

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2005

OR

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

Commission file number 0-15946

Ebix, Inc.

(Exact name of registrant as specified in its charter)

DELAWARE

(State or other jurisdiction of incorporation or organization)

77-0021975

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

1900 E. GOLF ROAD

SCHAUMBURG, IL

(Address of principal executive offices)

60173

(Zip Code)

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

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

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

As of May 2, 2005, the number of shares of Common Stock outstanding was 2,712,491.

Ebix, Inc. and Subsidiaries
FORM 10-Q
FOR THE QUARTER ENDED MARCH 31, 2005

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

	<u>March 31,</u> <u>2005</u>	<u>December 31,</u> <u>2004</u>
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 6,913	\$ 5,843
Restricted cash	3,000	3,000
Accounts receivable, less allowance of \$11 and \$13	3,430	3,256
Other current assets	560	587
Total current assets	<u>13,903</u>	<u>12,686</u>
Property and equipment, net	1,614	1,450
Goodwill	12,540	12,669
Intangible assets, net	3,999	4,234
Other assets	321	296
Total assets	<u>\$ 32,377</u>	<u>\$ 31,335</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Line of credit	\$ 3,500	\$ 3,500
Accounts payable and accrued expenses	1,723	1,781
Accrued payroll and related benefits	1,663	1,522
Current portion of long term debt	986	977
Deferred revenue	3,490	2,989
Total current liabilities	<u>11,362</u>	<u>10,769</u>
Long term debt, less current portion	2,304	2,796
Redeemable common stock (357,728 shares issued and outstanding at March 31, 2005 and December 31, 2004, respectively) stated at redemption price	4,241	4,262
Stockholders' equity:		
Convertible Series D Preferred stock, \$.10 par value, 500,000 shares authorized, no shares issued and outstanding	—	—
Common stock, \$.10 par value, 10,000,000 shares authorized, and 2,912,491 and 2,911,154 shares issued and outstanding, respectively	291	291
Additional paid-in capital	92,689	92,717
Deferred compensation	(368)	(376)
Accumulated deficit	(78,943)	(80,011)
Accumulated other comprehensive income	801	887
Total stockholders' equity	<u>14,470</u>	<u>13,508</u>
Total liabilities and stockholders' equity	<u>\$ 32,377</u>	<u>\$ 31,335</u>

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended March 31,	
	2005	2004
Revenue:		
Software	\$ 202	\$ 227
Services and other (Including revenues from related parties of \$878 and \$953, respectively- See Note 5.)	5,702	3,707
Total revenue	5,904	3,934
Operating expenses:		
Services and other costs	1,406	1,163
Product development	794	560
Sales and marketing	478	273
General and administrative	1,689	1,186
Amortization and depreciation	329	201
Total operating expenses	4,696	3,383
Operating income	1,208	551
Interest income	82	27
Interest expense	(102)	(2)
Foreign exchange (loss) gain	(9)	10
Income before income taxes	1,179	586
Income tax expense	(111)	(140)
Net income	\$ 1,068	\$ 446
Basic earnings per common share	\$ 0.37	\$ 0.17
Diluted earnings per common share	\$ 0.33	\$ 0.15
Basic weighted average shares outstanding	2,912	2,586
Diluted weighted average shares outstanding	3,224	2,917

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended March 31,	
	2005	2004
Cash flows from operating activities:		
Net income	\$ 1,068	\$ 446
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	329	201
Stock-based compensation	(32)	40
Provision for doubtful accounts	2	23
Changes in assets and liabilities, net of effect of acquisition:		
Accounts receivable	(176)	(1,035)
Other assets	3	(72)
Accounts payable and accrued expenses	(58)	72
Accrued payroll and related benefits	141	(205)
Deferred revenue	501	298
Net cash provided by (used in) operating activities	1,778	(232)
Cash flows from investing activities:		
Acquisition of LifeLink, net of cash acquired	—	(4,634)
Capital expenditures	(276)	(103)
Net cash used in investing activities	(276)	(4,737)
Cash flows from financing activities:		
Proceeds from the issuance of common stock, net of issuance costs	—	2,977
Proceeds from the exercise of the stock options	12	—
Principal payments under debt obligations	(500)	(30)
Net cash (used in) provided by financing activities	(488)	2,947
Effect of foreign exchange rates on cash	56	68
Net change in cash and cash equivalents	1,070	(1,954)
Cash and cash equivalents at the beginning of the period	5,843	7,915
Cash and cash equivalents at the end of the period	\$ 6,913	\$ 5,961
Supplemental disclosures of cash flow information:		
Interest paid	\$ 47	\$ 2
Income taxes paid	\$ 86	\$ 84

Supplemental schedule of noncash investing activities:

During the first quarter of 2004, the Company purchased all of the capital stock of LifeLink Corporation for consideration which included 200,000 shares of common stock valued at \$3,000,000, cash of \$5,000,000, and a note payable of \$2,226,000.

See accompanying notes to condensed consolidated financial statements.

Ebix, Inc. and Subsidiaries
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

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

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

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

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

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

Summary of significant accounting policies—

Revenue Recognition —

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

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

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

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

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

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

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

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

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

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

Stock Options - At March 31, 2005, the Company had two stock-based employee compensation plans. The Company accounts for stock options issued to employees in accordance with Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees." The Company has adopted the disclosure only provisions of Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation," and SFAS No. 148, "Accounting for Stock Based Compensation — Transition and Disclosure — an Amendment to FASB Statement No. 123," for options and warrants issued to employees. Under APB Opinion No. 25, compensation expense is recorded based on the difference, if any, on the measurement date, between the estimated fair value of the Company's stock and the exercise price of options to purchase that stock. Any resulting compensation expense is amortized on a straight-line basis over the vesting period of the options.

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

	<u>Three Months Ended</u>	
	<u>March 31, 2005</u>	<u>March 31, 2004</u>
Net income, as reported	\$ 1,068,000	\$ 446,000
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	4,560	4,560
Deduct: Total stock-based employee compensation expense determined under fair-value based method for all awards, net of related tax effects	<u>(474,766)</u>	<u>(372,885)</u>
Pro forma net income	\$ 597,794	\$ 77,675
Basic earnings per share, as reported	\$ 0.37	\$ 0.17
Diluted earnings per share, as reported	\$ 0.33	\$ 0.15
Basic earnings per share, pro forma	\$ 0.21	\$ 0.03
Diluted earnings per share, pro forma	\$ 0.19	\$ 0.03

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment" ("FAS 123R"), which revises and replaces SFAS No. 123, "Accounting for Stock-Based Payment" and supercedes APB Opinion No. 25, "Accounting for Stock Issued to Employees." FAS 123R requires the measurement of all share-based payments to employees, including grants of employee stock options, using a fair-value based method and the recording of such expense in the Company's consolidated statements of operations. The pro-forma disclosures previously permitted under SFAS No. 123 will no longer be an alternative to financial statement recognition. The provisions of FAS 123R were to have been effective for reporting periods beginning after June 15, 2005. At the end of March, the SEC staff released Staff Accounting Bulletin No. 107 (SAB 107), providing guidance for implementing FASB No. 123R. Subsequently, the Commission delayed the implementation dates for FAS123R to the start of the Company's fiscal year. As a result, the Company will be required to comply with the provisions of FAS123R beginning January 1, 2006. The Company is evaluating the requirements of FAS 123R, but because the Company is accounting for employee stock option grants in a footnote disclosure as permitted by SFAS No. 123, the adoption of FAS 123R will have an impact on the Company's consolidated results of operations.

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

Note 2. STOCK OPTIONS

During the first quarter of 2005, the Company did not grant any stock options to employees; however, options to purchase a total of 10,575 shares of the Company's Common Stock were issued to non-employee directors subsequent to the Company's annual meeting of stockholders held on January 14, 2005. These options were granted at an exercise price per share of 100% of the fair market value of a share of Common Stock on the date of the grant. These options become exercisable on the last day of each of the four calendar quarters, beginning with the first calendar quarter ending on or after the date of the grant, and have a term of ten years beginning on the date of grant.

The Company has granted stock options outside the Company's stock option plans to non-employee consultants to purchase up to an aggregate of 57,000 shares of the Company's common stock, of which options to purchase 34,500 shares were outstanding at March 31, 2005. These options were granted at prices determined by the Board of Directors (at no less than 100 percent of the market price on the date of grant). The options have a four-year vesting period and must be exercised within ten years of the date of the grant. These non-employee options were valued using the fair value method as prescribed by SFAS No. 123 using the following assumptions: volatility of 51%, risk free interest rate of 4.59% and a 10-year term. Options issued prior to 2001 are performance-based awards, with no service commitment and subject to vesting only if the Company's stock price reaches a certain level. Options issued in 2001 vest over four years, but vesting accelerates if a performance target is achieved. At March 31, 2005, non-employee options to purchase 8,340 shares were vested. The Company recognized a credit to compensation expense of approximately \$38,000 related to these options during the three-month period ended March 31, 2005. The Company recognized compensation expense of approximately \$34,000 related to these options during the three-month period ended March 31, 2004.

On August 11, 2003, the Company granted 25,000 options to purchase the Company's common stock to an employee who is the brother of the Chief Executive Officer, in connection with his joining the Company as an employee. The option grantee was an employee when he received the grant. The options vest over four years from the date of grant, expire ten years from the date of grant, and were issued with an exercise price below the fair market value of the stock on the date of grant. This grant was not subject to any of the Company's stock option plans. The total intrinsic value associated with the granting of these options was \$96,250, which will be recognized ratably as compensation expense over the four-year vesting period in accordance with APB Opinion No. 25. The Company recognized compensation expense of approximately \$6,000 related to these options during each of the three-month periods ended March 31, 2005 and March 31, 2004.

Note 3. EARNINGS PER SHARE

Basic earnings per share ("EPS") is equal to net income divided by the weighted average number of shares of common stock outstanding for the period. The weighted average number of shares outstanding for the three months ended March 31, 2005 and March 31, 2004 was 2,912,432 and 2,585,876, respectively. Diluted EPS is calculated as if the Company had additional common stock outstanding from the beginning of the year or the date of grant for all common stock equivalents, net of assumed repurchased shares using the treasury stock method. Diluted EPS recognizes the dilutive effect of common stock equivalents and is equal to net income divided by the sum of the weighted average number of shares outstanding and common stock equivalents. For the three months ended March 31, 2005 and March 31, 2004, the Company's common stock equivalents consisted of stock options. For the three months ended March 31, 2005, the effect of this calculation resulted in an increase in the weighted average number of shares outstanding of 312,055. At March 31, 2005, the fully diluted weighted average number of shares outstanding was 3,224,487. For the three months ended March 31, 2004, the effect of this calculation resulted in an increase in the weighted average number of shares outstanding of 331,403. At March 31, 2004, the fully diluted weighted average number of shares outstanding was 2,917,279. At March 31, 2005, there were 387,692 shares potentially issuable with respect to stock options, which could dilute EPS in the future but which were excluded from the diluted EPS calculation because their effect was antidilutive.

Note 4. COMPREHENSIVE INCOME

	<u>Three Months Ended March 31,</u>	
	<u>2005</u>	<u>2004</u>
Net income	\$ 1,068,000	\$ 446,000
Other comprehensive income – foreign currency translation adjustment	86,000	68,000
Comprehensive income	\$ 1,154,000	\$ 514,000

Note 5. RELATED PARTY TRANSACTIONS AND SIGNIFICANT CUSTOMERS

In 2001, the Company issued 868,000 shares of its common stock to BRiT Insurance Holdings PLC (“BRiT”), for \$7,000,000. The total shares held by BRiT at March 31, 2005 was 930,163, representing an equity ownership of approximately 32 percent. At March 31, 2005, BRiT owned approximately 70% of CF Epic Insurance and General Fund, which owned approximately 8% of the Company’s common stock.

The Company has entered into various software and service agreements with BRiT. During the first quarter of 2005, approximately \$878,000 was recognized as revenue from BRiT and its affiliates. During the first quarter of 2004, approximately \$953,000 was recognized as revenue from BRiT and its affiliates. Total accounts receivable from BRiT and its affiliates at March 31, 2005 and December 31, 2004 were \$406,000 and \$718,000, respectively.

During the first quarter of 2005 and 2004, approximately \$625,000 and \$678,000, respectively, was recognized as revenue from another significant customer, AON. Total accounts receivable from AON at March 31, 2005 and December 31, 2004 were \$194,000 and \$186,000, respectively.

Note 6. ACQUISITION OF LIFELINK

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

The Company classified \$2,700,000 of the value of the common stock issued as temporary equity, “redeemable common stock,” in the consolidated balance sheet due to the existence of the holder’s embedded put option. At any time during the one month period commencing on the date which is 18 months after February 23, 2004 and ending 19 months after February 23, 2004, the holder of the redeemable common stock had a one-time right to require the Company to purchase all of the holder’s 200,000 shares, originally valued at \$15.00 per share in the acquisition of LifeLink, for a discounted price of \$13.50 per share minus the aggregate purchase price received by the holder from any sales of these shares of common stock prior to the exercise of the put option. As of March 31, 2005, the holder had not sold any of the shares of the Company’s common stock received in this transaction. On April 28, 2005, the Company repurchased at a price of \$13.50 per share the 200,000 shares of its common stock issued to the former LifeLink shareholder. See note 11 below.

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

(in thousands)

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

Of the \$3,518,000 of intangible assets acquired, \$977,000 was assigned to developed technology with a remaining estimated useful life of five years, \$299,000 was assigned to trademarks with a remaining estimated useful life of five years and \$2,242,000 was assigned to customer relationships with a remaining estimated useful life of seven years. The Company recorded \$144,000 and \$68,000 of amortization related to these intangibles for the periods ended March 31, 2005 and March 31, 2004, respectively.

(in thousands)

Estimated Amortization Expenses:

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

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

Note 7.—ACQUISITION OF HEART

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

The Company classified \$1,541,000 of the value of the common stock issued as temporary equity, “redeemable common stock,” in the condensed consolidated balance sheet due to the existence of the holder’s embedded put option. At any time during the one month period commencing January 3, 2006 and ending February 3, 2006, the holder of the redeemable common stock has a one-time right to require the Company to purchase all of the holder’s 157,728 shares at a price of \$1,399,000 minus the aggregate purchase price received by the holder from any sales of these shares of common stock prior to the exercise of the put option. As of March 31, 2005, the holder had not sold any of the shares of the Company’s common stock received in this transaction.

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

(in thousands)

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

Of the \$1,229,000 of intangible assets acquired, \$630,000 was assigned to customer relationships with a remaining useful life of four years, \$410,000 was assigned to developed technology and \$189,000 was assigned to trademarks with remaining estimated useful lives of five years. The Company recorded \$74,000 of amortization expense related to these intangible assets for the period ended March 31, 2005. There was no amortization expense related to these intangibles for the period ended March 31, 2004 as the acquisition was consummated in July 2004.

(in thousands)

Estimated Amortization Expenses:

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

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

Note 8.—PROFORMA FINANCIALS

The following unaudited pro forma financial information for the three months ended March 31, 2004 presents the consolidated operations of the Company as if the LifeLink and Heart acquisitions had been made on January 1, 2004, after giving effect to certain adjustments for the pro forma acquisition as of the acquisition date. The Company made adjustments primarily for the amortization of intangible assets and interest expense related to the acquisitions. The unaudited pro forma financial information is provided for informational purposes only and does not project the Company's results of operations for any future period:

	<u>Three Months Ended</u> <u>March 31, 2004</u>
Revenue	\$ 5,446,000
Net income	552,000
Basic earnings per share	\$ 0.19
Diluted earnings per share	\$ 0.17

Note 9.—LINE OF CREDIT

Bank Line of Credit

In October 2002, the Company entered into a revolving line of credit, secured by a perfected first security interest in the Company's assets, for \$1,000,000 with interest payable on outstanding borrowings at the prime rate. The existing revolving line of credit with LaSalle Bank National Association was increased to \$5,000,000 during February 2004 and the agreement was amended in April 2004. On February 23, 2005, the Company entered into a second amendment to the credit agreement, which was effective as of December 31, 2004 and added a requirement that the Company include in its quarterly deliveries to the bank an income statement of the Company showing EBITDA (as defined in the agreement) of the Company, eliminated a covenant of the Company to maintain a minimum tangible net worth (as defined in the agreement) and added a covenant that the Company maintain a maximum senior debt to EBITDA ratio. The Company was in compliance with the amended maximum senior debt to EBITDA ratio covenant at December 31, 2004. This amendment memorialized an understanding that had been reached with the lender prior to December 31, 2004. Major features of the line, as amended, include an interest rate stated at prime, security at 60% of the amount of the line in a restricted interest bearing account and timely financial reporting requirements. The line of credit will expire on October 31, 2005. As of March 31, 2005 total borrowings on this line were \$3,500,000, of which \$3,000,000 was classified as restricted cash because it was restricted from use in accordance with the line of credit agreement. The agreement provides that the line was secured by substantially all of the Company's assets.

The Company was in compliance with all debt covenants at March 31, 2005.

Letters of Credit

Under terms of the agreement with Heart Consulting Services Pty Ltd. (see note 7), \$1,399,000 is payable by the Company under stand-by letters of credit issued by the Company's lender on the Company's line of credit in three equal annual installments on each of the first, second and third anniversaries of the closing of the Heart asset acquisition (present value computed as \$1,293,000). The three letters of credit expire on July 31, 2005, July 31, 2006 and July 31, 2007, respectively.

Note 10.—ANNUAL MEETING

On January 14, 2005, the stockholders of the Company approved an amendment to the Company's 1996 Stock Incentive Plan (the "1996 Plan"), which increased by 300,000, to 1,137,500, the number of shares of the Company's common stock reserved and available for grant under the 1996 Plan and prohibited the repricing of options granted under the 1996 Plan.

On January 14, 2005, following the approval of the Company's stockholders, the Company's Certificate of Incorporation was amended to reduce the number of authorized shares of the Company's common stock from 40,000,000 to 10,000,000 and the number of authorized shares of the Company's preferred stock from 2,000,000 to 500,000.

Note 11. – SUBSEQUENT EVENTS

On April 28, 2005 the Company repurchased 200,000 shares of its common stock at a price of \$13.50 per share. The shares were originally issued as part of the \$10,354,000 in consideration the Company paid in its acquisition of LifeLink in February 2004 (see note 7). The 200,000 shares were valued at \$15.00 per share at the time of the transaction, or \$3.0 million in aggregate, and Ebix provided a "put" option that enabled LifeLink's founder to sell the shares back to Ebix at a 10% discount to the \$15.00 issue price. The put option was to be effective on August 23, 2005, but Ebix and the shareholder mutually agreed to accelerate the timing of the exercise of the put option.

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

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

Overview

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

On February 23, 2004, the Company acquired LifeLink Corporation (which is referred to in this 10-Q as "LifeLink" but was renamed to EbixLife on May 2, 2005), and the operations of LifeLink have been included in the Company's financial statements since that date. On July 1, 2004, Ebix Australia Pty Ltd (VIC), which is a wholly-owned subsidiary of the Company, acquired certain operating assets of Heart Consulting Services Pty Ltd ("Heart"), and the operations of Heart have been included in the Company's financial statements since that date. Accordingly, the first quarter of 2005 reflects the Company's ownership of LifeLink and Heart for the entire quarter as opposed to the first quarter of 2004, which reflects the Company's ownership of LifeLink for only part of the quarter and no ownership of Heart.

Critical Accounting Policies

The Company's "critical accounting policies" are those that require application of management's most difficult, subjective or complex judgements, often as a result of the need to make estimates about matters that are inherently uncertain and may change in future periods. The Company has identified the following as its critical accounting policies: revenue recognition, estimating the allowance for doubtful accounts receivable and accounting for income taxes. For a discussion of these policies, see "Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies" in the Company's Annual Report on Form 10-K for the year ended December 31, 2004.

Results of Operations

Three-Month Period Ended March 31, 2005 Compared to the Three-Month Period Ended March 31, 2004

Total Revenue - The Company's revenue has been derived from the licensing and sale of proprietary software and third party software ("Software") and from professional services and support services ("Services"). Services include consulting, implementation, training and project management provided to the Company's customers with installed systems and those in the process of installing systems. Also included in Services are fees for software license maintenance, LifeLink services (February 23, 2004 to March 31, 2004 for the quarter ended March 31, 2004, and the entire quarter ended March 31, 2005), Heart services (for the quarter ended March 31, 2005 only, as Heart was acquired in July 2004), initial registration and ongoing monthly subscription fees for the EbixASP product and transaction fees generated from the Ebix.mall website, as well as software development and call center revenue. Total revenue for the quarter ended March 31, 2005 increased \$1,970,000, or 50.1%, to

\$5,904,000 from \$3,934,000 for the comparable quarter of the prior year.

Software Revenue - Software revenue is comprised of revenue from the sale of Ebix (formerly “cd”) products, current legacy products, and other third party software. Total software revenue for the first quarter of 2005 decreased \$25,000, or 11.0%, to \$202,000 from \$227,000 for the comparable quarter of the prior year. As the Company has changed its focus to e-commerce products and services, the Company expects future revenue to be comprised primarily of services revenue.

Services Revenue — Total services revenue for the first quarter of 2005 increased \$1,995,000, or 53.8%, from \$3,707,000 for the comparable quarter of the prior year. This increase was due to the inclusion of a full quarter of LifeLink revenue, which resulted in an increase of approximately \$1,092,000, the inclusion of Heart service revenue of \$882,000, an increase in consulting revenue of \$101,000, an increase in Ebix.mall revenue of \$50,000 and an increase in call center revenue of \$45,000, partially offset by a decrease in support revenue associated with legacy products of \$85,000, a decrease in EbixASP revenue of \$55,000, a decrease in International service revenue of \$20,000, a decrease in INS-Site revenue of \$11,000 and a decrease in hosting revenue of \$4,000.

During the first quarter of 2005 and 2004, approximately \$878,000 and \$953,000, respectively was recognized as services revenue from BRiT Insurance Holdings PLC (“BRiT”) and its affiliates. The amounts represented 15% and 24%, of the Company’s total revenues for the first quarters of 2005 and 2004, respectively. BRiT owned approximately 32% of the Company’s common stock as of March 31, 2005. In addition, the Company has been informed that, as of March 31, 2005, BRiT owned approximately 70% of the equity interests of CF Epic Insurance and General Fund, which at March 31, 2005 owned approximately 8% of the Company’s outstanding common stock. For the three-month periods ended March 31, 2005 and March 31, 2004, 11% and 17% of the Company’s total revenues were from AON. Neither BRiT and its affiliates nor AON have long-term agreements with the Company that provide certainty that such revenues will be recurring.

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

	<u>Support Revenue</u>	<u>Total Revenue</u>
First quarter of 2005	\$ 785,000	\$ 5,904,000
First quarter of 2004	\$ 870,000	\$ 3,934,000

Support revenue decreased \$85,000, or 10%, and as a percentage of total revenue decreased to 13% from 22%, in the first quarter of 2005, compared to the first quarter of 2004.

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

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

Services and other costs – Cost of services revenue includes costs associated with support, call center, consulting, implementation and training services. Total services and other costs for the quarter increased \$243,000, or 20.9%, from \$1,163,000 for the comparable quarter of the prior year. This increase was due to an

increase in payroll expenses related to the acquisition of LifeLink of \$91,000 and Heart of \$123,000, an increase in facility costs of \$69,000 and an increase in international support costs of \$35,000, partially offset by a decrease in expenses for required services to support the Company's products of \$49,000 and a decrease in non-LifeLink and Heart related payroll of \$26,000.

Product Development Expenses – Total product development expenses for the first quarter of 2005 increased \$234,000, or 41.8%, from \$560,000 for the comparable quarter of the prior year. This increase was due to an increase in payroll expenses related to LifeLink of \$135,000, an increase in non-LifeLink domestic payroll expenses of \$32,000, an increase in India payroll expenses of \$11,000 and an increase in Canadian payroll expenses of \$2,000. In addition, facility costs increased \$54,000 as a result of the increases in headcount in various locations.

Sales and Marketing Expenses – Total sales and marketing expenses for the first quarter of 2005 increased \$205,000, or 75.1%, from \$273,000 for the comparable quarter of the prior year. This increase was attributable to an increase in payroll expenses related to LifeLink of \$56,000, an increase in non-LifeLink domestic payroll of \$62,000, an increase in Heart payroll of \$24,000, an increase in facility costs related to the increase in headcount of \$37,000, an increase in travel expenses of \$21,000, an increase in costs of office supplies of \$13,000, and an increase in advertising expenses of \$6,000, partially offset by a decrease in international sales and marketing of \$8,000 and a decrease in consulting expenses of \$6,000.

General and Administrative Expenses — Total general and administrative expenses for the quarter increased \$503,000, or 42.4%, from \$1,186,000 for the comparable quarter of the prior year. This increase was due to an increase in accrued bonus of \$174,000, primarily as a result of one quarter of the 2005 supplemental bonus being accrued compared to no such accrual in 2004, operating expenses related to Heart of \$98,000, an increase in audit and legal fees of \$92,000, and an increase in general business operation expenses related to LifeLink and Heart of \$139,000.

Amortization and depreciation Expenses – Total amortization and depreciation expenses for the quarter increased \$128,000, or 63.7%, from \$201,000 for the comparable quarter of the prior year. This increase was due to the addition of LifeLink intangible assets in February 2004 and Heart intangible assets in July 2004. Total Heart intangible amortization for the quarter was \$74,000 compared to no such amortization in the comparable quarter of the prior year, as Heart was acquired in July 2004. Total LifeLink intangible amortization increased \$77,000 for the quarter to \$144,000 from \$67,000 in the comparable quarter of the prior year. This increase reflects a partial quarter of amortization in 2004, as LifeLink was acquired February 23, 2004, compared to a full quarter of amortization in 2005. In addition, depreciation expense increased \$4,000 as a result of an increase in assets acquired as part of the LifeLink acquisition and amortization of capitalized software decreased \$27,000 for the quarter as capitalized software was fully amortized.

Income tax expense — The effective tax rate for the first quarter of 2005 was lower than the rate for the comparable quarter of the prior year due to a different income mix among the various tax jurisdictions in which the Company does business.

Liquidity and Capital Resources

The Company had cash and cash equivalents of \$6,913,000 and restricted cash of \$3,000,000 at March 31, 2005, compared to cash and cash equivalents of \$5,843,000 and restricted cash of \$3,000,000 at December 31, 2004. The Company had cash and cash equivalents of \$3,212,000 and restricted cash of \$3,000,000 at April 30, 2005; the decrease in cash from March 31, 2005 was primarily due to the stock repurchase for \$2,700,000 on April 28, 2005 (see note 11) and bonus payouts of \$1,200,000 on April 1, 2005.

During the three months ended March 31, 2005, the Company generated operating cash flow of \$1,778,000 as compared to \$232,000 of negative operating cash flow for the three months ended March 31, 2004. This increase in cash flow from operations in the three months ended March 31, 2005 resulted primarily from \$1,068,000 of net income, an increase in deferred revenue of \$501,000 primarily related to the acquisition of LifeLink and Heart, \$329,000 in amortization and depreciation and in increase in accrued payroll and related benefits of \$141,000,

partially offset by a decrease in accounts receivable of \$177,000 and an decrease in accounts payable and accrued benefits of \$58,000. These balance sheet fluctuations are normal consequences of timing differences between accruals and their cash settlement.

Cash used in investing activities of \$276,000 in the three months ended March 31, 2005 primarily represented capital expenditures primarily related to the relocation of the Sydney Australia office. Cash used in financing activities of \$488,000 resulted from the Company's payment of a long-term debt obligation, partially offset by the proceeds from the exercise of stock options.

Cash used in investing activities of \$4,737,000 in the three months ended March 31, 2004 represented expenditures made primarily as a result of the Company's acquisition of LifeLink. Cash provided by financing activities of \$2,947,000 resulted from the Company's sale of common stock during the quarter.

In October 2002, the Company entered into a revolving line of credit, secured by a perfected first security interest in the Company's assets, for \$1,000,000, with interest payable on outstanding borrowings at the prime rate. The existing revolving line of credit with LaSalle Bank National Association was increased to \$5,000,000 during February 2004 and the agreement was amended in April 2004. On February 23, 2005, the Company entered into a second amendment to the credit agreement, which was effective as of December 31, 2004 and added a requirement that the Company include in its quarterly deliveries to the bank an income statement of the Company showing EBITDA (as defined in the agreement) of the Company, eliminated a covenant of the Company to maintain a minimum tangible net worth (as defined in the agreement) and added a covenant that the Company maintain a maximum senior debt to EBITDA ratio. This amendment memorialized an understanding that had been reached with the lender prior to December 31, 2004. Major features of the line, as amended, include an interest rate stated at prime, security at 60% of the amount of the line in a restricted interest bearing account and timely financial reporting requirements. The line of credit will expire on October 31, 2005. As of March 31, 2005 total borrowings on this line were \$3,500,000, of which \$3,000,000 was classified as restricted cash because it was restricted from use in accordance with the line of credit agreement. The agreement provides that the line is secured by substantially all of the Company's assets. The Company was in compliance with all debt covenants at March 31, 2005.

On February 23, 2004, the Company acquired LifeLink, and the operations of LifeLink have been included in the Company's financial statements since that date. Under terms of the agreement, the Company acquired all of the outstanding capital stock of LifeLink from its shareholders in exchange for an aggregate purchase price of \$10,354,000, payable as follows: \$5,000,000 paid in cash at closing, \$2,500,000 in a non-interest bearing note payable in cash in annual installments of \$500,000 over five years (present value computed as \$2,226,000), and \$3,000,000 payable in 200,000 shares of the common stock of the Company issued at the time of closing. On February 23, 2005, the Company paid the first installment of \$500,000 in accordance with the note agreement. On April 28, 2005 the Company repurchased the 200,000 shares of its common stock at a price of \$13.50 per share. See note 7 and 11 to the condensed consolidated financial statements included in this Form 10-Q for a discussion of the redeemable common stock.

On July 1, 2004, Ebix Australia Pty Ltd (VIC), which is a wholly-owned subsidiary of the Company, acquired certain operating assets of Heart Consulting Services Pty Ltd ("Heart"), and the operations of Heart have been included in the Company's financial statements since that date. Under terms of the agreement, the Company acquired the operating assets of Heart in exchange for an aggregate purchase price of \$7,116,000 payable as follows: \$3,619,000 paid in cash at closing (subsequent to closing, the former owner paid the Company \$467,000 for deferred revenue and a vacation accrual settlement), \$1,399,000 payable under stand-by letters of credit issued by the Company's lender on the Company's line of credit in three equal annual installments on each of the first, second and third anniversaries of the closing (present value computed as \$1,293,000), and \$2,098,000 payable in 157,728 shares of the common stock of the Company issued at the time of closing. See note 8 to the condensed consolidated financial statements included in this Form 10-Q for a discussion of the redeemable common stock.

In planning for its capital needs, the Company takes into account its sources of cash, which include operating cash flow, cash balances and funds from credit facilities, and anticipated future cash needs, which include

working capital requirements for operations, capital expenditures, and expenditures for business acquisitions. Based on these considerations, the Company believes it will have sufficient cash from operations to satisfy its contractual obligations for at least the next several years.

The following summarizes the Company's contractual obligations at March 31, 2005, and the effect such obligations are expected to have on the Company's liquidity and cash in future periods (in thousands):

	Payment Due by Period				
	Total	Less Than 1 Year	1 – 3 Years (in thousands)	3- 5 Years	More Than 5 Years
Contractual Obligations:					
Long-Term Debt Obligations (1) (2)	\$ 11,140	\$ 7,475	\$ 3,665	\$ —	\$ —
Operating Leases Obligations	2,501	780	1,279	304	138
Capital Leases Obligations	—	—	—	—	—
Total	\$ 13,641	\$ 8,255	\$ 4,944	\$ 304	\$ 138

(1) \$2,700,000 was contingent upon exercise of the holder's put option to require the Company to purchase the holder's redeemable common stock. On April 28, 2005 the Company repurchased 200,000 shares of its common stock at a price of \$13.50 per share. See note 7 and 11 to the condensed consolidated financial statements included in this Form 10-Q.

(2) \$1,541,000 is contingent upon exercise of the holder's put option to require the Company to purchase the holder's redeemable common stock in connection with the Heart acquisition. See note 8 to the condensed consolidated financial statements included in this Form 10-Q.

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

Risk Factors

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

Risks Related To Our Business and Our Industry

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

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

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

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

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

Revenues from one customer, BRiT Insurance Holdings PLC and its affiliates, which at May 2, 2005 owned approximately 34.0% of our common stock and approximately 70% of CF Epic Insurance and General Fund, which at that date owned approximately 8.2% of our common stock, represented approximately 15% and 24% of our total revenue for the three-month periods ended March 31, 2005 and 2004, respectively. If revenues from this customer were to discontinue, our operating results could be adversely affected.

Revenues from another customer, AON, represented approximately 11% and 17% of our total revenue for the three-month periods ended March 31, 2005 and 2004. 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 current economic and world political conditions.

Our operating results may fluctuate dramatically .

Our quarterly operating results may fluctuate significantly in the future due to a variety of factors that could affect our revenues or our expenses in any particular quarter. You should not rely on our results of operations during any particular quarter as an indication of our results for a full year or any other quarter. Factors that may affect our quarterly results may include the loss of a significant insurance agent, carrier or broker relationship or the merger of any of our participating insurance carriers with one another. Our operating expenses are based in part on our expectations of our future revenues and are relatively fixed in the short term. We may be unable to adjust spending quickly enough to offset any unexpected revenue shortfall.

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

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

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

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

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

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

The marketplaces in which we operate are characterized by:

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

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

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

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

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

- undertake more extensive marketing campaigns for their brands and services;
- devote more resources to website and systems development;
- adopt more aggressive pricing policies; and
- make more attractive offers to potential employees, online companies and third-party service providers.

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

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

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

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

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

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

Our 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. In addition, commencing in 2002, we began development activities, call center services and other operations in India. Our international operations may not produce enough revenue to justify our investments in establishing them and are subject to other inherent risks, including:

- the impact of recessions in foreign economies on the level of consumers' insurance shopping and purchasing behavior;
- greater difficulty in collecting accounts receivable;
- difficulties and costs of staffing and managing foreign operations;
- reduced protection for intellectual property rights in some countries;
- seasonal reductions in business activity during the summer months in Europe and other parts of the world;
- burdensome regulatory requirements, other trade barriers and differing business practices;
- fluctuations in exchange rates;
- potentially adverse tax consequences; and
- political and economic instability.

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

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

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.

Risks Related to Our Conduct of Business on The Internet

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

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

If the computer hardware operations that host our website were to experience a system failure, the performance of our website would be harmed. These systems are also vulnerable to damage from fire, floods, earthquakes, acts of terrorism, power loss, telecommunications failures, break-ins and similar events. Our property and business interruption insurance coverage may not be adequate to compensate us for all losses that

may occur. In addition, our users depend on Internet service providers, online service providers and other website operators for access to our website. Each of these providers has experienced significant outages in the past, and could experience outages, delays and other difficulties due to system failures unrelated to our systems.

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

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

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

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 May 2, 2005, BRiT Insurance Holdings PLC beneficially owned approximately 34.0% of our outstanding common stock and, together with our executive officers and directors, beneficially owned approximately 53.4% of our outstanding common stock. In addition, at May 2, 2005, CF Epic Insurance and General Fund, of which BriT owns approximately 70% of the equity interests, beneficially owned 8.2% of our outstanding common stock. As a result, those stockholders, if they act together, are able to control all matters requiring stockholder approval, including the election of all directors and approval of significant corporate transactions and amendments to our certificate of incorporation. These stockholders may use their ownership position to approve or take actions that are adverse to your interests or prevent the taking of actions that are consistent with your interests.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The majority of the Company's operations are based in the U.S. and, accordingly, the majority of our transactions are denominated in U.S. dollars. However, the Company has foreign-based operations where transactions are denominated in foreign currencies and are subject to market risk with respect to fluctuations in the relative value of currencies. Currently, the Company and its subsidiaries have operations in Australia, Canada, India, New Zealand and Singapore and conduct transactions in the local currencies of each location. There can be no assurance that fluctuations in the value of foreign currencies will not have a material adverse effect on the Company's business, operating results, revenues or financial condition. The impact of fluctuations in these currencies resulted in net transaction losses for the three months ended March 31, 2005 and gains of \$10,000 for the three months ended March 31, 2004. The Company considered the historical trends in currency exchange rate and determined that it was reasonably possible that adverse changes in exchange rates of 20% for all currencies could be experienced in the near term. Such adverse changes would have resulted in an adverse impact on income before taxes of approximately \$127,000 and \$44,000 for the three months ended March 31, 2005 and March 31, 2004, respectively.

There have been no material changes in the Company's interest rate risk during the three months ended March 31, 2005. For additional information on interest rate risk, refer to the "Quantitative Disclosures About Market Risk" section of the Company's Annual Report on Form 10-K for the year ended December 31, 2004.

Item 4. CONTROLS AND PROCEDURES

During the 2004 year-end audit, the Company's independent registered public accounting firm, BDO Seidman, LLP ("BDO") identified certain significant deficiencies relating to the Company's internal control over financial reporting. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Company's ability to initiate, authorize, record, process or report external financial data

reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Company's annual or interim financial statements that is more than inconsequential will not be prevented or detected. BDO's determination that there were significant deficiencies took into consideration audit differences, both required adjustments to the Company's financial statements and unrecorded adjustments, as well as underlying causes for such adjustments, and observations of the Company's processes, but did not arise from any particular transaction or event. The details of the significant deficiencies relates to the lack of accounting knowledge and leadership at foreign locations, inadequate documentation for certain accounting transactions, insufficient analysis and review of domestic account reconciliations, lack of documentation of development costs and related agreements, and lack of documentation to support the Company's income tax provisions and related accounts. The Company is evaluating what steps it needs to take to address these significant deficiencies.

There was no change in the Company's internal control over financial reporting during the quarter ended March 31, 2005 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

The Company carried out an evaluation, under the supervision and with the participation of the Company's management, including its Chief Executive Officer and Chief Financial Officer, of the design and operation of the Company's disclosure controls and procedures, which are designed to provide reasonable assurance that the information required to be disclosed by the Company in the reports that it files with or submits to the Securities and Exchange Commission is (1) recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and (2) accumulated and communicated to the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Based on this evaluation, the Company's Chief Executive Officer and the Company's Chief Financial Officer concluded that, as of March 31, 2005, the Company's disclosure controls and procedures were effective to provide such reasonable assurance. They reached this conclusion based in large part on their assessment of (i) the financial expertise of the members of the internal accounting staff, (ii) the regular communications among such persons (serving as a de facto disclosure committee), and between them and the rest of the relatively small organization, with respect to all material developments in the Company's business, and (iii) the overall process of preparation and review of the Company's financial and other disclosures.

Part II — OTHER INFORMATION

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

At the Company's Annual Meeting of Stockholders, held on January 14, 2005, the following members were elected to the Company's Board of Directors, each by the respective vote indicated to the right of such nominee's name:

<u>Nominee</u>	<u>For</u>	<u>Authority Withheld</u>
Pavan Bhalla	2,429,611	17,634
Dennis Drislane	2,430,036	17,029
Paul Joseph Hodges	2,429,611	17,634
Hans Ueli Keller	2,429,611	17,634
Kenneth D. Merin	2,429,611	17,634
Robin Raina	2,429,584	17,661
William G. Rich	2,384,652	62,593

Item 6. EXHIBITS

- 3.1* Certificate of Incorporation of the Company, as amended.
- 10.1 1996 Stock Incentive Plan, as amended (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated January 14, 2005 and incorporated herein by reference).
- 10.2 Second Amendment to Loan and Security Agreement, effective as of December 31, 2004 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated February 23, 2005 and incorporated herein by reference).
- 31.1 Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) (Section 302 of the Sarbanes-Oxley Act of 2002).
- 32.2 Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) (Section 302 of the Sarbanes-Oxley Act of 2002).
- 32.1 Certification of Chief Executive Officer Pursuant to Section 906 of the Sabanes-Oxley Act of 2002 (furnished herewith).
- 32.2 Certification of Chief Financial Officer Pursuant to Section 906 of the Sabanes-Oxley Act of 2002 (furnished herewith).

SIGNATURES

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

Ebix, Inc.

Date: May 12, 2005

By

/s/ RICHARD J. BAUM

Richard J. Baum

Executive Vice President — Finance & Administration, Chief
Financial Officer (principal financial and accounting officer),
and Secretary

EXHIBIT INDEX

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

**CERTIFICATE OF INCORPORATION
OF
EBIX, INC.,
AS AMENDED**

I

The name of the Corporation is Ebix, Inc.

II

The address of the registered office of the Corporation in the State of Delaware is 100 West Tenth Street in the City of Wilmington, County of New Castle, and the name of its registered agent at that address is The Corporation Trust Company.

III

The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of Delaware.

IV

The Corporation is authorized to issue two classes of stock designated "Preferred Stock" and "Common Stock," respectively. The total number of shares of Preferred Stock authorized to be issued is 500,000 and each of such shares shall have a par value of ten cents (\$.10). The total number of shares of Common Stock authorized to be issued is 10,000,000 and each such share shall have a par value of ten cents (\$.10).

The shares of Preferred Stock may be issued from time to time in one or more series. The Board of Directors is hereby authorized, by filing a certificate pursuant to the applicable law of the State of Delaware, to establish from time to time the number of shares to be included in each such series, and to fix the designation, powers, preferences and rights of the shares of each such series and the qualifications, limitations or restrictions thereof, including but not limited to the fixing or alteration of the dividend rights, dividend rate, conversion rights, voting rights, rights and terms of redemption (including sinking fund provisions), the redemption price or prices, and the liquidation preferences of any wholly unissued series or shares of Preferred Stock, or any of them; and to increase or decrease the number of shares of any series subsequent to the issue of the shares of that series, but not below the number of shares of such series then outstanding. In case the number of shares of any series shall be so decreased, the shares constituting such decrease shall resume the status which they had prior to the adoption of the resolution originally fixing the number of shares of such series.

Conversion of Common Stock.

Effective at 12:01 a.m., New York City time, on October 1, 2002, (a) each eight (8) shares of issued and outstanding Common Stock shall automatically, without the necessity of any further action on the part of the holder thereof, be converted into and reclassified as one (1) share of Common Stock. Upon the occurrence of the conversion and reclassification effected by this Article IV (the "Conversion"), each

certificate for outstanding shares of Common Stock dated prior to the effective date of the Conversion (each an “Old Certificate”) shall evidence, and be deemed to evidence, the number of shares of Common Stock into which the shares previously evidenced by such Old Certificate shall have been converted and reclassified in accordance with this Article IV, and the Conversion shall become effective in accordance with the terms hereof, whether or not any or all of the Old Certificates shall have been surrendered or new certificates evidencing the number of shares of Common Stock into which such shares have been converted and reclassified have been issued in accordance with Article IV hereof.

Subsequent Reissuance of Certificates.

Following the occurrence of the Conversion, each holder of shares of Common Stock shall receive a letter of transmittal from the Corporation’s transfer agent and shall either (a) surrender each Old Certificate evidencing any such shares pursuant to the instructions in such letter of transmittal or (b) notify the Corporation that such Old Certificate has been lost, stolen or destroyed and execute an agreement satisfactory to the Corporation to indemnify the Corporation from any loss incurred by it in connection with the reissuance of such lost, stolen or destroyed Old Certificate. The Corporation shall thereupon issue and deliver, or cause to be issued and delivered, to such holder a certificate or certificates, in the name shown on such Old Certificate, for the number of whole shares of Common Stock into which the shares of Common Stock evidenced by the surrendered (or lost, stolen or destroyed) Old Certificate have been converted and reclassified, dated as of the date on which the Conversion became effective. The Corporation shall not be obligated to issue any certificate evidencing shares of Common Stock in connection with the Conversion except in accordance with this Article IV.

Fractional Shares.

Notwithstanding the foregoing, no fraction of a share of Common Stock shall be issued by virtue of the Conversion, but in lieu thereof, each holder of shares of Common Stock who would otherwise be entitled to a fraction of a share of Common Stock by virtue of the Conversion (after aggregating all fractional shares of Common Stock to be received by such holder) shall receive from the Corporation the number of shares of Common Stock the holder would otherwise be entitled to by virtue of the Conversion, rounded up to the next number of whole shares of Common Stock.

Par Value of Common Stock.

The par value of the Common Stock as set forth above shall remain unchanged by the Conversion.

V

The management of the business and the conduct of the affairs of the Corporation shall be vested in its Board of Directors. The number of directors which shall constitute the whole Board of Directors shall be fixed by, or in the manner provided in, the Bylaws of the Corporation.

VI

In furtherance and not in limitation of the powers conferred by statute, the Board of Directors is expressly authorized to make, repeal, alter, amend and rescind the Bylaws of the Corporation.

VII

Election of directors at an annual or special meeting of shareholders need not be by written ballot.

VIII

Special meetings of the shareholders of the Corporation for any purpose or purposes may be called at any time by the Board of Directors or by a committee of the Board of Directors which has been duly designated by the Board of Directors and whose powers and authority, as provided in a resolution of the Board of Directors or in the Bylaws of the Corporation, include the power to call such meetings, but such special meetings may not be called by any other person or persons; provided, however, that if and to the extent that any special meeting of stockholders may be called by any other person or persons specified in any provisions of the Certificate of Incorporation or any amendment thereto or any certificate filed under Section 151(g) of the General Corporation Law of Delaware (or its successor statute as in effect from time to time hereunder), then such special meeting may also be called by the person or persons, in the manner, at the times and for the purposes so specified.

IX

The Corporation reserves the right to amend, alter, change or repeal any provision contained in this Certificate of Incorporation, in the manner now or hereafter prescribed by statute, and all rights conferred on stockholders herein are granted subject to this reservation.

X

The name and mailing address of the incorporator of the Corporation is:

Mr. Richard R. Janssen
c/o Alan J. Barton, Esq.
Paul, Hastings, Janofsky & Walker
1299 Ocean Avenue, Fifth Floor
Santa Monica, California 90401

XI

A director shall not be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director; provided that this sentence shall not eliminate or limit the liability of a director (i) for any breach of his duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of the law, (iii) under Section 174 of the General Corporation Law, or (iv) for any transaction from which the director derives an improper personal benefit. This Article XI shall not eliminate or limit the liability of a director for any act or omission occurring prior to the date when this Article XI becomes effective.

CERTIFICATE OF DESIGNATIONS

of

SERIES C PREFERRED STOCK

of

DELPHI INFORMATION SYSTEMS, INC.

(Pursuant to Section 151 of the
General Corporation Law of the State of Delaware)

Delphi Information Systems, Inc., a corporation organized and existing under the General Corporation Law of the State of Delaware (hereinafter called the "Corporation"), DOES HEREBY CERTIFY:

That, pursuant to authority vested in the Board of Directors of the Corporation by its Certificate of Incorporation, and pursuant to the provisions of Section 151 of the General Corporation Law, the Board of Directors of the Corporation on December 1, 1993 adopted the following resolution providing for the issuance of a series of Preferred Stock:

RESOLVED, that pursuant to the authority expressly vested in the Board of Directors of the Corporation (hereinafter called the "Board of Directors" or the "Board") by the Certificate of Incorporation of the Corporation, a series of Preferred Stock, par value \$.10 per share (the "Preferred Stock"), of the Corporation be, and it hereby is, created, and that the designation and amount thereof and the powers, designations, preferences and relative, participating, optional and other special rights of the shares of such series, and the qualifications, limitations or restrictions thereof are as follows:

1. Designation and Amount.

The shares of such series shall be designated as "Series C Preferred Stock" (the "Series C Preferred Stock") and the number of shares constituting the Series C Preferred Stock shall be 75,000.

2. Dividends.

(a) Subject to the prior preferences and other rights of any capital stock of the Corporation ranking senior to the Series C Preferred Stock, the holders of the Series C Preferred Stock shall be entitled to receive dividends only when, as, and if declared by the Board of Directors and such dividends shall be non-cumulative. No dividends (other than those payable solely in the Common Stock of the Corporation) shall be paid on any Common Stock or Series A or Series D Preferred Stock of the Corporation during any fiscal year of the Corporation unless a dividend (including the amount of any dividends paid pursuant to the above provisions of this Section 2) is paid with respect to all outstanding shares of Series C Preferred Stock in an amount for each such share of Series C Preferred Stock equal to or greater than the dividends paid on each share of Series A and Series D Preferred Stock and Common Stock. The equivalency of dividends on the Series A, Series C and Series D Preferred Stock shall be determined by dividing the dividends paid on one share of each series by the number of shares of Common Stock into which such share could then be converted and comparing the quotients, and the equivalency of dividends on the Series C Preferred Stock and the Common Stock shall be determined by dividing the dividends paid on one share of Series C Preferred Stock by the number of shares of Common Stock into which such share could then be converted and comparing the quotient with the dividends paid on one share of Common Stock.

(b) In the event the Corporation shall declare a distribution (other than any distribution described in Section 3) payable in securities of other persons, evidences of indebtedness issued by the Corporation or other persons, assets (excluding cash dividends) or options or rights to purchase any such securities or evidences of indebtedness, then, in each such case the holders of the Series C Preferred Stock shall be

entitled to a proportionate share of any such distribution as though the holders of the Series C Preferred Stock were the holders of the number of shares of Common Stock of the Corporation into which their respective shares of Series C Preferred Stock are convertible as of the record date fixed for the determination of the holders of Common Stock of the Corporation entitled to receive such distribution.

3. Liquidation Preference.

(a) In the event of any liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, and subject to the prior preferences and other rights of any capital stock of the Corporation ranking senior to the Series C Preferred Stock, the holders of the Series C Preferred Stock shall be entitled to receive, prior and in preference to any distribution of any of the assets or surplus funds of the Corporation to the holders of the Common Stock by reason of their ownership thereof, the amount of \$100.00 per share (as adjusted for any stock dividends, combinations or splits with respect to such shares) plus all declared but unpaid dividends on such share for each share of Series C Preferred Stock then held by them. If upon the occurrence of such event, the assets and funds thus distributed among the holders of the Series A, B, C and D Preferred Stock shall be insufficient to permit the payment to such holders of each such series the full preferential amount to which they are respectively entitled, then the entire assets and funds of the Corporation legally available for distribution shall be distributed ratably among the holders of the Series A, B, C, and D Preferred Stock in proportion to the preferential amount each such holder is otherwise entitled to receive.

(b) After payment to the holders of the Series C Preferred Stock of the amounts set forth in Section 3(a) above, and subject to the prior preferences and other rights of any capital stock of the Corporation ranking senior to the Series C Preferred Stock, the entire remaining assets and funds of the Corporation legally available for distribution, if any, shall be distributed among the holders of the Common Stock and the holders of Series A, C and D Preferred Stock in proportion to the shares of Common Stock then held by them and the shares of Common Stock which they have the right to acquire upon conversion of the shares of Series A, C and D Preferred Stock then held by them.

(c) For purposes of this Section 3, (i) any acquisition of the Corporation by means of merger or other form of corporate reorganization in which outstanding shares of the Corporation are exchanged for securities or other consideration issued, or caused to be issued, by the acquiring corporation or its subsidiary (other than a mere reincorporation transaction) or (ii) a sale of all or substantially all of the assets of the Corporation, shall be treated as a liquidation, dissolution or winding up of the Corporation and shall entitle the holders of Series A, C and D Preferred Stock and Common Stock to receive at the closing in cash, securities or other property (valued as provided in Section 3(d) below) amounts as specified in Sections 3(a) and 3(b) above.

(d) Whenever the distribution provided for in this Section 3 shall be payable in securities or property other than cash, the value of such distribution shall be the fair market value of such securities or other property as determined in good faith by the Board of Directors.

4. Voting Rights.

(a) Each holder of shares of the Series C Preferred Stock shall be entitled to the number of votes equal to the number of shares of Common Stock into which such shares of Series C Preferred Stock could be converted and shall have voting rights and powers equal to the voting rights and powers of the Common Stock (except as otherwise expressly provided herein or as required by law, voting together with the Common Stock as a single class) and shall be entitled to notice of any stockholders' meeting in

accordance with the Bylaws of the Corporation. Fractional votes shall not, however, be permitted and any fractional voting rights resulting from the above formula (after aggregating all shares into which shares of Series C Preferred Stock held by each holder could be converted) shall be rounded to the nearest whole number (with one-half being rounded upward).

5. Conversion.

The holders of the Series C Preferred Stock shall have conversion rights as follows (the “Conversion Rights”):

(a) *RIGHT TO CONVERT.* Each share of Series C Preferred Stock shall be convertible, at the option of the holder thereof, at any time after the date of issuance of such share, at the office of the Corporation or any transfer agent for such stock, into such number of fully paid and nonassessable shares of Common Stock as is determined by dividing \$100.00 by the Conversion Price applicable to such share, determined as hereinafter provided, in effect on the date the certificate is surrendered for conversion. The price at which shares of Common Stock shall be deliverable upon conversion of shares of the Series C Preferred Stock (the “Series C Conversion Price”) shall initially be an amount which is equal to 60% of the average of the closing prices of the Common Stock in the NASDAQ National Market System, as reported by THE WALL STREET JOURNAL, for those trading days which occur within a period of 120 calendar days ending on the date preceding the date of the first issuance of Series C Preferred Stock. Such initial Series C Conversion Price shall be adjusted as hereinafter provided.

(b) *AUTOMATIC CONVERSION.* Each share of Series C Preferred Stock shall automatically be converted into shares of Common Stock at the then-effective Series C Conversion Price, upon the earlier of (i) the date specified by vote or written consent or agreement of holders of at least two-thirds ($\frac{2}{3}$) of the shares of such series then outstanding, or (ii) the date all of the shares of Common Stock into which the Series C Preferred may be converted are registered with the United States Securities and Exchange Commission.

(c) *MECHANICS OF CONVERSION.*

(i) Before any holder of Series C Preferred Stock shall be entitled to convert the same into shares of Common Stock, he shall surrender the certificate or certificates therefor, duly endorsed, at the office of the Corporation or of any transfer agent for such stock, and shall give written notice to the Corporation at such office that he elects to convert the same and shall state therein the name or names in which he wishes the certificate or certificates for shares of Common Stock to be issued. The Corporation shall, as soon as practicable thereafter, issue and deliver at such office to such holder of Series C Preferred Stock, a certificate or certificates for the number of shares of Common Stock to which he shall be entitled as aforesaid. Such conversion shall be deemed to have been made immediately prior to the close of business on the date of surrender of the shares of Series C Preferred Stock to be converted, and the person or persons entitled to receive the shares of Common Stock issuable upon such conversion shall be treated for all purposes as the record holder or holders of such shares of Common Stock on such date.

(d) *ADJUSTMENTS TO SERIES C CONVERSION PRICE FOR CERTAIN DILUTING ISSUES.*

(i) *SPECIAL DEFINITIONS.* For purposes of this Section 5(d), the following definitions apply:

(1) “OPTIONS” shall mean rights, options, or warrants to subscribe for, purchase or otherwise acquire either Common Stock or Convertible Securities (defined below).

(2) "ORIGINAL ISSUE DATE" shall mean the date on which a share of Series C Preferred Stock was first issued.

(3) "CONVERTIBLE SECURITIES" shall mean any evidences of indebtedness, shares (other than Common Stock and Series A, B, C or D Preferred Stock) or other securities convertible into or exchangeable for Common Stock.

(4) "ADDITIONAL SHARES OF COMMON STOCK" shall mean all shares of Common Stock issued (or, pursuant to Section 5(d)(iii), deemed to be issued) by the Corporation after the Original Issue Date, other than shares of Common Stock issued or issuable:

(A) upon conversion of shares of Series A, B, C or D Preferred Stock;

(B) to officers, directors or employees of, or consultants to, the Corporation pursuant to stock option or stock purchase plans or agreements on terms approved by the Board of Directors;

(C) as a dividend or distribution on Series C Preferred Stock;

(D) for which adjustment of the Series C Conversion Price is made pursuant to Section 5(e);

(E) upon exercise of warrants to purchase 250,000 shares of Common Stock issued to The Insurance Company of North America; or

(F) upon exercise of warrants to purchase 75,000 shares of Common Stock issued to Silicon Valley flank.

(ii) *NO ADJUSTMENT OF CONVERSION PRICE.* Any provision herein to the contrary notwithstanding, no adjustment in the Conversion Price for Series C Preferred Stock shall be made in respect of the issuance of Additional Shares of Common Stock unless the consideration per share (determined pursuant to Section 5(d)(v) hereof) for an Additional Share of Common Stock issued or deemed to be issued by the Corporation is less than the Series C Conversion Price in effect on the date of, and immediately prior to, such issue.

(iii) *DEEMED ISSUE OF ADDITIONAL SHARES OF COMMON STOCK.* In the event the Corporation at any time or from time to time after the original Issue Date shall issue any Options or Convertible Securities or shall fix a record date for the determination of holders of any class of securities then entitled to receive any such Options or Convertible Securities, then the maximum number of shares (as set forth in the instrument relating thereto without regard to any provisions contained therein designed to protect against dilution) of Common Stock issuable upon the exercise of such Options or, in the case of Convertible Securities and Options therefor, the conversion or exchange of such Convertible Securities, shall be deemed to be Additional Shares of Common Stock issued as of the time of such issue or, in case such a record date shall have been fixed, as of the close of business on such record date, provided that in any such case in which Additional Shares of Common Stock are deemed to be issued:

(1) no further adjustments in the Series C Conversion Price shall be made upon the subsequent issue of Convertible Securities or shares of Common Stock upon the exercise of such Options or conversion or exchange of such Convertible Securities;

(2) if such Options or Convertible Securities by their terms provide, with the passage of time or otherwise, for any increase or decrease in the consideration payable to the Corporation, or decrease or increase in the number of shares of Common Stock issuable, upon the exercise, conversion or exchange thereof, the Series C Conversion Price computed upon the original issue thereof (or upon the occurrence of a record date with respect thereto), and any subsequent adjustments based thereon, shall, upon any such increase or decrease becoming effective, be recomputed to reflect such increase or decrease insofar as it affects such Options or the rights of conversion or exchange under such Convertible Securities (provided, however, that no such adjustment of the Series C Conversion Price shall affect Common Stock previously issued upon conversion of the Series C Preferred Stock);

(3) upon the expiration of any such Options or any rights of conversion or exchange under such Convertible Securities which shall not have been exercised, the Series C Conversion Price computed upon the original issue thereof (or upon the occurrence of a record date with respect thereto), and any subsequent adjustments based thereon, shall, upon such expiration, be recomputed as if:

(A) in the case of Convertible Securities or Options for Common Stock, the only Additional Shares of Common Stock issued were the shares of Common Stock, if any, actually issued upon the exercise of such Options or the conversion or exchange of such Convertible Securities and the consideration received therefor or was the consideration actually received by the Corporation for the issue of all such Options, whether or not exercised, plus the consideration actually received by the Corporation upon such exercise, or for the issue of all such Convertible Securities which were actually converted or exchanged, plus the additional consideration, if any, actually received by the Corporation upon such conversion or exchange, and

(B) in the case of Options for Convertible Securities, only the Convertible Securities, if any, actually issued upon the exercise thereof were issued at the time of issue of such Options, and the consideration received by the Corporation for the Additional Shares of Common Stock deemed to have been then issued was the consideration actually received by the Corporation for the issue of all such Options, whether or not exercised, plus the consideration deemed to have been received by the Corporation (determined pursuant to Section 5(d)(v)) upon the issue of the Convertible Securities with respect to which such options were actually exercised;

(4) no readjustment pursuant to clause (2) or (3) above shall have the effect of increasing the Series C Conversion Price to an amount which exceeds the lower of (a) the Series C Conversion Price on the original adjustment date (prior to adjustment), or (b) the Series C Conversion Price that would have resulted from any issuance of Additional Shares of Common Stock between the original adjustment date and such readjustment date; and

(5) in the case of any Options which expire by their terms not more than 30 days after the date of issue thereof, no adjustment of the Series C Conversion Price shall be made until the expiration or exercise of all such options. whereupon such adjustment shall be made in the same manner provided in clause (3) above.

(iv) *ADJUSTMENT OF CONVERSION PRICE UPON ISSUANCE OF ADDITIONAL SHARES OF COMMON STOCK.* In the event the Corporation, at any time after the Original Issue Date, shall issue Additional Shares of Common Stock (including Additional Shares of Common Stock deemed to be issued pursuant to Section 5(d)(iii)) without consideration or for a consideration per share less than the Series C Conversion Price in effect on the date of and immediately prior to such issue, then and in such event, the Conversion Price for such Series C Preferred Stock shall be reduced, concurrently with such issue, to a

price (calculated to the nearest cent) at which such Additional Shares were sold or at which Additional Shares are issuable.

(v) *DETERMINATION OF CONSIDERATION.* For purposes of this Section C.4(d), the consideration received by the Corporation for the issue of any Additional Shares of Common Stock shall be computed as follows:

(1) *CASH AND PROEPRTY.* Such consideration shall:

(A) insofar as it consists of cash, be computed at the aggregate amount of cash received by the Corporation excluding amounts paid or payable for accrued interest or accrued dividends;

(B) insofar as it consists of property other than cash, be computed at the fair value thereof at the time of such issue, as determined in good faith by the Board; and

(C) in the event Additional Shares of Common Stock are issued together with other shares or securities or other assets of the Corporation for consideration which covers both, the proportion of such consideration so received, computed as provided in clauses (A) and (B) above, as determined in good faith by the Board.

(2) *OPTIONS AND CONVERTIBLE SECURITIES.* The consideration per share received by the Corporation for additional shares of Common Stock deemed to have been issued pursuant to Section 5(d)(iii), relating to Options and Convertible Securities shall be determined by dividing:

(A) the total amount, if any, received or receivable by the Corporation as consideration for the issue of such Options or Convertible Securities, plus the minimum aggregate amount of additional consideration (as set forth in the instruments relating thereto, without regard to any provision contained therein designed to protect against dilution) payable to the Corporation upon the exercise of such Options or the conversion or exchange of such Convertible Securities, or in the case of Options for Convertible Securities, the exercise of such Options for Convertible Securities and the conversion or exchange of such Convertible Securities by

(B) the maximum number of shares of Common Stock (as set forth in the instruments relating thereto, without regard to any provision contained therein designed to protect against dilution) issuable upon the exercise of such Options or conversion or exchange of such Convertible Securities.

(e) *ADJUSTMENTS TO CONVERSION PRICES FOR STOCK DIVIDENDS AND FOR COMBINATIONS OR SUBDIVISIONS OF COMMON STOCK.* In the event that the Corporation at any time or from time to time after the Original Issue Date shall declare or pay, without consideration, any dividend on the Common Stock payable in Common Stock or in any right to acquire Common Stock for no consideration, or shall effect a subdivision of the outstanding shares of Common Stock into a greater number of shares of Common Stock (by stock split, reclassification or otherwise than by payment of a dividend in Common Stock or in any right to acquire Common Stock), or in the event the outstanding shares of Common Stock shall be combined or consolidated, by reclassification or otherwise, into a lesser number of shares of Common Stock, then the Series C Conversion Price in effect immediately prior to such event shall, concurrently with the effectiveness of such event, be proportionately decreased or increased, as appropriate. In the event that the Corporation shall declare or pay, without consideration, any dividend on the Common Stock payable in any right to acquire Common Stock for no consideration, then the Corporation shall be deemed to have made a dividend payable in Common Stock in an amount of

shares equal to the maximum number of shares issuable upon exercise of such rights to acquire Common Stock.

(f) *ADJUSTMENTS FOR RECLASSIFICATION AND REORGANIZATION.* If the Common Stock issuable upon conversion of the Series C Preferred Stock shall be changed into the same or a different number of shares of any other class or classes of stock, whether by capital reorganization, reclassification or otherwise (other than a subdivision or combination of shares provided for in Section 5(e) above or a merger or other reorganization referred to in Section 3(c) above), the Series C Conversion Price then in effect shall, concurrently with the effectiveness of such reorganization or reclassification, be proportionately adjusted so that the Series C Preferred Stock shall be convertible into, in lieu of the number of shares of Common Stock which the holders would otherwise have been entitled to receive, a number of shares of such other class or classes of stock equivalent to the number of shares of Common Stock that would have been subject to receipt by the holders upon conversion of the Series C Preferred Stock immediately before that change.

(g) *NO IMPAIRMENT.* The Corporation will not, by amendment of its Certificate of Incorporation or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder by the Corporation, but will at all times in good faith assist in the carrying out of all the provisions of this Section 5 and in the taking of all such action as may be necessary or appropriate in order to protect the Conversion Rights of the holders of the Series C Preferred Stock against impairment.

(h) *CERTIFICATES AS TO ADJUSTMENTS.* Upon the occurrence of each adjustment or readjustment of any Conversion Price pursuant to this Section 5, the Corporation at its expense shall promptly compute such adjustment or readjustment in accordance with the terms hereof and prepare and furnish to each holder of Series C Preferred Stock a certificate executed by the Corporation's President or Chief Financial Officer setting forth such adjustment or readjustment and showing in detail the facts upon which such adjustment or readjustment is based. The Corporation shall, upon the written request at any time of the holder of Series C Preferred Stock, furnish or cause to be furnished to such holder a like certificate setting forth (i) such adjustments and readjustments, (ii) the Series C Conversion Price in effect, and (iii) the number of shares of Common Stock and the amount, if any, of other property which at the time would be received upon the conversion of the Series C Preferred Stock.

(i) *NOTICES OF RECORD DATE.* In the event that the Corporation shall propose at any time: (i) to declare any dividend or distribution upon its Common Stock, whether in cash, property, stock or other securities, whether or not a regular cash dividend and whether or not out of earnings or earned surplus (ii) to offer for subscription pro rata to the holders of the class or series of its stock any additional shares of stock of any class or series or other rights; (iii) to effect any reclassification or recapitalization of its Common Stock outstanding involving a change in the Common Stock; or (iv) to merge or consolidate with or into any other corporation, or sell, lease or convey all or substantially all of its assets, or to liquidate, dissolve or wind up; then, in connection with each such event, the Corporation shall send to the holders of Series C Preferred Stock:

(i) at least twenty (20) days' prior written notice of the date on which a record shall be taken for such dividend, distribution or subscription rights (and specifying the date on which the holders of Common Stock shall be entitled thereto) or for determining rights to vote, if any, in respect of the matters referred to in (iii) and (iv) above; and

(ii) in the case of the matters referred to in (iii) and (iv) above, at least twenty (20) days' prior written notice of the date when the same shall take place (and specifying the date on which the holders of Common Stock shall be entitled to exchange their Common Stock for securities or other property deliverable upon the occurrence of such event).

(j) *ISSUE TAXES.* The Corporation shall pay any and all issue and other taxes that may be payable in respect of any issue or delivery of shares of Common Stock on conversion of Series C Preferred Stock pursuant hereto; provided, however, that the Corporation shall not be obligated to pay any transfer taxes resulting from any transfer request by any holder in connection with any such conversion.

(k) *RESERVATION OF STOCK ISSUABLE UPON CONVERSION.* The Corporation shall at all times reserve and keep available out of its authorized but unissued shares of Common Stock, solely for the purpose of effecting the conversion of the shares of the Series C Preferred Stock, such number of its shares of Common Stock as shall from time to time be sufficient to effect the conversion of all outstanding shares of the Series C Preferred Stock; and if at any time the number of authorized but unissued shares of Common Stock shall not be sufficient to effect the conversion of all then outstanding shares of the Series C Preferred Stock, the Corporation will take such corporate action as may, in the opinion of its counsel, be necessary to increase its authorized but unissued shares of Common Stock to such number of shares as shall be sufficient for such purpose, including, without limitation, engaging in best efforts to obtain the requisite stockholder approval of any necessary amendment to this Certificate.

(l) *FRACTIONAL SHARES.* No fractional share shall be issued upon the conversion of any share or shares of Series C Preferred Stock. All shares of Common Stock (including fractions thereof) issuable upon conversion of more than one share of Series C Preferred Stock by a holder thereof shall be aggregated for purposes of determining whether the conversion would result in the issuance of any fractional share. If, after the aforementioned aggregation, the conversion would result in the issuance of a fraction of a share of Common Stock, the Corporation shall, in lieu of issuing any fractional share, pay the holder otherwise entitled to such fraction a sum in cash equal to the fair market value of such fraction on the date of conversion (as determined by reference to the stock price quoted in THE WALL STREET JOURNAL or as reported on NASDAQ for the day immediately prior to such conversion).

(m) *NOTICES.* Any notice required by the provisions of this Section 5 to be given to the holders of shares of Series C Preferred Stock shall be deemed given if deposited in the United States mail, postage prepaid, and addressed to each holder of record at his address appearing on the books of the Corporation.

6. Restrictions and Limitations.

(a) So long as any shares of Series C Preferred Stock remain outstanding, the Corporation shall not, without the vote or written consent by the holders of at least sixty-six and two-thirds ($66\frac{2}{3}$) of the then outstanding shares of the Series C Preferred Stock, voting as a single class:

(i) Redeem, purchase or otherwise acquire for value (or pay into or set aside for a sinking fund for such purpose) any share or shares of Series C Preferred Stock otherwise than by conversion in accordance with Section 5 hereof;

(ii) Redeem, purchase or otherwise acquire (or pay into or set aside for sinking fund for such purpose) any of the Common Stock; provided, however, that this restriction shall not apply to the repurchase of shares of Common Stock from employees, officers, directors, consultants or other persons performing services for the Company or any subsidiary pursuant to agreements under which the Company

has the option to repurchase such shares at cost or at cost plus interest at a rate not to exceed nine percent (9%) per annum upon the occurrence of certain events, such as the termination of employment, provided further, however, that the total amount applied to the repurchase of shares of Common Stock shall not exceed \$100,000 during any twelve (12) month period;

(iii) Authorize or issue, or obligate itself to issue, any other equity security (including any security convertible into or exercisable for any equity security) senior to or on a parity with the Series C Preferred Stock as to voting rights, conversion rights (including antidilution), dividend rights, redemption rights, or liquidation preferences; provided however, that this restriction shall not apply to equity securities issued in connection with the company's acquisition of eighty percent (80%) or more of the shares or assets of another corporation and which have been approved by the Company's Board of Directors.

(iv) Effect any sale, lease, assignment, transfer, or other conveyance of all or substantially all of the assets of the Corporation or any of its subsidiaries, or any consolidation or merger involving the Corporation or any of its subsidiaries, or any reclassification or other change of any stock, or any recapitalization of the Corporation if such action is substantially prejudicial to the holders of Series C Preferred Stock;

(b) The Corporation shall not amend its Certificate of Incorporation or Bylaws without the approval, by vote or written consent, by the holders of $66\frac{2}{3}\%$ of the Series C Preferred Stock if such amendment would change any of the rights, preferences or privileges provided for herein for the benefit of any shares of Series C Preferred Stock. Without limiting the generality of the preceding sentence, the Corporation will not amend its Certificate of Incorporation or Bylaws without the approval of the holders of $66\frac{2}{3}\%$ of the Series C Preferred Stock if such amendment would:

(i) Reduce the dividend rates on the Series C Preferred Stock provided for herein, or if cumulative, make such dividends noncumulative, or defer the date from which dividends will accrue, or cancel accrued and unpaid dividends, or change the relative seniority rights of the holders of the Series C Preferred Stock as to the payment of dividends in relation to the holders of any other capital stock of the Corporation;

(ii) Reduce the amount payable to the holders of the Series C Preferred Stock upon the voluntary or involuntary liquidation, dissolution, or winding up of the Corporation, or change the relative seniority of the liquidation preferences of the holders of the Series C Preferred Stock to the rights upon liquidation of the holders of any other capital stock of the Corporation;

(iii) Make the Series C Preferred Stock redeemable at the option of the Corporation; or

(iv) Cancel or modify the Conversion Rights of the Series C Preferred Stock provided for in Section 5 hereof.

7. No Reissuance of Series C Preferred Stock.

No share or shares of Series C Preferred Stock acquired by the Corporation by reason of redemption, purchase, conversion or otherwise shall be reissued, and all such shares shall be canceled, retired and eliminated from the shares which the Corporation shall be authorized to issue.

IN WITNESS WHEREOF, this Certificate of Designations is executed on behalf of the Corporation by its President and attested by its Secretary as of this 13th day of December, 1993.

David J. Torrence
President
Attest:

Daniel F. Dunne
Secretary

AMENDED CERTIFICATE OF DESIGNATIONS

of

SERIES D PREFERRED STOCK

of

DELPHI INFORMATION SYSTEMS, INC.

(pursuant to Section 151 of the
General Corporation Law of the State of Delaware)

Delphi Information Systems, Inc. a corporation organized and existing under the General Corporation Law of the State of Delaware (hereinafter called the "Corporation"), DOES HEREBY CERTIFY:

That, no shares of the Corporation's Series D Preferred Stock, par value \$.10 per share (the "Series D Preferred Stock"), have been issued; and

That, pursuant to authority vested in the Board of Directors of the Corporation by its Certificate of Incorporation, and pursuant to the provisions of Section 151 of the General Corporation Law, the Board of Directors of the Corporation on May , 1994 adopted the following resolution providing for the Amended Certificate of Designations of Series D Preferred Stock:

RESOLVED, that pursuant to the authority expressly vested in the Board of Directors of the Corporation (hereinafter called the "Board of Directors" or the "Board") by the Certificate of Incorporation of the Corporation, the Corporation's Certificate of Designations of Series D Preferred Stock, par value \$.10 per share (the "Series D Preferred Stock"), of the Corporation be, and it hereby is, amended and restated to read as follows:

1. Designation and Amount.

The shares of such series shall be designated as Series D Preferred Stock (the "Series D Preferred Stock") and the number of shares constituting the Series D Preferred Stock shall be 16,577.

2. Dividends.

(a) Subject to the prior preferences and other rights of any capital stock of the Corporation ranking senior to the Series D Preferred Stock, the holders of the Series D Preferred Stock shall be entitled to receive dividends only when, as, and if declared by the Board of Directors and such dividends shall be noncumulative. No dividends (other than those payable solely in the Common Stock of the Corporation) shall be paid on any Common Stock of the Corporation during any fiscal year of the Corporation unless a dividend (including the amount of any dividends paid pursuant to the above provisions of this Section 2) is paid with respect to all outstanding shares of Series D Preferred Stock in an amount for each such share of Series D Preferred Stock equal to or greater than the aggregate amount of such dividends for all shares of Common Stock into which each such share of Series D Preferred Stock could then be converted.

(b) In the event the Corporation shall declare a distribution (other than any distribution described in Section 3) payable in securities of other persons, evidences of indebtedness issued by the Corporation or other persons, assets (excluding cash dividends) or options or rights to purchase any such securities or evidences of Indebtedness, then, in each such case the holders of the Series D Preferred Stock shall be entitled to a proportionate share of any such distribution as though the holders of the Series D Preferred Stock were the holders of the number of shares of Common Stock of the Corporation into which their respective shares of Series D Preferred Stock are convertible as of the record date fixed for the determination of the holders of Common Stock of the Corporation entitled to receive such distribution.

3. Liquidation Preference.

(a) In the event of any liquidation, dissolution or winding up of the corporation, whether voluntary or involuntary, and subject to the prior preferences and other rights of any senior class of preferred stock of the Corporation which the Board of Directors may designate or authorize from time to time (“Senior Preferred Stock”), if any, (i) the holders of the Series D Preferred Stock shall be entitled to receive, prior and in preference to any distribution of any of the assets or surplus funds of the Corporation to the holders of any junior class of preferred stock which the Board may designate or authorize from time to time that is to be junior in liquidation to any of the Series D Preferred Stock, the Series B Preferred Stock, the Series C Preferred Stock, any Senior Preferred Stock or any Parity Preferred Stock (as defined below) (“Junior Preferred Stock”), if any, or to holders of Common Stock, by reason of their ownership thereof, the amount of \$226.20 per share (as adjusted for any stock dividends, combinations or splits with respect to such shares) plus all declared but unpaid dividends on such share for each share of Series D Preferred Stock then held by them; (ii) the holders of the Series B Preferred Stock shall be entitled to receive, prior and in preference to any distribution of any of the assets or surplus funds of the Corporation to holders of Junior Preferred Stock, if any, or to holders of Common Stock, by reason of their ownership thereof, the amount of \$84.745 per share (as adjusted for any stock dividends, combinations or splits with respect to such shares) plus all declared but unpaid dividends on such share for each share of Series B Preferred Stock then held by them; (iii) the holders of the Series C Preferred Stock shall be entitled to receive, prior and in preference to any distribution of any of the assets or surplus funds of the Corporation to holders of Junior Preferred Stock, if any, or to holders of Common Stock, by reason of their ownership thereof, the amount of \$100.00 per share (as adjusted for any stock dividends, combinations or splits with respect to such shares) plus all declared but unpaid dividends on such share for each share of Series C Preferred Stock then held by them; and (iv) the holders of any other class or series of preferred stock which the Board may designate or authorize from time to time that is to rank on parity in liquidation with the Series D Preferred Stock, the Series B Preferred Stock or the Series C Preferred Stock (“Parity Preferred Stock”), if any, shall be entitled to receive, prior and in preference to any distribution of any of the assets or surplus funds of the Corporation to holders of Junior Preferred Stock, if any, or to holders of Common Stock, by reason of their ownership thereof, the amount per share specified in the certificate of designations of such Parity Preferred Stock (as adjusted for any stock dividends, combinations or splits with respect to such shares) plus all declared but unpaid dividends on such share for each share of Parity Preferred Stock then held by them. If upon the occurrence of such event and after distributions to holders of Senior Preferred Stock, if any, in accordance with the terms set forth in the instrument or instruments designating or authorizing Senior Preferred Stock, if any, the assets and funds thus distributed among the holders of the Series B, C and D Preferred Stock and Parity Preferred Stock, if any, shall be insufficient to permit the payment to such holders of the full aforesaid preferential amounts, then the entire assets and funds of the Corporation legally available for distribution shall be distributed ratably among the holders of the Series B, C and D Preferred Stock and Parity Preferred Stock, if any, in proportion to the preferential amount each such holder is otherwise entitled to receive.

(b) After payment to the holders of Series B, C and D Preferred Stock and Parity Preferred Stock, if any, of the amounts set forth in Section 3(a) above, holders of Junior Preferred Stock, if any, shall receive such amounts as they are entitled to receive as set forth in the instrument or instruments designating such Junior Preferred Stock.

(c) After payment to the holders of Senior Preferred Stock, if any, and Series B, C and D Preferred Stock and Parity Preferred Stock, if any, and the holders of Junior Preferred Stock of the amounts set forth in Section 3(a) and (b) above, the entire remaining assets and funds of the Corporation legally available for distribution, if any, shall be distributed among the holders of the Senior Preferred Stock, if any, (if so provided in the instrument or instruments designating or authorizing such Senior Preferred Stock), the holders of Series C and D Preferred Stock and Parity Preferred Stock, if any, (if so provided in the instrument or instruments designating such Parity Preferred Stock) in proportion to the shares of Common Stock which they have the right to acquire upon conversion of the shares of Series C and D Preferred Stock and Parity Preferred Stock, if any, then held by them, holders of Junior Preferred Stock, if any, (if so provided in the instrument or instruments designating such Junior Preferred Stock) and the holders of Common Stock in proportion to the shares of Common Stock then held by such holders.

(d) For purposes of this Section 3, (i) any acquisition of the Corporation by means of merger or other form of corporate reorganization in which outstanding shares of the corporation are exchanged for securities or other consideration issued, or caused to be issued, by the acquiring corporation or its subsidiary (other than a mere reincorporation transaction) or (ii) a sale of all or substantially all of the assets of the Corporation, shall be treated as a liquidation, dissolution or winding up of the Corporation and shall entitle holders of Senior Preferred Stock, if any, holders of Series B, C and D Preferred Stock and Parity Preferred Stock, if any, holders of Junior Preferred Stock, (if so provided in the instrument or instruments designating such Parity Preferred Stock) and holders of Common Stock to receive at the closing in cash, securities or other property (valued as provided in Section 3(e) below) amounts as specified in Sections 3(a) and 3(b) above.

(e) Whenever the distribution provided for in this Section 3 shall be payable in securities or property other than cash, the value of such distribution shall be the fair market value of such securities or other property as determined in good faith by the Board of Directors.

4. Voting Rights.

Each holder of shares of the Series D Preferred Stock shall be entitled to the number of votes equal to the number of shares of Common Stock into which such shares of Series D Preferred Stock could be converted and shall have voting rights and powers equal to the voting rights and powers of the Common Stock (except as otherwise expressly provided herein or as required by law, voting together with the Common Stock as a single class) and shall be entitled to notice of any stockholders' meeting in accordance with the Bylaws of the Corporation. Fractional votes shall not, however, be permitted and any fractional voting rights resulting from the above formula (after aggregating all shares into which shares of Series D Preferred Stock held by each holder could be converted) shall be rounded to the nearest whole number (with one-half being rounded upward).

5. Conversion.

The holders of the Series D Preferred Stock shall have conversion rights as follows (the "Conversion Rights");

a) *RIGHT TO CONVERT.* Each share of Series D Preferred Stock shall be convertible, at the option of the holder thereof, at any time after the date of issuance of such share, at the office of the Corporation or any transfer agent for such stock, into such number of fully paid and nonassessable shares of Common Stock as is determined by dividing \$226.20 by the Conversion Price applicable to such share, determined as hereinafter provided, in effect on the date the certificate is surrendered for conversion. The price at which shares of Common Stock shall be deliverable upon conversion of shares of the Series D Preferred Stock (the "Series D Conversion Price") shall initially be \$2.00 per share of Common Stock. Such initial Series D Conversion Price shall be adjusted as hereinafter provided.

(b) *AUTOMATIC CONVERSION.* Each share of Series D Preferred stock shall automatically be converted into shares of Common Stock at the then effective Series D Conversion Price, upon the earlier of (i) the date specified by vote or written consent or agreement of holders of at least two-thirds ($\frac{2}{3}$) of the shares of such series then outstanding, or (ii) the date all of the shares of Common Stock into which the Series D Preferred may be converted are registered with the United States Securities and Exchange Commission under the Securities Act of 1933, as amended.

(c) *MECHANICS OF CONVERSION.* Before any holder of Series D Preferred Stock shall be entitled to convert the same into shares of Common Stock, he shall surrender the certificate or certificates therefor, duly endorsed, at the office of the Corporation or of any transfer agent for such stock, and shall give written notice to the Corporation at such office that he elects to convert the same and shall state therein the name or names in which he wishes the certificate or certificates for shares of Common Stock to be issued. The Corporation shall, as soon as practicable thereafter, issue and deliver at such office to such holder of Series D Preferred Stock, a certificate or certificates for the number of shares of Common Stock to which he shall be entitled as aforesaid. Such conversion shall be deemed to have been made immediately prior to the close of business on the date of surrender of the shares of Series D Preferred Stock to be converted, and the person or persons entitled to receive the shares of Common Stock issuable upon such conversion shall be treated for all purposes as the record holder or holders of such shares of Common Stock on such date.

(d) *ADJUSTMENTS TO SERIES D CONVERSION PRICE FOR CERTAIN DILUTING ISSUES.*

(i) *SPECIAL DEFINITIONS.* For purposes of this section 5(d), the following definitions apply:

(1) "OPTIONS" shall mean rights, options or warrants to subscribe for, purchase or otherwise acquire either Common Stock or Convertible securities (defined below).

(2) "ORIGINAL ISSUE DATE" shall mean the date on which a share of Series D Preferred Stock was first issued.

(3) "CONVERTIBLE SECURITIES" shall mean any evidences of indebtedness, shares (other than Common Stock and Series D Preferred Stock) or other securities convertible into or exchangeable for Common Stock.

(4) "ADDITIONAL SHARES OF COMMON STOCK" shall mean all shares of Common Stock issued (or, pursuant to Section 5(d)(iii), deemed to be issued) by the Corporation after the Original Issue Date, other than shares of Common Stock issued or issuable;

(A) upon conversion of shares of Series A, B, C or D Preferred Stock or shares of Senior Preferred Stock, Parity Preferred Stock or Junior Preferred Stock, if any;

(B) to officers, directors or employees of, or consultants to, the Corporation pursuant to stock option or stock purchase plans or agreements on terms approved by the Board of Directors;

(C) as a dividend or distribution on Series D Preferred Stock;

(D) for which adjustment of the Series D Conversion Price is made pursuant to Section 5(e);

(E) upon exercise of warrants to purchase 250,000 shares of Common Stock issued to The Insurance Company of North America; or

(F) upon exercise of warrants to purchase 75,000 shares of Common Stock issued to Silicon Valley Bank.

(ii) *NO ADJUSTMENT OF CONVERSION PRICE.* Any provision herein to the contrary notwithstanding, no adjustment in the Conversion Price for Series D Preferred Stock shall be made in respect of the issuance of Additional Shares of Common Stock unless the consideration per share (determined pursuant to section 5(d)(v) hereof) for an Additional Share of Common Stock issued or deemed to be issued by the Corporation is less than the Conversion Price for such series of Preferred Stock in effect on the date of, and immediately prior to, such issue.

(iii) *DEEMED ISSUE OF ADDITIONAL SHARES OF COMMON STOCK.* In the event the Corporation at any time or from time to time after the Original Issue Date shall issue any Options or Convertible Securities or shall fix a record date for the determination of holders of any class of securities then entitled to receive any such Options or Convertible Securities, then the maximum number of shares (as set forth in the instrument relating thereto without regard to any provisions contained therein designed to protect against dilution) of Common Stock issuable upon the exercise of such Options or, in the case of Convertible Securities and options therefor, the conversion or exchange of such Convertible Securities, shall be deemed to be Additional Shares of Common Stock issued as of the time of such issue or, in case such a record date shall have been fixed, as of the close of business on such record date, provided that in any such case in which Additional Shares of Common Stock are deemed to be issued:

(1) no further adjustments in the Series D Conversion Price shall be made upon the subsequent issue of Convertible Securities or shares of Common Stock upon the exercise of such Options or conversion or exchange of such Convertible Securities;

(2) if such Options or Convertible Securities by their terms provide, with the passage of time or otherwise, for any increase or decrease in the consideration payable to the Corporation, or decrease or increase in the number or shares of Common Stock issuable, upon the exercise, conversion or exchange thereof, the Series D Conversion Price computed upon the original issue thereof (or upon the occurrence of a record date with respect thereto), and any subsequent adjustments based thereon, shall, upon any such increase or decrease becoming effective, be recomputed to reflect such increase or decrease insofar as it affects such Options or the rights of conversion or exchange under such Convertible Securities (provided, however, that no such adjustment of the Series D Conversion Price shall affect Common Stock previously issued upon conversion of the Series D Preferred Stock);

(3) upon the expiration of any such Options or any rights of conversion or exchange under such Convertible Securities which shall not have been exercised, the Series D conversion Price computed

upon the original issue thereof (or upon the occurrence of a record date with respect thereto), and any subsequent adjustments based thereon, shall, upon such expiration, be recomputed as if:

(A) in the case of Convertible Securities or Options for Common Stock, the only Additional Shares of Common Stock issued were the shares of Common Stock, if any, actually issued upon the exercise of such options or the conversion or exchange of such Convertible Securities and the consideration received therefor was the consideration actually received by the Corporation for the issue of all such options, whether or not exercised, plus the consideration actually received by the Corporation upon such exercise, or for the issue for all such Convertible Securities which were actually converted or exchanged plus the additional consideration, if any, actually received by the Corporation upon such conversion or exchange; and

(B) in the case of Options for Convertible Securities, only the Convertible Securities, if any, actually issued upon the exercise thereof were issued at the time of issue of such Options, and the consideration received by the Corporation for the Additional Shares of Common Stock deemed to have been then issued was the consideration actually received by the Corporation for the issue of such options, whether or not exercised, plus the consideration deemed to have been received by the Corporation (determined pursuant to Section 5(d)(v) upon the issue of the Convertible Securities with respect to which such options were actually exercised;

(4) no readjustment pursuant to clause (2) or (3) above shall have the affect of increasing the Series D Conversion Price to an amount which exceeds the lower of (a) the Series D Conversion Price on the original adjustment date (prior to adjustment), or (b) the Series D Conversion Price that would have resulted from any issuance of Additional Shares of Common Stock between the original adjustment date and such readjustment date.

(5) in the case of any Options which expire by their terms not more than 30 days after the date of issue thereof, no adjustment of the Series D Conversion Price shall be made until the expiration or exercise of all such Options, whereupon such adjustment shall be made in the same manner provided in clause (3) above.

(iv) *ADJUSTMENT OF CONVERSION PRICE UPON ISSUANCE OF ADDITIONAL SHARES OF COMMON STOCK.* In the event this Corporation, at any time after the Original Issue Date, shall issue Additional Shares of Common Stock (including Additional Shares of Common Stock deemed to be issued pursuant to Section 5(d)(iii)) without consideration or for a consideration per share less than the Conversion Price with respect to the Series D Preferred Stock in effect on the date of and immediately prior to such issue, then and in such event, the Conversion Price for such Series D Preferred Stock shall be reduced, concurrently with such issuer to a price (calculated to the nearest cent) at which such Additional Shares were sold or at which Additional Shares are issuable.

(v) *DETERMINATION OF CONSIDERATION.* For purposes of this Section C.4(d), the consideration received by the Corporation for the issue of any Additional Shares of Common Stock shall be computed as follows:

(1) *CASH AND PROPERTY.* Such consideration shall:

(A) insofar as it consists of cash, be computed at the aggregate amount of cash received by the Corporation excluding amounts paid or payable for accrued interest or accrued dividends;

(B) insofar as it consists of property other than cash, be computed at the fair value thereof at the time of such issue, as determined in good faith by the Board; and

(C) in the event Additional Shares of Common Stock are issued together with other shares or securities or other assets of the Corporation for consideration which covers both, the proportion of such consideration so received, computed as provided in clauses (A) and (B) above, as determined in good faith by the Board.

(2) *OPTIONS AND CONVERTIBLE SECURITIES.* The consideration per share received by the Corporation for additional shares of Common Stock deemed to have been issued pursuant to Section 5(d)(iii), relating to Options and Convertible Securities shall be determined by dividing:

(A) the total amount, if any, received or receivable by the Corporation as consideration for the issue of such Options or Convertible Securities, plus the minimum aggregate amount of additional consideration (as set forth in the instruments relating thereto, without regard to any provision contained therein designed to protect against dilution) payable to the Corporation upon the exercise of such Options or the conversion or exchange of such Convertible Securities, or in the case of Options for Convertible Securities, the exercise of such Options for Convertible Securities and the conversion or exchange of such Convertible Securities, by

(B) the maximum number of shares of Common Stock (as set forth in the instruments relating thereto, without regard to any provision contained therein designed to protect against the dilution) issuable upon the exercise of such Options or conversion or exchange of such Convertible Securities.

(e) *ADJUSTMENTS TO CONVERSION PRICES FOR STOCK DIVIDENDS AND FOR COMBINATION OR SUBDIVISION OF COMMON STOCK.* In the event that this Corporation at any time or from time to time after the Original Issue Date shall declare or pay, without consideration, any dividend on the Common Stock payable in Common Stock or in any right to acquire Common Stock for no consideration, or shall effect a subdivision of the outstanding shares of Common Stock into a greater number of shares of Common Stock (by stock split, reclassification or otherwise than by payment of a dividend in Common Stock or in any right to acquire Common Stock), or in the event the outstanding shares of Common Stock shall be combined or consolidated, by reclassification or otherwise, into a lesser number of shares of Common Stock, then the Conversion Price for the Series D Preferred Stock in effect immediately prior to such event shall, concurrently with the effectiveness of such event, be proportionately decreased or increased, as appropriate. In the event that this corporation shall declare or pay, without consideration, any dividend on the Common Stock payable in any right to acquire Common Stock for no consideration, then the Corporation shall be deemed to have made a dividend payable in Common Stock in an amount of shares equal to the maximum number of shares issuable upon exercise of such rights to acquire Common Stock.

(f) *ADJUSTMENTS FOR RECLASSIFICATION AND REORGANIZATION.* If the Common Stock issuable upon conversion of the Series D Preferred Stock shall be changed into the same or a different number of shares of any other class or classes of stock, whether by capital reorganization, reclassification or otherwise (other than a subdivision or combination of shares provided for in Section 5(e) above or a merger or other reorganization referred to in Section B(c) above), the Series D Conversion Price then in effect shall, concurrently with the effectiveness of such reorganization or reclassification, be proportionately adjusted so that the Series D Preferred Stock shall be convertible into, in lieu of the number of shares of Common

Stock which the holders would otherwise have been entitled to receive, and number of shares of such other class or classes of stock equivalent to the number of shares of Common Stock, that would have been subject to receipt by the holders upon conversion of the Series D Preferred Stock immediately before that change.

(g) *NO IMPAIRMENT.* The Corporation will not, by amendment of its Certificate of Incorporation or through any reorganization, transfer of assets, consolidation, merger dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder by the Corporation, but will at all times in good faith assist in the carrying out of all the provisions of this Section 5 and in the taking of all such action as may be necessary or appropriate in order to protect the Conversion Rights of the holders of the Series D Preferred Stock against impairment.

(h) *CERTIFICATES AS TO ADJUSTMENTS.* Upon the occurrence of each adjustment or readjustment of any Conversion Price pursuant to this Section 5, the Corporation at its expense shall promptly compute such adjustment or readjustment in accordance with the terms hereof and prepare and furnish to each holder of Series D Preferred Stock a certificate executed by the Corporation's President or Chief Financial Officer setting forth such adjustment or readjustment and showing in detail the facts upon which such adjustment or readjustment is based. The Corporation shall, upon the written request at any time of the holder of Series D Preferred Stock, furnish or cause to be furnished to such holder a like certificate setting forth (i) such adjustments and readjustments, (ii) the Conversion Price for the Series D Preferred Stock at the time in affect, and (iii) the number of shares of Common Stock and the amount, if any, of other property which at the time would be received upon the conversion of the Series D Preferred Stock.

(i) *NOTICES OF RECORD, ETC.* In the event that the Corporation shall propose at any time: (i) to declare any dividend or distribution upon its Common Stock, whether in cash, property, stock or other securities, whether or not a regular cash dividend and whether or not out of earnings or earned surplus (ii) to offer for subscription pro rata to the holders of the class or series of its stock any additional shares of stock or any class or series or other rights (iii) to effect any reclassification or recapitalization of its Common Stock outstanding involving a change in the Common Stock; or (iv) to merge or consolidate with or into any other corporation, or sell, lease or convey all or substantially all of its assets, or to liquidate, dissolve or wind up; then, in connection with each such event, the Corporation shall send to the holders of Series D Preferred Stock;

(1) at least twenty (20) days" prior written notice of the date on which a record shall be taken for such dividend, distribution or subscription rights (and specifying the date on which the holders of Common Stock shall be entitled thereto) or for determining rights to vote, if any, in respect of the matters referred to in (iii) and (iv) above; and

(2) in the case of the matters referred to in (iii) and (iv) above, at least twenty (20) days" prior written notice of the date when the same shall take place (and specifying the date on which the holders of Common Stock shall be entitled to exchange their Common Stock for securities or other property deliverable upon the occurrence of such event).

(j) *ISSUE TAXES.* The Corporation shall pay any and all issue and other taxes that may be payable in respect of any issue or delivery of shares of Common Stock on conversion of Series A Preferred Stock pursuant hereto; provided, however, that the Corporation shall not be obligated to pay any transfer taxes resulting from any transfer request by any holder in connection with any such conversion.

(k) *RESERVATION OF STOCK ISSUABLE UPON CONVERSION.* The Corporation shall at all times reserve and keep available out of its authorized but unissued shares of Common Stock, solely for the

purpose of affecting the conversion of the shares of the Series D Preferred Stock, such number of its shares of Common Stock as shall from time to time be sufficient to effect the conversion of all outstanding shares of the Series D Preferred Stock, and if at any time the number of authorized but unissued shares of Common Stock shall not be sufficient to effect the conversion of all then outstanding shares of the Series D Preferred Stock, the Corporation will take such corporate action as may, in the opinion of its counsel, be necessary to increase its authorized but unissued shares of Common Stock to such number of shares as shall be sufficient for such purpose, including, without limitation, engaging in best efforts to obtain the requisite stockholder approval of any necessary amendment to this certificate.

(l) *FRACTIONAL SHARES.* No fractional share shall be issued upon the conversion of any share or shares of Series D Preferred Stock. All shares of Common Stock (including fractions thereof) issuable upon conversion of more than one share of Series D Preferred Stock by a holder thereof shall be aggregated for purposes of determining whether the conversion would result in the issuance of any fractional share. If, after the aforementioned aggregation, the conversion would result in the issuance of a fraction of a share of Common Stock, the Corporation shall, in lieu of issuing any fractional share, pay the holder otherwise entitled to such fraction a sum in cash equal to the fair market value of such fraction on the date of conversion (as determined by reference to the stock price quoted in THE WALL STREET JOURNAL or as reported on NASDAQ for the day immediately prior to such conversion).

(m) *NOTICES.* Any notice required by the provisions of this Section 5 to be given to the holders of shares of Series D Preferred Stock shall be deemed given if deposited, in the United States mail, postage prepaid, and addressed to each holder of record at his address appearing on the books of the Corporation.

6. Restrictions and Limitations.

(a) So long as any shares of Series D Preferred Stock remain outstanding, the Corporation shall not, without the vote or written consent by the holders of at least sixty-six and two-thirds ($66\frac{2}{3}$) of the then outstanding shares of the Series D Preferred Stock, voting as a single class:

(i) Redeem, purchase or otherwise acquire for value (or pay into or set aside for a sinking fund for such purpose) any share or shares of Series D Preferred Stock otherwise than by conversion in accordance with Section 5 hereof;

(ii) Redeem, purchase or otherwise acquire (or pay into or set aside for sinking fund for such purpose) any of the Common Stock; provided, however, that this restriction shall not apply to the repurchase of shares of Common Stock from employees, officers, directors, consultants or other persons performing services for the Corporation or any subsidiary pursuant to agreements under which the Corporation has the option to repurchase such shares at cost or at cost plus interest at a rate not to exceed nine percent (9%) per annum upon the occurrence of certain events, such as the termination of employment, provided further, however, that the total amount applied to the repurchase of shares of Common Stock shall not exceed \$100,000 during any twelve (12) month period;

(iii) Authorize or issue, or obligate itself to issue, any other equity security (including any security convertible into or exercisable for any equity security) senior to or on a parity with the Series D Preferred Stock (including any Senior Preferred Stock or Parity Preferred Stock) as to voting rights, conversion rights (including antidilution), dividend rights, redemption rights, or liquidation preferences; provided however, that this restriction shall not apply to equity securities issued in connection with the Corporation's acquisition of eighty percent (80%) or more of the shares or assets of another corporation and which have been approved by the Corporation's Board of Directors; or

(iv) Effect any sale, lease, assignment, transfer, or other conveyance of all or substantially all of the assets of the Corporation or any of its subsidiaries, or any consolidation or merger involving the Corporation or any of its subsidiaries, or any reclassification or other change of any stock, or any recapitalization of the Corporation if such action is substantially prejudicial to the holders of Series D Preferred Stock.

(b) The Corporation shall not amend its Certificate of Incorporation or Bylaws without the approval, by vote or written consent, by the holders of $66\frac{2}{3}\%$ of the Series D Preferred Stock if such amendment would change any of the rights, preferences or privileges provided for herein for the benefit of any shares of Series D Preferred Stock. Without limiting the generality of the preceding sentence, the Corporation will not amend its Certificate of Incorporation or Bylaws without the approval of the holders of $66\frac{2}{3}\%$ of the Series D Preferred Stock if such amendment would;

(i) Reduce the dividend rates on the Series D Preferred Stock provided for herein, or if cumulative, make such dividends noncumulative, or defer the date from which dividends will accrue, or cancel accrued and unpaid dividends, or change the relative seniority rights of the holders of the Series D Preferred Stock as to the payment of dividends in relation to the holders of any other capital stock of the Corporation;

(ii) Reduce the amount payable to the holders of the Series D Preferred Stock upon the voluntary or involuntary liquidation, dissolution, or winding up of the Corporation, or change the relative seniority of the liquidation preferences of the holders of the Series D Preferred Stock to the rights upon liquidation of the holders of any other capital stock of the Corporation;

(iii) Make the Series A Preferred Stock redeemable at the option of the Corporation; or

(iv) Cancel or modify the Conversion Rights of the Series D Preferred Stock provided for in Section 3 hereof.

7. No Reissuance of Series D Preferred Stock.

No share or shares of Series D Preferred Stock acquired by the Corporation by reason of redemption, purchase, conversion or otherwise shall be reissued, and all such shares will be canceled, retired and eliminated from the shares which the Corporation shall be authorized to issue.

IN WITNESS WHEREOF, this Amended Certificate of Designation is executed on behalf of the Corporation by its President and attested by its Secretary as of this 20th day of May, 1994.

David J. Torrence
President

Attest:

Daniel F. Dunne
Secretary

CERTIFICATE OF DESIGNATIONS

of

SERIES E PREFERRED STOCK

of

DELPHI INFORMATION SYSTEMS, INC

(Pursuant to Section 151 of the
General Corporation Law of the State of Delaware)

Delphi Information Systems, Inc., a corporation organized and existing under the General Corporation Law of the State of Delaware (hereinafter called the "Corporation"), DOES HEREBY CERTIFY:

That, pursuant to authority vested in the Board of Directors of the Corporation by its Certificate of Incorporation, and pursuant to the provisions of Section 151 of the General Corporation Law, the Board of Directors of the Corporation on December 29, 1993 adopted the following resolution providing for the issuance of a series of preferred Stock:

RESOLVED, that pursuant to the authority expressly vested in the Board of Directors of the Corporation (hereinafter called the "Board of Directors" or the "Board") by the Certificate of Incorporation of the Corporation, a series of Preferred Stock, par value \$.10 per share (the "Preferred Stock"), of the Corporation be, and it hereby is, created, and that the designation and amount thereof and the powers, designations, preferences and relative, participating, optional and other special rights of the shares of such series, and the qualifications, limitations or restrictions thereof are as follows:

1. Designation and Amount.

The shares of such series shall be designated as "Series E Preferred Stock" (the "Series E Preferred Stock") and the number of shares constituting the Series E Preferred Stock shall be 67,851. The Series E Preferred Stock shall be junior to the Corporation's Series A Preferred Stock (the "Series A Preferred Stock"), the Corporation's Series B Preferred Stock (the "Series B Preferred Stock"), the Corporation's Series C Preferred Stock (the "Series C Preferred Stock") and the Corporation's Series D Preferred Stock (the "Series D Preferred Stock") in all respects.

2. Dividends.

(a) In the event of the exercise of the Conversion Rights (as defined in Section 5 below), or any liquidation, dissolution or winding up of the Corporation (within the meaning of Section 3 below), or redemption of the Series E Preferred Stock pursuant to Section 6 (each a "Dividend Event"), subject to the prior preferences and other rights of any capital stock of the Corporation ranking senior to the Series E Preferred Stock with respect to dividends, the holders of the Series E Preferred Stock shall be entitled to receive an annual dividend, in an amount per share (as adjusted proportionately for stock dividends, stock splits, combinations and similar corporate events) equal to \$5.085 (the "Annual Dividend Amount"), on a cumulative basis for the period from the original issuance of the Series E Preferred Stock to the Dividend

Event (pro rated for any partial year), payable in shares of Common Stock, par value \$.10 (the "Common Stock") of the Corporation.

Such dividends on the Series E Preferred Stock shall be cumulative and shall rank prior to the Common Stock and any other shares of the capital stock of the Corporation that are junior to the Series E Preferred Stock so that if such dividends in respect of any previous or current annual dividend period shall not have been paid or declared and a sum sufficient for the payment thereof set apart, the deficiency shall first be fully paid before any dividend or other distribution shall be paid or declared and set apart for the Common Stock. The number of shares of Common Stock payable shall be determined by dividing the aggregate accrued but unpaid Annual Dividend Amounts by the average of the daily closing price per share of Common Stock, as reported on the NASDAQ National Market system, for the 30 trading days immediately prior to the Dividend Event and then multiplying that quotient by the number of shares of Series E Preferred Stock outstanding as of the date of the Dividend Event. If the total number of shares of Common Stock payable as a dividend to any holder of Series E Preferred Stock shall include a fraction, such number shall be rounded downward to the nearest whole share and the fraction shall be settled in cash. In the event that a dividend is paid at any time on the Common Stock, a like dividend shall be accrued on the shares of Common Stock that, upon the occurrence of a Dividend Event, shall be or become payable as a dividend pursuant to this Section 2(a), which amount shall be paid when such Common Stock is or becomes payable as a dividend.

(b) No dividends (other than those payable solely in the Common Stock of the Corporation) shall be paid on any Common Stock, Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock or any other capital stock of the Corporation during any fiscal year of the Corporation unless a dividend (including the amount of any dividends paid currently pursuant to the provisions of Section 2(a)) is paid with respect to all outstanding shares of Series E Preferred Stock in an amount for each such share of Series E Preferred Stock equal to or greater than the aggregate amount of such dividends for all shares of Common Stock into which each such share of Series E Preferred Stock could then be converted (or, if such payment date is prior to June 30, 1996 for all shares of Common Stock into which each share of Series E Preferred Stock would be convertible on such later date).

(c) In the event the Corporation shall declare a distribution (other than any distribution described in Section 3) payable in securities of other persons, evidences of indebtedness issued by the Corporation or other persons, assets (excluding cash dividends) or options or rights to purchase any such securities or evidences of indebtedness, then, in each such case the holders of the Series E Preferred Stock shall be entitled to a proportionate share of any such distribution as though the holders of the Series E Preferred Stock were the holders of the number of shares of Common Stock of the Corporation into which their respective shares of Series E Preferred Stock are convertible (inclusive of Common Stock payable as a dividend) as of the record date fixed for the determination of the holders of Common Stock of the Corporation entitled to receive such distribution (or, if such record date is prior to June 30, 1996, for all shares of Common Stock into which each share of Series E Preferred Stock would be convertible on such later date).

3. Liquidation Preference.

(a) In the event of any liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, and subject to the prior preferences and other rights of any capital stock of the Corporation ranking senior to the Series E Preferred Stock, the holders of the Series E Preferred Stock shall be entitled to receive, prior and in preference to any distribution of any of the assets or funds of the Corporation to the holders of the Common Stock or any other Series or class of stock which is junior to the

Series E Preferred Stock by reason of their ownership thereof, the amount of \$84.745 per share (as adjusted for any stock dividends, combinations or splits with respect to such shares), plus (i) the Annual Dividend Amounts then accrued (payable in shares of Common Stock pursuant to Section 2(a) hereof), and (ii) any other declared but unpaid dividends on such shares for each share of Series E Preferred Stock then held by them. If upon the occurrence of such event, the assets and funds thus distributed among the holders of the Series A Preferred Stock, the Series B Preferred Stock, the Series C Preferred Stock, the Series D Preferred Stock and the Series E Preferred Stock shall be insufficient to permit the payment to such holders of Series A Preferred Stock, the Series B Preferred Stock, Series C Preferred Stock and Series D Preferred Stock of the preferential amount due to them and to such holders of Series E Preferred Stock of the full aforesaid preferential amount due to them, then the entire assets and funds of the Corporation legally available for distribution shall be distributed ratably among the holders of the Series A Preferred Stock, the Series B Preferred Stock, the Series C Preferred Stock and the Series D Preferred Stock in proportion to the preferential amount each such holder is otherwise entitled to receive; after payment to the holders of the Series A Preferred Stock, the Series B Preferred Stock, the Series C Preferred Stock and the Series D Preferred Stock of the preferential amount due to them, then the entire remaining assets and funds of the Corporation legally available for distribution shall be distributed ratably among the holders of the Series E Preferred Stock.

(b) After payment to the holders of the Series E Preferred Stock of the amounts set forth in Section 3(a) above, and subject to the prior preferences and other rights of any capital stock of the Corporation ranking senior to the Series E Preferred Stock, the entire remaining assets and funds of the Corporation legally available for distribution, if any, shall be distributed among the holders of (i) the Common Stock, (ii) any other Series or class of stock which is junior to the Series E Preferred Stock, and (iii) the Series A Preferred Stock, the Series C Preferred Stock and the Series D Preferred Stock in accordance with the respective terms and provisions thereof.

(c) For purposes of this Section 3, (i) any acquisition of the Corporation by means of merger or consolidation with or into another corporation or other form of corporate reorganization in which outstanding shares of the Corporation are exchanged for cash, securities or other consideration issued, or caused to be issued, by the acquiring corporation or its parent or subsidiary and (ii) any sale of all or substantially all of the assets of the Corporation, shall, at the option of the holders of the Series E Preferred Stock, be treated as a liquidation, dissolution or winding up of the Corporation and each holder of Series E Preferred Stock shall have the right to exercise the Conversion Rights prior to any such event as provided in Section 5(a);

(d) Whenever the distribution provided for in this Section 3 shall be payable in securities or property other than cash, the value of such distribution shall be the fair market value of such securities or other property as determined in good faith by the Board of Directors.

4. Voting Rights: Restrictions and Limitations.

(a) The holders of Series E Preferred Stock shall have no voting rights, except for those matters on which a vote of the holders of Series E Preferred Stock is required by law and except as set out below.

(b) Without limiting the rights of the holders of Series E Preferred Stock to vote as a class, as required by law, the Corporation shall not, without first obtaining the approval of holders of greater than sixty-six and two-thirds percent ($66\frac{2}{3}\%$) of such shares of Series E Preferred Stock outstanding:

- (i) amend or repeal any provision of, add any provision to, or take any corporation action otherwise altering the Corporation's Certificate of Incorporation or Bylaws which would alter or change the preferences, rights, privileges or powers of, or the restrictions provided for the benefit of, the holders of Series E Preferred Stock so as to affect such holders adversely;
- (ii) reclassify any Common Stock or any other Series or class of stock which is junior to the Series E Preferred Stock into shares having any preference or priority as to dividends or assets superior to or on a parity with the Series E Preferred Stock;
- (iii) apply any of its assets to the redemption, retirement, purchase or other acquisition directly or indirectly, through subsidiaries or otherwise, of any shares of Common Stock or any other Series or class of stock which is junior to the Series E Preferred Stock, except upon conversion of any convertible security in accordance with its terms or repurchases from employees of the Corporation upon termination of employment or pursuant to the Corporation's rights of first refusal; or
- (iv) increase the number of shares of Series E Preferred Stock beyond those authorized by this Certificate of Designations or issue any shares of Series E Preferred Stock to any person other than pursuant to the Agreement for Purchase and Sale of Stock dated as of December 30, 1993 among the Corporation, The Continental Corporation, Pacific Insurance Company and Instrument, Incorporated (a copy of which is on file at the offices of the Corporation); or
- (v) issue any shares of any capital stock having any preference or priority as to dividends or assets superior to or on a parity with the Series E Preferred Stock (other than the issuance of up to 16,577 shares of Series D Preferred Stock in exchange, on a share for share basis, for the outstanding Series A Preferred Stock, which shares of Series A Preferred Stock will then be canceled, retired and eliminated from the shares which the Corporation shall be authorized to issue and other than up to 75,000 shares of Series C Preferred Stock) or amend the existing terms of any outstanding preferred stock so as to add any terms having such a preference or priority.

5. Conversion.

The holders of the Series E Preferred Stock shall have conversion rights as follows (the "Conversion Rights"):

(a) *RIGHT TO CONVERT.* Each share of Series E Preferred Stock shall be convertible, at the option of the holder thereof, at any time after June 30, 1996, or at any time upon any liquidation, dissolution or winding up of the Corporation within the meaning of Section 3 above, or upon the occurrence of any of the events specified in Section 3(c) above, at the office of the Corporation or any transfer agent for such stock, into such number of fully paid and nonassessable shares of Common Stock as is determined by dividing (L) \$84.745, plus (1) an amount equal to the Annual Dividend Amounts then accrued and unpaid thereon which are payable in shares of Common Stock pursuant to Section 2(a) hereof, and (2) any other declared but unpaid dividends on such shares by (M) the Series E Conversion Price applicable to such share, determined as hereinafter provided, in effect on the date the certificate is surrendered for conversion pursuant to this Section 5(a) or automatically converted pursuant to Section 5(b), as the case may be. The price at which shares of Common Stock shall be deliverable upon conversion of shares of the Series E Preferred Stock (the "Series E Conversion Price") shall be based upon the average of the daily closing price per share, as reported on the NASDAQ National Market System, for the thirty (30) trading days immediately prior to the date the certificate is surrendered for conversion; PROVIDED, HOWEVER, the maximum number of shares of Common Stock into which each share of Series E Preferred Stock may be

converted at any time (the "Maximum Conversion Rate") is (P) \$84.745 plus (1) an amount equal to the Annual Dividend Amounts then accrued and unpaid thereon which are payable in shares of Common Stock pursuant to Section 2(a) hereof, and (2) any other declared but unpaid dividends on such shares divided by (Q) the Maximum Conversion Rate Trigger Price, determined as hereinafter provided, on the date the certificate is surrendered for conversion pursuant to this Section 5(a) or automatically converted pursuant to Section 5(b), as the case may be; FURTHER PROVIDED, that the minimum number of shares of Common Stock into which each share of Series E Preferred Stock may be converted at any time (the "Minimum Conversion Rate") is (s) \$84.745 plus (1) an amount equal to the Annual Dividend Amounts then accrued and unpaid thereon which are payable in shares of Common Stock pursuant to Section 2(a) hereof, and (2) any other declared but unpaid dividends on such shares divided by (r) the Minimum Conversion Rate Trigger Price, as determined as hereinafter provided, on the date the certificate is surrendered for conversion pursuant to this Section 5(a) or automatically converted pursuant to Section 5(b), as the case may be. The "Maximum Conversion Rate Trigger Price," as used herein, shall initially be \$4.00, and shall be subject to adjustment as hereinafter provided. The "Minimum Conversion Rate Trigger Price," as used herein, shall initially be \$8.00, and shall be subject to adjustment as hereinafter provided.

(b) *AUTOMATIC CONVERSION.* Each share of Series E Preferred Stock, if not theretofore converted, shall automatically be converted on December 30, 1998 (the "Automatic Conversion Date") into such number of fully paid and nonassessable shares of Common Stock as is determined by dividing (X) \$84.745 plus (1) an amount equal to the Annual Dividend Amounts then accrued and unpaid thereon which are payable in shares of Common Stock pursuant to Section 2(a) hereof, and (2) any other declared but unpaid dividends on such shares by (Y) the average of the daily closing price per share, as reported on the NASDAQ National Market System, for the thirty (30) trading days immediately prior to the Automatic Conversion Date, but not in excess of the Maximum Conversion Rate and not below the Minimum Conversion Rate.

(c) *MECHANICS OF CONVERSION.* In the case of any conversion pursuant to Section 5(a) hereof, before any holder of Series E Preferred Stock shall be entitled to convert the same into shares of Common Stock, he shall surrender the certificate or certificates therefor, duly endorsed, at the office of the Corporation or of any transfer agent for such stock, and shall give written notice to the Corporation at such office that he elects to convert the same and shall state therein the name or names in which he wishes the certificate or certificates for shares of Common Stock to be issued. In the case of a conversion Pursuant to Section 5(b) hereof, the certificate for the shares of Common Stock to be issued shall be registered in the name of the holder or in such other name or names as the holder otherwise notifies the Corporation. The Corporation shall, as soon as practicable after any conversion, issue and deliver at such office to such holder of Series E Preferred Stock, a certificate or certificates for the number of shares of Common Stock to which he shall be entitled as aforesaid and in payment of any dividends payable in Common Stock, together with any other dividends to which such holder shall be entitled. Such conversion shall be deemed to have been made immediately prior to the close of business on the date of surrender of the shares of Series E Preferred Stock to be converted, in the case of a conversion pursuant to Section 5(a) hereof, and on the Automatic Conversion Date, in the case of a conversion pursuant to Section 5(b) hereof, and the person or persons entitled to receive the shares of Common Stock issuable upon any such conversion shall be treated for all purposes as the record holder or holders of such shares of Common Stock on such date.

(d) *ADJUSTMENTS TO TRIGGER PRICES FOR STOCK DIVIDENDS: COMBINATIONS OR SUBDIVISIONS OR COMMON STOCK.* In the event that the Corporation at any time or from time to time after the date on which the Series E Preferred Stock is first issued shall declare or pay any dividend on the Common Stock (or on any other series or class of stock which is junior to the Series E Preferred

Stock) payable in Common Stock or in any right to acquire Common Stock for no consideration, or shall effect a subdivision of the outstanding shares of Common Stock into a greater number of shares of Common Stock (by stock split, reclassification or otherwise than by payment of a dividend in Common Stock or in any right to acquire Common Stock), or in the event the outstanding shares of Common Stock shall be combined or consolidated, by reclassification or otherwise, into a lesser number of shares of Common Stock, then the Series E Conversion Price, the Maximum Conversion Rate Trigger Price and the Minimum Conversion Rate Trigger Price in effect immediately prior to such event shall, concurrently with the effectiveness of such event, be proportionately decreased or increased, as appropriate. In the event that the Corporation shall declare or pay any dividend on the Common Stock (or on any other series or class of stock which is junior to the Series E Preferred Stock) payable in any right to acquire Common Stock for no consideration, then the Corporation shall be deemed to have made a dividend payable in Common Stock in an amount of shares equal to the maximum number of shares issuable upon exercise of such rights to acquire Common Stock.

In the event the Corporation makes any adjustment to the number of shares issuable upon conversion of the Series A Preferred Stock, the Series B Preferred Stock, the Series C Preferred Stock or the Series D Preferred Stock and is not otherwise required by the preceding terms of this Section 5(d) to make corresponding adjustments to the Series E Conversion Price, the Maximum Conversion Rate Trigger Price and the Minimum Conversion Rate Trigger Price, then the Series E Conversion Price, the Maximum Conversion Rate Trigger Price and the Minimum Conversion Rate Trigger Price in effect immediately prior to such adjustment shall, concurrently with the effectiveness of such adjustment, be proportionately decreased or increased, as appropriate; provided, however that no such adjustment pursuant to the terms of this sentence shall reduce the Maximum Conversion Rate Trigger Price to an amount less than \$3.50 and provided further that no such adjustment shall be required as a result of the issuance of the shares of Series C Preferred Stock and Series D Preferred Stock permitted by Section 4(b)(v).

(e) *NO IMPAIRMENT.* The Corporation will not, by amendment of its Certificate of Incorporation or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder by the Corporation, but will at all times in good faith assist in the carrying out of all the provisions of this Section 5 and in the taking of all such action as may be necessary or appropriate in order to protect the Conversion Rights of the holders of the Series E Preferred Stock against impairment.

(f) *CERTIFICATES AS TO ADJUSTMENTS.* Upon the occurrence of each adjustment or readjustment of the Series E Conversion Price, the Trigger Price (and Maximum Conversion Rate and Minimum Conversion Rate) pursuant to this Section 5, the Corporation at its expense shall promptly compute such adjustment or readjustment in accordance with the terms hereof and prepare and furnish to each holder of Series E Preferred Stock a certificate executed by the Corporation's President or Chief Financial Officer setting forth such adjustment or readjustment and showing in detail the facts upon which such adjustment or readjustment is based. The Corporation shall, upon the written request at any time of a holder of Series E Preferred Stock, furnish or cause to be furnished to such holder a like certificate setting forth (i) such adjustments and readjustments, (ii) the Series E Conversion Price, the Maximum Conversion Rate Trigger Price, the Minimum Conversion Rate Trigger Price and Maximum Conversion Rate and Minimum Conversion Rate for the Series E Preferred Stock at the time in effect, and (iii) the number of shares of Common Stock and the amount, if any, of other property which at the time would be received upon the conversion of the Series E Preferred Stock.

6. Redemption

(a) All, or any part, of the Series E Preferred Stock may be redeemed at any time after the day on which such shares are first issued, by payment in cash of \$84.745 per share plus (1) an amount equal to the Annual Dividend Amounts then accrued and unpaid thereon and (2) any other declared but unpaid dividends on such shares.

(b) The Corporation shall, not less than 30 nor more than 60 days prior to the date for the redemption of the Series E Preferred Stock (the "Redemption Date"), give written notice (the "Redemption Notice") to each holder of record of Series E Preferred Stock. The Redemption Notice shall state:

- (i) The total number of shares of Series E Preferred Stock being redeemed;
- (ii) The number of shares of Series E Preferred Stock held by the holder which the Corporation intends to redeem;
- (iii) The Redemption Date and the amount payable pursuant to Section 6(a) (the "Applicable Redemption Price"); and
- (iv) The time and manner in, and place at which, the holder is to surrender to the Corporation its certificate or certificates representing the shares of Series E Preferred Stock to be redeemed.

(c) On or before the Redemption Date, each holder of Series E Preferred Stock to be redeemed, unless the holder has exercised its right to convert the shares to be redeemed as provided in Section 5 prior to the giving of the Redemption Notice, shall surrender the certificate or certificates representing such shares to the Corporation, in the manner and at the place designated in the Redemption Notice, and thereupon the Applicable Redemption Price for such shares shall be payable to the order of the person whose name appears on such certificate or certificates as the owner thereof, and each surrendered certificate shall be cancelled and retired.

(d) If the Redemption Notice is duly given, and if on the Redemption Date the Applicable Redemption Price is paid or made available for payment, then, notwithstanding that the certificates evidencing any of the shares of Series E Preferred Stock have not been surrendered, the dividends with respect to such shares shall cease to accrue after the Redemption Date and all rights with respect to such shares shall forthwith after the Redemption Date cease and terminate, except only for the right of the holders to receive the Applicable Redemption Price without interest upon surrender of their certificates therefor as aforesaid.

(e) If less than all outstanding shares of Series E Preferred Stock are to be redeemed, the number or shares redeemed from each holder shall be pro rated based on the number of shares held by such holder and the number of shares then outstanding.

7. Miscellaneous.

(a) *ISSUE TAXES.* The Corporation shall pay any and all issue and other taxes that may be payable in respect of any issue or delivery of shares of Common Stock on conversion of Series E Preferred Stock or on payment of any dividend payable in shares of Common Stock pursuant hereto; provided, however, that the Corporation shall not be obligated to pay any transfer taxes resulting from any transfer request by any holder in connection with any conversion or income taxes or taxes measured by income of a holder of Series E Preferred Stock.

(b) *RESERVATION OF STOCK.* The Corporation shall at all times reserve and keep available out of its authorized but unissued shares of Common Stock, solely for the purpose of effecting the conversion of the shares of the Series E Preferred Stock and to pay any dividend payable in shares of Common Stock, such number of its shares of Common Stock as shall from time to time be sufficient to effect the conversion of all outstanding shares of the Series E Preferred Stock and to pay any dividend payable in shares of Common Stock; and if at any time the number of authorized but unissued shares of Common Stock shall not be sufficient to effect the conversion of all then outstanding shares of the Series E Preferred Stock and to pay any dividend payable in shares of Common Stock, the Corporation will take such corporate action as may, in the opinion of its counsel, be necessary to increase its authorized but unissued shares of Common Stock to such number of shares as shall be sufficient for such purpose, including, without limitation, engaging in best efforts to obtain the requisite stockholder approval of any necessary amendment to this Certificate.

(c) *FRACTIONAL SHARES.* No fractional share shall be issued upon the conversion of any share or shares of Series E Preferred Stock or payment of any dividend payable in shares of Common Stock. All shares of Common Stock (including fractions thereof) issuable upon conversion of more than one share of Series E Preferred Stock by a holder thereof or payable as a dividend to a holder of more than one share of Series E Preferred Stock shall be aggregated for purposes of determining whether the conversion or payment would result in the issuance of any fractional share. If, after the aforementioned aggregation, the conversion or payment would result in the issuance of a fraction of a share of Common Stock, the Corporation shall, in lieu of issuing any fractional share, pay the holder otherwise entitled to such fraction a sum in cash equal to the fair market value of such fraction on the date of conversion or payment (as determined by reference to the average of the high and low stock price quoted in THE WALL STREET JOURNAL or as reported on NASDAQ for the day immediately prior to such conversion or payment).

(d) *PARTIAL CONVERSION OR REDEMPTION.* In the event some but not all of a holder's shares represented by any certificate for Series E Preferred Stock are converted or redeemed, the Corporation shall execute and deliver to such holder a certificate or certificates registered in such holder's name or such name or names as such holder directs, for the number of shares of Series E Preferred Stock which was not converted or redeemed.

(e) *NOTICES.* Any notice required by the provisions of this Certificate of Designations to be given to the holders of shares of Series E Preferred Stock shall be deemed given if deposited in the United States Certified first class or express mail, postage prepaid, and addressed to each holder of record at his address appearing on the books of the Corporation.

(f) *NOTICES OF RECORD DATE.* In the event that the Corporation shall propose at any time: (i) to declare any dividend or distribution upon its Common Stock, whether in cash, property, stock or other securities, whether or not a regular cash dividend and whether or not out of earnings or earned surplus; (ii) to offer for subscription pro rata to the holders of any class or series of its stock any additional shares of stock of any class or series or other rights; (iii) to effect any reclassification or recapitalization of its Common Stock outstanding involving a change in the Common Stock; or (iv) to merge or consolidate with or into any other corporation, or sell, lease or convey all or substantially all of its assets, or to liquidate, dissolve or wind up; then, in connection with each such event, the Corporation shall send to the holders of Series E Preferred Stock:

(1) at least twenty (20) days' prior written notice of the date on which a record shall be taken for such dividend, distribution or subscription rights (and specifying the date on which the holders of

Common Stock shall be entitled thereto) or for determining rights to vote, if any, in respect of the matters referred to in (iii) and (iv) above; and

(2) in the case of the matters referred to in (iii) and (iv) above, at least twenty (20) days' prior written notice of the date when the same shall take place (and specifying the date on which the holders of Common Stock shall be entitled to exchange their Common Stock for securities or other property deliverable upon the occurrence of such event).

8. No Reissuance of Preferred Stock.

No share or shares of Series E Preferred Stock, Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock or Series D Preferred Stock acquired by the Corporation by reason of redemption, purchase, conversion or otherwise shall be reissued, and all such shares shall be canceled, retired and eliminated from the shares which the Corporation shall be authorized to issue.

IN WITNESS WHEREOF, this Certificate of Designations is executed on behalf of the Corporation by its President and attested by its Secretary as of July 24, 1995.

President
Attest:

Secretary

CERTIFICATION

I, Robin Raina, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Ebix, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 12, 2005

/s/ Robin Raina
Robin Raina
Chief Executive Officer

CERTIFICATION

I, Richard J. Baum, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Ebix, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 12, 2005

/s/ Richard J. Baum
Richard J. Baum
Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Ebix, Inc. (the "Company") for the period ended March 31, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Robin Raina, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ Robin Raina

Name: Robin Raina

Chief Executive Officer

May 12, 2005

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Ebix, Inc. (the "Company") for the period ended March 31, 2005, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Richard J. Baum, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ Richard J. Baum

Name: Richard J. Baum

Chief Financial Officer

May 12, 2005
