control of our company, could deprive our stockholders of an opportunity to receive a premium for their common stock as part of a sale of our Company, and may affect the market price of our common stock. At September 30, 2006, Brit Insurance Holdings PLC beneficially owned approximately 34.0% of our outstanding common stock and, together with our executive officers and directors, beneficially owned approximately 54% of our outstanding common stock. In addition, at September 30, 2006, CF Epic Insurance and General Fund, of which Brit owns approximately 78% of the equity interests, beneficially owned 8% of our outstanding common stock. As a result, those stockholders, if they act together, are able to control all matters requiring stockholder approval, including the election of all directors and approval of significant corporate transactions and amendments to our certificate of incorporation. These stockholders may use their ownership position to approve or take actions that are adverse to your interests or prevent the taking of actions that are consistent with your interests.

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**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

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The following table provides information regarding the Company's repurchases of shares of its common stock during the three months ended September 30, 2006.

Period	Shares Purchased	Average Price Paid Per Share	Shares Purchased as Part of Publicly Announced Programs	Maximum Shares that May Yet be Purchased Under Publicly Announced Program
July (1)	6,079	\$ 16.52		
August (1)	1,709	\$ 16.21		
September				

(1) See Note 13 to the financial statements included in this Quarterly Report.

#### Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

At the Company's Annual Meeting of Stockholders, held on October 20, 2006, the following members were elected to the Company's Board of Directors, each by the respective vote indicated to the right of such nominee's name:

Nominee	For	Authority Withheld
Hans U. Benz	2,309,921	37,978
Pavan Bhalla	2,310,168	37,731
Neil D. Eckert	2,308,538	39,361
Rolf Herter	2,310,168	37,731
Hans Ueli Keller	2,309,921	37,978
Robin Raina	2,310,168	37,731

Item 6. EXHIBITS

- 2.1 Agreement Plan of Merger by and among Ebix, Finetre and Steven F. Piaker, as Shareholders Representative dated September 22, 2006 (incorporated by reference to Exhibit 2.1 to the Company's Current Report on 8-K/A dated October 2, 2006) and incorporated herein by reference.
- 2.2 Second Amended and Restated Loan and Security Agreement, dated August 31, 2006 between Ebix, Inc. and LaSalle National Bank.
- 31.1 Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) (Section 302 of the Sarbanes-Oxley Act of 2002).
- 31.2 Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) (Section 302 of the Sarbanes-Oxley Act of 2002).
- 32.1 Certification of Chief Executive Officer Pursuant to Section 906 of the Sabanes-Oxley Act of 2002 (furnished herewith).
- 32.2 Certification of Chief Financial Officer Pursuant to Section 906 of the Sabanes-Oxley Act of 2002 (furnished herewith).

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SIGNATURES

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

Ebix, Inc.

Date: November 20, 2006

By

/s/ RICHARD J. BAUM  
Richard J. Baum  
Executive Vice President Finance &  
Administration, Chief Financial Officer  
(principal financial and accounting officer),  
and Secretary

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EXHIBIT INDEX

**EXHIBIT**

<b>NO.</b>	<b>DESCRIPTION</b>
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\* Included as an exhibit to this quarterly report on Form 10-Q.

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