

EBIX INC  
Form 10-K  
April 10, 2007

# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

## FORM 10-K

to

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 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)  
5 Concourse Parkway, Suite 3200  
Atlanta, Georgia  
(Address of principal executive offices)

77-0021975  
(I.R.S. Employer Identification Number)  
30328  
(Zip Code)

Registrant's telephone number, including area code: (678) 281-2020

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Common Stock, par value \$0.10 per share

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark whether the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes  No

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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 March 16, 2007, the number of shares of Common Stock outstanding was 2,848,288. As of June 30, 2006 (the last business day of the registrant's most recently completed second fiscal quarter), the aggregate market value of Common Stock held by nonaffiliates, based upon the last sale price of the shares as reported on the NASDAQ SmallCap Market on such date, was approximately \$15,535,042 (for this purpose, the Company has assumed that directors, executive officers and holders of more than 10% of the Company's common stock are affiliates).

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EBIX, INC.

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**Safe Harbor for Forward-Looking Statements under the Private Securities Litigation Reform Act of 1995** This Annual Report on Form 10-K 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 expressions, but these words are not the exclusive means of identifying such statements. The forward looking statements included in this Annual 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 the extent to which the Company's new products and services can be successfully developed and marketed, the integration and other risks associated with recent and future acquisitions, the willingness of independent insurance agencies to outsource their computer and other processing needs to third parties, the Company's ability to continue to develop new products to effectively address market needs in an industry characterized by rapid technological change, the Company's dependence on the insurance industry (and in particular independent agents), the highly competitive and rapidly changing automation systems market, the Company's ability to effectively protect its applications software and other proprietary information, the Company's ability to attract and retain quality management, and software, technical sales and other personnel, the potential negative impact on the Company's outsourcing business in India from adverse publicity and possible governmental regulation, the risks of disruption of the Company's Internet connections or internal service problems, the possibly adverse effects of a substantial increase in volume of traffic on the Company's website, mainframe and other servers, possible security breaches on the Company's website and the possible effects of insurance regulation on the Company's business. Certain of these, as well as other, risks, uncertainties and other factors, are described in more detail in this Annual Report on Form 10-K, included under Item 1. Business Risk Factors. 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, or changes to, any of, or change, the forward-looking statements contained herein to reflect future events or developments or changed circumstances or for any other reason.

**PART I**

**Item 1. BUSINESS**

Ebix, Inc. (the Company or Ebix ) was founded in 1976 as Delphi Systems, Inc., a California corporation. The Company is an international provider of software and Internet-based solutions for the insurance industry. International revenue accounted for 36%, 37% and 33% of total revenue in 2006, 2005 and 2004, respectively. Information on the Company's revenues, net income and fixed assets in different geographic areas is furnished in note 12 to the consolidated financial statements, included elsewhere in this Form 10-K.

Historically and during 2006, the Company's revenue has been derived primarily from professional and support services (94% of revenue in 2006) and from licensing proprietary and third-party software (6% of revenue in 2006). Professional and support services include software development projects, subscription and transaction fees related to services delivered on an Application Service Provider ( ASP ) basis, fees for software license maintenance, initial registration, and business process outsourcing revenue ( BPO ). Also included in professional and support services are fees for consulting, implementation, training, and project management provided to the Company's customers with installed systems and those in the process of installing systems.

On October 2, 2006, the Company announced the merger with Finetre Corporation ( Finetre ) effective October 1, 2006. The Company paid Finetre shareholders \$13,000,000 for substantially all of Finetre's stock, and Finetre shareholders retain the right to earn up to \$3,000,000 in additional payments over two years if certain revenue or operating income targets of the Finetre division of Ebix are met. See note 13 to the consolidated financial statements included in this Form 10-K. Finetre, based in Northern Virginia, operated as an ASP technology firm focusing on transaction processing and compliance automation in the insurance and financial services industries. Its business was centered primarily around two workflow and compliance related products: AnnuityNet, an annuity related product and LifeSpeed, a life insurance product. The acquisition of Finetre has provided the Company with additional penetration into the life insurance segment of the insurance and financial services markets, reaching both the agent/broker distribution and carrier channels. Additionally, the Company was able to expand its exchange presence and create cross-sell marketing opportunities with Ebix's other services.

On May 9, 2006, the Company announced the acquisition of substantially all of the operating assets of Infinity Systems Consulting, Inc. ( Infinity ), which is based in Northern Virginia. Infinity provides software technology and professional services to property and casualty insurers. The acquisition was effective as of May 1, 2006. The Company 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 targets as a division of Ebix. See note 13 to the consolidated financial statements included in this Form 10-K. The acquisition of Infinity has provided the Company with expanded software and related services reach within the United States.

On July 1, 2004, Ebix Australia Pty Ltd (VIC), a wholly-owned subsidiary of the Company, acquired certain operating assets of Heart Consulting Services Pty Ltd ( Heart ), based in Melbourne, Australia. Heart was a broker systems vendor that provided end-to-end broker systems to more than 650 brokers in Australia. 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 in cash, letters of credit and stock. See note 13 to the consolidated financial statements included in this Form 10-K. The acquisition of Heart provided us with a significant share of the smaller broker market in Australia, substantially raising our overall insurance broker market share in Australia. Prior to the acquisition of certain assets of Heart, the Company had a substantial share of the large and mid-sized broker market in Australia.

On February 23, 2004 the Company acquired LifeLink Corporation ( LifeLink ) located in Park City, Utah. LifeLink markets a number of software products that provide sales illustrations and quote comparison services to insurance carriers and wholesalers operating in the life insurance and long-term care markets. The Company acquired all of the outstanding stock of LifeLink from its shareholders in exchange for an aggregate purchase price of \$10,354,000, payable in cash and stock. See note 13 to the consolidated financial statements included in this Form 10-K. The acquisition of LifeLink provided the Company with an entrée into the life insurance segment of the insurance market from both the agent/broker and carrier perspective. On May 2, 2005, the LifeLink name was changed to EbixLife, Inc. ( EbixLife ). The assets of EbixLife acquired by the Company were utilized in connection with the life insurance sales software applications business, and the Company intends to continue such use of these assets in the foreseeable future.

**Industry overview** The insurance industry has undergone significant consolidation over the past several years driven by the need for, and benefits from, economies of scale and scope in providing insurance in a competitive environment. Consolidation has involved both insurance carriers and insurance brokers and is directly impacting the manner in which insurance products are distributed. Management believes the insurance industry will continue to experience significant changes in the next several years to meet the changing distribution model. Changes in the insurance industry may create both opportunities and challenges for the Company.

**Business and Growth Strategy** The Company intends to grow its business in the future both organically and through additional synergistic acquisitions. Over the past year the Company has emphasized its software development business along with identifying synergistic acquisitions.

**Products and Services** The Company's product and service strategy focuses on the following four areas: (1) worldwide sale, customization, development, implementation and support of its insurance carrier system products, Infinity Systems and Business Reinsurance and Insurance Company System ( BRICS ); (2) worldwide sales and support of broker/agency management systems including EbixASP, eGlobal; and Winbeat; (3) expansion of connectivity between consumers, agents, carriers, and third party providers through its exchange family of products worldwide namely, EbixExchange, WinFlex VitalSuite, AnnuityNet and LifeSpeed; and (4) BPO services, which include call center and back office, either off site or at the Company's facilities.

Services provided online through ASP models and connectivity products are recorded as services by the Company. The Company anticipates that future revenue will be provided principally by ASP services (EbixExchange, WinFlex, Vital Suite, AnnuityNet and LifeSpeed), software development services, the licensing of BRICS and Infinity Systems, international broker system operations and BPO services.

Insurance carrier system products and services have centered around two products: Infinity Systems and BRICS. Infinity Systems is a comprehensive, fully integrated, client server technology policy and claims administration system designed for small to medium sized property and casualty insurers. It is also used by large insurers to administer niche products and specialty lines. Infinity Systems sales have principally occurred in the U.S. The BRICS product is a .NET based end to end carrier management system that includes key modules such as policy management, claims administration, underwriting, rating, and general ledger. The system is fully configurable for each customer and is provided in an ASP or client hosted mode, as desired by the customer. BRICS is presently marketed internationally and in the U.S.

Additionally, the Company provides software development consulting services to a variety of entities in the insurance industry including carriers, brokers, exchanges and standard making bodies. Some of the Company's recent projects for clients included: development of a reinsurance exchange for a European company; design and development of a carrier system over the web for a large European company; and design and development of a carrier system for a U.S. company.

The broker/agency channel is served by several products and services, including EbixASP, eGlobal, Winbeat and customer software development projects. EbixASP is a web-enabled system for insurance agencies to manage their businesses. EbixASP is sold both as a hosted and a self-hosted product. Revenues generated from the sale of EbixASP hosted by the Company are recorded in services revenue, while revenues generated from the license of self-hosted EbixASP are recorded in software revenue. The Company-hosted product generates revenues through initial registration and ongoing monthly subscription fees based on the number of personnel accessing the software. As a result of the Company's acquisition of certain assets of Heart in July 2004, the Company focuses on providing self hosted broker systems, under the name Winbeat to small and midsize brokers in the Australian market.

The Company licenses eGlobal, its agency management software product line, in the international markets to the very large brokers. eGlobal is a multi-lingual and multi-currency modular agency management solution and it is sold in a hosted or client installed mode. Additionally, the Company continues to support but no longer sells a number of products: Ebix.One, INfinity, INSIGHT, PC-ELITE, Insurnet, SMART, and Vista. The legacy products provide basic functions such as policy administration, claims handling, accounting, and financial reporting. The Company expects to maintain and support the legacy products as long as it believes there is adequate economic and strategic justification. The Company continues to encourage customers utilizing legacy products to migrate to newer products.

The Company's exchange suite of products includes, WinFlex, Vital Suite, EbixExchange, AnnuityNet and LifeSpeed. WinFlex and Vital Suite are EbixLife services that provide sales illustrations and quote comparison services to insurance brokers, carriers and wholesalers operating in the life insurance, annuity and long-term care markets.

EbixExchange is an Internet based service developed by the Company to facilitate connectivity for upload, download, and data exchange between carriers, agents and third party providers and is part of the total revenue generation from the Company's other product offerings, which feature EbixExchange as part of their technology. The service is currently being used for the download function in EbixASP.

The AnnuityNet platform is an exchange service that is designed to link annuity distributors and issuers. It provides workflow routing, compliance and application vetting for annuity products. The LifeSpeed platform is an exchange service designed to connect life insurance distributors and carriers, providing workflow automation, data collection and status of life insurance sales.

The Company has developed a business process outsourcing service based in India that provides custom software development services and back end call center services primarily for brokers and insurance carriers.

**Backlog** At December 31, 2006, the Company had a backlog of professional service requests related to its AnnuityNet service. The backlog was comprised of implementation and client specific modification requests in excess of \$1,000,000. There was no material backlog at December 31, 2005.

**Product Development** The Company has maintained a high focus on quality standards with its India development facility being certified for Carnegie Mellon's highest rating level CMMi 5. At December 31, 2006, the Company employed 148 (93 international and 55 domestic) full-time employees engaged in product development activities. These activities include research and development of software enhancements such as adding functionality, improving usefulness, increasing responsiveness, adapting to newer software and hardware technologies and developing and maintaining the Company's websites. Product development expenditures also related to specific projects for clients as the development of custom software enhancements for clients can be used in system development for other customers.

The Company's product development focus is in the following areas: (1) continued enhancement of existing products, such as EbixASP, EbixExchange, AnnuityNet, Infinity Systems, LifeSpeed, Vital Suite and Winflex; (2) continued enhancement of BRICS; (3) continued enhancement of eGlobal;

(4) developing new technologies for insurance carriers, brokers and agents and; (5) development of new exchanges for international markets.

Product development expenditures were \$5,234,000, \$3,258,000 and \$3,016,000 in 2006, 2005 and 2004, respectively. Increases in product development were primarily the result of the Company's acquisition strategy.

**Competition** Management believes its principal competition varies by each area of focus.

In the area of exchange connectivity, the Company competes with different entities in different sectors. The Company's life and annuity exchanges, such as Vital Suite, Winflex, AnnuityNet and LifeSpeed, compete with internally developed systems and a few smaller entities operating in the insurance markets in the United States.

In the area of agency management systems, two companies provide similar software in competition with those historically offered by the Company. These companies are larger than the Company and may have greater resources. Additionally, certain large hardware suppliers sell systems and system components to independent agencies. The Company also experiences competition to a lesser extent from small, independent or freelance developers and suppliers of software who sometimes work in concert with hardware providers to supply systems to independent agencies.

The Company believes that some insurance carriers continue to operate subsidiaries that actively compete with the Company to provide agency systems. These carriers generally have much greater financial resources than the Company and have in the past subsidized the automation of independent agencies through various incentives offered to promote the sale of the carrier's insurance products.

In the area of insurance company systems, the Company competes with established vendors such as Computer Science Corporation ( CSC ) and Policy Management Systems Corporation ( PMSC ). Management believes that its focus and current technology will differentiate it from the competition.

In the area of consulting, the Company competes with hardware, development, and software providers and in-house information technology departments in carriers and targeted clients. These companies and carriers generally have much greater financial resources than the Company. The Company also experiences, to a much lesser extent, competition from small, independent or freelance developers and suppliers of software who sometimes work in concert with hardware providers to supply consulting and development.

Key competitive factors for the Company's software, services and consulting are product technology, features and functions, ease of use, price, project management, service, reputation, reliability, effects of insurance regulation, insurance domain knowledge, technology expertise, and quality of customer support and training. Management believes that, overall, the Company competes favorably with respect to these factors.

**Proprietary Rights** The Company regards its software as proprietary and attempts to protect it with copyrights, trade secret laws and restrictions on disclosure and transferring title. Despite these precautions, it may be possible for third parties to copy aspects of the Company's products or, without authorization, to obtain and use information which the Company regards as trade secrets. Existing copyright law affords only limited practical protection and the Company's software is generally unpatented. The AnnuityNet Platform has two patents pending that will protect certain aspects of the technology.



**Employees** At December 31, 2006, the Company had 292 employees, including 21 in sales and marketing, 148 in product development, 76 in customer service and operations, 14 in call center and 33 in general management, administration and finance. None of the Company's employees are presently covered by a collective bargaining agreement. Management believes that its relations with its employees are good.

**Item 1A. RISK FACTORS**

You should carefully consider the risks, uncertainties and other factors described below, along with all of the other information included in this annual report on Form 10-K, because they could materially and adversely affect our business, financial condition, operating results 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***

**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 decreasing 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 dependent upon our other sources of revenue.

**One customer currently provides a significant percentage of our total revenue.**

Brit Insurance Holdings PLC, which at March 16, 2007 owned approximately 33% of our common stock. Formerly, Brit owned 78% of CF Epic Insurance and General Fund (CF Epic), which owned approximately 8% of our common stock. During 2006, Brit reduced their ownership in CF Epic and disposed entirely of their interest in CF Epic in January 2007.

Revenues from Brit represented approximately 11% (\$3,117,000) of our total revenue in 2006 and 16% (\$3,762,000) of our total revenue in 2005. If revenues from this customer were to discontinue, our operating results could be adversely affected.

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

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

**Our operating results may fluctuate dramatically.**

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.**

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.**

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 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 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.**

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.

**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.**

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.**

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.**

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. Additionally, beginning 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.**

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.**

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 Internet data center operations that host any of our websites 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.**

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.**

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 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 March 16, 2007, Brit Insurance Holdings PLC beneficially owned approximately 33% of our outstanding common stock and, together with our executive officers and directors, beneficially owned approximately 50% 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.

**Item 1B. UNRESOLVED STAFF COMMENTS**

None.

**Item 2. PROPERTIES**

Until December 31, 2006, the Company's corporate headquarters, including substantially all corporate finance and administrative functions were located in Schaumburg, Illinois (a suburb of Chicago), where it leased 2,900 square feet of commercial office space. After December 31, 2006, the corporate finance and administrative functions were relocated to the Company's Atlanta, Georgia office. The Company and its subsidiaries lease office space of approximately 9,800 square feet in Atlanta, Georgia, 5,500 square feet in Park City, Utah, 4,000 square feet in Reston, Virginia and 28,000 square feet in Herndon, Virginia. The Company subleases to a third party approximately 11,000 square feet of the Herndon office space. Additionally, the Company leases office space in the United States, New Zealand, Australia and Singapore for support and sales offices. The Company owns two facilities in India with total square footage of approximately 29,000 square feet. The Indian facilities provide software development and call center services for customers. Management believes its facilities are adequate for its current needs and that suitable additional or substitute space will be available as needed.

**Item 3. LEGAL PROCEEDINGS**

In the normal course of business, the Company is a party to various legal proceedings. The Company does not expect that any currently pending proceedings will have a material adverse effect on its business, results of operations or financial condition.

**Item 4. SUBMISSIONS OF MATTERS TO A VOTE OF SECURITY HOLDERS**

Not Applicable.



**PART II****Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES****Market Information**

At December 31, 2006, the principal market for the Company's common stock was the NASDAQ Capital Market. The Company's common stock trades under the symbol EBIX. As of December 31, 2006, there were 59 holders of record of the Company's common stock. Effective January 29, 2007, the principal market for the Company's common stock was changed to the NASDAQ Global Market.

The following tables set forth the high and low closing bid prices for the Company's common stock for each calendar quarter in 2006 and 2005.

<b>Year Ended</b>	<b>High</b>	<b>Low</b>
<b>December 31, 2006</b>		
First quarter	\$ 20.71	\$ 18.40
Second quarter	21.50	16.53
Third quarter	20.50	14.90
Fourth quarter	28.91	20.10

<b>Year Ended</b>	<b>High</b>	<b>Low</b>
<b>December 31, 2005</b>		
First quarter	\$ 15.75	\$ 10.13
Second quarter	14.40	10.08
Third quarter	20.02	13.92
Fourth quarter	19.95	17.50

As of March 16, 2007, there were 2,848,288 shares of the Company's common stock outstanding.

**Dividends**

The Company has not paid any cash dividends on its common stock to date. The Company currently anticipates that it will retain any future earnings for the development and operation of its business. Accordingly, the Company does not anticipate paying cash dividends on its common stock in the foreseeable future.

**Recent Sales of Unregistered Securities**

The Company did not sell any unregistered securities during 2006, except as previously disclosed in a quarterly report on Form 10-Q.

**Recent Purchases of Equity Securities**

The Company did not purchase any of its equity securities during the fourth quarter of 2006.

**PERFORMANCE GRAPH**

The line graph below compares the yearly percentage change in cumulative total stockholder return on our Common Stock for the last five fiscal years with the NASDAQ Stock Market (U.S.) stock index and the NASDAQ Computer and Data Processing Index. The following graph assumes the investment of \$100 on December 31, 2001, and the reinvestment of any dividends (rounded to the nearest dollar).

**Comparison of Five Year Cumulative Total Return**

Source: University of Chicago

	12/31/01	12/31/02	12/31/03	12/31/04	12/31/05	12/31/06
<b>EBIX, INC.</b>	<b>\$ 100</b>	<b>\$ 30</b>	<b>\$ 142</b>	<b>\$ 174</b>	<b>\$ 229</b>	<b>\$ 323</b>
<b>NASDAQ STOCK MARKET (U.S.)</b>	<b>\$ 100</b>	<b>\$ 68</b>	<b>\$ 103</b>	<b>\$ 112</b>	<b>\$ 113</b>	<b>\$ 124</b>
<b>NASDAQ COMPUTER AND DATA PROCESSING</b>	<b>\$ 100</b>	<b>\$ 63</b>	<b>\$ 75</b>	<b>\$ 98</b>	<b>\$ 101</b>	<b>\$ 107</b>

**Item 6. SELECTED FINANCIAL DATA**

The following data for fiscal years 2006, 2005, and 2004 should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and with our consolidated financial statements and the related notes and other financial information included herein.

**Consolidated Financial Highlights**

	Year Ended December 31, 2006	Year Ended December 31, 2005	Year Ended December 31, 2004	Year Ended December 31, 2003	Year Ended December 31, 2002
(In thousands, except per share data)					
<b>Results of Operations:</b>					
Revenue	\$ 29,253	\$ 24,100	\$ 19,983	\$ 14,433	\$ 12,651
Operating income	6,712	4,650	2,406	1,691	794
Net income	\$ 5,965	\$ 4,322	\$ 2,240	\$ 1,669	\$ 502
<b>Net income per share:</b>					
Basic	\$ 2.15	\$ 1.55	\$ 0.80	\$ 0.73	\$ 0.22
Diluted	\$ 1.90	\$ 1.38	\$ 0.72	\$ 0.71	\$ 0.22
<b>Shares used in computing per share data:</b>					
Basic	2,768	2,789	2,784	2,294	2,291
Diluted	3,137	3,121	3,104	2,349	2,293
<b>Financial Position:</b>					
Total assets	\$ 47,352	\$ 27,981	\$ 31,335	\$ 11,971	\$ 9,966
Short-term debt	11,006	969	4,477	73	114
Long-term debt	934	1,844	2,796		73
Redeemable common stock		1,461	4,262		
Stockholders' equity	\$ 26,166	\$ 17,501	\$ 13,508	\$ 6,692	\$ 4,725

**Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The information contained in this section has been derived from our historical financial statements and should be read together with our historical financial statements and related notes included elsewhere in this document. The discussion below contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements involve risks and uncertainties including, but not limited to: consumer demand and acceptance of services offered by us, our ability to achieve and maintain acceptable cost levels, fare levels and actions by competitors, regulatory matters, general economic conditions, commodity prices, and changing business strategies. Forward-looking statements are subject to a number of factors that could cause actual results to differ materially from our expressed or implied expectations, including, but not limited to: our performance in future periods, our ability to generate working capital from operations, our ability to take delivery of and to finance aircraft, the adequacy of our insurance coverage, and the results of litigation or investigation. Our forward-looking statements can be identified by the use of terminology such as anticipates, expects, intends, believes, will or the negative thereof, or variations thereon or comparable terminology. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. For a discussion of risk uncertainties and other factors that could cause actual results to differ materially from those expressed in, or implied by the forward looking statements, see Item 1. Business Risk Factors. See also, Safe Harbor for forward-looking statements under the Private Securities Litigation Act of 1995.

The Company's product and service strategy focuses on the following four areas: (1) worldwide sale, customization, development, implementation and support of its insurance carrier system products, Infinity Systems and Business Reinsurance and Insurance Company System ( BRICS ); (2) worldwide sales and support of broker/agency management systems including EbixASP, eGlobal and Winbeat; (3) expansion of connectivity between consumers, agents, carriers, and third party providers through its exchange family of products worldwide namely, WinFlex, VitalSuite, EbixExchange, AnnuityNet, and LifeSpeed ; and (4) BPO services, which include call center and back office, either off site or at the Company's facilities. Software or services provided online through ASP models and connectivity products are recorded as services by the Company. The Company anticipates that future revenue will be provided principally from these four areas.

BRICS is a custom software platform for insurance carriers. The platform is unique for each customer and represents installed software. During 2006, 2005 and 2004, the Company earned revenue of \$309,000, \$888,000 and \$0, respectively, related to BRICS.

During 2006, the Company completed two acquisitions, Infinity and Finetre, which have added revenue and earnings to the Company's consolidated results. Effective October 1, 2006, the Company merged with Finetre and Finetre's results of operations have been included in the Company's financial statements since the acquisition. Effective May 1, 2006, the Company acquired substantially all of the operating assets of Infinity Systems Consulting, Inc. ( Infinity ) and Infinity's operations have been included in the Company's financial statements since that date. During 2006, the Company earned revenue of \$2,856,000 and \$1,742,000 related to Infinity and Finetre, respectively.

During 2004, the Company completed two acquisitions, EbixLife and Heart, which have added revenue and earnings to the Company's consolidated results. On February 23, 2004, the Company acquired LifeLink Corporation (renamed EbixLife Inc. ( EbixLife ) on May 2, 2005). The operations of EbixLife have been included in the Company's financial statements since that date. On July 1, 2004, Ebix Australia Pty Ltd (VIC), which is a wholly-owned subsidiary of the Company, acquired certain 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. During 2005, the Company recognized revenue of \$6,166,000 and \$4,084,000 related to EbixLife and Heart, respectively. During 2004, the Company recognized revenue of \$4,684,000 and \$1,706,000 related to EbixLife and Heart, respectively. The Company intends to seek to increase revenue and income in the future through identification of additional synergistic acquisitions and through internal growth.

During 2006, the Company entered into various software and service agreements with Brit, which beneficially owned approximately 33% of the Company's outstanding common stock at March 16, 2007 (see note 2 to the consolidated financial statements included herein). During 2006, 2005 and 2004, the Company recognized approximately \$3,117,000, \$3,762,000 and \$3,551,000, respectively, in revenue from Brit and its affiliates, representing approximately 11%, 16% and 18% of the Company's total revenue for the respective year. The revenue from Brit relates primarily to the customization of EbixASP for the international markets in addition to hosting, development, and transaction fees. The Company expects to continue these types of arrangements with Brit and its affiliates.

EbixASP is a web-enabled system for insurance agencies to manage their businesses. This product generates revenues through initial registration and ongoing monthly subscription fees based on the number of personnel accessing the software. During 2006, 2005 and 2004, the Company recognized revenue of \$592,000, \$575,000 and \$748,000, respectively, related to EbixASP.

The Company continues to license eGlobal, a modular agency management solution providing flexibility and the ability to handle unstructured data and complex risk. The Company also continues to support, but no longer sells, six legacy products: INfinity, INSIGHT, PC-ELITE, Insunet, SMART, and Vista. The legacy products provide basic functions such as policy administration, claims handling,

accounting and financial reporting. The Company expects to maintain and support the legacy products as long as it believes there is adequate economic and strategic justification and will continue to encourage customers utilizing legacy products to migrate to newer products.

**Critical Accounting Policies** The Company's critical accounting policies are those that require application of management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about matters that are inherently uncertain and may change in future periods. We have identified the following as our critical accounting policies: revenue recognition, estimating the allowance for doubtful accounts receivable and income taxes.

**Revenue recognition** We derive our revenue primarily from two sources: (1) product revenue, which includes software licenses and (2) professional and support services, which includes software development projects, subscription and transaction fees related to services delivered on an ASP basis, fees for software license maintenance, initial registration, and business process outsourcing revenue. Also included in professional and support services are fees for consulting, implementation, training, and project management provided to the Company's customers with installed systems and those in the process of installing systems. As described below, significant management judgments and estimates must be made and used in connection with the revenue recognized in any accounting period. Material differences may result in the amount and timing of our revenue for any period if our management made different judgments or utilized different estimates.

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 license of software. For contracts that contain multiple deliverables, we analyze the revenue arrangements in accordance with 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. 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.

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. Management uses signed contractual agreements as persuasive evidence of an arrangement where fee information is documented. The Company performs credit checks on new customers to verify that collectibility will be probable. 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 ASP services or hosting arrangements, including monthly fees as well as any initial registration or setup fees and related custom programming, are recognized ratably over the term of the agreement in accordance with Staff Accounting Bulletin ( SAB ) 104, Revenue Recognition. Transaction fees are recognized as revenue as the transactions occur. Transaction fees are generally billed in arrears each month and the revenue is recognized when the transactions are processed. Revenue is only recognized when collectibility is probable.

Deferred revenue includes maintenance and support payments or billings that have been received or 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, evidence of an arrangement exists and the recovery of any related asset is considered probable.

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

**Allowance for doubtful accounts receivable** Management specifically analyzes accounts receivable and analyzes historical bad debts, customer concentrations, customer credit-worthiness, current economic trends and changes in our customer payment terms when evaluating the adequacy of the allowance for doubtful accounts. Our accounts receivable balance was \$7,973,000, net of an allowance for doubtful accounts of \$36,000 at December 31, 2006.

**Income taxes** The Company recognizes deferred tax assets and liabilities for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Although future taxable income of the Company may be sufficient to utilize a substantial amount of the benefits of the Company's net operating loss carryforwards and to

realize its deferred tax assets, a valuation allowance was recorded to offset the carrying value of the Company's deferred tax assets, as management concluded that the realization of its deferred tax assets does not meet the more likely than not criteria under Statement of Financial Accounting Standards ( SFAS ) No. 109, Accounting for Income Taxes.

The Company's estimated effective tax rate for future periods is dependent on the mix of jurisdictions where taxable income is generated. The effective income tax rate for any year or period is not indicative of the future and could fluctuate substantially.

## Results of Operations

### Ebix, Inc. and Subsidiaries

	Year Ended December 31, 2006 (In thousands)	Year Ended December 31, 2005	Year Ended December 31, 2004
<b>Revenue:</b>			
Professional and support services	\$ 27,594	\$ 22,882	\$ 19,114
Software	1,659	1,218	869
<b>Total revenue</b>	<b>29,253</b>	<b>24,100</b>	<b>19,983</b>
<b>Operating expenses:</b>			
Services and other costs	5,916	5,915	5,341
Product development	5,234	3,258	3,016
Sales and marketing	3,002	2,073	1,602
General and administrative	6,594	6,883	6,433
Amortization and depreciation	1,795	1,321	1,185
<b>Total operating expenses</b>	<b>22,541</b>	<b>19,450</b>	<b>17,577</b>
Operating income	6,712	4,650	2,406

The majority of the Company's growth since early 2004 has been attributed to the four acquisitions described previously, Finetre, Infinity, EbixLife and Heart

**Total Revenue** The Company's revenue has been primarily derived from professional 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, ASP services and hosting and other miscellaneous revenues. Software revenue has been derived from the licensing of proprietary and third party software ( Software ). Total revenue is comprised of Software revenue and Services revenue.

- Total revenue for 2006 increased \$5,153,000, or 21.4 %, from 2005, see discussion of software revenue and services revenue below.
- Total revenue for 2005 increased \$4,117,000, or 20.6%, from 2004, see discussion of software revenue and services revenue below.
- Total Services revenue for 2006 increased \$4,712,000, or 20.6%, from 2005. This increase was due primarily to the acquisitions of Infinity and Finetre, which accounted for \$2,802,000 and 1,742,000, respectively. Additionally, we experienced an increase in international consulting revenue of \$1,342,000, and continued growth in our EbixLife suite of products, resulting in a revenue increase of \$965,000. These increases were partially offset by a decrease in revenue associated with legacy products and our call center operations.





- Total Services revenue for 2005 increased \$3,768,000, or 19.7%, from 2004. This increase was due primarily to the acquisitions of Heart and EbixLife in 2004, which accounted for \$2,378,000 and \$1,482,000, respectively. Additionally, we experienced continued growth in our consulting and software development services, such as BRICS, resulting in revenue increases of \$1,078,000. These increases were partially offset by decreases in legacy products and non-Heart international consulting revenue.

During 2006, 2005, and 2004, approximately \$3,117,000, \$3,762,000 and \$3,551,000, respectively, was recognized as services revenue from Brit and its affiliates related to call center and development projects. Revenue from Brit and its affiliates represented 11%, 16% and 18% of the Company's total revenues for 2006, 2005 and 2004, respectively. Brit owned approximately 33% of the Company's common stock as of March 16, 2007.

Total revenue for 2006 increased \$5,153,000 or 21.4% from 2005, while revenue from Brit and its affiliates in 2006 decreased \$645,000 or 17% from 2005. Total revenue for 2005 increased \$4,117,000 or 20.6% from 2004, while revenue from Brit and its affiliates in 2005 increased \$211,000 or 6% from 2004. The revenues from Brit and its affiliates relate to various projects for call center and software development services. We expect revenue from services provided to Brit and its affiliates to continue to decline as a percentage of our total revenue due to the general growth of our business.

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>
2006	\$ 2,109,000	\$ 29,253,000
2005	\$ 2,702,000	\$ 24,100,000
2004	\$ 3,346,000	\$ 19,983,000

Support revenue decreased \$593,000, or 22%, and as a percentage of total revenue to 7% from 11%, in 2006 compared to 2005. Support revenue decreased \$644,000, or 19%, and as a percentage of total revenue to 11% from 17%, in 2005 compared to 2004.

Based on historical data, the Company expects legacy support revenue to 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 break even, operations will be reviewed to determine if costs can be further reduced for the activity to be profitable and, if not, the Company will discontinue supporting the respective legacy product. The Company cannot predict when this will occur.

The Company expects that future Services revenue will be derived from EbixLife services, Infinity services, Finetre services, Heart services, the sale of BRICS, EbixASP registration and monthly fees, legacy support services, software development and call center services.

- Total Software revenue for 2006 increased \$441,000, or 36.2%, from 2005. This increase was due primarily to an increase in international software revenue of \$296,000, due primarily to the continued market growth of our eGlobal software, and an increase in domestic software revenue of \$145,000.
- Total Software revenue for 2005 increased \$349,000, or 40.2%, from 2004. This increase was primarily due to BRICS software sales of \$380,000.

**Services and other costs** Services and other costs include costs associated with support, call center consulting, implementation and training services.

- Total services and other costs for 2006 approximated those of 2005. An increase in payroll expenses related to the acquisition of Finetre and Infinity of approximately \$112,000 and an increase in facility costs of \$34,000 were partially offset by a decrease in expenses for required services to support the Company's products of \$45,000 and a decrease in international support costs of \$99,000.
- Total services and other costs for 2005 increased \$574,000, or 10.7%, from 2004. This increase was due to an increase in EbixLife payroll expenses of \$272,000, an increase in Heart payroll expenses of \$509,000 (reflecting a full year of expenses for EbixLife and Heart) and an increase in facility costs of \$111,000 partially offset by a decrease in expenses for required services to support the Company's products of \$172,000, a decrease in international support costs of \$49,000 and a decrease in non-EbixLife payroll of \$97,000.

**Product development expenses**

- Total product development expenses for 2006 increased \$1,976,000, or 60.7%, from 2005. This increase was due primarily to an increase in payroll expenses, facility costs and travel and entertainment of \$1,913,000 related to the acquisitions of Finetre and Infinity, an increase in consulting and other expenses of \$30,000 and an increase in international payroll expenses of \$33,000.
- Total product development expenses for 2005 increased \$242,000, or 8.0%, from 2004. This increase was due to an increase in payroll expenses related to annual salary increases of \$82,000 and an increase in India payroll expenses of \$70,000. In addition, facility costs increased \$102,000 as a result of an increase in headcount. These increases were partially offset by a \$12,000 decrease in EbixLife payroll expense related to a decrease in headcount.

**Sales and marketing expenses**

- Total sales and marketing expenses for 2006 increased \$929,000, or 44.8% from 2005. This increase was due primarily to an increase in payroll expenses, facility costs, travel and entertainment, office supplies, telephone costs and trade shows of \$798,000 related to the acquisition of Finetre and Infinity. These increases were partially offset by a decrease in international sales and marketing expenses of \$14,000 and other expenses of \$8,000.
- Total sales and marketing expenses for 2005 increased \$471,000, or 29.4% from 2004. This increase was due to an increase in payroll expenses related to EbixLife of \$106,000, an increase in travel and entertainment of \$102,000, an increase in international sales and marketing expenses of \$81,000, an increase in facility costs of \$70,000, an increase in non-EbixLife payroll expenses of \$63,000, an increase in office supply expenses of \$26,000, an increase in telephone expenses \$12,000 and an increase in trade show expenses of \$42,000. These increases were partially offset by a decrease in consulting expenses of \$24,000 and other marketing expenses of \$7,000.

**General and administrative expenses**

- Total general and administrative expenses for 2006 decreased \$289,000, or 4.2% from 2005. The Company continues to focus on controlling costs and was able to acquire Infinity and Finetre with minimal impact to general and administrative expenses.
- Total general and administrative expenses for 2005 increased \$450,000, or 7.0%, from 2004. This increase was due to an increase in health insurance and other benefits of \$290,000, an increase in operating expenses related to international locations of \$220,000 and Heart of \$246,000, an increase



in investor relation expenses and director fees of \$143,000, an increase in non-EbixLife payroll of \$123,000, an increase in consulting expenses of \$85,000, an increase in rent expenses of \$27,000, an increase in telephone expenses of \$26,000, an increase in office expenses of \$20,000, an increase in insurance expenses of \$20,000 and an increase in management fees of \$18,000 partially offset by an increase in the amount of facility costs allocated to other departments of \$283,000, a decrease in audit and legal expenses of \$248,000, a decrease in bad debt provision of \$99,000, a decrease of \$70,000 related to EbixLife payroll, a decrease in travel and entertainment of \$38,000 and a decrease in other expenses of \$30,000.

#### **Amortization and depreciation expenses**

- Total amortization and depreciation expenses for 2006 increased \$474,000, or 35.9% from 2005. This increase was due primarily to the acquisitions of Infinity and Finetre in May and October 2006, respectively. These acquisitions resulted in increased amortization of intangible assets and depreciation of fixed assets.
- Total amortization and depreciation expenses for 2005 increased \$136,000, or 11.5% from 2004. This increase was due to the addition of EbixLife intangible assets in February 2004 and Heart intangible assets in July 2004. Total EbixLife intangible amortization for 2005 was \$575,000 compared to \$491,000 for 2004. This increase reflects a partial year of amortization in 2004, as EbixLife was acquired February 23, 2004, compared to a full year of amortization in 2005. Total Heart intangible amortization for 2005 was \$299,000 compared to \$154,000 for 2004. This increase reflects a partial year of amortization in 2004, as EbixLife was acquired in July 2004, compared to a full year of amortization in 2005. In addition, depreciation expense increased \$16,000 as a result of an increase in assets. These increases were partially offset by a decrease in the amortization of capitalized software of \$109,000 for the year as capitalized software was fully amortized.

#### **Income Taxes**

- Income tax expense for 2006 increased \$386,000, or 131.3% from 2005. This increase was due to an increase in income before taxes and a difference between the effective and statutory rates due to a different income mix among the various tax jurisdictions in which the Company does business. In the United States, the Company was able to utilize net operating losses to partially offset taxable income.
- Income tax expense for 2005 increased \$151,000, or 105.6% from 2004. This increase was due to an increase in income before taxes and a difference between the effective and statutory rates due to a different income mix among the various tax jurisdictions in which the Company does business. In addition, the Company implemented a new tax structure, which was completed during the third quarter of 2005.

## Liquidity and Capital Resources

The Company had cash and cash equivalents of \$5,013,000 and \$6,733,000 at December 31, 2006 and 2005, respectively.

During 2006, the Company generated operating cash flow of \$4,150,000 compared to operating cash flow of \$5,483,000 in 2005, due primarily to \$5,965,000 in net income, which included non-cash expense of \$1,795,000 of amortization and depreciation and an increase in deferred revenue of \$677,000. These increases were partially offset by a decrease in accounts payable and accrued expenses of \$277,000 and an increase in accounts receivable of \$3,655,000. These balance sheet fluctuations are normal consequences of timing differences between accruals and their cash settlement.

During 2005, the Company generated operating cash flow of \$5,483,000, compared to operating cash flow of \$2,810,000 in 2004, due primarily to \$4,322,000 in net income, which included non-cash expense of \$1,321,000 of amortization and depreciation, an increase in accounts payable of \$181,000 and an increase in other assets of \$122,000 partially offset by an increase in accounts receivable of \$255,000 and a decrease in deferred revenue of \$195,000.

During 2006, cash used in investing activities of \$15,403,000 represented expenditures made primarily related to the Company's acquisitions of Finetre (\$12,042,000) and Infinity (\$3,049,000). Cash provided by financing activities of \$9,769,000 in 2006 resulted primarily from borrowing on the Company's line of credit of \$11,000,000 and proceeds from stock options of \$779,000 partially offset by the payment of on the line of credit of \$1,000,000, the payment of a long-term debt obligation of \$873,000, and the repurchase of treasury stock of \$149,000.

During 2005, cash used in investing activities of \$484,000 represented expenditures made primarily as a result of the Company's relocation of the Sydney, Australia office. Cash used in financing activities of \$4,029,000 in 2005 resulted primarily from the Company's repurchase of a redeemable stock guarantee for \$2,700,000, the payment of a long-term debt obligation of \$960,000, payments on the line of credit of \$3,500,000 partially offset by the release of restricted cash required for the line of credit of \$3,000,000 and proceeds from stock options of \$131,000.

In 2006, 11% of the Company's total revenues were from Brit and its affiliates. Brit does not have a long-term agreement with the Company that provides certainty that such revenues and related cash flows will be recurring.

The Company maintains a revolving line of credit facility with LaSalle Bank N.A. During 2006, the line of credit was increased from \$5,000,000 to \$12,000,000. The line provides for a variable interest rate equal to LIBOR + 1.50% and is secured by a first security interest in substantially all of the Company's assets. In connection with the Finetre acquisition, the Company borrowed \$11,000,000 on the line of credit, of which \$1,000,000 was repaid before year-end. At December 31, 2006, the balance of the line of credit was \$10,000,000 and the interest rate was 6.85%. The line of credit matures on August 31, 2007. There were no borrowings under the line of credit at December 31, 2005. The line of credit contains certain financial covenants related to profitability, current assets and debt coverage.

Effective October 1, 2006, the Company merged with Finetre. 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 operating income targets earned from Finetre services are met. The Company also incurred approximately \$365,000 of direct expenses related to the acquisition. The Company funded the acquisition using available cash on hand of \$2,000,000 and \$11,000,000 from the Company's line of credit.

Effective May 1, 2006, the Company acquired substantially all of the operating assets of Infinity. The operations of Infinity have been included in the Company's financial statements since that date. The

Company 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 related services meet certain future revenue targets. The Company funded the acquisition using available cash on hand.

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. Presently, the Company expects to renew the line of credit when it matures in August 2007 or refinance the amount outstanding with long term debt. Based on these considerations, the Company believes it will have sufficient cash from operations and credit facilities to satisfy its contractual obligations, including contingent payments from prior acquisitions, for at least the next several years. In order for the Company to make future acquisitions, it may be necessary to raise additional capital, either through equity or debt transactions.

	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)	\$ 12,651	\$ 11,651	\$ 1,000	\$	
Operating Leases Obligations	3,910	1,460	1,440	650	360
Capital Leases Obligations	13	4	7	2	
<b>Total</b>	<b>\$16,574</b>	<b>\$ 13,115</b>	<b>\$ 2,447</b>	<b>\$ 652</b>	<b>\$ 360</b>

(1) Includes interest at an imputed interest rate of 4% for Heart and LifeLink and at an interest rate of 6.85% for the line of credit.

**Impact of Recently Issued Accounting Standards**

In September 2006, the Financial Accounting Standards Board ( FASB ) issued SFAS No. 157, *Fair Value Measurement* ( SFAS 157 ), SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 is effective January 1, 2008. The Company is in the process of assessing the impact that SFAS 157 will have on its financial statements.

In June 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ( FIN 48 ), which is an interpretation of SFAS No. 109, *Accounting for Income Taxes* ( SFAS 109 ). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with SFAS 109 and 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. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company is currently in the process of assessing the impact the adoption of FIN 48 will have on its consolidated financial statements.

**Quarterly Financial Information (unaudited):**

The following is the unaudited quarterly financial information for 2006 and 2005:

	<b>First Quarter</b>	<b>Second Quarter</b>	<b>Third Quarter</b>	<b>Fourth Quarter</b>
	(in thousands, except share data)			
<b><u>Year Ended December 31, 2006</u></b>				
Total revenues	\$ 5,650	\$ 7,029	\$ 7,296	\$ 9,278
Operating income	1,182	1,507	1,824	2,199
Net income	1,135	1,498	1,659	1,673
Net income per common share:				
Basic	\$ 0.41	\$ 0.54	\$ 0.60	\$ 0.60
Diluted	\$ 0.36	\$ 0.48	\$ 0.53	\$ 0.53
<b><u>Year Ended December 31, 2005</u></b>				
Total revenues	\$ 5,904	\$ 6,134	\$ 5,896	\$ 6,166
Operating income	1,208	1,191	1,133	1,118
Net income	1,068	1,084	1,226	944
Net income per common share:				
Basic	\$ 0.37	\$ 0.39	\$ 0.45	\$ 0.35
Diluted	\$ 0.33	\$ 0.35	\$ 0.40	\$ 0.30

**Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The Company is subject to certain market risks, including foreign currency and interest rates. 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, we have 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 has operations in Australia, New Zealand, Singapore, Canada and India, 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. In 2006, 2005 and 2004 the net change in cumulative foreign currency translation adjustment was an unrealized gain (loss) of \$462,000, (\$510,000), and \$446,000, 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 an adverse impact on income before income taxes of approximately \$70,000, \$376,000 and \$214,000 for the years ended December 31, 2006, 2005 and 2004, respectively.

The Company's exposure to interest rate risk relates to its debt obligations and to its interest income as it relates to the outstanding cash balances. As of December 31, 2006, the Company had debt outstanding of \$10,000,000 on its line of credit. As of December 31, 2005, the Company had no debt outstanding related to its line of credit and the remaining debt is fixed. While the Company had interest rate risk related to its line of credit at December 31, 2004, the exposure was mitigated by the interest income on the restricted cash balance of \$3,000,000. The Company's market risk at December 31, 2006, is the potential loss of interest income arising from adverse changes in interest rates. Interest rate risk is estimated as the potential decrease in pre-tax income resulting from a hypothetical 10% change in effective interest rates on the Company's outstanding debt and cash balance. The Company does not feel such a change in interest rates would be significant to its results of operations.

The Company does not currently use any derivative financial instruments.

**Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

See also the Quarterly Financial Information included under Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations .



**Report of Independent Registered Public Accounting Firm**

Board of Directors and Stockholders  
Ebix, Inc.  
Atlanta, Georgia

We have audited the accompanying consolidated balance sheets of Ebix, Inc. (the Company) as of December 31, 2006 and 2005 and the related consolidated statements of income, stockholders' equity and comprehensive income, and cash flows for each of the three years in the period ended December 31, 2006. We have also audited the schedule listed in the accompanying index. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and schedule are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and schedule, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements and schedule. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Ebix, Inc. at December 31, 2006 and 2005, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

Also, in our opinion, the information in the schedule present fairly, in all material respects, the information set forth therein.

As disclosed in Notes 1 and 10 to the consolidated financial statements, effective January 1, 2006, the Company adopted the fair value method of accounting provisions of Statement of Financial Accounting Standard No. 123 (revised 2004), Share Based Payment.

/s/ BDO SEIDMAN, LLP

Chicago, Illinois  
April 9, 2007

**Ebix, Inc. and Subsidiaries**  
**Consolidated Balance Sheets**

	December 31, 2006 (In thousands, except share amounts)	December 31, 2005
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 5,013	\$ 6,733
Accounts receivable, less allowances of \$36 and \$11	7,973	3,502
Prepays and other current assets	913	444
<b>Total current assets</b>	<b>13,899</b>	<b>10,679</b>
Property and equipment, net	2,183	1,488
Goodwill	23,118	12,204
Intangibles, net	7,867	3,293
Other assets	285	317
<b>Total assets</b>	<b>\$ 47,352</b>	<b>\$ 27,981</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>Current liabilities:</b>		
Line of credit	\$ 10,000	\$
Accounts payable and accrued expenses	1,854	1,962
Accrued payroll and related benefits	1,549	1,450
Current portion of long term debt	1,006	969
Current portion of capital lease obligation	3	
Current deferred rent	44	
Deferred revenue	5,552	2,794
<b>Total current liabilities</b>	<b>20,008</b>	<b>7,175</b>
Long term debt, less current portion	934	1,844
Long term deferred rent	235	
Long term debt capital lease obligation, less current portion	9	
Redeemable common stock, 0 and 157,728 shares issued and outstanding at December 31, 2006 and 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 at December 31, 2006 and 2005, respectively		
Common stock, \$.10 par value, 10,000,000 shares authorized, 2,857,178 issued and 2,848,288 outstanding at December 31, 2006 and 2,740,516 issued and outstanding at December 31, 2005	286	274
Additional paid-in capital	94,914	92,539
Treasury stock, 8,890 shares repurchased as of December 31, 2006	(149 )	
Accumulated deficit	(69,724 )	(75,689 )
Accumulated other comprehensive income	839	377
<b>Total stockholders equity</b>	<b>26,166</b>	<b>17,501</b>
<b>Total liabilities and stockholders equity</b>	<b>\$ 47,352</b>	<b>\$ 27,981</b>

See accompanying notes to consolidated financial statements.

**Ebix, Inc. and Subsidiaries**  
**Consolidated Statements of Income**

	Year Ended December 31, 2006	Year Ended December 31, 2005	Year Ended December 31, 2004
(In thousands, except per share amounts)			
<b>Revenue:</b>			
Services and other (Including revenues from related parties of \$3,117 , \$3,762 and \$3,551, respectively. See note 2)	\$ 27,594	\$ 22,882	\$ 19,114
Software	1,659	1,218	869
<b>Total revenue</b>	<b>29,253</b>	<b>24,100</b>	<b>19,983</b>
<b>Operating expenses:</b>			
Services and other costs	5,916	5,915	5,341
Product development	5,234	3,258	3,016
Sales and marketing	3,002	2,073	1,602
General and administrative	6,594	6,883	6,433
Amortization and depreciation	1,795	1,321	1,185
<b>Total operating expenses</b>	<b>22,541</b>	<b>19,450</b>	<b>17,577</b>
<b>Operating income</b>	<b>6,712</b>	<b>4,650</b>	<b>2,406</b>
Interest income	248	294	151
Interest expense	(309 )	(308 )	(222 )
Foreign exchange (loss) gain	(6 )	(20 )	48
Income before income taxes	6,645	4,616	2,383
Income tax provision	(680 )	(294 )	(143 )
Net income	\$ 5,965	\$ 4,322	\$ 2,240
Basic earnings per common share	\$ 2.15	\$ 1.55	\$ 0.80
Diluted earnings per common share	\$ 1.90	\$ 1.38	\$ 0.72
Basic weighted average shares outstanding	2,768	2,789	2,784
Diluted weighted average shares outstanding	3,137	3,121	3,104

See accompanying notes to consolidated financial statements.

## Ebix, Inc. and Subsidiaries

## Consolidated Statements of Stockholders Equity and Comprehensive Income

	Preferred Stock		Common Stock		Treasury Stock Shares	Treasury Stock	Additional Paid-in Capital	Deferred Compensation	Accumulated Deficit	Accumulated Other Comprehensive (Loss) Income	Comprehensive Total Income
	Shares	Amount	Shares	Amount							
<b>Balance, December 31, 2003</b>											
		\$	2,316,767		\$ 232		\$ 88,706	\$ (436)	\$ (82,251)	\$ 441	\$ 6,692
Net income									2,240		2,240
Cumulative translation adjustment										446	446
Comprehensive income											\$ 2,686
<b>Balance, December 31, 2004</b>											
		\$	2,911,154		\$ 291		\$ 92,717	\$ (376)	\$ (80,011)	\$ 887	\$ 13,508
Net income									4,322		4,322
Cumulative translation adjustment										(510)	(510)
Comprehensive income											\$ 3,812
<b>Balance, December 31, 2005</b>											
		\$	2,740,516		\$ 274		\$ 92,824	\$ (285)	\$ (75,689)	\$ 377	\$ 17,501
Net income									5,965		5,965
Cumulative translation adjustment										462	462
Comprehensive income											\$ 6,427
<b>Balance, December 31, 2006</b>											
		\$	2,857,178		\$ 286	(8,890)	\$ (149)	\$ 94,914	\$	\$ (69,724)	\$ 839
Effect of SFAS No. 123(R)							(285)	285			
Reclass of stock guarantee							1,327				1,327
Exercise of stock options			105,802		11		768				779
Restricted stock			10,860		1		133				134
Repurchase of treasury stock						(8,890)	(149)				(149)
Deferred compensation and amortization related to options							147				147
Comprehensive income											\$ 26,166

See accompanying notes to consolidated financial statements.

**Ebix, Inc. and Subsidiaries**  
**Consolidated Statements of Cash Flows**

	Year Ended December 31, 2006 (In thousands)	Year Ended December 31, 2005	Year Ended December 31, 2004
<b>Cash flows from operating activities:</b>			
Net income	\$ 5,965	\$ 4,322	\$ 2,240
<b>Adjustments to reconcile net income to net cash provided by (used in) operating activities:</b>			
Depreciation and amortization	1,795	1,321	1,185
Provision for doubtful accounts	25	9	108
Restricted stock compensation	134	65	
Stock-based compensation	147	(15 )	71
<b>Changes in current assets and liabilities, net of acquisitions:</b>			
Accounts receivable	(3,655 )	(255 )	(841 )
Other assets	(357 )	122	(99 )
Accounts payable and accrued expenses	(277 )	181	(49 )
Accrued payroll and related benefits	(304 )	(72 )	25
Deferred revenue	677	(195 )	170
Net cash provided by operating activities	4,150	5,483	2,810
<b>Cash flows from investing activities:</b>			
Investment in Finetre, net of cash acquired	(12,042 )		
Investment in Infinity, net of cash acquired	(3,049 )		
Investment in LifeLink, net of cash acquired			(4,763 )
Investment in Heart, net of cash acquired			(3,393 )
Deferred rent	225		
Capital expenditures	(537 )	(484 )	(366 )
Net cash used in investing activities	(15,403 )	(484 )	(8,522 )
<b>Cash flows from financing activities:</b>			
Proceeds from the issuance of common stock, net of issuance costs			2,977
Proceeds from line of credit	11,000		3,500
Repurchase of stock		(2,700 )	
Payments on line of credit	(1,000 )	(3,500 )	
Restricted cash		3,000	(3,000 )
Repurchase of common stock	(149 )		
Payments of long term debt	(873 )	(960 )	
Payments for capital lease obligations	12		(73 )
Proceeds from exercise of common stock options	779	131	82
Net cash provided by (used in) financing activities	9,769	(4,029 )	3,486
Effect of foreign exchange rates on cash and cash equivalents	(236 )	(80 )	154
Net change in cash and cash equivalents	(1,720 )	890	(2,072 )
Cash and cash equivalents at the beginning of the year	6,733	5,843	7,915
Cash and cash equivalents at the end of the year	\$ 5,013	\$ 6,733	\$ 5,843
<b>Supplemental disclosures of cash flow information:</b>			
Interest paid	\$ 187	\$ 177	\$ 86
Income taxes paid	524	281	386

**Supplemental schedule of noncash investing activities:**

During the third quarter of 2006 the Company paid Finetre shareholders \$13,000 for substantially all of Finetre stock, and Finetre shareholders retain the right to earn up to \$3,000 in additional payments over two years if certain revenue and net income targets of the Finetre division are met. The Company also incurred approximately \$365 of direct expenses related to closing the Finetre acquisition.

During the second quarter of 2006, the Company acquired substantially all of the operating assets of Infinity Systems Consulting, Inc. ( Infinity ). This acquisition was effective as of May 1, 2006. The Company 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 targets. The Company capitalized approximately \$149 of transaction costs in conjunction with the Infinity acquisition.

During the first quarter of 2004, the Company purchased all of the capital stock of LifeLink Corporation for consideration which included 200,000 shares of common stock valued at \$3,000, cash of \$5,000, and a note payable of \$2,226. The Company also capitalized approximately \$128,000 of transaction costs in conjunction with the acquisition.

During the third quarter of 2004, Ebix Australia Pty Ltd. acquired the operating assets of Heart Consulting Services PTY Ltd. in exchange for an aggregate purchase price (in Australian dollars) of A\$10,175 (\$7,116,000 USD) (based on the exchange rate as published by the Reserve Bank of Australia on July 1, 2004 of A\$0.6994 per United States Dollar ( USD )) payable as follows: A\$5,175 (\$3,619 USD) in cash at closing, A\$2,000 (\$1,399 USD) 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 (the "Deferred Payments"), and A\$3,000 (\$2,098 USD) payable in 157,728 shares of common stock of Ebix issued at the closing. The Company also capitalized approximately \$241 of transaction costs in conjunction with the acquisition.

See accompanying notes to consolidated financial statements.

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**Ebix, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements**

(All dollar amounts in thousands, except per share data)

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

**Nature of Business** Ebix, Inc. and subsidiaries (the Company) is an international provider of software and Internet-based solutions for the insurance industry. The Company's product and service strategy focuses on the following four areas: (1) worldwide sale, customization, development, implementation and support of its insurance carrier system products, Infinity Systems and Business Reinsurance and Insurance Company System (BRICS); (2) worldwide sales and support of broker/agency management systems including EbixASP, eGlobal and Winbeat; (3) expansion of connectivity between consumers, agents, carriers, and third party providers through its exchange family of products worldwide namely, WinFlex, VitalSuite, EbixExchange, AnnuityNet, and LifeSpeed; and (4) business process outsourcing services (BPO), which include call center and back office, either off site or at the Company's facilities. Software or services provided online through ASP models and connectivity products are recorded as services by the Company.

**Consolidation** The consolidated financial statements of the Company include the accounts of Ebix, Inc. and its subsidiaries after elimination of intercompany accounts and transactions.

**Revenue Recognition** We derive our revenue primarily from two sources: (1) product revenue, which includes software licenses and (2) professional and support services, which includes software development projects, subscription and transaction fees related to services delivered on an ASP basis, fees for software license maintenance, initial registration, and business process outsourcing revenue. Also included in professional and support services are fees for consulting, implementation, training, and project management provided to the Company's customers with installed systems and those in the process of installing systems.. As described below, significant management judgments and estimates must be made and used in connection with the revenue recognized in any accounting period. Material differences may result in the amount and timing of our revenue for any period if our management made different judgments or utilized different estimates.

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 license of software. For contracts that contain multiple deliverables, we analyze the revenue arrangements in accordance with 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. 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.

**Ebix, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**(All dollar amounts in thousands, except per share data)**

**Note 1 Description of Business and Summary of Significant Accounting Policies: (Continued)**

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. Management uses signed contractual agreements as persuasive evidence of an arrangement where fee information is documented. The Company performs credit checks on new customers to verify that collectibility will be probable. 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 ASP services or hosting arrangements, including monthly fees as well as any initial registration or setup fees and related custom programming, are recognized ratably over the term of the agreement in accordance with Staff Accounting Bulletin ( SAB ) 104, Revenue Recognition. Transaction fees are recognized as revenue as the transactions occur. Transaction fees are generally billed in arrears each month and the revenue is recognized when the transactions are processed. Revenue is only recognized when collectibility is probable.

Deferred revenue includes maintenance and support payments or billings that have been received or 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, evidence of an arrangement exists and the recovery of any related asset is considered probable.

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



**Ebix, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

(All dollar amounts in thousands, except per share data)

**Note 1 Description of Business and Summary of Significant Accounting Policies: (Continued)**

**Cash and Cash Equivalents** The Company considers all highly liquid investments with an original maturity of three months or less at the time of purchase to be cash equivalents. Such investments are stated at cost, which approximates fair value.

**Allowance for Doubtful Accounts Receivable** Management specifically analyzes accounts receivable and historical bad debts, customer concentrations, customer credit-worthiness, current economic trends and changes in our customer payment terms when evaluating the adequacy of the allowance for doubtful accounts. The Company's accounts receivable balance was \$7,973 and \$3,502, net of an allowance for doubtful accounts of \$36 and \$11 as of December 31, 2006 and 2005, respectively.

**Accounting for the Impairment of Long-Lived Assets** Long-lived assets and certain identifiable intangibles held and used by any entity are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable or at least annually. If an indication of a potential impairment exists, recoverability of the respective assets are determined by comparing the forecasted undiscounted net cash flows of the operation to which the assets relate, to the carrying amount, including associated intangible assets, of such operation. If the operation is determined to be unable to recover the carrying amount of its assets, then intangible assets are written down first, followed by the other long-lived assets of the operation, to fair value. Fair value is determined based on discounted cash flows or appraised values, depending upon the nature of the assets. In determining the estimated future cash flows, the Company considers current and projected future levels of income, as well as business trends, prospects and market and economic conditions.

The carrying amount of the Company's long-lived assets at December 31, 2006 and 2005 primarily represented the original amounts invested less the recorded depreciation and amortization. Based on the analysis performed by management, the Company does not believe the carrying value of its long-lived assets were impaired as of December 31, 2006. There were no impairment charges for the years ended December 31, 2006, 2005 or 2004.

**Software Development Costs** The Company's policy is to capitalize internally generated software development costs and purchased software in compliance with Statement of Financial Accounting Standards ( SFAS ) No. 86, Accounting for the Costs of Computer Software To Be Sold, Leased or Otherwise Marketed. Under SFAS No. 86, capitalization of software development costs begins upon the establishment of technological feasibility of the product and continues through the point of general release of the product. The ongoing assessment of the recoverability of these costs considers external factors, including, but not limited to, anticipated future gross product revenues, estimated economic life and changes in software and hardware technology. During 2006, 2005 and 2004 the Company did not have any expenses eligible for capitalization under SFAS No. 86, given that costs incurred were primarily related to maintenance or were due to the provision of support on previously released software products.

**Property and Equipment** Property and equipment are stated at cost less accumulated depreciation and amortization and acquired cost. Depreciation and amortization are computed using the straight-line method over the assets' estimated useful lives. Leasehold improvements are amortized over the shorter of the expected life of the improvements or the remaining lease term. Repairs and maintenance are charged to expense as incurred and major improvements that extend the life of the asset are capitalized and amortized over the expected life of the improvement. Gains and losses resulting from sales or retirements



**Ebix, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

(All dollar amounts in thousands, except per share data)

**Note 1 Description of Business and Summary of Significant Accounting Policies: (Continued)**

are recorded as incurred, at which time related costs and accumulated depreciation are removed from the accounts. Fixed assets acquired in acquisitions are valued at fair value. The estimated useful lives applied by the Company are as follows:

Asset Category	Life
Computer equipment	5
Computer software	3-5
Furniture, fixtures and other	7
Buildings	30
Leasehold improvements	Life of the lease

**Goodwill** In July 2001, the FASB issued SFAS No. 142, Goodwill and Other Intangible Assets, which supersedes Accounting Principles Board ( APB ) Opinion No. 17, Intangible Assets. SFAS No. 142 addresses how intangible assets acquired individually or with a group of other assets (but not those acquired in a business combination) should be accounted for in financial statements upon their acquisition. SFAS No. 142 also addresses how goodwill and other intangible assets should be accounted for after they have been initially recognized in the financial statements. SFAS No. 142 is required to be applied at the beginning of the entity's fiscal year and to be applied to goodwill and other intangible assets recognized in its financial statements at that date. As of January 1, 2002, the Company adopted SFAS No. 142, which eliminated the requirement to amortize goodwill. As of January 1, 2002, the date of adoption, the Company had unamortized goodwill in the amount of approximately \$122, which has been subjected to the transition provision, including the phase in and annual impairment test, of SFAS No. 142 and will not be amortized going forward. In 2006, goodwill of \$23,118 was a result of the acquisition of Finetre in October 2006 (\$9,711), Infinity in May 2006 (\$702), EbixLife in February 2004 (\$5,989) and Heart in July 2004 (\$6,594) as well as \$122 of unamortized goodwill as of January 1, 2002. In 2005, goodwill of \$12,204 was a result of the acquisition of EbixLife in February 2004 (\$5,989) and Heart in July 2004 (\$6,093) as well as \$122 of unamortized goodwill as of January 1, 2002. The Heart goodwill fluctuates due to foreign currency translation as the asset is recorded in New Zealand dollars. The Company performed an annual impairment assessment, as required by SFAS No. 142, of the Heart and EbixLife goodwill and intangible assets as of September 30, 2006 and it was determined that the assets were not impaired.

Changes in the carrying amount in goodwill for the year ended December 31, 2006 are as follows:

Balance, December 31, 2005	\$ 12,204
Additions	10,414
Foreign currency translation adjustments	500
Balance, December 31, 2006	\$ 23,118

**Ebix, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**  
**(All dollar amounts in thousands, except per share data)**

**Note 1 Description of Business and Summary of Significant Accounting Policies: (Continued)**

**Intangible Assets** Amounts allocated to intangible assets are amortized over their estimated useful lives as follow:

Category	Life (yrs.)
Customer relationships	4-10
Developed technology	5
Trademarks	5-10
Backlog	1

	December 31,	
	2006	2005
Amortized intangible assets:		
Customer relationships	\$ 5,874	\$ 2,872
Developed technology	3,808	1,387
Trademarks	706	488
Backlog	140	
Total intangibles	10,528	4,747
Accumulated amortization:	(2,661 )	(1,454 )
Intangibles net	\$ 7,867	\$ 3,293

See note 13 for further discussion of intangible assets.

**Income Taxes** The Company follows the asset and liability method of accounting for income taxes pursuant to SFAS No. 109, Accounting for Income Taxes. Deferred income taxes are recorded to reflect the tax consequences on future years of differences between the tax bases of assets and liabilities and operating loss and tax credit carryforwards and their financial reporting amounts at each year-end using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. In assessing the realizability of the deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. A valuation allowance is recorded for the portion of the deferred tax assets that are not expected to be realized based on the levels of historical taxable income and projections for future taxable income over the periods in which the temporary differences are deductible. The Company has not provided deferred U.S. taxes on its unremitted foreign earnings because it considers them to be permanently reinvested.

**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 common shares outstanding for 2006, 2005 and 2004 were 2,768,005, 2,789,406 and 2,783,500, 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

**Ebix, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

(All dollar amounts in thousands, except per share data)

**Note 1 Description of Business and Summary of Significant Accounting Policies: (Continued)**

common stock equivalents. During 2006 and 2005 the Company's common stock equivalents consisted of restricted stock and stock options. During 2004, the Company's common stock equivalents consisted of stock options. During 2006, the effect of this calculation resulted in an increase in the weighted average number of shares outstanding of 369,140. During 2005, the effect of this calculation resulted in an increase in the weighted average number of shares outstanding of 331,205. During 2004, the effect of this calculation resulted in an increase in the weighted average number of shares outstanding of 320,806. At December 31, 2006, 2005 and 2004 the fully diluted weighted average number of shares outstanding was 3,137,145, 3,120,611 and 3,104,306, respectively. At December 31, 2006, 2005 and 2004, there were 205,589, 354,707 and 368,366 shares, respectively, potentially issuable with respect to outstanding stock options and warrants, which could dilute Basic EPS in the future which were excluded from the diluted EPS calculation because their effect was antidilutive.

**Foreign Currency Translation** The functional currency of the Company's foreign subsidiaries is the local currency of the country in which the subsidiary operates. The assets and liabilities of foreign subsidiaries are translated into U.S. Dollars at the rates of exchange at the balance sheet dates. Income and expense accounts are translated at the average exchange rates in effect during the period. Gains and losses resulting from translation adjustments are included in the accompanying consolidated statements of stockholders' equity. Foreign exchange transaction gains and losses are recorded in foreign exchange gain (loss) as other comprehensive income (loss).

**Use of Estimates** The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and reported amounts of revenue and expenses during the reporting periods. Management has made material estimates with respect to the valuation of accounts receivable, deferred revenue and income taxes. Actual results will differ from those estimates.

**Segment Reporting** SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, established reporting standards for companies operating in more than one business segment. Since the Company manages its business as a single entity that provides software and related services to a single industry on a worldwide basis, the Company reports as a single segment. The applicable enterprise-wide disclosures required by SFAS No. 131 are included in Note 12.

**Concentrations** The Company's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable. The Company places its cash and temporary investments with high quality financial institutions. Temporary investments are valued at the lower of cost or market and at the balance sheet dates approximate fair market value. In 2006, 2005 and 2004, Brit Insurance Holdings PLC and its affiliates accounted for approximately 11%, 16% and 18%, respectively, of consolidated revenue. Accounts receivable relating to this customer at December 31, 2006 and 2005 were \$1,039 and \$988, respectively (see Note 2).

The Company currently utilizes hardware, software and services that support its website from two third-party vendors under operating service agreements. Although there is a limited number of website service companies, management believes that other vendors could provide the Company with these website

**Ebix, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****(All dollar amounts in thousands, except per share data)**

services. The terms of the current operating service agreements provide for fixed and variable payments, which are based on revenues realized by the Company.

**Employee Stock Options** At December 31, 2006, the Company has two stock-based employee compensation plans, which are more fully described in Note 10. 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 2006; however, options were granted to Directors. Stock compensation expense of \$147,000 was recognized during the year ended December 31, 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 years ended December 31, 2005 and 2004:

	<b>Year Ended December 31, 2005</b>	<b>Year Ended December 31, 2004</b>
Net income, as reported	\$ 4,322	\$ 2,240
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	18	18
Deduct: Total stock-based employee compensation expense determined under fair-value based method for all awards, net of related tax effects	(830 )	(822 )
Pro forma net income	\$ 3,510	\$ 1,436
Basic earnings per share, as reported	\$ 1.55	\$ 0.80
Diluted earnings per share, as reported	\$ 1.38	\$ 0.72
Basic earnings per share, pro forma	\$ 1.26	\$ 0.52
Diluted earnings per share, pro forma	\$ 1.12	\$ 0.46

**Ebix, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**  
**(All dollar amounts in thousands, except per share data)**

**Note 1 Description of Business and Summary of Significant Accounting Policies: (Continued)**

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 year ended December 31, 2005 and 2004:

	Year Ended December 31, 2005		Year Ended December 31, 2004	
Expected volatility	97	%	88	%
Expected dividends	None		None	
Weighted average risk-free interest rate	4.36	%	4.00	%
Expected life of stock options	10 years		10 years	

**Non-employee Stock Compensation** The Company accounts for stock based compensation issued to non-employees in accordance with 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. Under the fair value based method, compensation cost is measured over the life of the service period 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 contractual period.

**Advertising** Advertising costs are expensed as incurred. Advertising costs amounted \$326, \$320 and \$206 in 2006, 2005 and 2004, respectively, and are included in sales and marketing expenses in the accompanying consolidated statements of income.

**Fair Value of Financial Instruments** The following disclosures of the estimated fair value of financial instruments were made in accordance with the requirements of SFAS No. 107, Disclosures about Fair Value of Financial Instruments. The estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies.

The Company believes the carrying amount of cash equivalents, accounts receivable, accounts payable, accrued expenses, accrued payroll and related benefits, line of credit and letters of credit is a reasonable estimate of their fair value due to the short maturity of these items.

**Treasury Stock** Treasury stock is accounted for at cost.

**Impact of Recently Issued Accounting Standards** In September 2006, the Financial Accounting Standards Board ( FASB ) issued SFAS No. 157, *Fair Value Measurement* ( SFAS 157 ), SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 is effective January 1, 2008. The Company is in the process of assessing the impact that SFAS 157 will have on its financial statements.

In June 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ( FIN 48 ), which is an interpretation of SFAS No. 109, *Accounting for Income Taxes* ( SFAS 109 ). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS 109 and 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. FIN 48 also provides guidance on derecognition, classification,





**Ebix, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

(All dollar amounts in thousands, except per share data)

**Note 1 Description of Business and Summary of Significant Accounting Policies: (Continued)**

interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company is currently in the process of assessing the impact the adoption of FIN 48 will have on its consolidated financial statements.

**Note 2 Brit Insurance Holdings PLC**

In 2001, the Company issued 868,000 shares of its common stock to Brit Insurance Holdings PLC ( Brit ) for \$7,000. The total number of shares of the Company s common stock held by Brit at December 31, 2006 was 930,163, representing an equity ownership of 33 percent.

During 2006, 2005 and 2004, the Company entered into various software and service agreements with Brit and its affiliates. Approximately \$3,117, \$3,762 and \$3,551 was recognized as revenue during 2006, 2005 and 2004, respectively from Brit and its affiliates. Total accounts receivable from Brit and its affiliates at December 31, 2006 and 2005 were \$1,039 and \$988, respectively.

**Note 3 Restricted Stock:**

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 in the case of Mr. Raina and \$330 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 \$100 related to these shares during the year ended December 31, 2006.

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.

**Ebix, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****(All dollar amounts in thousands, except per share data)****Note 3 Restricted Stock: (Continued)**

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 in the case of Mr. Raina and \$455 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 \$34 and \$65 related to these shares during the years ended December 31, 2006 and 2005, respectively.

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. Mr. Baum's restricted stock fully vested upon his retirement effective December 31, 2006.

**Note 4 Property and Equipment:**

Property and equipment at December 31, 2006 and 2005 consisted of the following:

	<b>2006</b>	<b>2005</b>
Computer equipment and purchased software	\$ 2,349	\$ 2,483
Buildings	310	380
Land	78	109
Leasehold improvements	597	17
Furniture, fixtures and other	1,320	446
	4,654	3,435
Less accumulated depreciation and amortization	(2,471 )	(1,947 )
	\$ 2,183	\$ 1,488

Depreciation and amortization expense was \$524, \$446 and \$430 in 2006, 2005 and 2004, respectively.

**Note 5 Line of Credit and Letters of Credit****Bank Line of Credit**

The Company maintains a revolving line of credit facility with LaSalle Bank N.A. The line provides for a variable interest rate and is secured by a first security interest in substantially all of the Company's assets. In October 2005, the Company entered into an amendment to the credit agreement to remove the requirement to maintain collateral in a restricted cash 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 at a variable interest rate of LIBOR +1.5% (effective interest rate of 6.85% at

**Ebix, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

(All dollar amounts in thousands, except per share data)

**Note 5 Line of Credit and Letters of Credit (Continued)**

December 31, 2006). The line of credit contains certain financial covenants related to profitability, current assets and debt coverage. On October 2, 2006, \$11,000 was borrowed on the line and on December 29, 2006 \$1,000 was paid on the line. Total borrowings on this line were \$10,000 as of December 31, 2006. The line of credit agreement matures on August 31, 2007.

**Letters of Credit**

Under terms of the agreement with Heart (see note 13), \$1,399 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). 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. On July 3, 2006 the Company paid the second installment of \$496.

Under terms of the lease agreement for office space in Herndon, Virginia, the Company is required to maintain a stand-by letter credit in the amount of \$225,000. The amount of the letter of credit was automatically reduced to \$150,000 on March 7, 2007. The requirement for this letter of credit expires in November 2007.

**Note 6 Accounts Payable and Accrued Expenses:**

Accounts payable and accrued expenses at December 31, 2006 and December 31, 2005, consisted of the following:

	2006	2005
Trade accounts payable	\$ 1,031	\$ 1,643
Accrued professional fees	161	145
Accrued other liabilities	662	174
	\$ 1,854	\$ 1,962

**Note 7 Income Taxes:**

Income before income taxes consisted of:

	Year Ended December 31, 2006	Year Ended December 31, 2005	Year Ended December 31, 2004
Domestic	\$ 5,162	\$ 2,738	\$ 1,314
Foreign	1,483	1,878	1,069
Total	\$ 6,645	\$ 4,616	\$ 2,383

**Ebix, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**  
**(All dollar amounts in thousands, except per share data)**

**Note 7 Income Taxes: (Continued)**

The income tax provision consisted of:

	Year Ended December 31, 2006	Year Ended December 31, 2005	Year Ended December 31, 2004
U.S. Federal	\$ 144	\$ 62	\$ 26
State	114		
Foreign	422	232	117
Total	\$ 680	\$ 294	\$ 143

The income tax provision at the Federal statutory rate differs from the effective rate because of the following items:

	Year Ended December 31, 2006		Year Ended December 31, 2005		Year Ended December 31, 2004
Statutory rate	34.0	%	34.0	%	34.0
Change in valuation allowance	(23.0)	)%	(23.3)	)%	(14.2)
Effect of foreign tax rate other than 34%	(3.2)	)%	(4.9)	)%	(14.5)
State income taxes	1.1	%		%	
Reversal of accrual for tax exposures		%		%	(3.2)
Other		%	(.5)	)%	
Permanent differences	1.3	%	.7	%	3.9
Effective rate	10.2	%	6.0	%	6.0

Deferred income taxes reflect the impact of temporary differences between amounts of assets and liabilities for financial reporting purposes and such amounts as measured by tax laws. Temporary differences and carryforwards which give rise to a significant portion of deferred tax assets and liabilities as of December 31, 2006 and 2005 were as follows:

	December 31, 2006		December 31, 2005	
	Deferred Assets	Liabilities	Deferred Assets	Liabilities
Amortization	\$ 386	\$	\$ 215	\$
Accruals	110			76
Bad debts	10		1	
NOL carryforwards	10,716		8,549	
Finetre intangible assets		1,141		
Installment sale	746			
Tax credit carryforwards	240		232	
	12,208	1,141	8,997	76
Valuation allowance	(11,067)	)	(8,921)	)
Total deferred taxes	\$ 1,141	\$ 1,141	\$ 76	\$ 76

**Ebix, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**(All dollar amounts in thousands, except per share data)**

**Note 7 Income Taxes: (Continued)**

Due to the uncertainty of realizing any of the net deferred tax assets, the Company has provided a valuation allowance against the entire net amount. The impact of the valuation allowance and the effective tax rate is shown net of the effect of expiring operating losses and tax credit carry-forwards.

At December 31, 2006, the Company had available domestic net operating loss carry-forwards of approximately \$29,000 which are available to offset future Federal income taxes, if any, through 2022, and investment business tax credit carry-forwards of approximately \$200 and AMT credit carry-forwards of approximately \$40, which are available to offset future Federal taxable income, if any, through 2009 for the investment business tax credit and indefinitely for the AMT credit. In connection with the Finetre acquisition (see note 13 regarding the acquisition), the Company is able to use a portion of the domestic net operating loss carry-forwards attributable to Finetre, subject to certain annual limitations.

The Company's ability to use all of the net operating losses in the future may be limited should there be a transfer of greater than 50 percent of the economic value of the Company in a single or series of transactions.

Currently, taxable income other than interest income is subject to a tax holiday in India. The tax holiday is scheduled to expire in 2010.

Goodwill related to asset acquisitions are deductible for tax purposes but are not deductible for financial reporting purposes, except to the extent there is an impairment of goodwill. Included in deferred taxes is the tax affect of the amortization of goodwill for tax purposes.

**Note 8 Commitments and Contingencies:**

**Lease Commitments:**

The Company leases office space under noncancelable operating leases with expiration dates ranging through 2011, with various renewal options. Capital leases range from three to four years and are primarily for computer equipment. There was one asset under capital lease at December 31, 2006. There were no assets under capital lease at December 31, 2005.

**Ebix, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**  
**(All dollar amounts in thousands, except per share data)**

**Note 8 Commitments and Contingencies: (Continued)**

Commitments for minimum rentals under noncancellable leases as of December 31, 2006 were as follows:

Year	Capital Leases	Operating Leases
2007	\$ 4	\$ 1,460
2008	4	816
2009	4	624
2010	1	477
2011		173
Thereafter		360
Total minimum lease commitments	\$ 13	\$ 3,910
Less: sublease income		(64 )
Net lease payments	\$ 13	\$ 3,846
Less: amount representing interest	(1 )	
Present value of obligations under capital leases	\$ 12	
Less: current portion	(3 )	
Long-term obligations under capital leases	\$ 9	

Rental expense for office facilities and certain equipment subject to operating leases for 2006, 2005 and 2004 was \$1,233, \$738 and \$716, respectively.

In 2006, sublease income was \$64. There was no sublease income during 2005 or 2004.

**Contingencies:**

The Company is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company's consolidated financial position, results of operations or liquidity.

**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 per person and the aggregate liability to 125% of the expected claims based upon the number of participants and historical claims. As of December 31, 2006, the maximum aggregate liability calculated was \$933 for the annual contract period, which ends in September 2007.

**Note 9 Cash Option Profit Sharing Plan and Trust:**

The Company maintains a 401(k) Cash Option Profit Sharing Plan, which allows participants to contribute a percentage of their compensation to the Profit Sharing Plan and Trust up to the Federal maximum. The Company's contributions to the Plan were approximately \$86 for 2006, \$66 for 2005 and \$61 for 2004.

**Note 10 Stock Options:**

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



**Ebix, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

(All dollar amounts in thousands, except per share data)

**Note 10 Stock Options: (Continued)**

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, third or fourth quarters of 2006; however, options were granted to Directors. Stock compensation expense of \$147 was recognized during the year ended December 31, 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.

A summary of stock option activity within the Company's stock-based compensation plans for the year ended December 31, 2006 is as follows:

	Within Plans Nonstatutory Options	Incentive Options	Outside Plan	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at December 31, 2005	599,756	55,281	30,875	\$ 11.89		
Granted	9,000			\$ 20.98		
Exercised	(103,802 )		(2,000 )	\$ 7.36		
Canceled	(6,881 )	(7,500 )		\$ 36.50		
Moved to within Plan	25,000		(25,000 )			
Outstanding at December 31, 2006	523,073	47,781	3,875	\$ 12.41	5.38	\$ 8,929
Exercisable at December 31, 2006	509,141	33,700	2,812	\$ 11.16	5.38	\$ 9,162

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 2006, 2005 and 2004 were \$1,672,000, \$105,000 and \$127,000, respectively. As a result of the stock options exercised, the Company recorded additional paid-in-capital of \$768,000 in 2006. During 2006, cash received from stock options exercised was \$779,000.

**The Company had 15,144 of stock options that were not vested at December 31, 2006 that were expensed in 1999. Additionally, the Company has 4,687 of stock options that were unvested related to Rahul Raina. These options were amended to avoid adverse personal tax treatment of the options under Section 409A of the Internal Revenue Code. As a result, the exercise price applicable to the options was increased from \$2.85 per share to \$6.70 per share, which exercise price is equal to the fair market value of the common stock underlying the stock options on the original grant date (August 11, 2003). Please see the**



**Ebix, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**  
**(All dollar amounts in thousands, except per share data)**

**Note 10 Stock Options: (Continued)**

**disclosure under Certain Relationships and Related Transactions, and Director Independence for further information relating to this option amendment. As a result of this action, 25,000 shares were moved from outside the plan to within the plan. At December 31, 2006, there was \$189,000 of unrecognized compensation cost related to total nonvested stock options. This cost will be recognized over 2.0 years.**

The Company's 1996 Stock Incentive Plan (the Plan) provides for the granting of stock options and stock appreciation rights to officers, directors and employees. The total number of shares reserved for grant under the Plan was 337,500 at December 31, 2000. An amendment increasing the number of shares reserved for grant under the Plan by 250,000 was adopted by the Board of Directors and approved by the Company's stockholders on May 30, 2001. A third amendment increasing the number of shares reserved for grant under the Plan by 250,000 was adopted by the Board of Directors and approved by the Company's stockholders on September 30, 2002. A fourth amendment increasing the number of shares reserved for grant under the Plan by 300,000 was adopted by the Board of Directors and approved by the Company's stockholders on January 14, 2005. Accordingly, the total number of shares reserved for grant under the Plan was 1,137,500 at December 31, 2006. Options granted under this Plan may be incentive stock options as defined under current tax laws or nonstatutory options. Options are granted at prices determined by the Board of Directors (not less than 100 percent of the market price of the stock at the time of grant for incentive stock options and 110 percent with respect to incentive stock options granted to optionees who own 10 percent or more of the Company's stock). Stock options under this plan generally become exercisable with respect to the underlying shares of Common Stock as follows: 25 percent become exercisable on the first anniversary of the date of grant and the remaining 75% of the options become exercisable ratably each quarter over the next three years. All options must be exercised within ten years of the date of grant (with respect to incentive stock optionees owning 10 percent or more of the Company's stock, the term may be no longer than five years). No stock appreciation rights have been issued under the Plan or are outstanding at December 31, 2006.

The Company's 1998 Director Option Plan (the Director Plan) provides for granting of options for up to 37,500 shares to non-employee directors. Only nonstatutory options may be granted under the Directors Plan. Options are granted at prices not less than 100% of the market price of the stock at the time of grant. Stock options under this plan generally become exercisable over periods ranging from three months to three years. All options must be exercised within ten years of the date of grant. During 2006, 2005 and 2004, the Company granted options to purchase a total of 3,750, 6,600 and 6,000 shares, respectively, under the Director Plan.

In May 2003, our Board of Directors determined that each board member would receive options to purchase 1,500 shares of common stock each year. Each member of the Compensation Committee would receive additional options to purchase 150 shares of common stock per year. Each Audit Committee member would receive additional options to purchase 375 shares of common stock per year. In addition, each member of the Audit Committee, other than the Chairman, would receive cash compensation of \$2 per year. The Audit Committee Chairman would receive cash compensation of \$5 per year. These options were granted immediately following each annual meeting of stockholders at an exercise price per share of 100% of the fair market value of a share of common stock on the date of 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. Each option has a term of ten years beginning on the date of

**Ebix, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**(All dollar amounts in thousands, except per share data)**

**Note 10 Stock Options: (Continued)**

grant. During 2003, the Company granted options to purchase a total of 5,625 shares to board members under the program.

On January 14, 2005, the Company held the annual meeting of stockholders that had originally been scheduled for 2004. 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. On March 21, 2005, each member of the Compensation Committee received additional options to purchase 150 shares of common stock and each Audit Committee member received additional options to purchase 375 shares of common stock 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 member of the Audit Committee, other than its Chairman, received cash compensation of \$3 in 2004 prorated for each member's actual time of service. Mr. Drislane received \$3 and Mr. Rich received \$1 following the January 14, 2005 annual meeting. The Audit Committee Chairman received cash compensation of \$5 in 2004 prorated for the member's actual time of service. Mr. Bhalla received \$3 as compensation for serving as Audit Committee Chairman immediately following the January 14, 2005 meeting. On March 24, 2004, Mr. Chisholm a former member of the Audit Committee, received \$3 as compensation as service as a member of the Audit Committee (until his resignation on October 26, 2004).

In December 2004, our Board of Directors adopted a new compensation program for our non-employee directors, to commence in 2005 (with the 2005 Annual Meeting of Stockholders). Pursuant to this program, each non-employee director is to receive an annual cash retainer of \$14. The Chairman of the Audit Committee is to receive an additional annual fee of \$5 and each other member of the Audit Committee and each member of the Compensation Committee is to receive an additional annual fee of \$3 per committee. Also, each non-employee director is to receive an initial grant on his election to the Board of an option to purchase 1,500 shares vesting over three years, and an annual grant thereafter of an option to purchase 1,500 shares, including the options automatically awarded under the Director Plan. These options will be granted immediately following each annual meeting of stockholders at an exercise price per share of 100% of the fair market value of a share of common stock on the date of grant. These options will 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 grant and will have a term of ten years beginning on the date of grant.

On December 16, 2005, 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

**Ebix, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**(All dollar amounts in thousands, except per share data)**

**Note 10 Stock Options: (Continued)**

retainer of \$14. Each member of the Audit Committee and Compensation Committee, other than its Chairman, received cash compensation of \$3 in 2005. Mr. Drislane, Keller and Merin received \$3 following the December 16, 2005 annual meeting. Mr. Rich received \$5 following the December 16, 2005 meeting for serving on both the Audit and Compensation Committees. The Audit Committee Chairman, Mr. Bhalla received cash compensation of \$5 following the December 16, 2005 meeting.

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. Each member of the Audit Committee and Compensation Committee, other than its Chairman, received cash compensation of \$3 per committee in 2006. Mr. Keller and Benz received \$5 following the October 20, 2006 meeting for serving on both the Audit and Compensation Committees. The Audit Committee Chairman, Mr. Bhalla received cash compensation of \$5 following the October 20, 2006 meeting.

During 2000, the Company granted incentive stock options to purchase a total of 1,250 shares for which vesting is contingent upon increases in the Company's stock price and other performance based measures, such as achieving specified revenues for new products. During 1999, the Company granted incentive stock options to purchase a total of 58,250 shares, for which vesting is contingent upon increases in the Company's stock price and other performance based measures, such as achieving specified revenues for new products. For these options, vesting generally occurs when the Company's stock price equals \$72.00, \$96.00, \$120.00 and \$160.00 per share. During 2006, 2005 and 2004, no incentive options were granted. The exercise price of each option, which has a ten-year life, is equal to the market price of the Company's stock on the date of grant. There was no compensation expense related to these options in 2006, 2005 or 2004.

On August 11, 2003, the Company granted 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. This option grant was valued using FAS 123(R). The Company recognized compensation expense of approximately \$41, \$24 and \$24 related to these options during the years ended December 31, 2006, 2005 and 2004, respectively.

The Company has granted nonstatutory and incentive options outside the Company's stock option plans to purchase up to an aggregate of 57,000 shares of the Company's common stock, of which options to purchase 3,875 shares were outstanding at December 31, 2006. These options were granted at prices determined by the Board of Directors. The options have a four-year vesting period and must be exercised

**Ebix, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

(All dollar amounts in thousands, except per share data)

**Note 10 Stock Options: (Continued)**

within ten years of the date of the grant. These options were granted prior to 2002, to persons who were not directors, officers or employees.

These non-employee options were valued pursuant to SFAS No. 123. The majority of these options are performance-based awards, with no service commitment and subject to vesting only if the Company's stock price reaches a certain price. At December 31, 2006, 2,812 of the shares subject to these non-employee options were vested. The Company recognized a credit to compensation expense of \$38 and \$50 related to these options during the years ended December 31, 2005 and 2004, respectively. Assumptions used in valuing the options are the same as those described below for employee options.

Both the pro forma disclosures in Note 1 and the weighted-average fair value of stock options on the date of grant were calculated using the Black-Scholes option-pricing model with the following assumptions:

	Year Ended December 31, 2006		Year Ended December 31, 2005		Year Ended December 31, 2004
Weighted average fair values of stock options granted	\$20.98		\$ 16.22		\$ 15.54
Expected volatility	110	%	97	%	88
Expected dividends	None		None		None
Weighted average risk-free interest rate	4.78	%	4.36	%	4.00
Expected life of stock options	6 years		10 years		10 years

The expected volatility is calculated using historical stock prices. Expected life of options is calculated using the simplified method in 2006 and the life of the options in 2005 and 2004.

**Note 11 Sale of Unregistered Common Stock:**

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 payable as follows: \$3,619 paid in cash at closing (subsequent to closing the former owner of Heart paid \$467 for deferred revenue and a vacation accrual settlement), \$1,399 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), and \$2,098 payable in 157,728 shares of the common stock of the Company issued at the time of closing. The Company also capitalized approximately \$241 of transaction costs in conjunction with the Heart acquisition. In connection with the 157,728 shares of common stock, the former owners received from Ebix the option to sell their stock back to Ebix subject to specified time frames and prices. This option expired in Q1 2006.

**Ebix, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**  
(All dollar amounts in thousands, except per share data)

**Note 12 Geographic Information:**

Management believes that the Company operates in one reportable segment, per SFAS No. 131 the following enterprise wide information is provided. The following information relates to geographic locations:

**Year ended December 31, 2006**

	Domestic	Australia/ New Zealand	India	Singapore	Canada	Total
Revenue	\$ 18,579	\$ 8,270	\$ 23	\$ 2,274	\$ 107	\$ 29,253
Fixed assets	\$ 1,211	\$ 220	\$ 709	\$ 41	\$ 2	\$ 2,183
Goodwill	\$ 16,526	6,592				\$ 23,118
Intangible assets	\$ 7,267	\$ 600				\$ 7,867

**Year ended December 31, 2005**

	Domestic	Australia/ New Zealand	India	Singapore	Canada	Total
Revenue	\$ 15,272	\$ 7,300		\$ 1,399	\$ 129	\$ 24,100
Fixed assets	\$ 409	\$ 239	\$ 801	\$ 38	\$ 1	\$ 1,488
Goodwill	\$ 6,112	\$ 6,092				\$ 12,204
Intangible assets	\$ 2,451	\$ 842				\$ 3,293

**Year ended December 31, 2004**

	Domestic	Australia/ New Zealand	India	Singapore	Canada	Total
Revenue	\$ 13,385	\$ 5,176		\$ 1,260	\$ 162	\$ 19,983
Fixed assets	\$ 526	\$ 99	\$ 794	\$ 30	\$ 1	\$ 1,450
Goodwill	\$ 6,250	\$ 6,419				\$ 12,669
Intangible assets	\$ 3,027	\$ 1,207				\$ 4,234

**Note 13 Acquisitions**

*Finetre Acquisition*

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

The Company also incurred approximately \$365 of direct expenses related to closing the Finetre acquisition. The Company funded the acquisition using available cash on hand of \$2,000 as well as the \$11,000 line of credit.

The acquisition of Finetre 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.



**Ebix, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**  
**(All dollar amounts in thousands, except per share data)**

**Note 13 Acquisitions (Continued)**

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

Current assets	\$ 2,244
Property and equipment	580
Intangible assets	3,391
Goodwill	9,711
Total assets acquired	15,926
Current liabilities	2,561
Total liabilities assumed	2,561
Net assets acquired	\$ 13,365

Of the \$3,391 of intangible assets acquired, \$2,346 was assigned to customer relationships with a remaining useful life of nine years, \$896 was assigned to developed technology with a remaining useful life of 5 years, \$140 was assigned to backlog with a remaining estimated useful life of fourteen months and \$9 assigned to IPR&D which was expensed immediately. The Company recorded \$139 of amortization expense related to these intangible assets for the year ended December 31, 2006.

***Estimated Amortization Expenses:***

For the year ended December 31, 2007	\$560
For the year ended December 31, 2008	\$440
For the year ended December 31, 2009	\$440
For the year ended December 31, 2010	\$440
For the year ended December 31, 2011 and thereafter	\$1,372

***Infinity Systems Acquisition***

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 services meet certain future revenue targets. The Company capitalized approximately \$149 of transaction costs in conjunction with the Infinity acquisition.

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.

**Ebix, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**  
**(All dollar amounts in thousands, except per share data)**

**Note 13 Acquisitions (Continued)**

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
Intangible assets	2,399
Goodwill	702
Total assets acquired	3,194
Deferred revenue	91
Deferred rent	54
Total liabilities assumed	145
Net assets acquired	\$ 3,049

Of the \$2,399 of intangible assets acquired, \$656 was assigned to customer relationships with a remaining useful life of ten years, \$1,525 was assigned to developed technology with a remaining useful life of 5 years and \$218 was assigned to trade name with a remaining estimated useful life of ten years. The Company recorded \$262 of amortization expense related to these intangible assets for the year ended December 31, 2006.

***Estimated Amortization Expenses:***

For the year ended December 31, 2007	\$ 392
For the year ended December 31, 2008	\$ 392
For the year ended December 31, 2009	\$ 392
For the year ended December 31, 2010	\$ 392
For the year ended December 31, 2011 and thereafter	\$ 569

***LifeLink Acquisition***

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, payable as follows: \$5,000 paid in cash at closing, \$2,500 in a non-interest bearing note payable in cash in annual installments of \$500 over five years (present value computed as \$2,226), and \$3,000 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 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 of the



**Ebix, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****(All dollar amounts in thousands, except per share data)****Note 13 Acquisitions (Continued)**

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

Of the \$3,518 of intangible assets acquired, \$977 was assigned to developed technology with a remaining estimated useful life of five years, \$299 was assigned to trademarks with a remaining estimated useful life of five years and \$2,242 was assigned to customer relationships with a remaining estimated useful life of seven years. The Company recorded \$575, \$575 and \$491 of amortization expense related to these intangible assets for the years ended December 31, 2006, 2005 and 2004, respectively.

***Estimated Amortization Expenses:***

For the year ending December 31, 2007	\$ 575
For the year ending December 31, 2008	\$ 575
For the year ending December 31, 2009	\$ 358
For the year ending December 31, 2010	\$ 320
For the year ending December 31, 2011	\$ 49

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, 2006 and it was determined that the assets were not impaired.

***Heart Acquisition***

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

**Ebix, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****(All dollar amounts in thousands, except per share data)****Note 13 Acquisitions (Continued)**

payable as follows: \$3,619 paid in cash at closing (subsequent to closing the former owner of Heart paid the Company \$467 for deferred revenue and a vacation accrual settlement), \$1,399 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), and \$2,098 payable in 157,728 shares of the common stock of the Company issued at the time of closing. The Company also capitalized approximately \$241 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.

The Company has classified \$1,461 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 has 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 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 will be 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.

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

**Ebix, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

(All dollar amounts in thousands, except per share data)

**Note 13 Acquisitions (Continued)**

Of the \$1,229 of intangible assets acquired, \$630 was assigned to customer relationships with a remaining useful life of four years, \$410 was assigned to developed technology and \$189 was assigned to trademarks with a remaining estimated useful lives of five years. The Company recorded \$294, \$277 and \$154 of amortization expense related to these intangible assets for the years ended December 31, 2006, 2005 and 2004, respectively.

**Estimated Amortization Expenses:**

For the year ended December 31, 2007	\$ 261
For the year ended December 31, 2008	\$ 187
For the year ended December 31, 2009	\$ 56

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, 2006 and it was determined that the assets were not impaired.

**Note 14 Proforma Financials**

The following unaudited pro forma financial information for the years ended December 31, 2006 and December 31, 2005 presents the consolidated operations of the Company as if the Finetre and Infinity acquisitions had been made on January 1, 2005, after giving effect to certain adjustments for the pro forma acquisition as of the acquisition date. The Company made adjustments primarily for the amortization of intangible assets and interest expense related to the acquisitions. The unaudited pro forma financial information is provided for informational purposes only and does not project the Company's results of operations for any future period:

	Year Ended December 31,	
	2006	2005
Revenue	\$ 35,039	\$ 34,567
Net income	\$ 4,320	\$ 2,456
Basic earnings per share	\$ 1.56	\$ 0.87
Diluted earnings per share	\$ 1.38	\$ 0.79

**Note 15 Long term debt**

	Year Ended December 31,			
	2007	2008	2009	Total
EbixLife	\$ 500	\$ 458	\$ 476	\$ 1,434
Heart	\$ 506	\$	\$	\$ 506
	\$ 1,006	\$ 458	\$ 476	\$ 1,940

**Ebix, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**(All dollar amounts in thousands, except per share data)**

**Note 15 Long term debt (Continued)**

The EbixLife debt is a result of the EbixLife acquisition on February 23, 2004 (see Note 13.) and represents a \$2,500 non-interest bearing note payable. The note is payable in annual installments of \$500 over five years. The Company has imputed interest on this debt of 4%. The first installment was paid on February 23, 2005 and the second installment was paid on February 23, 2006. The third installment was paid February 23, 2007.

The Heart debt is a result of the Heart acquisition on July 1, 2004 (see Note 13.) and represents \$1,399 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. The second installment was paid on July 1, 2006.

**Note 16 Stock Repurchase**

On June 2, 2006, the Board of Directors of Ebix, Inc. announced a share repurchase plan to acquire up to \$1 million of the Company's current outstanding shares of common stock. Under the terms of the Board's authorization, the Company retains the right to purchase up to \$1 million in shares but does not have to repurchase this entire amount.

The repurchase plan'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 year ended December 31, 2006, the Company repurchased 8,890 shares of common stock at prices ranging from \$15.00 to \$18.50. Total expenditures under the repurchase plan were \$149. The Company has not repurchased any shares of common stock since September 30, 2006.

**Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

**Item 9A. 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 Securities and Exchange Commission ( 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 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.

**Item 9B. OTHER INFORMATION**

Not Applicable.

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**PART III**

**Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The directors and executive officers of the Company who will serve until the Company's 2007 Annual Meeting are as follows:

ROBIN RAINA, 40, has been a director at Ebix since February 2000. Mr. Raina joined Ebix, Inc. in October 1997 as our Vice President Professional Services and was promoted to Senior Vice President Sales and Marketing in February 1998. Mr. Raina was promoted to Executive Vice President, Chief Operating Officer in December 1998. Mr. Raina was appointed President effective August 2, 1999, Chief Executive Officer effective September 23, 1999 and Chairman in May 2002. Prior to joining us, from 1990 to 1997, Mr. Raina held senior management positions for Mindware, an international technology consulting firm, serving in Asia and North America. While employed by Mindware, Mr. Raina was responsible for managing projects for multinational corporations, including setting up offshore laboratories, building intranets, managing service bureaus and support centers, providing custom programming, and year 2000 conversions. Mr. Raina holds an Industrial Engineering degree from Thapar University in Punjab, India.

HANS U. BENZ, 60, has been a director since December 2005. Mr Benz has for the last five years been President of the holding group BISON, a Swiss corporation with approximately five hundred employees which develops and implements business solution software in German-speaking parts of Europe. Prior to this position, he was president of a banking software company named BOSS Lab. His business experience extends from wholesale and retail trading to the Swiss private insurance industry. Mr. Benz is currently also a principal investor in HuB Venture Capital Projects.

PAVAN BHALLA, 44, has been a director since June 2004. Mr. Bhalla currently serves as Corporate Controller of Hewitt Associates, Inc., which provides worldwide outsourcing, consulting on HR solutions. He has served in this position since July 2006. Mr. Bhalla served as Senior Vice President Finance of MCI Inc., a global telecommunications company, and oversaw financial management of MCI's domestic retail business units from August 2003 until joining Hewitt Associates, Inc. Before joining MCI in August 2003, Mr. Bhalla spent over seven years with BellSouth Corporation, a telecommunications company, serving in a variety of executive positions, including Chief Financial Officer of BellSouth Long Distance Inc. from 1999 to 2002, Corporate Controller of BellSouth Cellular Corp. from 1997 to 1999, and Regional Director of Finance of BellSouth Cellular Corp. from 1996 to 1997.

NEIL D. ECKERT, 44, has been a director since January 2006. Mr Eckert is currently a director of Brit Insurance Holdings, plc. Until April of 2005, he served as Chief Executive Officer of Brit and had been such since 1999. In 1995, he co-founded Brit as a listed investment trust. Mr. Eckert is also Non-Executive Chairman of Design Technology and Innovation Limited, a patenting and intellectual property company, as well as a director of Ri3K, an internet hub for reinsurance. He was a member of the board of directors of the Benfield Group from 1991 to 2000. Mr. Eckert was nominated by Brit to serve on the Company's board of Directors under an agreement between the Company and Brit.

ROLF HERTER, 43, has been a director since December 2005. Mr Herter is the managing partner of Streichenberg, Attorneys at Law in Zurich, Switzerland. Streichenberg is a mid-sized commercial law firm, and Mr. Herter has been managing partner since 2004. Mr. Herter has been a practicing attorney during the past five years, and his practice consists primarily of representation of information technology companies. He has served on the board of directors of several companies and is currently serving as a member of the board of directors of IC Companys Switzerland AG and Roccam Rocca Asset Management AG. He also serves as a supervisor of investments for several companies.

HANS UELI KELLER, 55, has been a director since July 2004. Mr. Keller most recently spent over 20 years with Zurich-based Credit Suisse, a global financial services company, serving as Executive Board Member from 1997 to 2000, Head of Retail Banking from 1993 to 1996, and Head of Marketing from 1985 to 1992. He is presently also serving as Chairman of the Board of Swisscontent Corp. AG.

RICHARD J. BAUM, 67, has been Executive Vice President Finance & Administration, Chief Financial Officer and Secretary of Ebix, Inc. since July 21, 1999, having joined us as Senior Controller in June 1999. His prior executive level posts include Chief Financial Officer of General American Equities (1983-1987), Vice President of American Invesco Corp (1979-1983), Chief Financial Officer of Norlin Music, Inc. (1977-1979), and Chief Financial Officer and member of the Board of Midas International Corp. (1972-1977). He is a CPA and holds an MBA from the University of Chicago. Mr. Baum did not seek re-election to the board of directors at the October 20, 2006 annual meeting and left the board as of that date. He retired from the Company effective December 31, 2006.

CARL A. SERGER, 47, became Senior Vice President and Chief Financial Officer of the Company effective January 1, 2007. Most recently, he was President of Finetre Corporation from October 2006 to December 2006, following Finetre's acquisition by Ebix. Mr. Serger served as Senior Vice President, Chief Financial Officer and Treasurer of Finetre Corporation from 1999 until its acquisition by the Company.

## **CORPORATE GOVERNANCE**

### **AUDIT COMMITTEE MEMEBERSHIP**

The members of the Audit Committee are Messrs. Bhalla, Keller and Benz.

### **AUDIT COMMITTEE FINANCIAL EXPERT**

The Board of Directors has determined that Pavan Bhalla, the Chairman of the Audit Committee, meets the qualifications of an audit committee financial expert pursuant to SEC rules. The Board has also determined that Mr. Bhalla qualifies as an independent director in accordance with NASDAQ listing requirements and special standards established by the SEC for members of audit committees. Stockholders should understand that the designation of an audit committee financial expert is a disclosure requirement of the SEC related to Mr. Bhalla's experience and understanding with respect to certain accounting and auditing matters. The designation does not impose upon Mr. Bhalla any duties, obligations or liability that are greater than are generally imposed on him as a member of the Audit Committee and the Board, and his designation as an audit committee financial expert pursuant to this SEC requirement does not affect the duties, obligations or liability of any other member of the Audit Committee or the Board.

### **CODE OF ETHICS**

The Company has adopted a Code of Ethics that applies to the Chief Executive Officer, Chief Financial Officer and any other senior financial officers. This Code of Ethics is posted on the Company's website at [www.ebix.com](http://www.ebix.com), where it may be found by navigating to Ebix Inc.'s Code of Ethics. The Company intends to satisfy the disclosure requirement under Form 8-K regarding an amendment to, or waiver from, a provision of this Code of Ethics by posting such information on the Company's website, at the address and location specified above.

### **SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's officers and directors and persons who beneficially own more than ten percent of a registered class of our equity securities to file with the Securities and Exchange Commission reports of securities ownership on Form 3 and changes in such ownership on Forms 4 and 5. Officers, directors and more than ten percent beneficial owners also are required by rules promulgated by the Securities and Exchange Commission to furnish the Company with copies of all such Section 16(a) reports that they file. Based solely upon a review of the copies of Forms 3, 4, and 5 furnished to the Company and representations by certain executive officers and directors that no such reports were required for them, the Company believes that, during 2006 all of the Company's directors, officers and more than ten-percent beneficial owners filed all such reports on a timely basis.

**Item 11. EXECUTIVE COMPENSATION**

**EXECUTIVE COMPENSATION**

**Compensation Disclosure and Analysis**

*Objectives and Goals*

The objectives of the committee have been to adopt a compensation approach that is basically simple, internally equitable and externally competitive, and that attracts, motivates and retains qualified people capable of contributing to the growth, success and profitability of the Company, thereby contributing to long-term stockholder value.

- *Simplicity.* The committee believes that a compensation package with three major elements of compensation is the simplest approach consistent with the Company's goals. The Company generally does not utilize special personal perquisites such as private jets, payment of country club dues, Company-furnished motor vehicles, permanent lodging or defrayment of the cost of personal entertainment.
- *Internal Equity.* Internal equity has generally been evaluated based on an assessment of the relative contributions of the members of the management team. In 2006, the committee did not undertake any formal audit or similar analysis of compensation equity with respect to either the CEO relative to the other members of the management team or with respect to the management team relative to the Company's employees generally. However, the committee believes that the relative difference between CEO compensation and the compensation of the Company's other executives is consistent with such differences found in the Company's insurance services peer group and the market for executive level personnel for public companies of similar size.
- *External Competitiveness.* The committee believes it is important to management retention and morale that compensation be competitive with our competitors. As a part of that exercise, the committee hired an outside compensation consultant to review the competitive landscape and to establish transparent criterion for CEO compensation. Based on the consultant's report and the contributions provided by individual board members, based on their business experiences, the compensation committee established a transparent plan for CEO compensation. The plan was unanimously adopted by the board of directors.

*Major Compensation Components*

The principal components of compensation for our executive officers are base salary, short-term incentives, generally in the form of cash bonus programs, and long-term incentives, generally in the form of equity-based awards such as stock awards. We believe the Company's goals are best met by utilizing an approach to compensation with these three distinct elements.

- *Base Salaries.* The Company's base salaries are intended to be consistent with the committee's understanding of competitive practices, levels of executive responsibility, qualifications necessary for the particular executive position, and the expertise and experience of the executive officer. Salary adjustments reflect the committee's belief as to competitive trends, the performance of the individual and, to some extent, the overall financial condition of the Company.
- *Short-Term Incentives.* The short-term incentive for an executive is the opportunity to earn an annual cash bonus. The committee has concluded that bonus payments should be primarily based on the achievement of specific predetermined profit and expense control targets while a smaller portion should be discretionary based on the committee's evaluation of an executive's individual performance in specific qualitative areas. We do not disclose specific profit and expense control targets or other specific quantitative or qualitative performance related factors. Such targets and





information are intended as a way to allocate risk and reward in the best manner to motivate the Company's management. Likewise, such targets may be subject to change based on subsequent developments or may be dependent on events or assumptions which are, either in whole or in part, beyond the control of the Company or the named officer. The targets are established in a manner to be challenging for management and create value for the shareholders.

Short-term incentive compensation is generally based on three performance criteria: (a) profitability, (b) revenue growth, and (d) other specific performance criteria. Under the incentive plan for the fiscal year ended December 31, 2006, incentive bonuses from \$135,000 to \$700,000 were paid for the 2006 year to our executive officers who were employed during the entire year.

When determining bonuses for executive officers, we particularly took into account two factors, Ebix's performance as compared to its industry peers and the increased operating income performance. Potential bonuses, as a percentage of base salary, were higher for our principal executive officer and principal financial officer, reflecting their greater responsibility for and greater ability to influence the achievement of targets.

The following table sets forth for each named executive officer, the bonus percentage potentially attributable to performance targets and the percentage attributable to the committee's discretion. The committee has the authority to adjust, waive or reset targets.

Short Term Incentive Plan Participant (Name and Position)	Award Percentage Subject to Objective/ Subjective Criteria (%)	Target Incentive Award as a Percentage of Base Salary (%)	Actual Annual Incentive Award (\$)	Actual Annual Incentive Award as a Percentage of Target (%)	Actual Incentive Award as a Percentage of Base Salary (%)
Robin Raina, Chairman of the Board and Chief Executive Officer	100/	175.00	700,000	100	175.00
Richard J. Baum, Chief Financial Officer, Executive Vice President and Secretary	100/	61.36	135,000	100	61.36

- *Long-Term Incentives.* While salary and short-term incentives are primarily designed to compensate current and past performance, the primary goal of the long-term incentive compensation program is to directly link management compensation with the long-term interests of the stockholders.

*Types of Equity Awards and Criteria for Award Type Selection.* Prior to 2005, we relied heavily on stock options to provide incentive compensation to our executive officers and other key employees and to align their interests with those of our stockholders. Based on changes in U.S. accounting rules and a general trend toward increased use of restricted stock and decreased use of stock options, the committee has increased the number of awards using restricted stock and decreased the number utilizing stock options. For the immediate future, we intend to rely primarily on restricted stock grants to provide long-term incentive compensation to our officers and key employees, without excluding the possibility of continuing to also grant stock options as a form of incentive compensation.

*Criteria for Award Amounts.* In considering whether to grant equity incentives, the committee looks at a variety of factors, with no formal weighting assigned to any single factor or group of factors. The committee evaluates equity incentive awards made by our competitors (both individually and as part of a comparative compensation analysis), other insurance services and technology companies, historical levels of the Company's equity incentives, the extent to

which value under the award is subject to risk, whether the award vehicle has intrinsic value, and the need to motivate and retain persons eligible to participate under the Company's plans.

*Vesting and Holding Periods for Equity Incentive Compensation.* As a means to encourage long term thinking and encourage continued employment with us, the Company's equity awards are usually subject to a multi-year vesting period. Historically, our grants of stock options and restricted stock have vested over a three year period and the committee anticipates that future awards will continue to be subject to multi-year vesting, most likely for similar three year periods. Historically, the Company has not imposed minimum equity ownership requirements for equity compensation awarded to its executive officers, nor has it required any continued ownership of the securities issued pursuant to such awards after vesting. The committee is evaluating whether such a policy of minimum stock ownership levels or award retention should be implemented and the potential parameters for any award retention policy. It is anticipated that any such policy would provide for sales in the event of hardship and sales sufficient to generate sufficient income to pay taxes in connection with the award or other awards. The Committee does not anticipate making any determination on whether to implement any such policies or the scope of any such policies before the summer of 2007.

#### *Equity Awards in 2006*

In 2006, no stock options and 10,860 shares of restricted stock were granted to the executive officers of the Company.

#### *Other Compensation Components*

Company executives are eligible to participate in the Company's health care, insurance and other welfare and employee benefit programs, which are the same for all eligible employees, including Ebix's executive officers.

#### *Use of Employment and Severance Agreements*

In the past, the committee has determined that competitive considerations merit the use of employment contracts or severance agreements for certain members of senior management. Currently, no member of senior management is employed pursuant to an employment contract. Mr Baum was the only employee of the Company who had an employment or severance agreement. Prior to his retirement effective December 31, 2006, Mr Baum had entered into an Executive Severance Agreement with the Company. Under the terms of the severance agreement, Mr. Baum is entitled to receive six months salary.

#### *Recapture and Forfeiture Policies*

Historically the Company has not had formal policies with respect to the adjustment or recapture of performance based awards where the financial measures on which such awards are based or to be based are adjusted for changes in reported results such as, but not limited to, instances where the Company's financial statements are restated. The committee does not believe that repayment should be required where the Plan participant has acted in good faith and the errors are not attributable to the participant's gross negligence or willful misconduct. In such later situations, the committee believes the Company has or will have available negotiated or legal remedies. However, the committee may elect to take into account factors such as the timing and amount of any financial restatement or adjustment, the amounts of benefits received, and the clarity of accounting requirements lending to any restatement in fixing of future compensation.

*Deductibility of Compensation and Related Tax Considerations*

As one of the factors in its review of compensation matters, the committee considers the anticipated tax treatment to the Company and to the executives of various payments and benefits.

- *Section 162(m)*. Section 162(m) of the Internal Revenue Code of 1986, as amended (the *Code*) generally limits to \$1 million the amount that a publicly-held corporation is allowed each year to deduct for the compensation paid to each of the corporation's chief executive officer and the corporation's four most highly compensated executive officers, other than the chief executive officer. However, performance-based compensation is not subject to the \$1 million deduction limit. In general, to qualify as performance-based compensation, the following requirements must be satisfied: (i) payments must be computed on the basis of an objective, performance-based compensation standard determined by a committee consisting solely of two or more outside directors, (ii) the material terms under which the compensation is to be paid, including the business criteria upon which the performance goals are based, and a limit on the maximum amount which may be paid to any participant pursuant to any award with respect to any performance period, are approved by a majority of the corporation's stockholders, and (iii) the committee certifies that the applicable performance goals were satisfied before payment of any performance-based compensation is made.

Although the Company's stock option plans generally have been structured with the goal of complying with the requirements of Section 162(m), and the compensation committee believes stock options awarded thereunder should qualify as performance-based compensation exempt from limitations on deductibility under Section 162(m), the deductibility of any compensation was not a condition to any compensation decision. The Company does not expect its ability to deduct executive compensation to be limited by operation of Section 162(m). However, due to interpretations and changes in the tax laws, some types of compensation payments and their deductibility depend on the timing of an executive's vesting or exercise of previously granted rights and other factors beyond the compensation committee's control which could affect the deductibility of compensation.

The compensation committee will continue to carefully consider the impact of Section 162(m) when designing compensation programs, and in making compensation decisions affecting the Company's Section 162(m) covered executives. We fully expect the majority of future stock awards will be excludable from the Section 162(m) \$1 million limit on deductibility, since vesting of any such awards will likely be tied to performance-based criteria, or be part of compensation packages which are less than \$1 million dollars. Nonetheless, the compensation committee believes that in certain circumstances factors other than tax deductibility are more important in determining the forms and levels of executive compensation most appropriate and in the best interests of the Company and its stockholders. Accordingly, it may award compensation in excess of the deductibility limit, with or without requiring a detailed analysis of the estimated tax cost of non-deductible awards to the Company. Given our dynamic and rapidly changing industry and business, as well as the competitive market for outstanding leadership talent, the compensation committee believes it is important to retain the flexibility to design compensation programs consistent with its compensation philosophy for the Company, even if some executive compensation is not fully deductible.

*Section 280G*. Code Section 280G generally denies a deduction for a significant portion of certain compensatory payments made to corporate officers, certain shareholders and certain highly-compensated employees if the payments are contingent on a change of control of the employer and the aggregate amounts of the payments to the relevant individual exceed a specified relationship to that individual's average compensation from the employer over the preceding five years. In addition, Code Section 4999 imposes on that individual a 20% excise tax on the same portion of the payments received for which the employer is denied a deduction under Section 280G. In determining whether to approve an obligation to make payments for which Section 280G would deny the Company a

deduction or whether to approve an obligation to indemnify (or gross-up ) an executive against the effects of the Section 4999 excise tax, the committee has adopted an approach similar to that described above with respect to payments which may be subject to the deduction limitations of Section 162(m).

*Chief Executive Officer Compensation*

The compensation policies described above apply equally to the compensation of the Chief Executive Officer ( CEO ).

**COMPENSATION COMMITTEE REPORT**

The compensation committee has reviewed the above Compensation Disclosure and Analysis with the Company s Chief Executive Officer and Chief Financial Officer. Based on a review of this Compensation Disclosure and Analysis report and discussion with the compensation committee, the Company s Chief Executive Officer and Chief Financial Officer have approved the inclusion of the Compensation Disclosure and Analysis report in this Form 10-K.

**Hans U. Benz**  
**Hans Ueli Keller**

**Summary Compensation Table**

Name and Principal Position	Year	Salary (\$)	Bonus (\$) (1)	Stock Awards (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$)	All Other Compensation (\$)	Total
Robin Raina, President, Chief Executive Officer and Chairman of the Board	2006	\$ 400,000		\$ 84,417		\$ 700,000		\$ 3,300	\$ 1,187,717
Richard J. Baum, Executive Vice President Chief Financial Officer and Secretary	2006	\$ 220,000		\$ 49,500		\$ 135,000		\$ 3,300	\$ 407,800

(1) 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 in the case of Mr. Raina and \$355 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 \$100, related to these shares during the year ended December 31, 2006.

**Grants of Plan-Based Award**

Name	Grant Date	Estimated Future Payments Under Non Equity Incentive Awards			Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Stock Awards: Number of Shares of Stock or Units (#)	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards (\$/Sh)	Full Grant Date Fair Value
		Thresh-old (\$)	Target (\$)	Maxi-mum (\$)	Thresh-old (#)	Target (#)	Maxi-mum (#)				
Robin Raina, President, Chief Executive Officer and Chairman of the Board	2/3/06							8,354		\$ 165,000	
Richard J. Baum, Executive Vice President Chief Financial Officer and Secretary	2/3/06							2,506		\$ 49,500	

**Outstanding Equity Awards at Fiscal Year-End**

Name	Option Awards				Stock Awards		Equity Incentive Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested		
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#)	Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)	Unearned Shares, Units or Other Rights That Have Not Vested (#)	Unearned Shares, Units or Other Rights That Have Not Vested (\$)
Robin Raina, President, Chief Executive Officer and Chairman of the Board	110,000			\$ 5.35	9-16-2013				
	125,000			\$ 5.60	8-23-2012				
	24,063			\$ 6.50	2-1-2011				
	20,938			\$ 6.50	2-1-2011				
	80,000			\$ 6.50	2-1-2011				
	50,000			\$ 15.76	4-2-2014				
	5,000			\$ 26.24	3-23-2008				
	3,750			\$ 26.24	3-23-2008				
	2,500			\$ 41.20	11-1-2007				
	11,250			\$ 44.50	12-2-2008				
	11,250	11,250		\$ 53.25	8-4-2009				
						14,859	\$ 415,309		
Richard J. Baum, Executive Vice President Chief Financial Officer and Secretary	6,250			\$ 53.25	8-4-2009				

**Option Exercises and Stock Vested**

Name (a)	Option Awards Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Stock Awards Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$)
Robin Raina, President, Chief Executive Officer and Chairman of the Board	N/A	N/A	3,253	\$ 59,107
Richard J. Baum, Executive Vice President Chief Financial Officer and Secretary	84,500	\$ 1,440,063	6,888	\$ 178,231

**Director Compensation**

Name (a)	Fees Earned or Paid in Cash (\$) (1)	Stock Awards (\$)	Option Awards (\$) (2)	Non-Equity Incentive Plan Compensation (\$)	Change in Pension Value and Nonqualified Deferred Compensation Earnings	All Other Compensation (\$)	Total (\$)
Pavan Bhalla	\$ 19,000	None	\$ 32,284	None	None	None	\$ 51,284
Hans Ueli Keller	\$ 19,000	None	\$ 32,323	None	None	None	\$ 51,323
Hanz U. Benz	\$ 19,000	None	\$ 17,712	None	None	None	\$ 36,712
Neil D. Eckert	\$ 14,000	None	\$ 6,739	None	None	None	\$ 20,739
Rolf Herter	\$ 14,000	None	\$ 17,712	None	None	None	\$ 31,712

(1) 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, received cash compensation of \$2,500 in 2006 per committee. Mr. Keller and Benz received \$5,000 following the October 20, 2006 meeting for serving on both the Audit and Compensation Committees. The Audit Committee Chairman, Mr. Bhalla received cash compensation of \$5,000 following the October 20, 2006 meeting.

(2) Amounts reflect the dollar amount recognized for financial statement reporting purposes for the fiscal year ended December 31, 2006, in accordance with FAS 123(R) and thus may include amounts from awards granted prior to 2006. The following lists the grant date fair value of each stock award computed in accordance with FAS 123(R).



	<b>Grant Date</b>	<b>Value</b>
P. Bhalla	June 1, 2004	\$7,000
	December 16, 2005	\$20,000
	October 10, 2006	\$27,000
H. Keller	July 14, 2004	\$9,000
	December 16, 2005	\$20,000
	October 10, 2006	\$27,000
H. Benz	December 16, 2005	\$26,000
	October 10, 2006	\$27,000
N. Eckert	January 3, 2006	\$25,000
	October 10, 2006	\$27,000
R. Herter	December 16, 2005	\$20,000
	October 10, 2006	\$27,000

The following table lists below the aggregate number of outstanding options held by each director as of December 31, 2006.

	<b>Aggregate Stock Option Awards at Year End</b>
Pavan Bhalla	6,375
Hans Ueli Keller	6,150
Hanz U. Benz	3,000
Neil D. Eckert	3,000
Rolf Herter	3,000

## Discussion of Director Compensation

Under the Non-Employee Directors Stock Option Plan (the "1998 Director Option Plan"), each non-employee director, upon initial election or appointment to serve on the Board of Directors, receives a grant of an option to purchase 1,500 shares of Common Stock at an exercise price per share of 100% of the fair market value of a share on the date of the grant. Of the 1,500 shares of Common Stock subject to such an option, the option becomes 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. Upon appointment to our Board of Directors, each of Messrs. Benz and Herter were granted an option to purchase 1,500 shares of Common Stock pursuant to the 1998 Director Option Plan.

In addition, the 1998 Director Option Plan provides for each non-employee director, immediately following each Annual Meeting of our stockholders, to be granted an option to purchase 450 shares of Common Stock 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. Of the 450 shares of Common Stock subject to each such option, the option becomes exercisable with respect to 112.5 shares on the last day of each of the four calendar quarters beginning with the calendar quarter ending on or after the date of the grant. Each option has a term of ten years beginning on the date of grant.

On January 14, 2005 the Company held the annual meeting of stockholders that had originally been scheduled for 2004. Immediately following the Company's 2004 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. On March 21, 2005 each member of the Compensation Committee received additional options to purchase 150 shares of common stock and each Audit Committee member received additional options to purchase 375 shares of common stock 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 member of the Audit Committee, other than its Chairman, received cash compensation of \$2,500 in 2004 prorated for each member's actual time of service. Mr. Drislane received \$2,500 and Mr. Rich received \$625 following the January 14, 2005 meeting. The Audit Committee Chairman received cash compensation of \$5,000 in 2004 prorated for the member's actual time of service. Mr. Bhalla received \$2,917 as compensation for serving as Audit Committee Chairman immediately following the January 14, 2005 meeting. On March 24, 2004 Mr. Chisholm, a former member of the Audit Committee, received \$2,500 as compensation as service as a member of the Audit Committee until his resignation on October 26, 2004.

In December 2004, our Board of Directors adopted a new compensation program for our non-employee directors, to commence in 2005. Pursuant to this program, each non-employee director is to receive an annual cash retainer of \$14,000. The Chairman of the Audit Committee is to receive an additional annual fee of \$5,000 and each other member of the Audit Committee and each member of the Compensation Committee is to receive an additional annual fee of \$2,500 per committee. Also, each non-employee director is to receive an initial grant on his election to the Board of an option to purchase 1,500 shares, vesting over three years, and an annual grant thereafter of an option to purchase 1,500 shares, including the options automatically awarded under the 1998 Director Option Plan. These options will be granted immediately following each Annual Meeting of stockholders at an exercise price per share of 100% of the fair market value of a share of common stock on the date of grant. These options will 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 will have a term of ten years beginning on the date of the grant.

On December 16, 2005, 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, received cash compensation of \$2,500 per committee in 2005. Mr. Drislane, Keller and Merin received \$2,500 following the December 16, 2005 annual meeting. Mr. Rich received \$5,000 following the December 16, 2005 meeting for serving on both the Audit and Compensation Committees. The Audit Committee Chairman, Mr. Bhalla received cash compensation of \$5,000 following the December 16, 2005 meeting.

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, received cash compensation of \$2,500 per committee in 2006. Mr. Keller and Benz received \$5,000 following the October 20, 2006 meeting for serving on both the Audit and Compensation Committees. The Audit Committee Chairman, Mr. Bhalla received cash compensation of \$5,000 following the October 20, 2006 meeting.

**Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

Name of Beneficial Owner(1)	Common Stock	
	Ownership	Percent of Class
Brit Insurance Holdings PLC(2)	930,163	32.7 %
Rennes Foundation(3)	347,123	12.2 %
Heart Consulting Pty. Ltd.(4)	157,728	5.5 %
Robin Raina(5)	462,298	16.2 %
Richard J. Baum(6)	13,138	*
Pavan Bhalla(7)	5,625	*
Hans Ueli Keller(8)	5,275	*
Hans U. Benz(9)	1,500	*
Neil D. Eckert(10)	1,375	*
Rolf Herter(11)	1,500	*
All directors and executive officers as a group (7 persons)	490,711	17.2 %

\* Less than 1%.

(1) The following table sets forth, as of March 16, 2007, the ownership of our Common Stock by each of our directors, by each of our Named Executive Officers (as defined in Item 11), by all of our current

executive officers and directors as a group, and by all persons known to us to be beneficial owners of more than five percent of our Common Stock. The information set forth in the table as to the current directors, executive officers and principal stockholders is based, except as otherwise indicated, upon information provided to us by such persons. Unless otherwise indicated, each person has sole investment and voting power with respect to the shares shown below as beneficially owned by such person.

(2) The address of Brit Insurance Holdings PLC is 55 Bishopsgate, London, EC2N 3AS, United Kingdom. The address and information set forth in the table as to this stockholder are based on a Schedule 13D/A filed by this stockholder on October 21, 2002.

(3) The address of the Rennes Foundation is Aeulestrasse 38, FL 9490 Vaduz, Principality of Liechtenstein. The address and information set forth in the table as to this stockholder are based on a Schedule 13G/A filed by this stockholder on February 23, 2006.

(4) The address of Heart is C/- PPF Partners, Level 2, 52 Collins Street, Melbourne, Victoria, Australia 3000.

(5) Mr. Raina's ownership includes 18,112 shares of restricted stock as well as options to purchase 443,751 shares of our common stock which are exercisable as of March 16, 2007, or that will become exercisable within 60 days after that date. The address of Mr. Raina is 5 Concourse Parkway, Suite 3200, Atlanta, Georgia 30328.

(6) Mr. Baum's ownership includes 6,888 shares of restricted stock as well as options to purchase 6,250 shares of our common stock which are exercisable as of March 16, 2007, or that will become exercisable within 60 days after that date.

(7) Mr. Bhalla's ownership includes options to purchase 5,625 shares of our common stock which are exercisable as of March 16, 2007, or that will become exercisable within 60 days after that date.

(8) Mr. Keller's ownership includes options to purchase 5,275 shares of our common stock which are exercisable as of March 16, 2007, or that will become exercisable within 60 days after that date.

(9) Mr. Benz's ownership includes options to purchase 1,500 shares of our common stock which are exercisable as of March 16, 2007, or that will become exercisable within 60 days after that date.

(10) Mr. Eckert's ownership includes options to purchase 1,375 shares of our common stock which are exercisable as of March 16, 2007, or that will become exercisable within 60 days after that date.

(11) Mr. Herter's ownership includes options to purchase 1,500 shares of our common stock which are exercisable as of March 16, 2007, or that will become exercisable within 60 days after that date.

**EQUITY COMPENSATION PLAN INFORMATION**

As of December 31, 2006, we maintained the 1996 Stock Incentive Plan and our 1998 Non-Employee Directors Stock Option Plan, each of which was approved by our stockholders. We also maintained the 2001 Stock Incentive Plan, which was not approved by our stockholders. As discussed below, our Board of Directors has terminated the 2001 Stock Incentive Plan. The table below provides information as of December 31, 2006 related to these plans.

<b>Plan Category</b>	<b>Number of Securities to be Issued Upon Exercise of Outstanding Options Warrants and Rights</b>	<b>Weighted-Average Exercise Price of Outstanding Options Warrants and Rights</b>	<b>Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans</b>
Equity Compensation Plans Approved by Security Holders	574,729	\$12.41	381,142
1996 Stock Incentive Plan	563,179	12.30	364,717
1998 Non-Employee Directors Plan	11,550	17.90	16,425
Total	574,729	\$ 12.41	381,142

**Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

As of March 16, 2007, Brit Insurance Holdings PLC ( Brit ) held 930,163 shares of Common Stock, representing approximately 33% percent of our outstanding Common Stock. During 2006, approximately \$3,117,000 recognized as services revenue from Brit related to call center and development projects. Total accounts receivable from Brit at December 31, 2006 were \$1,039,000. We continue to provide services for Brit and to receive payments for such services.

During 2003, we hired Rahul Raina as the Director of Business Process Outsourcing for the Delphi Consulting Division of our company. On August 11, 2003, after becoming an employee of our Company, we granted options to Mr. Raina to purchase 25,000 shares of our Common Stock. 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 of \$2.85, a discount of \$3.85 per share at the time of the grant ( the discounted stock options ). In September of 2005, the U.S. Treasury Department and Internal Revenue Service Issued proposed regulations under Section 409A of the Internal Revenue Code ( Section 409A ), which provided that stock options that vest after December 31, 2004 may be subject to Section 409A as deferred compensation if the exercise price is below the fair market value of the underlying stock on the date of grant. Unless the discounted stock options were amended, such stock options would not be compliant with Section 409A and would have likely resulted in income recognition prior to exercise (i.e., at the time of vesting), an additional 20% income tax and potential interest charges. Pursuant to Section 4(c), (d) and (e) of the Company s 1996 Stock Incentive Plan, the Compensation Committee, with the option holder s consent, amended the option grant to (i) adjust the exercise price on the outstanding discounted options to \$6.70, the fair market value of the Common Stock on the original grant date (August 11, 2003), and (ii) cause the option grant to be subject to the terms and conditions of the Company s 1996 Stock Incentive Plan. All other terms and conditions of the stock options remained the same as the original grant. The Company recognized compensation expense of approximately \$41,000 related to the options during 2006. The Company recognized compensation expense of approximately \$24,000 related to the options during 2005 and 2004. Rahul Raina s annual salary was increased to \$120,000 effective January 1, 2005 and received a bonus of \$15,000 in 2006. Rahul Raina is the brother of Robin Raina, our Chairman of the Board, President and Chief Executive Officer.

**Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

BDO Seidman LLP ( BDO ) served as Ebix's registered public accountants for the fiscal years ending December 31, 2006 and 2005.

The following table presents fees billed for professional services rendered for the audit of our annual financial statements for 2006 and 2005 and fees billed for other services rendered during 2006 and 2005 by BDO, our independent registered public accounting firm.

<b>Services Rendered by BDO Seidman, LLP</b>	<b>2006</b>	<b>2005</b>
Audit Fees(1)	\$ 532,000	\$ 270,000
Audit Related Fees(2)	\$	\$ 53,000
Tax Fees(3)	\$ 54,000	\$ 141,000
All Other Fees	\$	\$ 1,000

(1) Including fees for the audit of our annual financial statements included in our Form 10-K and reviews of the financial statements in our Forms 10-Q, and statutory filings but excluding audit-related fees.

(2) Including benefit plan and assistance with SEC and NASDAQ matters

(3) Includes the preparation of our federal and foreign income tax return.

The Audit Committee considered and pre-approved all of the above-referenced fees and services. Pursuant to a policy adopted by our Board of Directors, the Audit Committee requires advance approval of all audit services and permitted non-audit services to be provided by the independent registered public accounting firm as required by the Securities Exchange Act of 1934.

**PART IV**

**Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES**

(a) 1. Financial Statements.

The following consolidated financial statements and supplementary data of the Company and its subsidiaries, required by Part II, Item 8 are filed herewith:

- Report of Independent Registered Public Accounting Firm
- Consolidated Balance Sheets as of December 31, 2006 and December 31, 2005
- Consolidated Statements of Income for the years ended December 31, 2006, December 31, 2005, and December 31, 2004.
- Consolidated Statements of Stockholders' Equity and Comprehensive Income for the years ended December 31, 2006, December 31, 2005, and December 31, 2004.
- Consolidated Statements of Cash Flows for the years ended December 31, 2006, December 31, 2005 and December 31, 2004.
- Notes to Consolidated Financial Statements

2. *Financial Statement Schedules.*

The following consolidated financial statement schedule is filed herewith:

Schedule II Valuation and Qualifying Accounts for the years ended December 31, 2006, December 31, 2005 and December 31, 2004.

Schedules other than those listed above have been omitted because they are not applicable or the required information is included in the financial statements or notes thereto.

3. *Exhibits 1*

The exhibits filed herewith or incorporated by reference are listed on the Exhibit Index attached hereto.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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.  
(Registrant)

By:

/s/ ROBIN RAINA  
Robin Raina  
*Chairman of the Board,  
President and Chief Executive Officer*

Date: April 10, 2007

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<b>Signature</b>	<b>Title</b>	<b>Date</b>
/s/ ROBIN RAINA (Robin Raina)	Chairman of the Board, President, and Chief Executive Officer (principal executive officer)	April 10, 2007
/s/ CARL A. SERGER (Carl A. Serger)	Senior Vice President and Chief Financial Officer (principal financial and accounting officer)	April 10, 2007
/s/ HANS U. BENZ (Hans U. Benz)	Director	April 10, 2007
/s/ PAVAN BHALLA (Pavan Bhalla)	Director	April 10, 2007
/s/ NEIL D. ECKERT (Neil D. Eckert)	Director	April 10, 2007
/s/ ROLF HERTER (Rolf Herter)	Director	April 10, 2007
/s/ HANS UELI KELLER (Han Ueli Keller)	Director	April 10, 2007



**EXHIBIT INDEX**

**Exhibits**

- 2.1 Stock Purchase Agreement dated February 23, 2004 by and among the Company and the shareholders of LifeLink Corporation (incorporated by reference to Exhibit 2.1 to the Company's Current Report of Form 8-K dated February 23, 2004 (the February 2004 8-K)) and incorporated herein by reference.
- 2.2 Secured Promissory Note, dated February 23, 2004, issued by the Company (incorporated by reference to Exhibit 2.2 of the February 2004 8-K and incorporated herein by reference).
- 2.3 Purchase Agreement, dated June 28, 2004, by and between Heart Consulting Pty Ltd. And Ebix Australia Pty Ltd. (incorporated by reference to Exhibit 2.1 to the Company's Current Report of Form 8-K dated July 14, 2004 (the July 14, 2004 8-K)) and incorporated herein by reference.
- 2.4 Agreement, dated July 1, 2004, by and between Heart Consulting Pty Ltd. and Ebix, Inc. (incorporated by reference to Exhibit 2.2 to the Company's Current Report of Form 8-K dated July 14, 2004 (the July 14, 2004 8-K)) and incorporated herein by reference.
- 2.5 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.
- 2.6 Asset Purchase Agreement, dated May 9, 2006, by and among Ebix, Inc., Infinity Systems Consulting, Inc. and the Shareholders of Infinity Systems Consulting, Inc. (incorporated here by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K/A dated May 9, 2006) and incorporated herein by reference.
- 3.1 Certificate of Incorporation of the Company, as amended (including Certificates of Designations) (incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the period ended March 31, 2005 and incorporated herein by reference).
- 3.2 Bylaws of the Company (filed as Exhibit 3.2 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2000 and incorporated herein by reference).
- 10.1 Delphi Information Systems, Inc. 1983 Stock Incentive Plan, as amended (filed as Exhibit 10.1 to the Company's Registration Statement on Form S-1 (No. 33-45153) and incorporated herein by reference). +
- 10.2 Delphi Information Systems, Inc. Cash Option Profit Sharing Plan (filed as Exhibit 4.2 to the Company's Registration Statement on Form S-8 (No. 33-19310) and incorporated herein by reference). +
- 10.3 Delphi Information Systems, Inc. 1989 Stock Purchase Plan (included in the prospectus filed as part of the Company's Registration Statement on Form S-8 (No. 33-35952) and incorporated herein by reference). +
- 10.4 Delphi Information Systems, Inc. Non-Qualified Stock Option Plan for Directors (filed as Exhibit 10.4 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 1992 and incorporated herein by reference). +
- 10.5 Delphi Information Systems, Inc. 1996 Stock Incentive Plan (filed as Exhibit 4.3 to the Company's Registration Statement on Form S-8 (File No. 333-23261) and incorporated herein by reference). +

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- 10.6 Lease agreement effective October, 1998 between the Company and 485 Properties LLC relating to premises at Five Concourse Parkway, Atlanta, Georgia (filed as Exhibit 10.16 to the Company's Transition Report on Form 10-K for the transition period from April 1, 1998 to December 31, 1998 and incorporated herein by reference).
- 10.7 Delphi Information Systems, Inc. 1998 Non-Employee Director's Stock Option Plan (filed as Exhibit A to the Company's proxy statement dated August 12, 1998 and incorporated herein by reference). +
- 10.8 Delphi Information Systems, Inc. 1999 Stock Purchase Plan (filed as Exhibit 10.33 to the Company's Annual Report on Form 10-K for the year ended December 31, 1999 and incorporated herein by reference).
- 10.9 Severance agreement, between the Company and Richard J. Baum, dated as of October 4, 2000 (filed as Exhibit 10 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000 and incorporated herein by reference). +
- 10.10 Sublease agreement dated October 11, 2000, between the Company and Eric Swallow and Deborah Swallow, relating to the premises at 2055 N. Broadway, Walnut Creek, CA. (filed as Exhibit 10.27 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000 and incorporated herein by reference).
- 10.11 First amendment to lease agreement dated June 26, 2001, between the Company and PWC Associates, relating to premises of Building Two of the Parkway Center, Pittsburgh, PA. (filed as Exhibit 10.20 to the Company's Annual Report on Form 10-K for the year ended December 31, 2001 and incorporated herein by reference).
- 10.13 Share Exchange and Purchase Agreement between the Company and Brit Insurance Holdings PLC (filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2001 and incorporated herein by reference).
- 10.14 Registration Rights Agreement between the Company and Brit Holdings Limited (filed as Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2001 and incorporated herein by reference).
- 10.15 Share Purchase Agreement dated January 16, 2004, by and between Ebix, Inc. and CF Epic Insurance and General Fund (filed as Exhibit 99.1 to the Company's S-3 (No. 333-112616), and incorporated herein by reference).
- 10.16 Second Amendment to the Lease Agreement dated June 3, 2003 between the Company and 485 Properties, LLC relating to the premises at Five Concourse Parkway, Atlanta, Georgia (filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003 and incorporated herein by reference).
- 10.17 Ebix, Inc. 1996 Stock Incentive Plan as amended by the first, second, third and fourth amendments thereto (incorporated by reference to Exhibit 10.18 to the Company's Annual Report on Form 10-K for the year ended December 31, 2004 and incorporated herein by reference).
- 10.18 Amended and Restated Revolving Line of Credit from LaSalle Bank, National Association, Amended and Restated Loan and Security Agreement and Pledge Agreement dated April 21, 2004 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2004 and incorporated herein by reference).

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- 10.19 First Amendment to the Loan and Security Agreement, dated July 1, 2004, between Ebix, Inc. and LaSalle National Bank (incorporated by reference to Exhibit 10.20 to the Company's Annual Report on Form 10-K for the year ended December 31, 2004 and incorporated herein by reference)
- 10.20 Second Amendment to Loan and Security Agreement between Ebix, Inc. and the Company, effective as of December 31, 2004, between Ebix, Inc. and LaSalle National Bank. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated February 23, 2005 and incorporated herein by reference).
- 10.21 Third Amendment to Loan and Security Agreement between Ebix, Inc. and the Company, effective as of October 20, 2005, between Ebix, Inc. and LaSalle National Bank (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2005 and incorporated herein by reference).
- 10.22 Second Amended and Restated Loan and Security Agreement, dated August 31, 2006 between Ebix, Inc. and LaSalle National Bank.(incorporated by reference to Exhibit 2.2 on Form 10-Q for the quarter ended Septemebr 30, 2006 and incorporated herein by reference).
- 10.23 Lease agreement dated January 1, 2002, between LifeLink Building LLC and LifeLink Corporation (which was acquired by Ebix, Inc. in February 2004), relating to the premises at The LifeLink Building located at 1918 Prospector Drive, Park City, UT 84060 (incorporated by reference to Exhibit 10.23 to the Company's Annual Report on Form 10-K for the year ended December 31, 2004 and incorporated herein by reference).
- 10.24 Form of Restricted Stock Agreement under the Company's 1996 Stock Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated June 7, 2005 and incorporated herein by reference). +
- 10.25 Stock Purchase Agreement, dated April 28, 2005, by and between Ebix, Inc. and Craig Wm. Earnshaw (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated April 28, 2005 and incorporated herein by reference).
- 21.1 \* Subsidiaries of the Company.
- 23.1 \* Consent of BDO Seidman, LLP.
- 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 Sarbanes-Oxley Act of 2002
- 32.2 \* Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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\* Filed herewith

+ Management contract or compensatory plan or arrangement required to be included as an exhibit to this annual report on Form 10-K.

## Schedule II

## Ebix, Inc.

## Schedule II Valuation and Qualifying Accounts

for the Years ended December 31, 2006, December 31, 2005 and December 31, 2004

## Allowance for doubtful accounts receivable

	Year Ended December 31, 2006	Year Ended December 31, 2005	Year Ended December 31, 2004
Beginning balance	\$ 11,272	\$ 12,535	\$ 356,235
Provision for doubtful accounts	25,118	9,418	108,409
Write-off of accounts receivable against allowance	(296 )	(10,681 )	(452,109 )
Ending balance	\$ 36,094	\$ 11,272	\$ 12,535

## Valuation allowance for deferred tax assets (in thousands)

	Year Ended December 31, 2006	Year Ended December 31, 2005	Year Ended December 31, 2004
Beginning balance	\$ (8,921 )	\$ (9,965 )	\$ (22,769 )
(Increase) decrease	(2,146 )	1,044	12,804
Ending balance	\$ (11,067 )	\$ (8,921 )	\$ (9,965 )

The increase in valuation allowance during 2006 is the result of the tax benefit of net operating losses received as part of the acquisition of Finetre.