EBIX INC
Form 10-Q
November 14, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2005

OR

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

Commission file number 0-15946

Ebix, Inc.

(Exact name of registrant as specified in its charter)

DELAWARE (State or other jurisdiction of incorporation or organization)	**77-0021975** (I.R.S. Employer Identification No.)
1900 E. GOLF ROAD **SCHAUMBURG, IL** (Address of principal executive offices)	**60173** (Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes o No ý

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

As of November 7, 2005, the number of shares of Common Stock outstanding was 2,734,504.

FORM 10-Q

FOR THE QUARTER ENDED September 30, 2005

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Ebix, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

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

		September 30, 2005 (Unaudited)		December 31, 2004
ASSETS				
Current assets:				
Cash and cash equivalents	$	5,817	$	5,843
Restricted cash		3,000		3,000
Accounts receivable, less allowance of $12 and $13, respectively		3,241		3,256
Other current assets		569		587
Total current assets		12,627		12,686
Property and equipment, net		1,498		1,450
Goodwill		12,460		12,669
Intangibles, net		3,575		4,234
Other assets		335		296
Total assets	$	30,495	$	31,335
LIABILITIES AND STOCKHOLDERS EQUITY				
Current liabilities:				
Line of credit	$	3,409	$	3,500
Accounts payable and accrued expenses		1,697		1,781
Accrued payroll and related benefits		1,170		1,522
Current portion of long term debt		510		977
Deferred revenue		3,159		2,989
Total current liabilities		9,945		10,769
Long term debt, less current portion		2,314		2,796
Redeemable common stock (157,728 and 357,728 shares issued and outstanding at September 30, 2005 and December 31, 2004, respectively) stated at redemption price		1,522		4,262
Stockholders equity:				
Convertible Series D Preferred stock, $.10 par value, 500,000 shares authorized, no shares issued and outstanding				
Common stock, $.10 par value, 10,000,000 shares authorized, 2,734,504 and 2,911,154 shares issued and outstanding, respectively		273		291
Additional paid-in capital		92,760		92,717
Deferred compensation		(300)		(376)
Accumulated deficit		(76,633)		(80,011)
Accumulated other comprehensive income		614		887
Total stockholders equity		16,714		13,508
Total liabilities and stockholders equity	$	30,495	$	31,335

See accompanying notes to condensed consolidated financial statements.

Ebix, Inc. and Subsidiaries

Condensed Consolidated Statements of Income

(In thousands, except per share data)

(Unaudited)

	Three Months Ended September 30, 2005	Three Months Ended September 30, 2004	Nine Months Ended September 30, 2005	Nine Months Ended September 30, 2004
Revenue:				
Software	$ 390	$ 174	$ 1,000	$ 734
Services and other (Including revenues from related parties of $963, $1,004, $2,720 and $2,681, respectively See Note 6.)	5,506	5,482	16,934	13,532
Total revenue	5,896	5,656	17,934	14,266
Operating expenses:				
Services and other costs	1,594	1,422	4,503	3,885
Product development	892	781	2,459	2,202
Sales and marketing	547	431	1,547	1,127
General and administrative	1,413	1,684	4,928	3,950
Amortization and depreciation	317	338	965	810
Total operating expenses	4,763	4,656	14,402	11,974
Operating income	1,133	1,000	3,532	2,292
Interest income	125	28	290	70
Interest expense	(142)	(105)	(357)	(108)
Foreign exchange (loss) gain	(17)	(3)	58	5
Income before income taxes	1,099	920	3,523	2,259
Income tax benefit (expense)	127	61	(145)	(122)
Net income	$ 1,226	$ 981	$ 3,378	$ 2,137
Basic earnings per common share	$ 0.45	$ 0.34	$ 1.20	$ 0.78
Diluted earnings per common share	$ 0.40	$ 0.31	$ 1.08	$ 0.70
Basic weighted average shares outstanding	2,734	2,900	2,808	2,742
Diluted weighted average shares outstanding	3,089	3,208	3,123	3,064

See accompanying notes to condensed consolidated financial statements.

Ebix, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	Nine Months Ended September 30, 2005	Nine Months Ended September 30, 2004
Cash flows from operating activities:		
Net income	$ 3,378	$ 2,137
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	965	814
Stock-based compensation	(13)	53
Restricted stock compensation	48	
Provision for doubtful accounts	6	123
Changes in assets and liabilities, net of effect of acquisition:		
Accounts receivable	9	(628))
Other assets	(21)	(505)
Accounts payable and accrued expenses	(84)	(210)
Accrued payroll and related benefits	(352)	(847)
Deferred revenue	170	340
Net cash provided by operating activities	4,106	1,277
Cash flows from investing activities:		
Acquisition of LifeLink, net of cash acquired		(4,763)
Acquisition of Heart, net of cash acquired		(3,152)
Capital expenditures	(382)	(170)
Net cash used in investing activities	(382)	(8,085)
Cash flows from financing activities:		
Proceeds from borrowings related to line of credit		3,500
Payments on line of credit	(91)	
Repurchase of stock guarantee	(2,700)	
Restricted cash		(3,000)
Proceeds from the exercise of stock options	65	45
Proceeds from the issuance of common stock, net of issuance costs		2,977
Payments of long term debt	(949)	(73)
Net cash (used in) provided by financing activities	(3,675)	3,449
Effect of foreign exchange rates on cash	(75)	
Net change in cash and cash equivalents	(26)	(3,359)
Cash and cash equivalents at the beginning of the period	5,843	7,915
Cash and cash equivalents at the end of the period	$ 5,817	$ 4,556
Supplemental disclosures of cash flow information:		
Interest paid	$ 155	$ 43
Income taxes paid	$ 260	$ 342
Supplemental schedule of noncash investing activities:		
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 $3,000,000, cash of $5,000,000, and a note payable of $2,226,000. The Company also capitalized approximately $128,000 of transaction costs in conjunction with the acquisition.		
During the third quarter of 2004, Ebix Australia acquired the operating assets of Heart Consulting PTY Ltd. in exchange for an aggregate purchase price (in Australian dollars) of A$10,175,000 ($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$5,175,000 ($3,619,000 USD) in cash at closing, A$2,000,000 ($1,399,000 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$3,000,000 ($2,098,000 USD) payable in 157,728 shares of common stock of Ebix issued at the closing. The Company also capitalized approximately $106,000 of transaction costs in conjunction with the acquisition during the first nine months of 2004.

See accompanying notes to condensed consolidated financial statements.

Ebix, Inc. and Subsidiaries

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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

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

These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements, and accompanying notes thereto, included in the Company s Annual Report on Form 10-K for the year ended December 31, 2004.

The results of operations for the three and nine months ended September 30, 2005 are not necessarily indicative of results to be expected for the entire current year.

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

Summary of significant accounting policies

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

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

To the extent arrangements contain multiple deliverables, the Company performs an analysis of the nature of the deliverables to determine to what extent the deliverables of the arrangement are governed by any higher level literature (as defined in EITF 00-21). EITF 00-21 recognizes arrangements that qualify for treatment under SOP 97-2 and certain arrangements that qualify for contract accounting (i.e. SOP 81-1) as falling under the definition of higher level literature. The Company applies the provisions of SOP 97-2, as amended by Statement of Position 98-9, Modifications of SOP 97-2, Software Revenue Recognition, With Respect to Certain Transactions, to all arrangements which include software deliverables that are considered more than inconsequential to the other elements in the arrangements. For 2005 and 2004, all of the Company s contracts with multiple deliverables have fallen under higher level accounting literature under the provisions of SOP 97-2 and/or SOP 81-1.

Although the Company has not been impacted in the current year by the adoption of EITF 00-21, it is possible that EITF 00-21 may affect future periods given the additional revenue streams the Company has initiated, as well as the acquisition activities of the Company.

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

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

Revenues related to hosting arrangements, including monthly fees as well as any initial registration fees and related custom programming, are recognized ratably over the term of the agreement in accordance with Staff Accounting Bulletin (SAB) No. 104

Revenue Recognition. Transaction fees are recognized as revenue as the transactions occur and revenue is earned. Revenue is only recognized when collectiblity is probable.

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

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

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

Stock Options - At September 30, 2005, the Company had two stock-based employee compensation plans. The Company accounts for stock options issued to employees in accordance with Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees. The Company has adopted the disclosure only provisions of Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation, and SFAS No. 148, Accounting for Stock Based Compensation Transition and Disclosure an Amendment to FASB Statement No. 123, for options and warrants issued to employees. Under APB Opinion No. 25, compensation expense is recorded based on the difference, if any, on the measurement date, between the estimated fair value of the Company s stock and the exercise price of options to purchase that stock. Any resulting compensation expense is amortized on a straight-line basis over the vesting period of the options.

The Company applies APB Opinion No. 25 and related interpretations in accounting for its employee stock-based compensation plans. Had compensation cost for these stock-based compensation plans been determined based on the fair-value method prescribed by SFAS No. 123, using the Black-Scholes option-pricing model, the Company s net earnings and net earnings per share would have been the pro forma amounts indicated below:

	Three Months Ended		Nine Months Ended	
	September 30, 2005	**September 30, 2004**	**September 30, 2005**	**September 30, 2004**
Net income, as reported	$ 1,226,000	$ 981,000	$ 3,378,000	$ 2,137,000
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	5,000	5,000	14,000	14,000
Deduct: Total stock-based employee compensation expense determined under	(55,000)	(271,000)	(594,000)	(1,118,000)

fair-value based method for all awards, net of related tax effects				
Pro forma net income	$ 1,176,000	$ 715,000	$ 2,798,000	$ 1,033,000
Basic earnings per share, as reported	$ 0.45	$ 0.34	$ 1.20	$ 0.78
Diluted earnings per share, as reported	$ 0.40	$ 0.31	$ 1.08	$ 0.70
Basic earnings per share, pro forma	$ 0.43	$ 0.25	$ 1.00	$ 0.38
Diluted earnings per share, pro forma	$ 0.38	$ 0.22	$ 0.90	$ 0.34

In December 2004, the FASB issued SFAS No. 123 (revised 2004), Share-Based Payment (FAS 123R), which revises and replaces SFAS No. 123, Accounting for Stock-Based Payment and supercedes APB Opinion No. 25, Accounting for Stock Issued to Employees. FAS 123R requires the measurement of all share-based payments to employees, including grants of employee stock options, using a fair-value based method and the recording of such expense in the Company s consolidated statements of operations. The pro forma disclosures previously permitted under SFAS No. 123 will no longer be an alternative to financial statement recognition. The provisions of FAS 123R were to have been effective for reporting periods beginning after June 15, 2005. At the end of March 2005, the SEC staff released Staff Accounting Bulletin No. 107 (SAB 107), providing guidance for implementing FASB No. 123R. Subsequently, the Commission delayed the implementation dates for FAS 123R to the start of the Company s fiscal year. As a result, the Company will be required to comply with the provisions of FAS 123R beginning January 1, 2006. The Company is evaluating the requirements of FAS 123R. However, because the Company currently accounts for employee stock option grants in a footnote disclosure as permitted by SFAS No. 123, the adoption of FAS 123R will have an impact on the Company s consolidated results of operations. The Company estimates that the impact will be approximately $222,000 of compensation expense for the year ended December 31, 2006 and approximately $24,000 of compensation expense for the year ended December 31, 2007 based on the current information.

Non-employee Stock Compensation The Company accounts for stock-based compensation issued to non-employees in accordance with SFAS No. 123 and EITF Issue No. 96-18, Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in conjunction with Selling Goods or Services. SFAS No. 123 establishes a fair value-based method of accounting for stock-based compensation plans. Under the fair-value based method, compensation cost is measured at the grant date based on the value of the award, which is calculated using an option pricing model, and is recognized over the service period, which is usually the vesting period.

Note 2. STOCK OPTIONS

During the first nine months of 2005, the Company did not grant any stock options to employees; however, options to purchase a total of 10,575 shares of the Company s common stock were issued to non-employee directors subsequent to the Company s annual meeting of stockholders held on January 14, 2005. These options were granted at an exercise price per share equal to 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.

The Company has granted stock options outside the Company s stock option plans to non-employee consultants to purchase up to an aggregate of 57,000 shares of the Company s common stock, of which options to purchase 31,375 shares were outstanding at September 30, 2005. These options were granted at prices determined by the Board of Directors (at no less than 100 percent of the market price on the date of grant). The options have a four-year vesting period and must be exercised within ten years of the date of the grant. These non-employee options were valued using the fair value method as prescribed by SFAS No. 123 using the following assumptions: volatility of 51%, risk free interest rate of 4% and a 10-year term. Options issued prior to 2001 are performance-based awards, with no service commitment and subject to vesting only if the Company s stock price reaches a certain level. Options issued in 2001 become exercisable over four years, but exercisability accelerates if a performance target is achieved. At September 30, 2005, non-employee options to purchase 5,312 shares were exercisable. The Company recognized a credit to compensation expense of approximately $12,000 related to these options during the three-month period ended September 30, 2005. The Company recognized a credit to compensation expense of approximately $38,000 related to these options during the nine-month period ended September 30, 2005. The Company recognized compensation expense of approximately $1,000 and $36,000 related to these options during the three-month and nine month periods ended September 30, 2004, respectively.

On August 11, 2003, the Company granted 25,000 options to purchase the Company s common stock to an employee who is the brother of the Company s 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 become exercisable over four years from the date of grant, expire ten years from the date of grant, and were issued with an exercise price below the fair market value of the stock on the date of grant. This grant was not subject to any of the Company s stock option plans. The total intrinsic value associated with the granting of these options was $96,250, which will be recognized ratably as compensation expense over the four-year vesting period in accordance with APB Opinion No. 25. The Company recognized compensation expense of approximately $6,000 and $18,000 related to these options during each of the three-month periods and nine-month periods ended September 30, 2005 and September 30, 2004, respectively.

Note 3. RESTRICTED STOCK

On June 1, 2005, the Compensation Committee of the Board of Directors of the Company gave final approval to awards of 9,758 shares of restricted stock to Robin Raina, the Company s Chairman, Chief Executive Officer and President, and 4,382 shares of restricted stock to Richard J. Baum, the Company s Executive Vice President, Chief Financial Officer and Secretary, under the Company s 1996 Incentive Plan. The awards were made pursuant to a 2004 incentive compensation program (the 2004 Program) approved by the Company s Board of Directors on

December 4, 2004 (as described in a Form 8-K filed by the Company on December 9, 2004) and were subject to a determination by the Compensation Committee and the Board, after the Company s release of its 2004 operating results, that such operating results were substantially consistent with the operating results of the Company for the first nine months of 2004, as they compared to those for the same period of the prior year (excluding executive incentive compensation). The Compensation Committee and the Board made such determination in April 2005, at which time the grants of the restricted stock (along with 2004 cash bonus compensation) were approved, subject to the Compensation Committee s approval of certain terms of the restricted stock awards and of the forms of restricted stock agreements to represent such awards.

On June 1, 2005, the Compensation Committee approved such terms and forms of restricted stock agreements, and the shares of restricted stock were issued to each of Messrs. Raina and Baum on such date. In accordance with the 2004 Program, the number of shares of restricted stock issued to each of Messrs. Raina and Baum represents 10% of the aggregate of the total salary and cash bonus compensation earned by him for 2004 (such aggregate compensation being $1,012,848 in the case of Mr. Raina and $454,889 in the case of Mr. Baum), divided by the market price of the Company s stock on April 11, 2005, the date the Board approved the restricted stock grants. The Company recognized compensation expense of approximately $8,000, and $57,000 related to these shares during the three and nine month periods ended September 30, 2005.

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

Note 4. EARNINGS PER SHARE

Basic earnings per share (EPS) is equal to net income divided by the weighted average number of shares of common stock outstanding for the period. The weighted average number of shares outstanding for the three and nine months ended September 30, 2005 was 2,734,112 and 2,807,518, respectively. The weighted average number of shares outstanding for the three and nine months ended September 30, 2004 was 2,900,000 and 2,742,000, respectively. Diluted EPS is calculated as if the Company had additional common stock outstanding from the beginning of the year or the date of grant for all common stock equivalents, net of assumed repurchased shares using the treasury stock method. Diluted EPS recognizes the dilutive effect of common stock equivalents and is equal to net income divided by the sum of the weighted average number of shares outstanding and common stock equivalents. For the three and nine months ended September 30, 2005 and September 30, 2004, the Company s common stock equivalents consisted of stock options. For the three and nine months ended September 30, 2005, the effect of this calculation resulted in an increase in the weighted average number of shares outstanding of 355,020 and 315,519, respectively. At September 30, 2005, the fully diluted weighted average number of shares outstanding for the three and nine months ended was 3,089,132 and 3,123,037, respectively. For the three and nine months ended September 30, 2004, the effect of this calculation resulted in an increase in the weighted average number of shares outstanding of 308,000 and 322,000, respectively. At September 30, 2004, the fully diluted weighted average number of shares outstanding for the three and nine months ended was 3,208,000 and 3,064,000, respectively. At September 30, 2005, there were 372,155 shares potentially issuable with respect to stock options, which could dilute EPS in the future but which were excluded from the diluted EPS calculation because their effect was antidilutive. At September 30, 2004, there were 393,000 shares potentially issuable with respect to stock options, which could dilute EPS in the future but which were excluded from the diluted EPS calculation because their effect was antidilutive.

Note 5. COMPREHENSIVE INCOME

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2005	**2004**	**2005**	**2004**
Net income	$ 1,226,000	$ 981,000	$ 3,378,000	$ 2,137,000
Other comprehensive (expense) income foreign currency translation adjustment	(45,000)	57,000	(272,000)	84,000
Comprehensive income	$ 1,181,000	$ 1,038,000	$ 3,106,000	$ 2,221,000

Note 6. RELATED PARTY AND SIGNIFICANT CUSTOMER TRANSACTIONS

In 2001, the Company issued 868,000 shares of its common stock to BRiT Insurance Holdings PLC (BRiT), for $7,000,000. The total shares held by BRiT at September 30, 2005 was 930,163, representing an equity ownership of approximately 34%. At September 30, 2005, BRiT also owned approximately 70% of CF Epic Insurance and General Fund, which owned approximately 8% of the Company s common stock.

The Company has entered into various software and service agreements with BRiT. During the three and nine months ended September 30, 2005, approximately $963,000 and $2,720,000, respectively, was recognized as revenue from BRiT and its affiliates. During the three and nine months ended September 30, 2004, approximately $1,004,000 and $2,681,000, respectively, was recognized as revenue from BRiT and its affiliates. Total accounts receivable from BRiT and its affiliates at September 30, 2005 and December 31, 2004 were $196,000 and $718,000, respectively.

During the three and nine months ended September 30, 2005, approximately $1,157,000 and $2,435,000, respectively, was recognized as revenue from another significant customer, AON. During the three and nine months ended September 30, 2004, approximately $326,000 and $1,395,000, respectively, was recognized as revenue from AON. Total accounts receivable from AON at September 30, 2005 and December 31, 2004 were $386,000 and $186,000, respectively.

Note 7. ACQUISITION OF LIFELINK

On February 23, 2004, the Company acquired LifeLink Corporation (LifeLink), and the operations of LifeLink have been included in the Company s financial statements since that date. Under terms of the agreement, the Company acquired all of the outstanding capital stock of LifeLink from its shareholders in exchange for an aggregate purchase price of $10,354,000 payable as follows:

$5,000,000 paid in cash at closing, $2,500,000 in a non-interest bearing note payable in cash in annual installments of $500,000 over five years (present value computed as $2,226,000), and $3,000,000 payable in 200,000 shares of the common stock of the Company issued at the time of closing to one of the LifeLink shareholders, who received the right to sell such shares (the LifeLink Redeemable Shares) back to the Company as described below. The Company also capitalized approximately $128,000 of transaction costs in conjunction with the LifeLink acquisition.

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

The following table summarizes the estimated fair value of the LifeLink assets acquired and liabilities assumed at the date of acquisition.

	(in thousands)	
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 $3,518,000 of intangible assets acquired, $977,000 was assigned to developed technology with a remaining estimated useful life of five years, $299,000 was assigned to trademarks with a remaining estimated useful life of five years and $2,242,000 was assigned to customer relationships with a remaining estimated useful life of seven years. The Company recorded $144,000 and $432,000 of amortization expense related to these intangibles for the three and nine months ended September 30, 2005, respectively, and $144,000 and $347,000 of amortization expense related to these intangibles for the three and nine months ended September 30, 2004, respectively.

(in thousands)

Estimated Amortization Expenses:

For the year ending December 31, 2005	$	575
For the year ending December 31, 2006	$	575
For the year ending December 31, 2007	$	575
For the year ending December 31, 2008	$	575
For the year ending December 31, 2009	$	358
Thereafter	$	367

The acquisition of LifeLink 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 LifeLink goodwill and intangible assets as of September 30, 2005 and it was determined that the assets were not impaired.

Note 8. ACQUISITION OF HEART

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

received from the Company the option to sell their stock back to the Company subject to specified time frames and prices as discussed below.

The Company classified $1,522,000 of the value of the common stock issued as temporary equity, redeemable common stock, in the condensed consolidated balance sheet due to the existence of the holder s embedded put option. At any time during the one month period commencing January 3, 2006 and ending February 3, 2006, the holder of the redeemable common stock has a one-time right to require the Company to purchase all of the holder s 157,728 shares at a price of AU$2,000,000 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 September 30, 2005, the holder had not sold any of the shares of the Company s common stock received in this transaction.

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 estimated fair value of the Heart assets acquired and liabilities assumed at the date of acquisition subsequent to the reallocation.

(in thousands)

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

Of the $1,229,000 of intangible assets acquired, $630,000 was assigned to customer relationships with a remaining useful life of four years, $410,000 was assigned to developed technology and $189,000 was assigned to trademarks with remaining estimated useful lives of five years. The Company recorded $61,000 and $199,000 of amortization expense related to these intangible assets for the three- and nine-month period ended September 30, 2005. The Company recorded $58,000 of amortization expense related to these intangible assets for both the three and nine-month periods ended September 30, 2004.

(in thousands)

Estimated Amortization Expenses:

For the year ended December 31, 2005	$	307
For the year ended December 31, 2006	$	307
For the year ended December 31, 2007	$	307
For the year ended December 31, 2008	$	220
For the year ended December 31, 2009	$	66

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

Note 9. PRO FORMA FINANCIALS

The following unaudited pro forma financial information for the nine months ended September 30, 2004 presents the consolidated operations of the Company as if the LifeLink and Heart acquisitions had been made on January 1, 2004, 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:

		Nine Months Ended September 30, 2004
Revenue	$	16,370,000
Net income	$	2,307,000
Basic earnings per share	$	0.80
Diluted earnings per share	$	0.72

Note 10. LINE OF CREDIT AND OTHER COMMITMENTS

Bank Line of Credit

In October 2002, the Company obtained from LaSalle Bank National Association a $1,000,000 revolving line of credit, secured by a perfected first security interest in substantially all of the Company s assets. The line of credit was increased to $5,000,000 during February 2004. On February 23, 2005, the Company entered into an amendment to the credit agreement amending certain financial covenants. Major features of the line, as amended, include an interest rate equal to the prime rate, security at 60% of the amount of the line in a restricted interest-bearing account and timely financial reporting requirements. The line of credit will expire on October 31, 2005. As of September 30, 2005, total borrowings on this line were $3,409,000, of which $3,000,000 was classified as restricted cash because it was restricted from use in accordance with the line of credit agreement. The agreement provides that the line is secured by substantially all of the Company s assets. The Company was in compliance with all debt covenants at September 30,

2005.

In October 2005, the Company entered into an amendment to the credit agreement which deleted the security at 60% of the amount of the line in a restricted interest-bearing account, which at September 30, 2005 was restricted cash of $3,000,000 and extended the expiration date to October 31, 2006.

Letters of Credit

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

Self Insurance

The Company is currently self-insured for its health insurance and has a stop loss policy that limits the individual liability to $75,000 per person and the aggregate liability to 125% of the expected claims based upon the number of participants and historical claims. As of September 30, 2005, the maximum aggregate liability calculated was $662,000 for the annual contract period which ends in September 2006.

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

The following information should be read in conjunction with the unaudited condensed consolidated financial statements and the notes thereto included in Item 1 of Part I of this Quarterly Report, and the audited consolidated financial statements and notes thereto and Management s Discussion and Analysis of Financial Condition and Results of Operations contained in the Company s Annual Report on Form 10-K for the year ended December 31, 2004.

Overview

The Company s product and service strategy focuses on the following areas:

providing software development services to insurance carriers, brokers and agents;

worldwide sale, customization, development, implementation and support of its insurance carrier system product, BRICS;

worldwide sales and support of agency management systems, including EbixASP and eglobal;

expansion of connectivity between consumers, agents, carriers and third party providers through Ebix.com, LifeLink, INS-Site and Exchange; and

business process outsourcing services, which include call center and back office, either off site or at the Company s facilities.

Software delivered online through application service provider (ASP) models and connectivity products are recorded as services by the Company. The Company anticipates that future revenue will be provided principally by development services, the sale and licensing of BRICS, international operations, LifeLink, call center services and support.

On February 23, 2004, the Company acquired LifeLink Corporation (which is referred to in this 10-Q as LifeLink but was renamed to EbixLife on May 2, 2005), and the operations of LifeLink 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.

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. The Company has identified the following as its critical accounting policies: revenue recognition, estimating the allowance for doubtful accounts receivable and accounting for income taxes. For a discussion of these policies, see Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies in the Company s Annual Report on Form 10-K for the year ended December 31, 2004.

Results of Operations

Three-Month Period Ended September 30, 2005 Compared to the Three-Month Period Ended September 30, 2004

Total Revenue - The Company s revenue has been derived from the licensing and sale of proprietary software and third party software and from professional services and support services. Total revenue for the quarter ended September 30, 2005 increased $240,000, or 4.2%, to $5,896,000 from $5,656,000 for the comparable quarter of the prior year.

Software Revenue - Software revenue is comprised of revenue from the sale of Ebix products (formerly referred to as cd products), current legacy products, and other third party software. Total software revenue for the third quarter of 2005 increased $216,000, or 124.1%, to $390,000 from $174,000 for the comparable quarter of the prior year. This increase was primarily due to the BRICS software sale of $98,000 and an increase in international software license revenue of $80,000 in the third quarter of 2005 compared to the third quarter of 2004.

Services Revenue Services revenue includes revenue derived from 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 revenue are fees for software license maintenance, LifeLink services (February 23, 2004 to September 30, 2004 for the year to date period ended September 30, 2004, the entire quarter ended September 30, 2004 and the entire three and nine month periods ended September 30, 2005), Heart services (July 1, 2004 to September 30, 2004 for the year to date period ended September 30, 2004, the entire quarter ended September 30, 2004 and the entire three and nine month periods ended September 30, 2005), initial registration and ongoing monthly subscription fees for the EbixASP product, and transaction fees generated from the Ebix.mall website, as well as software development and call center revenue.

Total services revenue for the third quarter of 2005 increased $24,000, or 0.4%, to $5,506,000 from $5,482,000 for the comparable quarter of the prior year. This increase was primarily due to an increase in consulting service revenue of $255,000, an increase in LifeLink revenue of $215,000, partially offset by a decrease in international service revenue of $91,000, a decrease in hosting revenue of $24,000, a decrease in support revenue associated with legacy products of $180,000, a decrease in EbixASP revenue of $6,000, a decrease in INS-Site revenue of $17,000, a decrease in Ebix.mall revenue of $111,000 and a decrease in call center revenue of $17,000.

During the third quarter of 2005 and 2004, approximately $963,000 and $1,004,000, respectively, was recognized as services revenue from BRiT Insurance Holdings PLC (BRiT) and its affiliates. The amounts represented 16% and 18%, respectively, of the Company s total revenues for the third quarter of 2005 and 2004, respectively. BRiT owned approximately 34% of the Company s common stock as of September 30, 2005. In addition, the Company has been informed that as of September 30, 2005, BRiT owned approximately 70% of the equity interests of CF Epic Insurance and General Fund, which at September 30, 2005 owned approximately 8% of the Company s outstanding common stock. For the three-month periods ended September 30, 2005 and September 30, 2004, 19% and 6%, respectively, of the Company s total revenues were from AON. Neither BRiT and its affiliates nor AON have long-term agreements with the Company that provide certainty that such revenues will be recurring.

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

	Support Revenue	Total Revenue
Third quarter of 2005	$ 641,000	$ 5,896,000
Third quarter of 2004	$ 821,000	$ 5,656,000

Support revenue decreased $180,000, or 22%, and as a percentage of total revenue to 11% from 15%, in the third quarter of 2005 compared to the third quarter of 2004.

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

The Company expects that future services revenue will be derived from this support, the sale of BRICS, as well as EbixASP registration and monthly fees, LifeLink Services, Heart Services, software development and call center and, to a much lesser extent, all transaction revenues from Ebix.mall, EbixExchange (INS-Site), conversion and training.

Services and other costs – Cost of services includes costs associated with support, call center, consulting, implementation and training services. Total services and other costs for the quarter increased $172,000, or 12.1%, to $1,594,000 from $1,422,000 for the comparable quarter of the prior year. This increase was primarily due to an increase in payroll expenses related to the hiring of support employees and the related increase in facility costs (which are allocated to each department based on headcount) allocated to services and other costs.

Product Development Expenses – Total product development expenses for the third quarter of 2005 increased $111,000, or 14.2%, to $892,000 from $781,000 for the comparable quarter of the prior year. This increase was due to an increase in payroll expenses of $42,000 due to an increase in headcount in India and an increase in facility costs of $69,000 as a result of an increase in headcount.

Sales and Marketing Expenses – Total sales and marketing expenses for the third quarter of 2005 increased $116,000, or 26.9%, to $547,000 from $431,000 for the comparable quarter of the prior year. This increase was attributable to an increase in marketing spending of $14,000, an increase in travel expenses of $15,000 related to various tradeshows during the quarter, an increase in international sales and marketing expenses of $36,000, an increase in facility costs allocated to sales and marketing of $40,000, an increase in office supplies of $9,000 and an increase in payroll expense of $2,000.

General and Administrative Expenses Total general and administrative expenses for the quarter decreased $271,000, or 16.1%, to $1,413,000 from $1,684,000 for the comparable quarter of the prior year. This decrease was due to an increase in the amount of facility costs allocated to other departments of $141,000, a decrease in audit and legal expenses of $126,000, a decrease in bad debt expense of $66,000, a decrease in travel and entertainment expenses of $35,000 and a decrease in insurance expense of $4,000 partially offset by an increase in international expenses of $95,000 and an increase in office and rent expense of $6,000.

Amortization and Depreciation Expenses Total amortization and depreciation expenses for the quarter decreased $21,000, or 6.2%, to $317,000 from $338,000 for the comparable quarter of the prior year. This decrease was primarily due to the amortization of capitalized software, which decreased $27,000 for the quarter as capitalized software was fully amortized partially offset by an increase in depreciation expense of $6,000.

Income Tax Expense **The Company incurred a tax benefit for the third quarter of 2005 as a result of a foreign tax refund and the implementation of a new tax structure which was completed during the quarter.**

Nine-Month Period Ended September 30, 2005 Compared to the Nine-Month Period Ended September 30, 2004

Total Revenue - Total revenue for the nine-month period ended September 30, 2005 increased $3,668,000, or 25.7%, to $17,934,000 from $14,266,000 for the comparable period of the prior year.

Software Revenue - Total software revenue for the nine-month period ended September 30, 2005 increased $266,000, or 36.2%, to $1,000,000 from $734,000 for the comparable period of the prior year. This increase was primarily due to the BRICS software sale of $306,000 partially offset by a decrease in international software license revenue of $34,000 in the nine-month period ended September 30, 2005 compared to the nine-month period ended September 30, 2004.

Services Revenue Total services revenue for the nine-month period ended September 30, 2005 increased $3,402,000, or 25.1%, to $16,934,000 from $13,532,000 for the comparable period of the prior year. This increase was due to an increase in Heart service revenue of $2,123,000, an increase in consulting service revenue of $567,000, an increase in LifeLink revenue of $1,454,000 and an increase in call center revenue of $17,000 partially offset by a decrease in international service revenue of $122,000, a decrease in Ebix.mall revenue of $80,000, a decrease in hosting revenue of $21,000, a decrease in support revenue associated with legacy products of $465,000, a decrease in EbixASP revenue of $21,000 and a decrease in INS-Site revenue of $50,000.

During the nine-month periods ended September 30, 2005 and 2004, approximately $2,720,000 and $2,681,000, respectively, was recognized as services revenue from BRiT and its affiliates. The amounts represented 15% and 19% of the Company s total revenues for the nine-month periods ended September 30, 2005 and 2004, respectively, and the increase in such revenues of $39,000 represented 1.0% of the total increase in the Company s revenues for the nine month period ended September 30, 2005 compared to the same period of 2004. For the nine-month periods ended September 30, 2005 and September 30, 2004, 14% and 10% of the Company s total revenues were from AON. Neither BRiT and its affiliates nor AON have long-term agreements with the Company that provide certainty that such revenues will be recurring.

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

		Support Revenue		Total Revenue
Nine months ended September 30, 2005	$	2,095,000	$	17,934,000
Nine months ended September 30, 2004	$	2,560,000	$	14,266,000

Support revenue decreased $465,000, or 18%, and as a percentage of total revenue to 12% from 18%, for the nine-month period ended September 30, 2005 compared to the same period in 2004.

Services and other costs – Total services and other costs for the nine-month period ended September 30, 2005 increased $618,000, or 15.9%, to $4,503,000 from $3,885,000 for the comparable period of the prior year. This increase was primarily due to an increase in payroll expenses related to the acquisition of Heart, the hiring of support employees and the related increase in facility costs (which are allocated to each department based on headcount) allocated to services and other costs.

Product Development Expenses – Total product development expenses for the nine-month period ended September 30, 2005 increased $257,000, or 11.7%, to $2,459,000 from $2,202,000 for the comparable period of the prior year. This increase was due to an increase in payroll expenses related to an increase in headcount related to the acquisition of LifeLink of $88,000, an increase in headcount in India resulting in an increase in payroll expense of $59,000 and an increase in facility costs of $110,000 as a result of increases in headcount.

Sales and Marketing Expenses – Total sales and marketing expenses for the nine-month period ended September 30, 2005 increased $420,000, or 37.3%, to $1,547,000 from $1,127,000 for the comparable period of the prior year. This increase was attributable to an increase in payroll expenses related to the hiring of employees of $120,000, an increase in marketing spending of $65,000 and travel expenses of $55,000 related to various tradeshows during the period, an increase in facilities allocation of $75,000, an increase in international marketing expenses of $66,000 and an increase in telephone and office supplies of $42,000 partially offset by a decrease in consulting expenses of $3,000.

Income Tax Expense The Company incurred a tax benefit for the third quarter of 2005 as a result of a foreign tax r

General and Administrative Expenses Total general and administrative expenses for the nine-month period ended September 30, 2005 increased $978,000, or 24.8%, to $4,928,000 from $3,950,000 for the comparable period of the prior year. This increase was due to an increase in accrued bonus of $500,000 primarily as a result of the 2005 supplemental bonus being accrued compared to no such accrual in 2004, an increase in insurance expense of $11,000, an increase in operating expenses related to Heart of $341,000, an increase in international operating expenses of $79,000, an increase in payroll of $194,000, an increase in office expense and rent of $63,000, and an increase in consulting expenses of $65,000, partially offset by an increase in the amount of facility costs allocated to other departments of $72,000, a decrease in bad debt expense of $84,000, a decrease in marketing expenses of $76,000, and a decrease in audit and legal expenses of $31,000 and a decrease in travel and entertainment of $12,000.

Amortization and Depreciation Expenses Total amortization and depreciation expenses for the nine-month period ended September 30, 2005 increased $155,000, or 19.1%, to $965,000 from $810,000 for the comparable period of the prior year. This increase was due to the addition of LifeLink intangible assets in February 2004 and Heart intangible assets in July 2004. Total Heart intangible amortization for the period was $200,000 compared to $58,000 in the comparable period of the prior year, as Heart was acquired in July 2004. Total LifeLink intangible amortization increased $85,000 for the period to $432,000 from $347,000 in the comparable period of the prior year. This increase reflects a partial period of amortization in 2004, as LifeLink was acquired February 23, 2004, compared to a full period of amortization in 2005. In addition, depreciation expense increased $10,000 as a result of an increase in assets acquired as part of the LifeLink acquisition, and amortization of capitalized software decreased $82,000 for the period as capitalized software was fully amortized.

Income Tax Expense **The effective tax rate for the nine-month period ended September 30, 2005 of 4% was lower than the rate for the comparable period of the prior year of 5% due to a different income mix among the various tax jurisdictions in which the Company does business, a foreign tax refund and the implementation of 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 $5,817,000 and restricted cash of $3,000,000 at September 30, 2005, compared to cash and cash equivalents of $5,843,000 and restricted cash of $3,000,000 at December 31, 2004.

During the nine months ended September 30, 2005, the Company generated operating cash flow of $4,106,000 as compared to $1,277,000 of operating cash flow for the nine months ended September 30, 2004. This increase resulted primarily from $3,378,000 of net income, an increase in deferred revenue of $170,000 primarily related to the acquisition of LifeLink and Heart, $965,000 in amortization and depreciation and an increase in accounts receivable of $9,000, partially offset by a decrease in other assets of $21,000, a decrease in accrued payroll and related benefits of $352,000 and a decrease in accounts payable and accrued expenses of $84,000. These balance sheet fluctuations are normal consequences of timing differences between accruals and their cash settlement.

Cash used in investing activities of $382,000 in the nine months ended September 30, 2005 primarily represented capital expenditures primarily related to the relocation of the Sydney, Australia office. Cash used in financing activities of $3,675,000 resulted from the Company s repurchase of a redeemable stock guarantee of $2,700,000, the payment of a long-term debt obligation of $949,000 and payments on the line of credit of $91,000 partially offset by the proceeds from the exercise of stock options of $65,000.

In October 2002, the Company obtained from LaSalle Bank National Association a $1,000,000 revolving line of credit, secured by a perfected first security interest in substantially all of the Company s assets. The line of credit was increased to $5,000,000 during February 2004. On February 23, 2005, the Company entered into an amendment to the credit agreement amending certain financial covenants. Major features of the line, as amended, include an interest rate equal to the prime rate, security at 60% of the amount of the line in a restricted interest-bearing account and timely financial reporting requirements. The line of credit will expire on October 31, 2005. As of September 30, 2005, total borrowings on this line were $3,409,000, of which $3,000,000 was classified as restricted cash because it was restricted from use in accordance with the line of credit agreement. The agreement provides that the line is secured by substantially all of the Company s assets. The Company was in compliance with all debt covenants at September 30, 2005. In October 2005, the Company entered into an amendment to the credit agreement, which deleted the security at 60% of the amount of the line in a restricted interest-bearing account, which at September 30, 2005 was restricted cash of $3,000,000 and extended the expiration date to October 31, 2006.

On February 23, 2004, the Company acquired LifeLink, and the operations of LifeLink have been included in the Company s financial statements since that date. Under terms of the agreement, the Company acquired all of the outstanding capital stock of LifeLink from its shareholders in exchange for an aggregate purchase price of $10,354,000, payable as follows: $5,000,000 paid in cash at closing, $2,500,000 in a non-interest bearing note payable in cash in annual installments of $500,000 over five years (present value computed as $2,226,000), and $3,000,000 payable in 200,000 shares of the common stock of the Company issued at the time of closing. On February 23, 2005, the Company paid the first installment of $500,000 in accordance with the note agreement. On April 28, 2005, the Company repurchased the 200,000 shares issued in the acquisition at a price of $13.50 per share. See note 7 to the condensed consolidated financial statements included in this Form 10-Q for a discussion of the redeemable common stock.

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. Under terms of the agreement, the Company acquired the operating assets of Heart in exchange for an aggregate purchase price of $7,116,000 payable as follows: $3,619,000 paid in cash at closing (subsequent to closing, the former owner paid the Company $467,000 for deferred revenue and a vacation accrual settlement), $1,399,000 payable under stand-by letters of credit issued by the Company s lender on the Company s line of credit in three equal annual installments on each of the first, second and third anniversaries of the closing (present value computed as $1,293,000), and $2,098,000 payable in 157,728 shares of the common stock of the Company issued at the time of closing. See note 8 to the condensed consolidated financial statements included in this Form 10-Q for a discussion of the right of the holders of the shares of common stock issued in the acquisition to cause the Company to repurchase those shares.

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

Contractual Obligations

The following summarizes the Company s contractual obligations at September 30, 2005, and the effect such obligations are expected to have on the Company s liquidity and cash in future periods (in thousands):

	Payment Due by Period (in thousands)				
	Total	**Less Than 1 Year**	**1 3 Years**	**3- 5 Years**	**More Than 5 Years**
Contractual Obligations:					
Long-Term Debt Obligations (1)	$ 7,955	$ 5,989	$ 1,966	$	$
Operating Leases Obligations	2,278	763	1,236	279	
Capital Leases Obligations					
Total	$ 10,233	$ 6,752	$ 3,202	$ 279	$

(1) $1,522,000 is contingent upon exercise of the holder s put option to require the Company to purchase the holder s redeemable common stock in connection with the Heart acquisition. See note 8 to the condensed consolidated financial statements included in this Form 10-Q.

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

Risk Factors

You should carefully consider the risks, uncertainties and other factors described below, along with all of the other information included in this quarterly report on Form 10-Q, because they could materially and adversely affect our business, financial condition, operating results, cash flows and prospects and/or the market price of our common stock. In this section, the words we, us, our and ours refer to the Company.

Risks Related To Our Business and Our Industry

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

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

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

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

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

Revenues from one customer, BRiT Insurance Holdings PLC and its affiliates, which at September 30, 2005 owned approximately 34.0% of our common stock and approximately 70% of CF Epic Insurance and General Fund, which at that date owned approximately 8% of our common stock, represented approximately 15% and 19% of our total revenue for the nine-month periods ended September 30, 2005 and 2004, respectively. If revenues from this customer were to discontinue, our operating results would likely be adversely affected.

Revenues from another customer, AON, represented approximately 14% and 10% of our total revenue for the nine-month periods ended September 30, 2005 and 2004, respectively. If revenues from this customer were to discontinue, our operating results would likely be adversely affected.

Adverse insurance industry economics could adversely affect our revenues.

The following summarizes the Company s contractual obligations at September 30, 2005, and the effect such oblig

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

Our operating results may fluctuate dramatically.

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 with certainty 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.

Any acquisitions that we undertake could be difficult to integrate, disrupt our business, dilute stockholder value and harm our operating results.

In 2004 we acquired LifeLink and certain assets of Heart and may in the future acquire or make investments in complementary businesses, technologies, services or products if appropriate opportunities arise. The process of integrating LifeLink, Heart or any other acquired business, technology, service or product into our business and operations may result in unforeseen operating difficulties and expenditures. Integration of an acquired company also may consume much of our management s time and attention that could otherwise be available for ongoing development of our business. Moreover, the anticipated benefits of the LifeLink and Heart acquisitions or any other acquisition may not be realized. Furthermore, we may be unable to identify, negotiate or finance future acquisitions successfully. Future acquisitions could result in potentially dilutive issuances of equity securities or the incurrence of debt, contingent liabilities or amortization expenses related to intangible assets.

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

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

The marketplaces in which we operate are characterized by:

rapidly changing technology;

evolving industry standards;

frequent new product and service introductions;

shifting distribution channels; and

changing customer demands.

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

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

The following summarizes the Company s contractual obligations at September 30, 2005, and the effect such oblig

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, and Richard J. Baum, our Executive Vice President Finance & Administration, Chief Financial Officer and Secretary. 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 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. In addition, commencing in 2002, we began development activities, call center services and other operations in India. Our international operations may not produce enough revenue to justify our investments in establishing them and are subject to other inherent risks, including:

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

greater difficulty in collecting accounts receivable;

difficulties and costs of staffing and managing foreign operations;

reduced protection for intellectual property rights in some countries;

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

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

fluctuations in exchange rates;

potentially adverse tax consequences; and

The following summarizes the Company s contractual obligations at September 30, 2005, and the effect such oblig

political and economic instability.

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 interpret properly 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.

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

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customers.

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

Concerns regarding security of transactions or the transmission of confidential information over the Internet or security problems we experience may prevent us from expanding our business or subject us to legal exposure.

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

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

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 September 30, 2005, BRiT Insurance Holdings PLC beneficially owned approximately 34.0% of our outstanding common stock and, together with our executive officers and directors, beneficially owned approximately 54.0% of our outstanding common stock. In addition, at September 30, 2005, CF Epic Insurance and General Fund, of which BriT owns approximately 70% of the equity interests, beneficially owned 8% of our outstanding common stock. As a result, those stockholders, if they act together, are able to control all matters requiring stockholder approval, including the election of all directors and approval of significant corporate transactions and amendments to our certificate of incorporation. These stockholders may use their ownership position to approve or take actions that are adverse to your interests or prevent the taking of actions that are consistent with your interests.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

A significant portion of the Company s operations are based in the U.S. and, accordingly, the majority of our transactions are denominated in U.S. dollars. However, the Company has foreign-based operations where transactions are denominated in foreign currencies and are subject to market risk with respect to fluctuations in the relative value of currencies. Currently, the Company and its subsidiaries have operations in Australia, Canada, India, New Zealand and Singapore and conduct transactions in the local currencies of each location. There can be no assurance that fluctuations in the value of foreign currencies will not have a material adverse effect on the Company s business, operating results, revenues or financial condition. The impact of fluctuations in these currencies resulted in net transaction losses of $17,000 and $3,000 for the three months ended September 30, 2005 and September 30, 2004, respectively. The impact of fluctuations in these currencies resulted in net transaction gains for the nine months ended September 30, 2005 and September 30, 2004 of $58,000 and $5,000, 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 taxes of approximately $30,000 and $112,000 for the three months ended September 30, 2005 and September 30, 2004, respectively. Such adverse changes would have resulted in an adverse impact on income before taxes of approximately $265,000 and $246,000 for the nine months ended September 30, 2005 and September 30, 2004, respectively.

There have been no

The following summarizes the Company s contractual obligations at September 30, 2005, and the effect such oblig