

**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 77-0021975
(State or other jurisdiction of incorporation) (I.R.S. Employer Identification Number)

5 Concourse Parkway, Suite 3200 30328
Atlanta, Georgia (Zip Code)
(Address of principal executive offices)

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

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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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 similar 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 Applicaton 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 sustantial 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.

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

<u>Year Ended</u> <u>December 31, 2005</u>	<u>High</u>	<u>Low</u>
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).



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

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)					
Results of Operations:					
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
Net income per share:					
Basic	\$ 2.15	\$ 1.55	\$ 0.80	\$ 0.73	\$ 0.22
Diluted	\$ 1.90	\$ 1.38	\$ 0.72	\$ 0.71	\$ 0.22
Shares used in computing per share data:					
Basic	2,768	2,789	2,784	2,294	2,291
Diluted	3,137	3,121	3,104	2,349	2,293
Financial Position:					
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, 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 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	Year Ended December 31, 2005	Year Ended December 31, 2004
	(In thousands)		
Revenue:			
Professional and support services	\$ 27,594	\$ 22,882	\$ 19,114
Software	1,659	1,218	869
Total revenue	29,253	24,100	19,983
Operating expenses:			
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
Total operating expenses	22,541	19,450	17,577
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.

	Support Revenue	Total Revenue
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	Less Than 1 Year	1 - 3 Years (in thousands)	3 - 5 Years	More than 5 years
Contractual Obligations:					
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	—
Total	\$16,574	\$ 13,115	\$ 2,447	\$ 652	\$ 360

(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:

	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>
(in thousands, except share data)				
<u>Year Ended December 31, 2006</u>				
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
<u>Year Ended December 31, 2005</u>				
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 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

	<u>December 31,</u> <u>2006</u>	<u>December 31,</u> <u>2005</u>
(In thousands, except share amounts)		
ASSETS		
Current assets:		
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
Total current assets	<u>13,899</u>	<u>10,679</u>
Property and equipment, net	2,183	1,488
Goodwill	23,118	12,204
Intangibles, net	7,867	3,293
Other assets	285	317
Total assets	<u>\$ 47,352</u>	<u>\$ 27,981</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
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
Total current liabilities	<u>20,008</u>	<u>7,175</u>
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
Stockholders' equity:		
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
Total stockholders' equity	<u>26,166</u>	<u>17,501</u>
Total liabilities and stockholders' equity	<u>\$ 47,352</u>	<u>\$ 27,981</u>

See accompanying notes to consolidated financial statements.