

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

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

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

OR

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

Commission file number **0-15946**

Ebix, Inc.

(Exact name of registrant as specified in its charter)

DELAWARE

(State or other jurisdiction of incorporation or organization)

77-0021975

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

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

(Address of principal executive offices)

60173

(Zip Code)

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

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

Ebix, Inc. and Subsidiaries

FORM 10-Q

FOR THE QUARTER ENDED SEPTEMBER 30, 2006

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SIGNATURES

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

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

See accompanying notes to condensed consolidated financial statements.

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

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

See accompanying notes to condensed consolidated financial statements.

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

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

See accompanying notes to condensed consolidated financial statements.

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

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

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

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

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

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

Summary of significant accounting policies—

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

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

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

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

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

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

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

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

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

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

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

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

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

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



modified prospective method, see Note 3 for additional information.

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

Note 2. STOCK OPTIONS

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

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

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

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

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

Note 3. STOCK BASED COMPENSATION

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Note 4. EARNINGS PER SHARE

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

Note 5. COMPREHENSIVE INCOME

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

Note 6. RELATED PARTY TRANSACTIONS AND SIGNIFICANT CUSTOMERS

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

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

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

Note 7. ACQUISITION OF LIFELINK

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

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

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

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

Estimated Amortization Expenses:

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

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

Note 8. ACQUISITION OF HEART

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

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

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

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

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

Estimated Amortization Expenses:

For the year ended December 31, 2006	\$ 300,000
For the year ended December 31, 2007	\$ 300,000
For the year ended December 31, 2008	\$ 215,000
For the year ended December 31, 2009	\$ 65,000
For the year ended December 31, 2010	\$ —

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

Note 9 - LINE OF CREDIT AND OTHER COMMITMENTS

Bank Line of Credit

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

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

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

Letters of Credit

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

Self Insurance:

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

Note 10—DEBT MATURITIES

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

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

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

Note 11 — ACQUISITION OF INFINITY ON MAY 9, 2006

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

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

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

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

Estimated Amortization Expenses:

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

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

Note 12 — PRO FORMA FINANCIALS

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

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

Note 13 — STOCK REPURCHASE

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

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

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

Note 14 — FINETRE ACQUISITION

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

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

The following information should be read in conjunction with the unaudited condensed consolidated financial statements and the notes thereto included in Part 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, 2005.

Overview

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

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

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

Critical Accounting Policies

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

Results of Operations

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Liquidity and Capital Resources

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

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

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

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

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

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

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

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

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

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

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

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

Item 4. CONTROLS AND PROCEDURES —

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

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

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

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

Part II — OTHER INFORMATION

Safe Harbor for Forward-Looking Statements under the Securities Litigation Reform Act of 1995 — This Quarterly Report on Form 10-Q contains various forward-looking statements and information that are based on management's beliefs, as well as assumptions made by, and information currently available to management, including statements regarding future economic performance and financial condition, liquidity and capital resources, acceptance of the Company's products by the market and management's plans and objectives. The Company has tried to identify such forward looking statements by use of words such as "expects," "intends," "anticipates," "plans," "believes," "will," "should," and similar 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.

Item 1A. RISK FACTORS

Risk Factors

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

Risks Related To Our Business and Our Industry

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

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

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

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

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

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

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

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

Adverse insurance industry economics could adversely affect our revenues.

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.

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

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

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

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

To be successful, we must adapt to rapidly changing technological and market needs, by continually enhancing 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. 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.

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

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

Risks Related to Our Conduct of Business on The Internet

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

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

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

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

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

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

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

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

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

Risks Related To Our Common Stock

The price of our common stock may be extremely volatile.

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

- announcements of new services, products, technological innovations, acquisitions or strategic relationships by us or our competitors;
- trends or conditions in the insurance, software, business process outsourcing and Internet markets;
- changes in market valuations of our competitors; and
- general political, economic and market conditions.

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

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

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

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

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

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

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

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

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

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

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

Item 6. EXHIBITS

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

SIGNATURES

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

Ebix, Inc.

Date: November 20, 2006

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

EXHIBIT INDEX

<u>EXHIBIT NO.</u>	<u>DESCRIPTION</u>
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32.2*	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* Included as an exhibit to this quarterly report on Form 10-Q.

SECOND AMENDED AND RESTATED LOAN AND SECURITY AGREEMENT

THIS SECOND AMENDED LOAN AND SECURITY AGREEMENT, (“Agreement”) dated as of August 31, 2006, is entered into by and between **EBIX, INC . f/k/a EBIX.COM, INC .**, a Delaware corporation (the “Borrower”), and **LASALLE BANK NATIONAL ASSOCIATION**, a national banking association (the “Bank”).

WHEREAS, the Bank has previously loaned or committed to loan to the Borrower the original principal sum of up to \$5,000,000.00, comprised of a certain Revolving Credit Loan Commitment not to exceed the sum of \$5,000,000.00 as evidenced, secured and governed by, among other documentation, that certain Business Loan Agreement dated as of October 31, 2003 by and between the Borrower and the Bank (the “**Original Revolving Credit Loan**”), which was amended and restated by that certain Amended & Restated Loan and Security Agreement dated as of April 21, 2004, the First Amendment to Amended & Restated Loan and Security Agreement dated as of July 1, 2004, and the Second Amendment to Amended & Restated Loan and Security Agreement dated as of December 31, 2004, and the Third Amendment to Amended & Restated Loan and Security Agreement dated as of October 20, 2005 (collectively the “**Original Loan Agreement**”);

WHEREAS, the Borrower desires to increase the amount of the Original Revolving Credit Loan to \$12,000,000 borrow an additional \$2,000,000 pursuant to the terms of this Agreement;

WHEREAS, the parties desire to amend and restate the Original Loan Agreement in its entirety to reflect the revised credit facilities; and

WHEREAS, pursuant to the Borrower’s request, the Bank is willing to extend such financial accommodations to the Borrower under the terms and conditions set forth herein.

NOW THEREFORE, in consideration of the mutual covenants set forth herein, the parties hereto agree as follows:

ARTICLE 1

DEFINITIONS.

1.1. Definitions; Other Interpretive Provisions. When used herein, the following terms have the following meanings (such definitions to be applicable to both the singular and plural forms of such terms):

“Account Debtor” shall mean any party who is obligated on any Account, Contract Right, Chattel Paper or General Intangible.

“Affiliate” shall mean any Person which, directly or indirectly, owns or controls, on an aggregate basis, including all beneficial ownership and ownership or control as a trustee, guardian or other fiduciary, any of the outstanding Capital Securities having ordinary voting power to elect a majority of the board of directors (irrespective of whether, at the time, Capital Securities of any other class or classes of such corporation have or might have voting power by reason of the happening of any contingency) of the Borrower, or which controls, is controlled by or is under common control with the Borrower or any stockholders of the Borrower. For purposes hereof, “control” means the possession, directly or indirectly, of the power to direct or cause the direction of management and policies, whether through the ownership of voting securities, by contract or otherwise.

“Asset Disposition” shall mean the sale, lease, assignment or other transfer for value (each a “Disposition”) by the Borrower or any Subsidiary to any Person (other than the Borrower or any Subsidiary) of any asset or right of

the Borrower or any Subsidiary (including, the loss, destruction or damage of any thereof or any actual or threatened (in writing to the Borrower or such Subsidiary) condemnation, confiscation, requisition, seizure or taking thereof), other than (a) the Disposition of any asset which is to be replaced, and is in fact replaced, within thirty (30) days with another asset performing the same or a similar function, (b) the sale or lease of inventory in the ordinary course of business.

“ Authorized Borrower Representative ” shall mean any of Robin Raina, Chairman, Chief Executive Officer and President of Borrower or Richard J. Baum, Chief Financial Officer and Vice President of Borrower, or such other person or person approved by resolution of the Board of Directors of the Borrower from time to time, a certified copy of which resolution shall be delivered to the Bank.

“ Bank ” shall mean LaSalle Bank, National Association, a national banking association with its principal place of business at 135 S. LaSalle Street, Chicago, Illinois 60603.

“ Bank Products ” shall mean any service or facility extended to the Borrower or any Subsidiary by the Bank or any Affiliate of the Bank, including: (a) credit cards, (b) credit card processing services, (c) debit cards, (d) purchase cards, (e) ACH Transactions, (f) cash management, including controlled disbursement, accounts or services, or (g) hedging agreements.

“ Borrower ” shall mean Ebix, Inc. f/k/a Ebix.com, Inc., a Delaware corporation, having its principal place of business at 1900 E. Golf Road, Suite 1200, Schaumburg, Illinois, 60173.

“ Business Day ” shall mean any day, other than a Saturday or Sunday, on which commercial banks are open for domestic business in Chicago, Illinois.

“ Capital Lease ” shall mean, as to any Person, a lease of any interest in any kind of property or asset, whether real, personal or mixed, or tangible or intangible, by such Person, as lessee, that is, or should be, in accordance with Financial Accounting Standards Board Statement No. 13, as amended from time to time, or, if such statement is not then in effect, such statement of GAAP as may be applicable, recorded as a “capital lease” on the financial statements of such Person prepared in accordance with GAAP.

“ Capital Securities ” shall mean, with respect to any Person, all shares, interests, participations or other equivalents (however designated, whether voting or non-voting) of such Person’s capital, whether now outstanding or issued or acquired after the date hereof, including common shares, preferred shares, membership interests in a limited liability company, limited or general partnership interests in a partnership, warrants, convertible debentures or any other equivalent of such ownership interest and all agreements, instruments and documents convertible, in whole or in part, into any one or more of the foregoing.

“ Closing Date ” shall mean August 31, 2006.

“ Collateral ” shall have the meaning specified in Section 5.1.

“ Collateral Access Agreement ” shall mean an agreement in form and substance reasonably satisfactory to the Bank pursuant to which a mortgagee or lessor of real property on which Collateral is stored or otherwise located, or a warehouseman, processor or other bailee of Inventory or other property owned by the Borrower or any Subsidiary, acknowledges the Liens of the Bank and waives any Liens held by such Person on such property, and, in the case of any such agreement with a mortgagee or lessor, permits the Bank reasonable access to and use of such real property following the occurrence and during the continuance of an Event of Default to assemble, complete and sell any collateral stored or otherwise located thereon.

“Computer Hardware and Software” shall mean all of the Borrower’s rights (including rights as licensee and lessee) with respect to (i) computer and other electronic data processing hardware, including all integrated computer systems, central processing units, memory units, display terminals, printers, computer elements, card readers, tape drives, hard and soft disk drives, cables, electrical supply hardware, generators, power equalizers, accessories, peripheral devices and other related computer hardware; (ii) all Software and all software programs designed for use on the computers and electronic data processing hardware described in clause (i) above, including all operating system software, utilities and application programs in whatsoever form (source code and object code in magnetic tape, disk or hard copy format or any other listings whatsoever); (iii) any firmware associated with any of the foregoing; and (iv) any documentation for hardware, software and firmware described in clauses (i), (ii) and (iii) above, including flow charts, logic diagrams, manuals, specifications, training materials, charts and pseudo codes.

“Contract Right” shall mean any right of the Borrower to payment under a contract for the sale or lease of goods or the rendering of services, which right is at the time not yet earned by performance.

“Debt” shall mean, with respect to the subject Person, all of the following items of indebtedness, obligation or liability, whether matured or unmatured, liquidated or unliquidated, direct or indirect, or joint or several:

(A) All Obligations of such Person;

(B) All indebtedness in effect guaranteed, directly or indirectly, in any manner, or endorsed (other than for collection or deposit in the ordinary course of business) or discounted with recourse;

(C) All indebtedness in effect guaranteed, directly or indirectly through agreements, contingent or otherwise: (1) to purchase such indebtedness, or (2) to purchase, sell or lease (as lessee or lessor) property, products, materials or supplies or to purchase or sell services, primarily for the purpose of enabling the debtor to make payment of such indebtedness or to assure the owner of the indebtedness against loss, or (3) to supply funds to or in any other manner invest in any Person;

(D) All indebtedness secured (or for which the holder of such indebtedness has a right, contingent or otherwise, to be secured) by any mortgage, trust deed, deed of trust, pledge, lien, security interest or other charge or encumbrance upon property owned or acquired subject thereto, whether or not the liabilities secured thereby have been assumed; and

(E) All indebtedness incurred as the lessee of goods or services under leases that, in accordance with GAAP, are or should be reflected on the lessee’s balance sheet as a Capital Lease.

“Default Rate” shall mean a per annum rate of interest equal to the Prime Rate plus five percent (5%).

“EBITDA” shall mean for any period, the Net Earnings (or loss) for Borrower for such period, plus to the extent included in determining Net Earnings (or loss), the sum of the following: (A) interest expense of Borrower, (B) income tax expense of Borrower, (C) depreciation, amortization, and similar non-cash charges of Borrower, and (D) extraordinary losses of Borrower, minus extraordinary gains of Borrower.

“Environmental Laws” shall mean any federal, state or local Law, statute, ordinance, order, decree, rule or regulation relating to releases, discharges, emissions or disposals to air, water, land or groundwater, to the withdrawal or use of groundwater, to the use, handling or disposal of polychlorinated biphenyls, asbestos or urea formaldehyde, to the treatment, storage, disposal or management of Hazardous Substances, to exposure to toxic, hazardous or other controlled, prohibited or regulated substances and to the transportation, storage, disposal, management or release of gaseous or other liquid substances, including the Comprehensive Environmental

Response, Compensation and Liability Act of 1980, as amended by the Superfund Amendments and Reauthorization Act of 1986, 42 USC §9601 et seq., the Resource, Conservation and Recovery Act of 1976, as amended by the Hazardous Solid Waste Amendments of 1984, 42 USC §6901 et seq., the Toxic Substances Control Act, 15 USC §2601 et seq., the Occupational Safety and Health Act of 1970, 29 USC §651 et seq., the Clean Air Act of 1966, as amended, 42 USC §7401 et seq., and the Federal Water Pollution Control Act, as amended by the Clean Water Act of 1977, 33 USC §1251 et seq., and all rules, regulations and guidance documents promulgated pursuant thereto or published thereunder.

“ERISA” shall mean the Employee Retirement Income Security Act of 1974, as amended.

“ERISA Affiliate” means each entity which is treated as a single employer with Borrower for purposes of Section 414 of the Internal Revenue Code.

“Event of Default” shall have the meaning specified in Section 10.1.

“Financial Statements” shall mean, at any time, the audited financial statements of the Borrower for its most recently ended fiscal year, the unaudited financial statements for the most recently ended quarterly accounting period of the Borrower, and any other similar information and reports concerning the financial affairs of the Borrower (including without limitation pro forma financial statements), copies of which have been furnished to the Bank.

“GAAP” shall mean generally accepted accounting principles consistently applied throughout the period involved.

“General Intangibles” shall mean all “general intangibles” as defined in the UCC, and in any event shall include without limitation the choses in action, designs, patents, trademarks, service marks, trade names, copyrights, trade secrets, customer lists, inventions, Software, software programs, good will, applications for registration, registrations, licenses, franchises, customer lists, tax refund claims, guarantee claims, security interest, rights to indemnification and all other intangible property of every nature (other than Accounts).

“Governmental Authority” shall mean the United States of America, any state, territory or district thereof, and any other political subdivision or body politic created pursuant to any applicable Law, and any court, agency, department, commission, board, bureau or instrumentality of any of the foregoing.

“Hazardous Substances” shall mean (i) any hazardous or toxic substance, chemical or waste, or any pollutant or contaminant defined as such in any now or hereafter existing Environmental Law, (ii) asbestos, (iii) radon, (iv) petroleum, its derivative by-products and other hydrocarbons, (v) polychlorinated biphenyls, (vi) explosives, (vii) radioactive materials and (viii) any additional substances or materials which at any time are classified or considered to be hazardous or toxic under any Environmental Laws.

“Intellectual Property” means all past, present and future: trade secrets, know-how and other proprietary information; trademarks, Internet domain names, service marks, trade dress, trade names, business names, designs, logos, slogans (and all translations, adaptations, derivations and combinations of the foregoing) indicia and other source and/or business identifiers, and the goodwill of the business relating thereto and all registrations or applications for registrations which have heretofore been or may hereafter be issued thereon throughout the world; copyrights (including copyrights for computer programs) and copyright registrations or applications for registrations which have heretofore been or may hereafter be issued throughout the world and all tangible property embodying the copyrights; unpatented inventions (whether or not patentable); patent applications and patents; industrial designs, industrial design applications and registered industrial designs; license agreements related to any of the foregoing and income therefrom; books, records, writings, computer tapes or disks, flow diagrams, specification sheets,

computer software, source codes, object codes, executable code, data, databases and other physical manifestations, embodiments or incorporations of any of the foregoing; the right to sue for all past, present and future infringements of any of the foregoing; all other intellectual property; and all common law and other rights throughout the world in and to all of the foregoing.

“Interest Period” shall mean successive one, two or three month periods, beginning and ending as provided in this Agreement.

“Laws” shall mean any federal, state or local law, statute, ordinance, order, decree, rule or regulation.

“LIBOR” shall mean a rate of interest equal to (a) the per annum rate of interest at which United States dollar deposits for a period equal to the relevant Interest Period are offered in the London Interbank Eurodollar market at 11:00 a.m. (London time) two Business Days prior to the commencement of such Interest Period (or three Business Days prior to the commencement of such Interest Period if banks in London, England were not open and dealing in offshore United States dollars on such second preceding Business Day), as displayed in the *Bloomberg Financial Markets* system (or other authoritative source selected by the Bank in its sole discretion), divided by (b) a number determined by subtracting from 1.00 the then stated maximum reserve percentage for determining reserves to be maintained by member banks of the Federal Reserve System for Eurocurrency funding or liabilities as defined in Regulation D (or any successor category of liabilities under Regulation D), or as LIBOR is otherwise determined by the Bank in its sole and absolute discretion. The Bank’s determination of LIBOR shall be conclusive, absent manifest error.

“LIBOR Loan” or “LIBOR Loans” shall mean that portion, and collectively those portions, of the aggregate outstanding principal balance of the Loan that bears interest at the LIBOR Rate.

“LIBOR Rate” shall mean (A) with respect to the Revolving Credit Loan a rate of interest equal to LIBOR plus 1.50% which LIBOR Rate shall remain fixed during such Interest Period; (B) with respect to the Term Loan a rate of interest equal to LIBOR plus 2.25% which LIBOR Rate shall remain fixed during such Interest Period.

“Lien” shall mean, with respect to any Person, any interest granted by such Person in any real or personal property, asset or other right owned or being purchased or acquired by such Person (including, without limitation, an interest in respect of a Capital Lease) which secures payment or performance of any obligation and shall include any mortgage, lien, encumbrance, title retention lien, charge or other security interest of any kind, whether arising by contract, as a matter of law, by judicial process or otherwise.

“Loan” shall mean the Revolving Credit Loan and the Term Loan.

“Loan Documents” shall mean each of the agreements, documents, instruments and certificates set forth in Section 3.1 hereof, and any and all such other instruments, documents, certificates and agreements from time to time executed and delivered by the Borrower or any of its Subsidiaries for the benefit of the Bank pursuant to any of the foregoing, and all amendments, restatements, supplements and other modifications thereto.

“Material Adverse Effect” shall mean (A) a material adverse change in, or a material adverse effect upon, the assets, business, properties, prospects, condition (financial or otherwise) or results of operations of the Borrower and its Subsidiaries taken as a whole, (B) a material impairment of the ability of the Borrower and its Subsidiaries to perform any of the Obligations under any of the Loan Documents, or (C) a material adverse effect on (i) any substantial portion of the Collateral, (ii) the legality, validity, binding effect or enforceability against the Borrower and its Subsidiaries of any of the Loan Documents, (iii) the perfection or priority of any Lien granted to the Bank under any Loan Document, or (iv) the rights or remedies of the Bank under any Loan Document.

“Net Cash Proceeds” shall mean:

(A) with respect to any Asset Disposition, the aggregate cash proceeds (including cash proceeds received pursuant to policies of insurance or by way of deferred payment of principal pursuant to a note, installment receivable or otherwise, but only as and when received) received by the Borrower pursuant to such Asset Disposition net of (i) the direct costs relating to such sale, transfer or other disposition (including sales commissions and legal, accounting and investment banking fees), (ii) taxes paid or reasonably estimated by the Borrower to be payable as a result thereof (after taking into account any available tax credits or deductions and any tax sharing arrangements), and (iii) amounts required to be applied to the repayment of any Debt secured by a Lien on the asset subject to such Asset Disposition (other than the Loans);

(B) with respect to any issuance of Capital Securities, the aggregate cash proceeds received by the Borrower pursuant to such issuance, net of the direct costs relating to such issuance (including sales and underwriters’ commissions); and

(C) with respect to any issuance of Debt, the aggregate cash proceeds received by the Borrower pursuant to such issuance, net of the direct costs of such issuance (including up-front, underwriters’ and placement fees).

“Net Earnings” shall mean, with respect to any Person and for any period, the amount of such Person’s net income after taxes, determined in accordance with GAAP, excluding therefrom any gains and losses from dispositions of fixed assets, income and losses from discontinued operations, gains and losses from disposition of discontinued operations and extraordinary items.

“Non-Tangible Collateral” means, with respect to any debtor, collectively, such debtor’s Accounts, Contract Rights and General Intangibles.

“Note” shall mean the Revolving Credit Note and the Term Note.

“Obligations” shall mean, with respect to any Person, all of such Person’s liabilities, obligations and indebtedness to the Bank of any and every kind and nature, including the Loans, such Person’s other liabilities and obligations to the Bank under this Agreement, and such Person’s liabilities and obligations to the Bank under any other Bank Product, agreement, document or instrument, (including any guaranty of another Person’s Obligations), whether heretofore, now or hereafter owing, arising, due or payable by or from such Person to the Bank, howsoever evidenced, created, incurred, acquired or owing, and whether joint, several, primary, secondary, direct, contingent, fixed or otherwise.

“Obligor” shall mean the Borrower, any Subsidiary of the Borrower, accommodation endorser, third party pledgor, or any other party liable with respect to the Obligations.

“PBGC” means the Pension Benefit Guaranty Corporation.

“Permitted Liens” shall mean (A) liens and security interest securing Obligations owed by Borrower to Bank; (B) liens for taxes, assessments, or similar charges either not yet due to being contested in good faith; (C) liens of materialmen, mechanics, warehouseman, or carriers, or other like liens arising in the ordinary course of business and securing obligations which are not yet delinquent; (D) purchase money liens or purchase money security interests upon or in any property acquired or held by Borrower to secure indebtedness outstanding on the date of this Agreement. or permitted to be incurred under this Agreement; (E) liens and security interests which, as of the date of this Agreement, have been disclosed to and approved by the Bank in writing; (F) those liens and security interests which in the aggregate constitute an immaterial and insignificant monetary amount with respect to the net value of

Borrower's assets; and (G) a lien in favor of Craig Wm. Earnshaw and Colleen Earnshaw on the stock of LifeLink Corporation, a Subsidiary of Borrower.

“Person” shall mean any individual, corporation, partnership, association, joint-stock company, trust, unincorporated association, joint venture, court, Governmental Authority, or any other similar entity.

“Premises” shall mean the Borrower's principal place of business located at 1900 E. Golf Road, Suite 1200, Schaumburg, Illinois, 60173.

“Prime Loan” or “Prime Loans” shall mean that portion, and collectively, those portions of the aggregate outstanding principal balance of the Loan that bears interest at the Prime Rate.

“Prime Rate” shall mean the rate of interest referred to by the Bank from time to time as its prime rate, as fixed by the management of the Bank for the guidance of its loan officers, whether or not such rate is otherwise published, with each change in such prime rate to take effect on the same day as the determination of each change by the Bank. Such rate is not necessarily the most favorable rate offered by the Bank to its borrowers.

“Regulatory Change” shall mean the introduction of, or any change in any applicable law, treaty, rule, regulation or guideline or in the interpretation or administration thereof by any governmental authority or any central bank or other fiscal, monetary or other authority having jurisdiction over the Bank or its lending office.

“Revolving Credit Loan” shall have the meaning specified in Section 2.1(A) of this Agreement.

“Revolving Credit Loan Commitment” shall have the meaning specified in Section 2.1(A) of this Agreement.

“Revolving Credit Loan Maturity Date” shall have the meaning specified in Section 2.1(A) of this Agreement.

“Revolving Credit Note” shall mean a revolving credit note in the form prepared by and acceptable to the Bank, dated as of the date hereof, in the amount of the Revolving Credit Loan Commitment and maturing on the Revolving Credit Loan Maturity Date, duly executed by the Borrower and payable to the order of the Bank, together with any and all renewal, extension, modification or replacement notes executed by the Borrower and delivered to the Bank and given in substitution therefor.

“Senior Debt” shall mean, with respect to the Borrower, all of Borrower's Debt to the Bank, including the Loan.

“Senior Debt to EBITDA Ratio” shall mean the ratio of Senior Debt to EBITDA.

“Special Collateral” shall have the meaning specified in Section 5.15 of this Agreement.

“Stockholders” shall mean those parties who own Capital Securities of Borrower.

“Subsidiary” shall mean, with respect to any Person, any corporation, partnership or similar entity of which fifty percent (50%) or more of the outstanding Capital Securities having ordinary voting power is at the time, directly or indirectly, owned by such Person and/or one or more of such Person's Subsidiaries (irrespective of whether, at the time, Capital Securities of any other class or classes of such entity shall have or might have voting power by reason of the happening of any contingency).

“Supplemental Documentation” means all agreements, instruments, documents, financing statements,

warehouse receipts, schedules of accounts assigned, mortgages, certificates of title and other written matter necessary or requested by the Bank to create, evidence, enforce, perfect or maintain perfected the Bank's security interest in the Collateral and the Premises and to consummate the transactions contemplated in or by this Agreement and the other Loan Documents.

“Term Interest Rate” shall mean the Borrower's floating per annum rate of interest equal to the Prime Rate or the LIBOR Rate.

“Term Loan” shall mean the direct advance made by the Bank to the Borrower in the form of a Term Loan under and pursuant to this Agreement, as set forth in Section 2.2 of this Agreement.

“Term Loan Commitment” shall mean Two Million and 00/100 Dollars (\$2,000,000.00).

“Term Loan Mandatory Prepayment” shall have the meaning set forth in Section 2.2(D) hereof.

“Term Loan Maturity Date” shall mean August 31, 2009, unless extended by the Bank pursuant to any modification, extension or renewal note executed by the Borrower and accepted by the Bank in its sole and absolute discretion in substitution for the Term Note.

“Term Note” shall mean a term note in the form prepared by and acceptable to the Bank, dated as of the date hereof, in the amount of the Term Loan Commitment and maturing on the Term Loan Maturity Date, duly executed by the Borrower and payable to the order of the Bank, together with any and all renewal, extension, modification or replacement notes executed by the Borrower and delivered to the Bank and given in substitution therefor.

“UCC” means the Uniform Commercial Code as in effect in the State of Illinois from time to time.

1.2. Accounting Terms. Any accounting terms used in this Agreement which are not specifically defined shall have the meaning customarily given them in accordance with GAAP; provided, however, that, in the event that changes in generally accepted accounting principles shall be mandated by the Financial Accounting Standards Board, or any similar accounting body of comparable standing, or shall be recommended by the Borrower's certified public accountants, to the extent that such changes would modify such accounting terms or the interpretation or computation thereof, such changes shall be followed in defining such accounting terms only from and after such date as the Borrower and the Bank shall have amended this Agreement to the extent necessary to reflect any such changes in the financial covenants and other terms and conditions of this Agreement.

1.3. Other Terms Defined in UCC. All other terms contained in this Agreement shall, when the context so indicates, have the meanings provided for by the UCC, to the extent the same are used or defined therein.

ARTICLE 2

THE LOAN.

2.1. Revolving Credit Loan.

(A) *Revolving Credit Loan Commitment*. Subject to the terms and conditions of this Agreement, the Bank will make a revolving credit facility (the “Revolving Credit Loan Commitment”) available to the Borrower, pursuant to which the Bank may from time to time make revolving credit advances (each, a “Revolving Credit Loan”) to the Borrower. The aggregate amount of advances outstanding under the Revolving Credit Loan Commitment shall at no time exceed the sum of \$12,000,000.00 (the “Revolving Credit Loan Commitment”).

Amount”). Amounts borrowed under this Section may be repaid and reborrowed during the term of this Agreement. The Revolving Credit Loan Commitment shall terminate on August 31, 2007 (the “Revolving Credit Loan Maturity Date”). The proceeds of Revolving Credit Loans shall be disbursed by deposit to the Borrower’s account maintained at the Bank or otherwise in accordance with the written instructions of the Borrower or the other provisions of this Agreement. Revolving Credit Loans shall be used by the Borrower solely for the acquisition of Finetre Corporation and working capital purposes.

(B) *Payment of Revolving Credit Loans* . All outstanding Revolving Credit Loans together with any accrued but unpaid interest thereon shall be repaid in full on the Revolving Credit Loan Maturity Date. In addition, outstanding Revolving Credit Loans shall be repaid upon demand if and to the extent that they exceed the limitations imposed by Section 2.1(A) above. Borrower may repay and reborrow under the Revolving Credit Loan Commitment subject to the terms and conditions of this Agreement. Also, if the Borrower chooses not to convert any Revolving Credit Loan which is a LIBOR Loan to a Prime Loan as provided in Section 2.3(B) and Section 2.3(C), then such Revolving Credit Loan shall immediately be due and payable on the last Business Day of the then existing Interest Period or on such earlier date as required by law, all without further demand, presentment, protest or notice of any kind, all of which are hereby waived by the Borrower.

(C) *Revolving Credit Loan Interest* . Except as provided in this Section 2.1(C), the Revolving Credit Loans shall bear interest as follows: (i) the proceeds of the Revolving Credit Loans deposited into an interest bearing account (the “Cash Account”) at the Bank for the benefit of Borrower shall bear interest at the LIBOR Rate, and (ii) the remaining proceeds of the Revolving Credit Loans shall bear interest at a floating per-annum rate equal to the Prime Rate. Accrued and unpaid interest on the unpaid principal balance of all LIBOR Loans shall be payable on the last Business Day of each Interest Period, commencing on the first such date to occur after the date hereof, on the date of any principal repayment of a LIBOR Loan and on the Revolving Credit Loan Maturity Date. Accrued and unpaid interest on Prime Loans shall be paid monthly in arrears commencing on November 1, 2006 and continuing on the first day of each month thereafter. Any Obligation of the Borrower which is not paid when due, whether at stated maturity, by acceleration or otherwise, shall bear interest payable on demand at the Default Rate until paid. In addition, after the occurrence of any Event of Default and delivery to the Borrower of the Bank’s notice to charge post-default interest, all Obligations of the Borrower shall bear interest at the Default Rate.

2.2. Term Loan .

(A) *Term Loan Commitment* . Subject to the terms and conditions of this Agreement and the other Loan Documents, and in reliance upon the representations and warranties of the Borrower set forth herein and in the other Loan Documents, the Bank agrees to make a Term Loan equal to the Term Loan Commitment. The Term Loan shall be available to the Borrower in a single principal advance on such date as the conditions set forth in ARTICLE 3 shall have been satisfied. The Term Loan shall be used by the Borrower for the acquisition of Finetre Corporation and to maintain the Borrower’s liquidity during the acquisition. The Term Loan may be prepaid in whole or in part at any time without penalty subject to Section 2.2(E), but shall be due in full on the Term Loan Maturity Date, unless the credit extended under the Term Loan is otherwise accelerated, terminated or extended as provided in this Agreement.

(B) *Term Loan Interest* . The principal amount of the Term Loan outstanding from time to time shall bear interest at the applicable Term Interest Rate. Accrued and unpaid interest on that portion of the principal balance of the Term Loan outstanding from time to time which is a Prime Loan, shall be due and payable monthly, in arrears, commencing on September 30, 2006 and continuing on the last day of each calendar month thereafter, and on the Term Loan Maturity Date. Accrued and unpaid interest on those portions of the principal balance of the Term Loan outstanding from time to time which is a LIBOR Loan shall be payable on the last Business Day of each Interest

Period, commencing on the first such date to occur after the date hereof, on the date of any principal repayment of a LIBOR Loan and on the Term Loan Maturity Date.

(C) *Term Loan Principal Payments* . The outstanding principal balance of the Term Loan shall be repaid in equal principal installments each in the amount of Fifty Five Thousand Five Hundred Fifty Five and 56/100 Dollars (\$55,555.56), beginning on September 30, 2006, and continuing on the first day of each month thereafter, with a final payment of all outstanding principal and accrued interest due on the Term Loan Maturity Date. Principal amounts repaid on the Term Note may not be borrowed again. Any amount of principal or interest on the Term Loan which is not paid when due, whether at stated maturity, by acceleration or otherwise, shall bear interest payable on demand at the Default Rate. In addition, after the occurrence of any Event of Default and delivery to the Borrower of the Bank's notice to charge post-default interest, all Obligations of the Borrower, including the Senior Debt, shall bear interest at the Default Rate.

(D) *Term Loan Mandatory Prepayment* . The Borrower shall make a prepayment of the Net Cash Proceeds specified below up to the outstanding principal amount of the Term Loan (the "Term Loan Mandatory Prepayment") until paid in full upon the occurrence of any of the following events, at the following times and in the following amounts:

(i) Concurrently with the receipt by the Borrower or by any Subsidiary of any Net Cash Proceeds from any Asset Disposition, in an amount equal to 100% of such Net Cash Proceeds.

(ii) Concurrently with the receipt by the Borrower of any Net Cash Proceeds from any issuance of Capital Securities (excluding (a) any issuance of Capital Securities pursuant to any employee or director option program, benefit plan or compensation program, and (b) any issuance by a Subsidiary to the Borrower or another Subsidiary), in an amount equal to 100% of such Net Cash Proceeds.

(E) *Term Loan Prepayments* .

(i) *No Premium for Prepayment* . Provided that no Event of Default then exists under this Agreement or the Loans, the Borrower may voluntarily prepay the principal balance of the Term Loan without premium, in whole or in part at any time on or after the date hereof, subject to the following conditions:

(a) Not less than thirty (30) days prior to the date upon which the Borrower desires to make such prepayment, the Borrower shall deliver to the Bank written notice of its intention to prepay the Term Loan, which notice shall be irrevocable and state the prepayment amount and the prepayment date; and

(b) The Borrower shall pay to the Bank all accrued and unpaid interest on the Term Loan through the date of such prepayment on the principal balance being prepaid. Each prepayment of the Term Loan shall be applied to the scheduled installments of the Term Loan in inverse order of maturity.

2.3. Additional LIBOR Loan Provisions.

(A) *LIBOR Loan Prepayments* . Notwithstanding anything to the contrary contained herein, the principal balance of any LIBOR Loan may not be prepaid in whole or in part at any time. If, for any reason, a LIBOR Loan is paid prior to the last Business Day of any Interest Period, whether voluntary, involuntary, by reason of acceleration or otherwise, each such prepayment of a LIBOR Loan will be accompanied by the amount of accrued interest on the amount prepaid and any and all costs, expenses, penalties and charges incurred by the Bank as a result of the early termination or breakage of a LIBOR Loan, plus the amount, if any, by which (i) the additional interest which would have been payable during the Interest Period on the LIBOR Loan prepaid had it not been prepaid, exceeds (ii) the

interest which would have been recoverable by the Bank by placing the amount prepaid on deposit in the domestic certificate of deposit market, the eurodollar deposit market, or other appropriate money market selected by the Bank, for a period starting on the date on which it was prepaid and ending on the last day of the Interest Period for such LIBOR Loan. The amount of any such loss or expense payable by the Borrower to the Bank under this section shall be determined in the Bank's sole discretion based upon the assumption that the Bank funded its loan commitment for LIBOR Loans in the London Interbank Eurodollar market and using any reasonable attribution or averaging methods which the Bank deems appropriate and practical, provided, however, that the Bank is not obligated to accept a deposit in the London Interbank Eurodollar market in order to charge interest on a LIBOR Loan at the LIBOR Rate.

(B) *LIBOR Unavailability* . If the Bank determines in good faith (which determination shall be conclusive, absent manifest error) prior to the commencement of any Interest Period that (i) the making or maintenance of any LIBOR Loan would violate any applicable law, rule, regulation or directive, whether or not having the force of law, (ii) United States dollar deposits in the principal amount, and for periods equal to the Interest Period for funding any LIBOR Loan are not available in the London Interbank Eurodollar market in the ordinary course of business, (iii) by reason of circumstances affecting the London Interbank Eurodollar market, adequate and fair means do not exist for ascertaining the LIBOR Rate to be applicable to the relevant LIBOR Loan, or (iv) the LIBOR Rate does not accurately reflect the cost to the Bank of a LIBOR Loan, the Bank shall promptly notify the Borrower thereof and, so long as the foregoing conditions continue, none of the Loans may be advanced as a LIBOR Loan thereafter. In addition, at the Borrower's option, each existing LIBOR Loan shall be immediately (i) converted to a Prime Loan on the last Business Day of the then existing Interest Period, or (ii) due and payable on the last Business Day of the then existing Interest Period, without further demand, presentment, protest or notice of any kind, all of which are hereby waived by the Borrower.

(C) *Regulatory Change* . In addition, if, after the date hereof, a Regulatory Change shall, in the reasonable determination of the Bank, make it unlawful for the Bank to make or maintain the LIBOR Loans, then the Bank shall promptly notify the Borrower and none of the Loans may be advanced as a LIBOR Loan thereafter. In addition, at the Borrower's option, each existing LIBOR Loan shall be immediately (i) converted to a Prime Loan on the last Business Day of the then existing Interest Period or on such earlier date as required by law, or (ii) due and payable on the last Business Day of the then existing Interest Period or on such earlier date as required by law, all without further demand, presentment, protest or notice of any kind, all of which are hereby waived by the Borrower.

(D) *LIBOR Indemnity* . If any Regulatory Change, or compliance by the Bank or any Person controlling the Bank with any request or directive of any governmental authority, central bank or comparable agency (whether or not having the force of law) shall (a) impose, modify or deem applicable any assessment, reserve, special deposit or similar requirement against assets held by, or deposits in or for the account of or loans by, or any other acquisition of funds or disbursements by, the Bank; (b) subject the Bank or any LIBOR Loan to any tax, duty, charge, stamp tax or fee or change the basis of taxation of payments to the Bank of principal or interest due from the Borrower to the Bank hereunder (other than a change in the taxation of the overall net income of the Bank); or (c) impose on the Bank any other condition regarding such LIBOR Loan or the Bank's funding thereof, and the Bank shall determine (which determination shall be conclusive, absent manifest error) that the result of the foregoing is to increase the cost to, or to impose a cost on, the Bank or such controlling Person of making or maintaining such LIBOR Loan or to reduce the amount of principal or interest received by the Bank hereunder, then the Borrower shall pay to the Bank or such controlling Person, on demand, such additional amounts as the Bank shall, from time to time, determine are sufficient to compensate and indemnify the Bank for such increased cost or reduced amount.

(E) *Interest Periods* . The first Interest Period for the LIBOR Loan shall commence on August 31, 2006. The final Interest Period must be such that its expiration occurs on or before the Term Loan Maturity Date or the

Revolving Credit Loan Maturity Date.

(F) *Renewal*. Each LIBOR Loan shall automatically renew for the Interest Period, at the then current LIBOR Rate unless the Borrower, pursuant to a subsequent notice received by the Bank, shall convert all or a portion of such LIBOR Loan to a Prime Loan. Each Interest Period occurring after the initial Interest Period with respect to any LIBOR Loan shall commence on the same day of each applicable month as the first day of the initial Interest Period. Whenever the last day of any Interest Period with respect to any LIBOR Loan would otherwise occur on a day other than a Business Day, the last day of such Interest Period shall be extended to occur on the next succeeding Business Day. Whenever an Interest Period with respect to any LIBOR Loan would otherwise end on a day of a month for which there is no numerically corresponding day in the calendar month, such Interest Period shall end on the last day of such calendar month, unless such day is not a Business Day, in which event such Interest Period shall be extended to end on the next Business Day. Upon receipt by the Bank of such subsequent notice, the Borrower may, subject to the terms and conditions of this Agreement, elect, as of the last day of the applicable Interest Period, to continue any LIBOR Loan having an Interest Period expiring on such day for a new Interest Period, or to convert any such LIBOR Loan to a Prime Loan. Such notice shall, in the case of a conversion to a Prime Loan, be given before 11:00 a.m., Chicago time, on the proposed date of such conversion, specifying: (i) the proposed date of conversion; (ii) the aggregate amount of Loans to be converted; and (iii) the type of Loans resulting from the proposed conversion. The Borrower may not elect a LIBOR Rate, and an Interest Period for a LIBOR Loan shall not automatically renew, with respect to any principal amount which is scheduled to be repaid before the last day of the applicable Interest Period, and any such amounts shall bear interest at the Prime Rate, until repaid.

2.4. Excessive Interest. If, at any time, the interest rate and other charges imposed hereunder shall be deemed by any competent Governmental Authority to exceed the maximum rate of interest permitted by any applicable Laws, for such time as the interest and such charges would be deemed excessive, its application shall be suspended and there shall be charged instead the maximum rate of interest and charges permissible under such Laws.

2.5. Application of Payments. All payments, which are not prepayments, received from the Borrower for payment on the Loans shall be applied by the Bank first to unpaid interest due and payable on the Loan, second to any unpaid fees or expenses incurred by or owed to the Bank, third to any late charges or fees, and fourth to the reduction of the principal outstanding on the Loan; provided, however, while applying payments to unpaid interest the Bank shall have the sole discretion to decide whether to apply such payments first to unpaid interest due and payable to the LIBOR Loans or to unpaid interest due and payable on the Prime Loans.

2.6. Facility Fee. The Borrower shall pay to Bank a non-refundable facility fee for the Term Loan in an amount equal to Fifteen Thousand Dollars and 00/100 (\$15,000.00).

2.7. No Setoff. All payments received from the Borrower hereunder shall be paid directly to the Bank without setoff or counterclaim in immediately available funds. The Bank shall send the Borrower statements of all amounts due hereunder, which statements shall be considered correct and conclusively binding on the Borrower absent manifest error.

2.8. Change in Regulations.

(A) If (x) Regulation D of the Board of Governors of the Federal Reserve System, or (y) the adoption of any applicable Law, treaty, rule, regulation or guideline, or any change therein, or any change in the interpretation or administration thereof by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by Bank or its lending branch with any request or directive (whether or not having the force of Law) of any such authority, central bank or comparable agency, (a) shall subject

Bank, its lending branch or any Loan to any tax, duty, change, stamp tax, fee, deduction, withholding or other charge in respect of this Agreement, any Loan or the obligation of Bank to make or maintain any Loan, or shall change the basis of taxation of payments to Bank of the principal of or interest on any Loan or any other amounts due under this Agreement in respect of any Loan or its obligation to make or maintain any Loan (except for changes in the rate of tax on the overall net income of Bank imposed by the federal, state or local jurisdiction in which Bank's principal executive office or its lending branch is located); (b) shall impose, modify or deem applicable any reserve (including, without limitation, any reserve imposed by the Board of Governors of the Federal Reserve System), special deposit or similar requirement against assets of, deposits with or for the account of, or credit extended by, Bank; or (c) shall impose on Bank any penalty with respect to the foregoing or any other condition affecting this Agreement, the Loan or the obligation of Bank to make or maintain the Loan; and the result of any of (a) through (c) above is to increase the cost to (or to impose a cost on) Bank of making or maintaining the Loan, or to reduce the amount of any sum received or receivable by Bank under this Agreement then Bank shall notify Borrower after it receives final notice of any of the foregoing and, within 45 days after demand by Bank (which demand shall be accompanied by a statement setting forth the basis of such demand), Borrower shall pay directly to Bank such additional amount or amounts as will compensate the Bank for such increased cost or such reduction.

(B) If either (i) the introduction of or any change in or change in the interpretation of any Law or regulation or (ii) compliance by Bank with any guideline or request from any central bank or other governmental authority (whether or not having the force of Law) affects or would affect the amount of capital required or expected to be maintained by Bank or any corporation controlling Bank and Bank determines that the amount of such capital is increased solely by or solely based upon the existence of Bank's commitment to lend hereunder and other commitments of this type, then, upon demand by Bank, Borrower shall immediately pay to Bank, from time to time as specified by Bank, additional amounts sufficient to compensate Bank in the light of such circumstances, to the extent that Bank reasonably determines such increase in capital to be allocable to the existence of Bank's commitment to lend hereunder.

ARTICLE 3

CONDITIONS PRECEDENT

The obligation of the Bank to make the Loans is subject to the following conditions precedent:

3.1. Loan Documents . The Borrower shall have delivered or caused to be delivered to the Bank on the Closing Date the following Loan Documents, each to be satisfactory to the Bank in all respects:

(A) *Loan Agreement* . Two copies of this Agreement duly executed by the Borrower.

(B) *Revolving Credit Note* . A Revolving Credit Note duly executed by the Borrower, substantially in the form attached hereto as **Exhibit A** .

(C) *Term Note* . A Term Note duly executed by the Borrower, substantially in the form attached hereto as **Exhibit B** .

(D) *Closing Certificate* . A certificate of the secretary or an assistant secretary of the Borrower, dated the date of the Closing Date, as to incumbency, resolutions, charter, bylaws, and such other matters as Bank shall require.

(E) *Good Standing Certificate* . A certificate, dated within 30 days of the Closing Date, of the Secretary

of State of Delaware evidencing the good standing of the Borrower.

(F) *Insurance*. Evidence of insurance in the amounts and in form required under this Agreement.

(G) *Additional Documents*. Such other documents, certificates or evidence as the Bank may request to consummate the transactions contemplated hereby.

3.2. Additional Events. At the time of the Closing, at the time of each subsequent disbursement under the Term Loan Commitment and the Revolving Credit Loan Commitment and on the last day of each fiscal quarter of the Borrower after the date hereof, each of the following statements shall be true.

(A) *Representations and Warranties*. The representations and warranties set forth in this Agreement are true and correct as of such date.

(B) *Event of Default*. No Event of Default shall have occurred and be continuing, and no event shall have occurred and be continuing that, with the giving of notice or passage of time or both, would be an Event of Default.

(C) *Material Adverse Effect*. No event having a Material Adverse Effect shall have occurred with respect to the financial condition of the Borrower since the date of this Agreement.

(D) *Liens*. All liens on Collateral are and remain valid first priority liens (subject only to Permitted Liens) in full force and effect.

(E) *Litigation*. No litigation or governmental proceeding shall have been instituted against the Borrower or any of its officers or shareholders having a Material Adverse Effect upon the Borrower.

(F) *Facility Fee*. The Borrower shall have paid to the Bank a facility fee in the amount of Fifteen Thousand and 00/100 Dollars (\$15,000.00) payable on the execution of this Agreement.

ARTICLE 4

NOTE EVIDENCING LOAN

4.1. Revolving Credit Note. The Revolving Credit Loan shall be evidenced by the Revolving Credit Note. At the time of the disbursement of the Revolving Credit Loan or a repayment made in whole or in part thereon, a notation thereof shall be made on the books and records of the Bank. All amounts recorded shall be, absent demonstrable error, conclusive and binding evidence of (A) the principal amount of the Revolving Credit Loan advanced hereunder, (B) any accrued and unpaid interest owing on the Revolving Credit Loan and (C) all amounts repaid on the Revolving Credit Loan. The failure to record any such amount or any error in recording such amounts shall not, however, limit or otherwise affect the obligations of the Borrower under the Revolving Credit Note to repay the principal amount of the Revolving Credit Loan, together with all interest accruing thereon.

4.2. Term Note. The Term Loan shall be evidenced by the Term Note. At the time of the disbursement of the Term Loan or a repayment made in whole or in part thereon, a notation thereof shall be made on the books and records of the Bank. All amounts recorded shall be, absent demonstrable error, conclusive and binding evidence of (A) the principal amount of the Term Loan advanced hereunder, (B) any accrued and unpaid interest owing on the Term Loan and (C) all amounts repaid on the Term Loan. The failure to record any such amount or any error in recording such amounts shall not, however, limit or otherwise affect the obligations of the Borrower under the Term Note to repay the principal amount of the Term Loan, together with all interest accruing thereon.

ARTICLE 5

SECURITY AGREEMENT

5.1. Collateral. The property in which a security interest is granted pursuant to the provisions of Sections 5.2 and 5.3 is herein collectively called the "Collateral." The Collateral, together with all of the Borrower's other property of any kind held by the Bank, shall stand as one general, continuing collateral security for all Obligations of the Borrower to the Bank and may be retained by the Bank until all such Obligations have been satisfied in full, and this Agreement is terminated.

5.2. Security for Obligations. As security for the prompt satisfaction of all Obligations of the Borrower to the Bank, the Borrower hereby assigns, transfers and sets over to the Bank all of its right, title and interest in and to, and grants the Bank a lien on and a security interest in, all amounts that may be owing from time to time by the Bank to the Borrower in any capacity, including, but without limitation, any balance or share belonging to the Borrower of any deposit or other account with the Bank, which lien and security interest shall be independent of any right of set-off which the Bank may have.

5.3. Grant of Security Interest. As security for the payment of all Obligations of the Borrower to the Bank, the Borrower hereby assigns to Bank, and grants to Bank a continuing security interest in, the following, whether now or hereafter existing or acquired:

(A) all property of, or for the account of, the Borrower now or hereafter coming into the possession, control or custody of, or in transit to, the Bank or any agent or bailee for the Bank or any parent, Affiliate or Subsidiary of the Bank or any participant with the Bank in the Loans (whether for safekeeping, deposit, collection, custody, pledge, transmission or otherwise), including all earnings, dividends, interest, or other rights in connection therewith and the products and proceeds therefrom, including the proceeds of insurance thereon; and

(B) the additional property of the Borrower, whether now existing or hereafter arising or acquired, and wherever now or hereafter located, together with all additions and accessions thereto, substitutions, betterments and replacements therefor, products and Proceeds therefrom, and all of the Borrower's books and records and recorded data relating thereto (regardless of the medium of recording or storage), together with all of the Borrower's right, title and interest in and to all computer software required to utilize, create, maintain and process any such records or data on electronic media, identified and set forth as follows:

- (i) All Accounts and all Goods whose sale, lease or other disposition by the Borrower has given rise to Accounts and have been returned to, or repossessed or stopped in transit by, the Borrower, or rejected or refused by an Account Debtor;
- (ii) All Inventory, including, without limitation, raw materials, work-in-process and finished goods;
- (iii) All Goods (other than Inventory), including, without limitation, embedded software, Equipment, vehicles, furniture and Fixtures;
- (iv) All Software and computer programs;
- (v) All Securities, Investment Property, Financial Assets and Deposit Accounts;
- (vi) All Chattel Paper, Electronic Chattel Paper, Instruments, Documents, Letter of Credit Rights,

all proceeds of letters of credit, Health-Care-Insurance Receivables, Supporting Obligations, notes secured by real estate, Commercial Tort Claims and General Intangibles, including Payment Intangibles; and

(vii) All Proceeds (whether Cash Proceeds or Noncash Proceeds) of the foregoing property, including, without limitation, all insurance policies and proceeds of insurance payable by reason of loss or damage to the foregoing property, including unearned premiums, and of eminent domain or condemnation awards.

Borrower warrants that: (i) no financing statement (other than “Permitted Liens”) covering any of the Collateral is on file in any public office; (ii) Borrower is and will be the lawful owner of all Collateral, free of all liens and claims whatsoever, other than the security interest hereunder and Permitted Liens, with full power and authority to execute this Agreement and perform Borrower’s obligations hereunder, and to subject the Collateral to the security interest hereunder; (iii) all information with respect to Collateral and Account Debtors set forth in any schedule, certificate or other writing at any time heretofore or hereafter furnished by Borrower to Bank is and will be true and correct in all material respects as of the date furnished; (iv) Borrower’s state of incorporation or organization, Type of Organization, Organizational I.D. Number and place of business (or, if Borrower has more than one place of business, its chief executive office) are as set forth on Schedule 5.3(a) hereto (and Borrower has not changed its state of incorporation or organization, nor maintained its place of business (or, if Borrower has more than one place of business, its chief executive office) at any other location at any time); (v) each other location where Borrower maintains a place of business is set forth on Schedule 5.3(b) hereto; (vi) except as set forth on Schedule 5.3(c) hereto, Borrower is not now known and during the five years preceding the date hereof has not previously been known by any trade name; (vii) Borrower’s exact legal name is as set forth on the signature pages of this Agreement, except as set forth on Schedule 5.3(c) hereto, during the five years preceding the date hereof Borrower has not been known by any legal name different from the one set forth on the signature pages of this Agreement nor has Borrower been the subject of any merger or other corporate or organizational reorganization; (viii) Schedule 5.3(d) hereto contains a complete listing of all of Borrower’s Intellectual Property which is subject to registration statutes; (ix) Schedule 5.3(e) hereto contains a complete listing of all of Borrower’s Instruments, Deposit Accounts, Investment Property, Letter-of-Credit Rights, Chattel Paper, Documents and Commercial Tort Claims; (x) except as set forth on Schedule 5.3(f) hereto, Borrower has no tangible Collateral located outside of the United States; (xi) Schedule 5.3(g) hereto contains a complete listing of Borrower’s tangible Collateral located with any bailee, warehousemen or other third parties; and (xii) Schedule 5.3(h) hereto contains a complete listing of all of such Collateral which is subject to certificate of title statutes.

5.4. Possession and Transfer of Collateral. Unless an Event of Default exists hereunder, the Borrower shall be entitled to possession or use of the Collateral (other than Instruments or Documents, Tangible Chattel Paper, Investment Property consisting of certificated securities and other Collateral required to be delivered to the Bank pursuant to this ARTICLE 5). The cancellation or surrender of any Note, upon payment or otherwise, shall not affect the right of the Bank to retain the Collateral for any other of the Obligations. The Borrower shall not sell, assign (by operation of Law or otherwise), license, lease or otherwise dispose of, or grant any option with respect to any of the Collateral, except that the Borrower may sell Inventory in the ordinary course of business.

5.5. Financing Statements. The Borrower shall, at the Bank’s request, at any time and from time to time, execute and deliver to the Bank such financing statements, amendments and other documents and do such acts as the Bank deems necessary in order to establish and maintain valid, attached and perfected first priority security interests in the Collateral in favor of the Bank, free and clear of all Liens and claims and rights of third parties whatsoever, except Permitted Liens. The Borrower hereby irrevocably authorizes the Bank at any time, and from time to time, to file in any jurisdiction any initial financing statements and amendments thereto without the signature of the Borrower that (a) indicate the Collateral (i) is comprised of all assets of the Borrower or words of similar effect, regardless of whether any particular asset comprising a part of the Collateral falls within the scope of Article 9 of the Uniform Commercial Code of the jurisdiction wherein such financing statement or amendment is filed, or (ii) as being of an equal or lesser scope or within greater detail as the grant of the security interest set forth herein, and (b) contain any other information required by Section 5 of Article 9 of the Uniform

Commercial Code of the jurisdiction wherein such financing statement or amendment is filed regarding the sufficiency or filing office acceptance of any financing statement or amendment, including (i) whether the Borrower is an organization, the type of organization and any Organizational Identification Number issued to the Borrower, and (ii) in the case of a financing statement filed as a fixture filing or indicating Collateral as as-extracted collateral or timber to be cut, a sufficient description of the real property to which the Collateral relates. The Borrower hereby agrees that a photocopy or other reproduction of this Agreement is sufficient for filing as a financing statement and the Borrower authorizes the Bank to file this Agreement as a financing statement in any jurisdiction. The Borrower agrees to furnish any such information to the Bank promptly upon request. The Borrower further ratifies and affirms its authorization for any financing statements and/or amendments thereto, executed and filed by the Bank in any jurisdiction prior to the date of this Agreement. In addition, the Borrower shall make appropriate entries on its books and records disclosing the Bank's security interests in the Collateral.

5.6. Additional Collateral. The Borrower shall deliver to the Bank immediately upon its demand, such other collateral as the Bank may from time to time request, should the value of the Collateral, in the Bank's sole and absolute discretion, decline, deteriorate, depreciate or become impaired, and does hereby grant to the Bank a continuing security interest in such other collateral, which, when pledged, assigned and transferred to the Bank shall be and become part of the Collateral. The Bank's security interests in all of the foregoing Collateral shall be valid, complete and perfected whether or not covered by a specific assignment.

5.7. Preservation of the Collateral. The Bank may, but is not required, to take such actions from time to time as the Bank deems appropriate to maintain or protect the Collateral. The Bank shall have exercised reasonable care in the custody and preservation of the Collateral if the Bank takes such action as the Borrower shall reasonably request in writing which is not inconsistent with the Bank's status as a secured party, but the failure of the Bank to comply with any such request shall not be deemed a failure to exercise reasonable care; provided, however, the Bank's responsibility for the safekeeping of the Collateral shall (i) be deemed reasonable if such Collateral is accorded treatment substantially equal to that which the Bank accords its own property, and (ii) not extend to matters beyond the control of the Bank, including, without limitation, acts of God, war, insurrection, riot or governmental actions. In addition, any failure of the Bank to preserve or protect any rights with respect to the Collateral against prior or third parties, or to do any act with respect to preservation of the Collateral, not so requested by the Borrower, shall not be deemed a failure to exercise reasonable care in the custody or preservation of the Collateral. The Borrower shall have the sole responsibility for taking such action as may be necessary, from time to time, to preserve all rights of the Borrower and the Bank in the Collateral against prior or third parties. Without limiting the generality of the foregoing, where Collateral consists in whole or in part of securities, the Borrower represents to, and covenants with, the Bank that the Borrower has made arrangements for keeping informed of changes or potential changes affecting the securities (including, but not limited to, rights to convert or subscribe, payment of dividends, reorganization or other exchanges, tender offers and voting rights), and the Borrower agrees that the Bank shall have no responsibility or liability for informing the Borrower of any such or other changes or potential changes or for taking any action or omitting to take any action with respect thereto.

5.8. Other Actions as to any and all Collateral. The Borrower further agrees to take any other action reasonably requested by the Bank to ensure the attachment, perfection and first priority of, and the ability of the Bank to enforce, the Bank's security interest in any and all of the Collateral including, without limitation, (a) causing the Bank's name to be noted as secured party on any certificate of title for a titled good if such notation is a condition to attachment, perfection or priority of, or ability of the Bank to enforce, the Bank's security interest in such Collateral, (b) complying with any provision of any statute, regulation or treaty of the United States as to any Collateral if

compliance with such provision is a condition to attachment, perfection or priority of, or ability of the Bank to enforce, the Bank's security interest in such Collateral, (c) obtaining governmental and other third party consents and approvals, including without limitation any consent of any licensor, lessor or other Person obligated on Collateral, (d) obtaining waivers from mortgagees and landlords in form and substance satisfactory to the Bank, and (e) taking all actions required by the UCC in effect from time to time or by other Law, as applicable in any relevant UCC jurisdiction, or by other Law as applicable in any foreign jurisdiction. The Borrower further agrees to indemnify and hold the Bank harmless against claims of any Persons not a party to this Agreement concerning disputes arising over the Collateral.

5.9. Collateral in the Possession of a Warehouseman or Bailee. If any of the Collateral at any time is in the possession of a warehouseman or bailee, the Borrower shall promptly notify the Bank thereof, and shall promptly obtain a Collateral Access Agreement.

5.10. Lockbox Arrangement. The Borrower shall direct all of its Account Debtors to make all payments on the Accounts directly to a post office box (the "Lockbox") designated by, and under the exclusive control of, the Bank. Pursuant to the Lockbox Agreement between the Borrower and the Bank dated _____, 200____, the Borrower shall establish the Lockbox and an account (the "Lockbox Account") in the Borrower's name with the Bank into which all payments received in the Lockbox shall be deposited, and into which the Borrower will immediately deposit all payments made for Inventory sold by the Borrower or the performance of services by the Borrower, and received by the Borrower in the identical form in which such payments were made, whether by cash or check. If the Borrower, a Subsidiary or any director, officer, employee, agent of the Borrower or any Subsidiary, or any other Person acting for or in concert with the Borrower shall receive any monies, checks, notes, drafts or other payments relating to or as proceeds of Accounts or other Collateral, the Borrower and each such Person shall receive all such items in trust for, and as the sole and exclusive property of, the Bank and, immediately upon receipt thereof, shall remit the same (or cause the same to be remitted) in kind to the Lockbox Account. The Borrower agrees that all payments made to such Lockbox and Lockbox Account or otherwise received by the Bank, whether in respect of the Accounts or as proceeds of other Collateral or otherwise, will be applied on account of the Revolving Credit Loan or the Term Loan and in accordance with Section 2.5 of this Agreement. The Borrower agrees to pay all fees, costs and expenses which the Bank incurs in connection with opening and maintaining the Lockbox and the Lockbox Account and depositing for collection by the Bank any check or other item of payment received by the Bank on account of the Obligations of the Borrower. All of such fees, costs and expenses shall constitute Obligations of the Borrower hereunder, shall be payable to the Bank by the Borrower upon demand, and, until paid, shall bear interest at the Default Rate. All checks, drafts, instruments and other items of payment or proceeds of Collateral shall be endorsed by the Borrower to the Bank, and, if that endorsement of any such item shall not be made for any reason, the Bank is hereby irrevocably authorized to endorse the same on the Borrower's behalf. For the purpose of this section, the Borrower irrevocably hereby makes, constitutes and appoints the Bank (and all Persons designated by the Bank for that purpose) as the Borrower's true and lawful attorney and agent-in-fact (i) to endorse the Borrower's name upon such items of payment and/or proceeds of Collateral and upon any Chattel Paper, document, instrument, invoice or similar document or agreement relating to any Account of the Borrower or goods pertaining thereto; (ii) to take control in any manner of any item of payment or proceeds thereof; and (iii) to have access to any lock box or postal box into which any of the Borrower's mail is deposited, and open and process all mail addressed to the Borrower and deposited therein.

5.11. Letter-of-Credit Rights. If the Borrower at any time is a beneficiary under a letter of credit now or hereafter issued in favor of the Borrower, the Borrower shall promptly notify the Bank thereof and, at the request and option of the Bank, the Borrower shall, pursuant to an agreement in form and substance satisfactory to the Bank, either (i) arrange for the issuer and any confirmer of such letter of credit to consent to an assignment to the Bank of the proceeds of any drawing under the letter of credit, or (ii) arrange for the Bank to become the transferee beneficiary of

the letter of credit, with the Bank agreeing, in each case, that the proceeds of any drawing under the letter to credit are to be applied as provided in this Agreement.

5.12. Commercial Tort Claims. If the Borrower shall at any time hold or acquire a Commercial Tort Claim, the Borrower shall immediately notify the Bank in writing signed by the Borrower of the details thereof and grant to the Bank in such writing a security interest therein and in the proceeds thereof, all upon the terms of this Agreement, in each case in form and substance satisfactory to the Bank, and shall execute any amendments hereto deemed reasonably necessary by the Bank to perfect its security interest in such Commercial Tort Claim.

5.13. Electronic Chattel Paper and Transferable Records. If the Borrower at any time holds or acquires an interest in any electronic chattel paper or any “transferable record”, as that term is defined in Section 201 of the federal Electronic Signatures in Global and National Commerce Act, or in Section 16 of the Uniform Electronic Transactions Act as in effect in any relevant jurisdiction, the Borrower shall promptly notify the Bank thereof and, at the request of the Bank, shall take such action as the Bank may reasonably request to vest in the Bank control under Section 9-105 of the UCC of such electronic chattel paper or control under Section 201 of the federal Electronic Signatures in Global and National Commerce Act or, as the case may be, Section 16 of the Uniform Electronic Transactions Act, as so in effect in such jurisdiction, of such transferable record. The Bank agrees with the Borrower that the Bank will arrange, pursuant to procedures satisfactory to the Bank and so long as such procedures will not result in the Bank’s loss of control, for the Borrower to make alterations to the electronic chattel paper or transferable record permitted under Section 9-105 of the UCC or, as the case may be, Section 201 of the federal Electronic Signatures in Global and National Commerce Act or Section 16 of the Uniform Electronic Transactions Act for a party in control to make without loss of control.

5.14. Priority. The liens created in Sections 5.2 and 5.3 shall be first and prior liens, subject only to Permitted Liens.

5.15. Special Collateral. Immediately upon the Borrower’s receipt of that portion of the Collateral, if any, which is evidenced by an instrument and/or document, including promissory notes, documents of title, certificated securities and warehouse receipts (collectively the “Special Collateral”) for the purpose of perfecting the Bank’s security interest in such Special Collateral, the Borrower shall deliver the original thereof to the Bank, together with appropriate endorsements and/or specific evidence of the assignment thereof to the Bank, in form and substance acceptable to the Bank.

5.16. Government Contracts. If and to the extent that any of the Collateral is evidenced by, or arises under, any contract with the United States of America or any agency or instrumentality thereof, the Borrower will immediately notify the Bank.

5.17. Insurance. The Borrower shall, at its sole cost and expense, keep and maintain the Collateral insured for the greater of the full insurable value or the full replacement value thereof against loss or damage by fire, theft, explosions, sprinklers and all other hazards and risks (i) covered by extended coverage and/or (ii) ordinarily insured against by other owners or users of properties in similar businesses. All such policies of insurance shall be in form, with insurers and in such amounts as may be satisfactory to the Bank. The Borrower shall deliver to the Bank a certificate of insurance with respect to each policy of insurance and evidence of payment of all premiums for each such policy. Such policies of insurance shall contain a lender’s loss payable endorsement, in form and substance acceptable to the Bank, showing loss payable to the Bank. Such endorsement or an independent instrument furnished to the Bank shall provide that all insurance companies shall give the Bank at least thirty (30) days prior written notice before any such policy or policies of insurance shall be altered or cancelled and that no act or default of the Borrower or any other Person shall affect the right of the Bank to recover under such policy or policies of

insurance in case of loss or damage. The Borrower hereby directs all insurers under such policies of insurance to pay all proceeds payable thereunder directly to the Bank. The Borrower irrevocably appoints the Bank and all officers, employees or agents designated by the Bank as the Borrower's true and lawful attorney and agent in fact for the purpose of making, settling and adjusting claims under such policies of insurance, endorsing the name of the Borrower on any check, draft, instrument or other item of payment for the proceeds of such policies of insurance and for making all determinations and decisions with respect to such policies of insurance. If Borrower at any time or times hereafter shall fail to obtain or maintain any of the policies of insurance required above, or to pay any premium in whole or in part relating thereto, the Bank, without waiving or releasing any of the Obligations of the Borrower or any Event of Default, may at any time or times thereafter, but shall be under no obligation to do so, obtain and maintain such policies of insurance and pay such premiums and take any other action with respect thereto which the Bank deems necessary or advisable. All sums so disbursed by the Bank, including attorney's fees, court costs, expenses and other charges relating thereto, shall be part of the Obligations of the Borrower to the Bank, payable by the Borrower to the Bank on demand.

5.18. Assignment of Liens. The Bank may, at any time or times hereafter, in its sole discretion, without waiving or releasing any obligation, liability or duty of the Borrower under this Agreement or the other Loan Documents, or any Event of Default, pay, acquire and/or accept an assignment of any security interest, lien, claim or encumbrance asserted by any Person against the Collateral. All sums paid by the Bank in respect thereof and all costs, fees and expenses, including, without limitation, attorneys' fees, court costs, expenses and other charges relating thereto, which are incurred by the Bank on account thereof, shall be payable, upon demand, by the Borrower to the Bank and shall be additional Obligations of the Borrower to the Bank hereunder secured by the Collateral.

5.19. Survival. Each of the representations, warranties and agreements set forth in this ARTICLE 5 shall survive the execution and delivery of this Agreement and shall remain effective until this Agreement shall have been terminated and all Obligations of the Borrower shall have been paid and satisfied in full.

ARTICLE 6

REPRESENTATIONS AND WARRANTIES

To induce the Bank to consummate the transactions contemplated hereby, the Borrower represents and warrants to the Bank as follows:

6.1. Organization. The Borrower is a corporation duly organized, validly existing and in good standing under the Laws of the State of Delaware, has the lawful power and authority to own its properties and to carry on its business as now conducted, is qualified to do business and is in good standing as a foreign corporation in each jurisdiction wherein the nature of the business transacted or to be transacted by it or property owned or to be owned by it makes such qualification necessary and where the failure to be so qualified would have a Material Adverse Effect on its business, properties or condition, financial or otherwise and possesses all material permits necessary to operate the business it conducts.

6.2. Authorization; Binding Obligation. The Borrower is empowered to perform all acts and things undertaken and done pursuant to this Agreement and has taken all corporate or other action necessary to authorize the execution, delivery and performance of the Loan Documents. The officers of Borrower executing the Loan Documents have been duly elected or appointed and have been fully authorized to execute such Loan Documents at the time executed. The Loan Documents, when executed and delivered, will be the legal, valid and binding obligations of the Borrower, enforceable against it in accordance with their respective terms.

- 6.3. Financial Statements.** The Financial Statements are complete and accurate, fairly present the financial condition of the Borrower at the respective dates thereof and the results of operations for the respective periods covered thereby, and (subject to normal year-end adjustments with respect to interim Financial Statements) were prepared in accordance with GAAP. The Borrower does not have any material liabilities or obligations (contingent or otherwise), liability for taxes or unusual forward or long-term commitments, except as disclosed in the Financial Statements.
- 6.4. Events Subsequent.** Since the date of Borrower's most recent Financial Statements, there has been no event causing a Material Adverse Effect on the assets, liabilities or condition, financial or otherwise, of Borrower, other than changes arising from transactions in the ordinary course of business and the financing transactions contemplated by this Agreement.
- 6.5. Litigation.** Other than as set forth in the Financial Statements, there are no actions, suits or proceedings pending, or, to the best of the knowledge of the Borrower, threatened against or affecting the Borrower at law or in equity or before or by any Governmental Authority or any foreign equivalent thereof, which involve the possibility of any material judgment or liability, or which are, in the aggregate, material in light of the financial condition and assets of the Borrower. There are no actions, suits, investigations or proceedings pending, or to the best of the knowledge of the Borrower, threatened against the Borrower or its properties regarding Environmental Laws, the manufacture, storage or treatment of Hazardous Substances or products liability.
- 6.6. No Defaults.** The Borrower is not in violation of, and the execution and delivery of the Loan Documents and the performance by the Borrower of its obligations under the Loan Documents, do not and will not result in the Borrower being in violation of or in conflict with, or constitute a default under any of, the Borrower's organizational documents, any term or provision of any note, mortgage, indenture, contract, agreement, instrument, judgment or Law applicable to the Borrower, or result in the creation or imposition of any mortgage, lien, charge or encumbrance of any nature whatsoever (other than those in favor of Bank) upon any of the assets of the Borrower pursuant to any such term or provision. The Borrower is not in default, after the expiration of any applicable grace or cure periods, in any respect in the performance or fulfillment of any of its obligations, covenants or conditions contained in any agreement or instrument to which it is a party or by which any of its properties may be bound, and the Borrower does not know of any dispute regarding any such agreement or instrument.
- 6.7. Use of Proceeds.** The Borrower's uses of the proceeds of the Loans are, and will continue to be, legal and proper corporate uses which are consistent with all applicable Laws, with Borrower's Articles of Incorporation, its By-Laws, the resolutions of its Board of Directors, and the terms of this Agreement.
- 6.8. Other Debt.** The Borrower does not have outstanding any Debt (except to Bank, if any) or other obligation for borrowed money, or for the deferred purchase price of property or services and the Borrower is not obligated as guarantor, co-signer or otherwise on any Debt or other obligation of any kind of any other Person, except and to the extent shown on the Financial Statements at the date of this Agreement or incurred in the ordinary course of business. No Person is in default under any of said obligations.
- 6.9. Tax Returns.** All tax returns and reports of the Borrower required by Law to be filed, have been duly filed, and all taxes, assessments, fees and other governmental charges (other than those presently payable without penalty or interest) upon the Borrower or upon any of its properties or assets, which are due and payable, have been paid. The charges, accruals and reserves on the books of the Borrower in respect of taxes are considered adequate by the Borrower, and the Borrower does not know of any assessment of a material nature against it.
- 6.10. Compliance With Laws.** Except to the extent that failure to comply would not materially interfere with the

conduct of the business of the Borrower, or affect in any way the Borrower's obligations (or Bank's rights) under the Loan Documents, the Borrower has complied with all applicable Laws with respect to: (i) any restrictions, specifications or other requirements pertaining to the services Borrower performs, (ii) the conduct of its business and (iii) the use, maintenance, and operation of the real and personal properties owned or leased by it in the conduct of its business.

6.11. Authorization. No authorization, consent, license or approval of, or filing or registration with, or notification to, any Governmental Authority is required in connection with the execution, delivery or performance of the Loan Documents by the Borrower, except for filings necessary to perfect Bank's Lien on the Collateral.

6.12. Title to Assets. The Borrower has good and marketable title to all of its assets, all subject to no security interest, encumbrance, lien or claim of any Person excepting only Permitted Liens, and there are no financing statements or other evidence of any such security interest, encumbrance or lien or any claim of any Person on file in any public office other than those evidencing Permitted Liens.

6.13. Capital Securities. Except as set forth in Schedule 6.13, the Borrower does not own, directly or indirectly, any Capital Securities. All outstanding shares of the Borrower have been duly authorized, validly issued, fully paid and are nonassessable.

6.14. Benefit Plans. The Borrower has no liability in respect of any Defined Benefit Pension Plan, as defined in ERISA, and is not a party to any such plan.

6.15. Solvency. The Borrower is solvent, no transaction under or contemplated by this Agreement renders or will render the Borrower insolvent, the Borrower retains sufficient capital for the business and transactions in which it engages or intends to engage, no obligation incurred hereby is beyond the ability of the Borrower to pay as such obligation matures, the Borrower is not contemplating either the filing of a petition under any state or federal bankruptcy or insolvency Laws or the liquidating of all or a major portion of any of its property, and Borrower has no knowledge of any person contemplating the filing of any such petition against it.

6.16. Business Relationships. There exists no actual or to Borrower's knowledge threatened termination, cancellation or limitation of, or any modification or change in, the proposed business relationship of Borrower with any customer or group of customers whose purchases individually or in the aggregate are material to the current business of Borrower, or in the proposed business relationship of Borrower with any material supplier, and Borrower reasonably anticipates that all such customers and suppliers will continue a business relationship with Borrower on a basis no less favorable to the Borrower than that heretofore conducted; and there exists no other condition or state of facts or circumstances which would have a Material Adverse Effect on the current operation of the business of Borrower after the consummation of the transactions contemplated by this Agreement on a basis no less favorable to the Borrower than that on which it has heretofore been conducted by Borrower.

6.17. Disclosures. No representation or warranty by the Borrower contained herein or in any certificate or other document furnished by or on behalf of the Borrower in connection with the transactions hereunder contains any untrue statement of material fact or omits to state a material fact necessary to make such representation or warranty not misleading in light of the circumstances under which it was made.

6.18. Accounts. With respect to Accounts, except as otherwise disclosed by the Borrower to the Bank in writing:

- (A) the Accounts are genuine, in all respects what they purport to be and are not evidenced by a judgment;

(B) the Accounts represent undisputed, bona fide transactions completed in accordance with the terms and provisions contained in the invoices and other documents evidencing same;

(C) the amounts thereof, which are shown on all such invoices and statements, are actually and absolutely owing to the Borrower and are not contingent for any reason;

(D) there are no setoffs, counterclaims or disputes existing or asserted with respect to the Accounts and the Borrower has not made any agreement with any Account Debtor thereof for any deduction therefrom;

(E) there are no facts, events or occurrences which in any way impair the validity or enforceability of the Accounts or tend to reduce the amount payable thereunder from the amount thereof;

(F) to the best of the Borrower's knowledge, all of the Account Debtors have the capacity to contract and are solvent;

(G) none of the Accounts is pursuant to an invoice requiring payment in more than thirty (30) days.

6.19. Survival. All of the representations and warranties set forth in this ARTICLE 6 shall survive and continue to be true, complete and correct until all Obligations of the Borrower hereunder are paid and satisfied in full and this Agreement shall have been terminated.

ARTICLE 7

NEGATIVE COVENANTS

The Borrower covenants that until all Obligations of Borrower to the Bank are paid and satisfied in full, and the Bank's obligations hereunder have terminated, the Borrower will not, directly or indirectly, without the prior consent in writing of the Bank:

7.1. Liens. Except as provided in this Agreement, create, assume, incur or suffer or permit to exist any mortgage, pledge, encumbrance, security interest, assignment, lien or charge of any kind or character upon any of its assets, including its inventory and equipment, whether owned at the date hereof or hereafter acquired, excepting only Permitted Liens.

7.2. Make Other Loans. Make any loans, or advances, whether secured or unsecured, to, or make any guaranty of, or otherwise become obligated on behalf of any other Person for, any such loans or advances to, any Person, except for guaranties in favor of the Bank.

7.3. Disposal of Collateral. Dispose by sale, assignment, lease, sale and leaseback or otherwise any Collateral (other than obsolete or worn out Equipment not used or useful in its business), whether now owned or hereafter acquired, except that, so long as no Event of Default shall have occurred and be continuing, such Person may sell its Inventory in the ordinary course of business as conducted by it on the date of this Agreement, for a reasonably equivalent value.

7.4. Transfers. Transfer, directly or indirectly, any of its assets or pay out, directly or indirectly, money or property or provide services or do any other act, or fail to do any act, which would have a Material Adverse Effect on its ability to perform its obligations hereunder.

7.5. Acquisition of Capital Securities. Except as set forth on Schedule 6.13, own, hold, purchase or acquire

Capital Securities, bonds, debentures or other securities of, or make any capital contribution to, any Person, or form any Subsidiary.

7.6. Reorganization. Make any material change in its financial structure, make any material change in its management (except on prior notice to the Bank), change its name (except on 90 days prior notice to the Bank), enter into any merger, consolidation, dissolution, liquidation, reorganization or recapitalization, or reclassification of its Capital Securities, or issue any Capital Securities or issue any warrant, right or option pertaining thereto or other security convertible into any of the foregoing.

7.7. Change in Business Activities. Engage in business activities or operations substantially different from and unrelated to its business activities on the date of this Agreement.

7.8. Dividends. Declare or pay any dividends, or redeem or repurchase any of, or make any other payment or distribution on account of, any Capital Securities.

7.9. Sale-Leaseback Transactions. Enter into any sale-leaseback transaction.

7.10. Debt Prepayment. Prepay any Debt (except as expressly permitted hereunder, or by the documents evidencing other Senior Debt) or enter into or modify any agreement as a result of which the terms of payment of any Debt are waived or modified.

7.11. Use of Proceeds. Directly or indirectly apply any part of the proceeds of the Loans for any purpose other than as set forth herein.

7.12. Regulation U. Directly or indirectly apply any part of the proceeds of the Loans to the purchasing or carrying of any “margin stock” within the meaning of Regulation U of the Board of Governors of the Federal Reserve System, or any regulations, interpretations or rulings thereunder.

7.13. Prohibited Transactions. Engage in any “prohibited transaction” within the meaning of Section 4975 of the Internal Revenue Code or Section 406 of ERISA with respect to any “employee benefit plan,” as defined in Section 3(3) of ERISA; or effect any termination of any Plan which would result in a liability to Borrower.

7.14. Incur other Debt. Create, incur or assume any Debt other than (i) the Senior Debt, including the Loan, and (ii) Debt disclosed in Financial Statements provided to the Bank on or before the date hereof.

7.15. Inconsistent Agreements. Enter into any agreement containing any provision which would (A) be violated or breached by any borrowing by the Borrower hereunder or by the performance by the Borrower or any Subsidiary of any of its Obligations hereunder or under any other Loan Document, (B) prohibit the Borrower or any Subsidiary from granting to the Bank a Lien on any of its assets or (C) create or permit to exist or become effective any encumbrance or restriction on the ability of any Subsidiary to (i) pay dividends or make other distributions to the Borrower or any other Subsidiary, or pay any Debt owed to the Borrower or any other Subsidiary, (ii) make loans or advances to the Borrower or any other Subsidiary, or (iii) transfer any of its assets or properties to the Borrower or any other Subsidiary, other than (a) customary restrictions and conditions contained in agreements relating to the sale of all or a substantial part of the assets of any Subsidiary pending such sale, provided that such restrictions and conditions apply only to the Subsidiary to be sold and such sale is permitted hereunder, (b) restrictions or conditions imposed by any agreement relating to purchase money Debt, Capital Leases and other secured Debt permitted by this Agreement if such restrictions or conditions apply only to the property or assets securing such Debt, and (c) customary provisions in leases and other contracts restricting the assignment thereof.

7.16. Affiliate Transactions. Enter into, or be a party to, any transaction with any Affiliate, except in the ordinary course of and pursuant to the reasonable requirements of its business and upon fair and reasonable terms which are fully disclosed in writing to the Bank and are no less favorable to such Person than would be obtained in a comparable arm's length transaction with a person not an Affiliate.

7.17. Deposit Accounts. Maintain deposit accounts jointly with any Affiliate or commingle any funds with funds of any Affiliate.

7.18. Change in Fiscal Year. Change its fiscal year.

7.19. Disclosures. Furnish the Bank any certificate or other document that will contain any untrue statement of material fact or that will omit to state a material fact necessary to make it not misleading in light of the circumstances under which it was furnished.

ARTICLE 8

AFFIRMATIVE COVENANTS

The Borrower covenants that until all Obligations of the Borrower are paid and satisfied in full, and the Bank's obligations hereunder have terminated, the Borrower will:

8.1. Furnish and deliver to the Bank:

(A) as soon as practicable, and in any event within ninety (90) days after the end of each fiscal year, the Financial Statements of Borrower, audited by certified public accountants selected by the Borrower and reasonably acceptable to the Bank;

(B) as soon as practicable, and in any event within forty-five (45) days after the end of the each fiscal quarter of Borrower, (a) a statement of cash flows of the Borrower for such month and the quarter of the fiscal year then ended, (b) an income statement of the Borrower for such month and the portion of the fiscal year then ended, (c) an income statement of the Borrower showing the EBITDA for such month and the portion of the fiscal year then ended, and (d) a balance sheet of the Borrower as of the end of such month; all in reasonable detail and certified by an Authorized Borrower Representative as complete and accurate in all material respects, fairly presenting the financial condition of the Borrower and prepared in accordance with GAAP;

(C) within five (5) days of filing, copies of all statements, reports and notices made available to Borrower's security holders and all reports on Form 10-K, 10-Q and 8-K filed with the Securities and Exchange Commission;

(D) prompt notice of any material change in the composition of the Intellectual Property, including any subsequent ownership right of Borrower in or to any copyright, patent or trademark or knowledge of an event that has a Material Adverse Effect on the value of the Intellectual Property;

(E) with each set of Financial Statements delivered hereunder, a certificate of an Authorized Borrower Representative (a) calculating Borrower's compliance (or lack thereof) with the financial covenants in ARTICLE 8 hereof, in reasonable detail, and (b) stating that no Event of Default has occurred and is continuing or if an Event of Default has occurred and is continuing setting forth a description of such event and the steps being taken to remedy such event;

(F) upon request by the Bank, evidence satisfactory to the Bank of the insurance coverages required under this Agreement;

(G) with reasonable promptness, such other information materially concerning the business, properties, conditions or operations, financial or otherwise, of the Borrower, or compliance by the Borrower with any of the covenants in the Loan Documents, as the Bank may from time to time reasonably request; and

(H) allow Bank to audit Borrower's Collateral at Borrower's expense. Such audits will not be conducted more than once every twelve (12) months unless an Event of Default has occurred and is continuing.

8.2. Furnish and deliver to Bank:

(A) immediately after the occurrence thereof, notice of any Event of Default or of any fact, condition or event that with the giving of notice or passage of time or both, could become an Event of Default, or of the failure by the Borrower to observe any of its respective undertakings hereunder;

(B) immediately after the occurrence thereof, notice of any default under any Debt, or under any indenture, mortgage or other agreement relating thereto for which the Borrower is liable;

(C) immediately after obtaining knowledge thereof, notice of any litigation or proceeding in which the Borrower is a party involving potential claims in excess of \$100,000.00 (whether or not the claim is considered to be covered by insurance);

(D) immediately after receipt of notice thereof, notice of the institution of any other suit or proceeding involving the Borrower that might have a Material Adverse Effect on the Borrower's business, properties or conditions or operations, financial or otherwise; and

(E) immediately after the occurrence thereof, notice of any other matter which has resulted in, or might result in, a Material Adverse Effect on the business, properties, or the conditions or operations, financial or otherwise, of the Borrower.

8.3. Payment of Taxes. Promptly pay and discharge when due all taxes, assessments and other governmental charges imposed upon it, or upon its income, profits or property, and all claims for labor, material or supplies which, if unpaid, might by Law become a lien or charge upon its property; provided, however, that it shall not be required to pay any tax, assessment, charge or claim if so permitted by Law, so long as the validity thereof shall be contested in good faith by appropriate proceedings and adequate reserves therefor in accordance with GAAP shall be maintained on its books.

8.4. Maintain Property. Maintain its inventory, equipment, real estate and other properties in good condition and repair (normal wear and tear excepted), pay and discharge or cause to be paid and discharged when due, the costs of repairs to or maintenance of the same, and pay or cause to be paid all rental or mortgage payments due on the same except if it is in good faith contesting by appropriate proceedings such amounts due and is maintaining adequate reserves for such liability in accordance with GAAP.

8.5. Maintain Leases. Maintain and comply with leases covering real property, if any, used by it in accordance with the respective terms thereof so as to prevent any default thereunder which may result in the exercise or enforcement of any landlord's or other lien against it or its property; provided, however, that it may contest any matters in connection with such leases in good faith and by appropriate proceedings if it makes such payments as are required by Law and maintains adequate reserves on its books in accordance with GAAP in connection therewith.

8.6. Borrower Existence . Maintain its corporate existence, maintain all rights, privileges, franchises, permits and approvals necessary or desirable for the continuation of its business, and comply with the requirements of all material agreements to which it is a party or by which any of its assets is bound, and all applicable Laws, including Environmental Laws, and orders of any Governmental Authority, noncompliance with which would have a Material Adverse Effect on its business, properties, condition, financial or otherwise, or ability to repay its Obligations.

8.7. Maintain Records . Keep adequate records and books of account and inventory, in which complete entries will be made in accordance with its past practices and consistent with sound business practice, reflecting all of its financial transactions, and collect its accounts only in the ordinary course of business.

8.8. Collateral . With respect to the Collateral:

(A) The Borrower will not hereafter grant a security interest in the Collateral, or transfer the Collateral to any other Person, except as specifically permitted by this Agreement.

(B) The Borrower will at all times defend the Collateral against any and all claims of any Person adverse to the claims of the Bank.

(C) All Collateral covered by this Agreement is and will be kept only at Borrower's Principal Place of Business. Collateral shall not be removed to, or kept at, and Borrower shall not establish a place of business at, any other place without the prior written consent of the Bank. If Collateral is at any time kept or located at locations other than Borrower's Principal Place of Business, the Bank's security interest therein shall continue.

(D) The Borrower will promptly notify the Bank in writing of the Borrower's acquisition of any Non-Tangible Collateral hereafter occurring.

(E) The Equipment will not at any time be affixed or attached to any real estate in such a manner that it will become a fixture, unless the Bank shall have a first priority, perfected lien on such real estate as security for the Obligations of the Borrower. The Equipment will be used or bought for use solely for business purposes.

(F) The Borrower shall permit the Bank to inspect and evaluate the Collateral and any books and records of the Borrower relating thereto at all reasonable times and to verify any Accounts by any method satisfactory to the Bank, all at the expense and risk of the Borrower.

(G) The Borrower will keep its records concerning the Non-Tangible Collateral in such a manner as will enable Bank or its designees to determine at any time the status of the Non-Tangible Collateral;

(H) By identifying Accounts on any schedule or other document delivered to Bank the Borrower shall be deemed to be making the representations and warranties contained in Section 6.18 with respect to such Accounts.

(I) With respect to Accounts, the Borrower shall:

(i) promptly upon the Borrower's learning thereof, inform the Bank in writing of any delay in the Borrower's performance of any of its obligations to any Account Debtor and of any assertion of any claims, offsets or counterclaims by any Account Debtor and of any extraordinary allowances, credits and/or other monies granted by the Borrower to any Account Debtor;

(ii) not permit or agree to any extension, compromise or settlement or make any change or modification of any kind or nature with respect to any Eligible Accounts, including any of the terms relating thereto;

(iii) not permit or agree to any extension, compromise or settlement or make any change or modification of any kind or nature with respect to any Account other than Eligible Accounts;

(iv) promptly upon the Borrower's receipt or learning thereof, furnish to and inform the Bank of any event having a Material Adverse Effect with respect to the financial condition of any Account Debtor; and

(v) keep all goods returned by any Account Debtor and all goods repossessed or stopped in transit by the Borrower from any Account Debtor segregated from the other property of the Borrower, immediately notify the Bank of the Borrower's possession of such goods and hold the same as trustee for the Bank until otherwise directed in writing by the Bank.

(J) With respect to Inventory, the Borrower shall from and after the date hereof keep correct and accurate records itemizing and describing the type and quantity of Inventory, the Borrower's cost therefor and the selling price thereof, all of which records shall be available at all reasonable times, upon demand, to any of the Bank's officers, employees or agent for inspection and copying thereof.

(K) The Borrower shall keep and maintain the Equipment in good operating condition and repair and shall make all necessary replacements thereof and renewals thereto so that the value and operating efficiency thereof shall at all times be maintained and preserved.

(L) The Borrower shall, immediately on demand by the Bank, deliver to the Bank any and all evidence of ownership of any Equipment, including any certificates of title and/or applications for title thereto.

(M) The Borrower shall notify the Bank within 10 days after the Borrower acquires any vehicles or other property covered by a certificate of title and shall deliver to the Bank, upon demand by the Bank, certificates of title relating to such vehicles or other property and appropriate financing statements, if required by applicable Law, duly completed by the Borrower, to enable the Bank to perfect its lien in such property.

8.9. Inspection of Collateral. Permit any of the Bank's representatives to examine and inspect the Collateral, the Premises, all other of its properties and operations, and all books of account, records, reports and other papers and to make copies and extracts therefrom, and to discuss its affairs, finances and accounts with its officers and employees or its independent public accountants (and by this provision the Borrower authorizes said accountants to discuss the finances and affairs of the Borrower) all at such reasonable times and as often as may be reasonably requested. The Borrower shall pay all of Bank's expenses incurred in connection with such examinations and inspections.

8.10. Payment of Debt. Pay when due all of its Debt except if (with respect to Debt other than the Obligations) it is in good faith contesting by appropriate proceedings such amounts due and has maintained adequate reserves for such liability in accordance with GAAP.

8.11. Supplemental Documentation. At the Bank's request, execute and/or deliver to the Bank, at any time or times hereafter, all Supplemental Documentation that the Bank may request, in form and substance acceptable to the Bank, and pay the costs of any recording or filing of the same. The Borrower hereby irrevocably makes, constitutes and appoints the Bank (and all Persons designated by the Bank for that purpose) as Borrower's true and lawful attorney, effective immediately upon the failure or refusal of the Borrower to execute and/or deliver to the Bank any Supplemental Documentation required hereby, to sign the name of the Borrower on any of the Supplemental Documentation and to deliver any of the Supplemental Documentation to such Persons as the Bank, in its sole discretion, may elect. The Borrower agrees that a carbon, photographic, photostatic, or other reproduction of this Agreement or of a financing statement is sufficient as a financing statement and may be filed by the Bank in any filing office.

8.12. Maintain Insurance . Maintain, in addition to the insurance on Collateral required pursuant to Section 5.17 above, liability insurance in form, with insurers and in amounts as may be reasonably satisfactory to the Bank, showing the Bank as an additional insured and with insurers and in amounts as may be satisfactory to the Bank.

8.13. Banking Relationship . Maintain its principal banking accounts with the Bank.

ARTICLE 9

FINANCIAL COVENANTS

9.1. The Borrower covenants that until all Obligations of Borrower have been paid and satisfied in full, and the Bank's obligations hereunder have terminated:

(A) *Profitability*. The Borrower will maintain a minimum net income of at least One Million and 00/100 Dollars (\$1,000,000.00) for each fiscal year ended December 31 during the term of this Agreement, as reported on the Financial Statements.

(B) *Maximum Senior Debt* . The Borrower will maintain a maximum Senior Debt to EBITDA Ratio of not greater than 2.50 to 1.00, measured on a quarterly basis for each preceding twelve (12) month period on a rolling basis, beginning for the quarter ended September 30, 2006

(C) *Current Assets* . The Borrower shall maintain current assets of at least Seven Million Five Hundred Thousand and 00/100 Dollars (\$7,500,000.00) at the end of each of its fiscal quarters.

ARTICLE 10

EVENTS OF DEFAULT

10.1. Event of Default . The occurrence of any of the following events or acts shall constitute an Event of Default ("Event of Default"):

(A) *Payment of Obligations* . The Borrower defaults in the payment of any of its Obligations or any part thereof when the same shall become due and payable, either by their terms or as otherwise herein provided which is not cured within 5 days.

(B) *Misrepresentation* . Any Financial Statement, representation or warranty made by the Borrower herein or delivered by the Borrower pursuant hereto or otherwise made in writing by the Borrower in connection with this Agreement proves to have been false in any material respect as of the date on which it was made or deemed made.

(C) *Performance of Covenants* . The Borrower defaults in the performance of any of the covenants, conditions or agreements contained in this Agreement and such default is not cured within thirty (30) days, other than as set forth in 10.1(A) and 10.1(B).

(D) *Default under Other Debt* . The Borrower fails to pay any Debt, including the Senior Debt, when due, or suffers to exist any other event of default giving rise to any obligation under any agreement binding the Borrower and such failure or event of default continues beyond any applicable grace period.

(E) *Bankruptcy* . The Borrower files a petition under any section or chapter of the United States

Bankruptcy Code or any similar federal or state Law or regulation, the Borrower admits its inability to pay debts as they mature, the Borrower makes an assignment for the benefit of one or more of its creditors, the Borrower makes an application for the appointment of a receiver, trustee or custodian for any of its assets, or the Borrower files any case or proceeding for its reorganization, dissolution or liquidation or for relief from creditors.

(F) *Insolvency* . The Borrower is enjoined, restrained or in any way prevented by court order from conducting all or any material part of its business affairs, a petition under any section or chapter of the United States Bankruptcy Code or any similar federal or state Law or regulation is filed against the Borrower, any case or proceeding is filed against the Borrower for its reorganization, dissolution or liquidation or for creditor relief, or an application is made by any Person other than the Borrower for the appointment of a receiver, trustee, or custodian for any of the Borrower's assets, and such injunction, restraint, petition or application is not dismissed or stayed within thirty (30) days after the entry or filing thereof.

(G) *Removal of Property* . The Borrower conceals or removes or permits to be concealed or removed any part of its property with intent to hinder, delay or defraud its creditors or any of them, or makes or suffers to be made a transfer of any of its property that may be fraudulent under any federal or state bankruptcy, fraudulent conveyance or similar Law.

(H) *Judgments* . The Borrower permits any of its assets to be attached, seized, subjected to a writ or distress warrant, or levied upon, or to come within the possession of any receiver, trustee, custodian or assignee for the benefit of creditors and does not cause the same to be terminated within thirty (30) days thereafter.

(I) *Other Liens* . Other than Permitted Liens, a notice of any charge is filed of record with respect to all or any of the Borrower's assets or any charge becomes a lien or encumbrance upon any such assets and the same is not released within thirty (30) days after the same becomes a lien or encumbrance.

(J) *Liability from Benefit Plans* . The occurrence of any of the following events: (i) the happening of a Reportable Event (as such term is defined in ERISA) with respect to any employee benefit plan which the Bank determines in good faith might constitute grounds for the termination by the PBGC of such employee benefit plan or for the appointment by the appropriate United States district court of a trustee to administer such employee benefit plan; (ii) any employee benefit plan which is not "sufficient for benefit liabilities" (as determined under Section 4041(d)(1) of ERISA) shall be terminated; (iii) the Borrower or any ERISA Affiliate shall effect a complete or partial withdrawal from any Multiemployer Plan (as such term is defined in ERISA) without the prior written consent of the Bank and shall have a withdrawal liability (as determined under the Multiemployer Pension Plan Amendments Act of 1980); (iv) the Borrower or any ERISA Affiliate shall, without the prior written consent of the Bank, withdraw from an employee benefit plan under which liability may be imposed pursuant to Section 4063 of ERISA; (v) the appointment of a trustee by an appropriate United States district court to administer any employee benefit plan; or (vi) the institution of any proceedings by the PBGC to terminate any employee benefit plan or to appoint a trustee to administer any employee benefit plan.

(K) *Money Judgments* . The Borrower suffers a final judgment for payment of money which shall not be on appeal and does not discharge the same within a period of thirty (30) days.

(L) *Loss of Collateral* . A judgment creditor of the Borrower obtains possession of any Collateral by any means, including without limitation, levy, distraint, replevin or self-help.

(M) *Material Adverse Effect* . The occurrence of any event or condition which the Bank determines causes a Material Adverse Effect on the business, financial condition, operations or prospects of the Borrower, or which the Bank determines has a Material Adverse Effect on the ability of Borrower to perform its obligations under the Loan

Documents, or which otherwise causes the Bank to deem itself to be insecure.

(N) *Default under Loan Documents*. The occurrence of a default or an Event of Default under any of the other Loan Documents which is not cured within the time, if any, specified therefor in such other Loan Document; or the actual or attempted unilateral termination, modification or abrogation by any Person other than the Bank of any obligation under, or of any right or remedy of Bank under, any of the Loan Documents.

10.2. Remedies. Upon the occurrence of any Event of Default, and at any and all times while any Event of Default shall be continuing, the Bank shall have all rights and remedies provided by this Agreement or any other Loan Document and by applicable Law and, without limiting the generality of the foregoing, may, at its option, declare the Revolving Credit Loan Commitment and the Term Loan Commitment to be terminated by giving written notice thereof to the Borrower, and upon such declaration, all Obligations of the Borrower shall thereupon be and become forthwith, due and payable, without any presentment, demands, protest or other notice of any kind, all of which are hereby expressly waived. Further, in addition to all the rights and remedies provided in Article 9 of the UCC and any other applicable Law, the Bank may (but is under no obligation to do so): take physical possession of any of the Collateral and sell, lease or otherwise dispose of the Collateral in whole or in part; require the Borrower to assemble the Collateral to which the Borrower has or is entitled to possession at a place designated by the Bank, which is reasonably convenient to both parties; collect any money due or to become due and enforce in the Borrower's name all rights with respect to the Collateral; receive and open mail addressed to the Borrower; and/or notify any Account Debtors (whether or not such Account Debtors are in default) to make payments directly to the Bank. The Borrower agrees to deliver to the Bank promptly upon receipt thereof, in the form in which received (together with all necessary endorsements), all payments received by the Borrower in respect of any Account. The Bank may apply all such payments against the Borrower's Obligations or at the Bank's option to any of the Borrower's accounts maintained at the Bank.

10.3. Sale of Collateral. In exercising its right to sell, lease or otherwise dispose of the Collateral, the Bank may sell, lease or otherwise dispose of all or any Collateral in its then condition, or after any further manufacturing or processing thereof, at public or private sale or sales, with such notice as may be required by Law, in lots or in bulk, all as the Bank, in its sole discretion, may deem advisable; such sales may be adjourned from time to time with or without notice. The Bank shall have the right to conduct such sales on the Borrower's premises or elsewhere and shall have the right to use the Borrower's premises without charge for such sales for such time or times as the Bank may see fit. The Bank is hereby granted a license or other right to use, without charge, the Borrower's labels, patents, copyrights, rights of use of any name, trade secrets, tradenames, trademarks, service marks and advertising matter, or any property of a similar nature, as it pertains to the Collateral, in advertising for sale and selling any Collateral and the Borrower's rights under all licenses and all franchise agreements shall inure to the Bank's benefit. The Bank shall have the right to sell, lease or otherwise dispose of the Collateral, or any part thereof, for cash, credit or any combination thereof, and the Bank may purchase all or any part of the Collateral at public or, if permitted by Law, private sale and, in lieu of actual payment of such purchase price, may set off the amount of such price against the Borrower's Obligations. The proceeds realized from the sale of any Collateral shall be applied first to the costs, expenses and attorneys' fees and expenses incurred by the Bank for collection and for acquisition, completion, protection, removal, storage, sale and delivery of the Collateral; second to interest due upon any of the Borrower's Obligations; and third to the principal of the Borrower's Obligations. If any deficiency shall arise, the Borrower shall remain liable to the Bank therefor; provided, however, while applying the proceeds from the sale of Collateral to interest due upon the Borrower's obligations the Bank shall have the sole discretion to decide whether to apply such proceeds first to interest due and payable on the LIBOR Loans or to interest due and payable on the Prime Loans.

10.4. Notice of Sale. Any notice of any sale, lease, other disposition, or other intended action by the Bank shall be reasonable if it is given to the Borrower at least ten (10) days in advance of the intended disposition or other

intended action.

10.5. UCC and Offset Rights. The Bank may exercise, from time to time, any and all rights and remedies available to it under the UCC or under any other applicable Law in addition to, and not in lieu of, any rights and remedies expressly granted in this Agreement or in any other agreements between any Obligor and the Bank, and may, without demand or notice of any kind, appropriate and apply toward the payment of such of the Obligations, whether matured or unmatured, including costs of collection and attorneys' and paralegals' fees, and in such order of application as the Bank may, from time to time, elect, any indebtedness of the Bank to any Obligor, however created or arising, including, but not limited to, balances, credits, deposits, accounts or moneys of such Obligor in the possession, control or custody of, or in transit to the Bank. The Borrower, on behalf of itself and each Obligor, hereby waives the benefit of any Law that would otherwise restrict or limit the Bank in the exercise of its right, which is hereby acknowledged, to appropriate at any time hereafter any such indebtedness owing from the Bank to any Obligor.

10.6. Additional Remedies; Attorney in Fact. Upon and after the occurrence of an Event of Default, the Borrower irrevocably designates, makes, constitutes and appoints the Bank (and all persons designated by the Bank) as the Borrower's true and lawful attorney, and the Bank or its agent, may, without notice to the Borrower, and at such time or times thereafter as the Bank or said agent, in its sole discretion, may determine, in the Borrower's or the Bank's name: (A) demand payment of the Accounts; (B) enforce payment of the Accounts, by legal proceedings or otherwise; (C) exercise all of the Borrower's rights and remedies with respect to the collection of the Accounts and Special Collateral; (D) settle, adjust, compromise, extend or renew the Accounts; (E) settle, adjust or compromise any legal proceedings brought to collect the Accounts or any other dispute with respect thereto; (F) if permitted by applicable Law, sell or assign the Accounts and Special Collateral upon such terms, for such amounts and at such time or times as the Bank deems advisable; (G) discharge and release the Accounts and Special Collateral; (H) prepare, file and sign the Borrower's name on a Proof of Claim in Bankruptcy or similar document against any Account Debtor; (I) prepare, file and sign the Borrower's name on any notice of lien, assignment or satisfaction of lien or similar document in connection with the Accounts and Special Collateral; (J) do all acts and things necessary, in the Bank's sole discretion, to fulfill the Borrower's obligations under this Agreement; (K) endorse the name of the Borrower upon any item of payment or proceeds and deposit the same to the account of the Bank on account of the Borrower's Obligations; (L) endorse the name of the Borrower upon any chattel paper, document, instrument, invoice, freight bill, bill of lading or similar document or agreement relating to the Accounts, Inventory and Special Collateral; (M) use the Borrower's stationery and sign the name of the Borrower to verifications of the Accounts and notices thereof to Account Debtors; and (N) use the information recorded on or contained in any data processing equipment and Computer Hardware and Software relating to the Accounts, Inventory and Special Collateral to which the Borrower has access.

10.7. Securities. The Borrower agrees that in any sale of Collateral consisting of securities, the Bank is hereby authorized to comply with any limitation or restriction in connection with such sale as Bank may be advised by counsel is necessary or advisable in order to avoid any violation of applicable Law (including, without limitation, compliance with such procedures as may restrict the number of prospective bidders and purchasers, require that such prospective bidders and purchasers have certain qualifications, and restrict such prospective bidders and purchasers to Persons who will represent and agree that they are purchasing for their own account for investment and not with a view to the distribution or resale of that portion of the Collateral consisting of securities), or in order to obtain any required approval of the sale or of the purchaser by any governmental regulatory authority or official, and the Borrower further agrees that such compliance shall not result in such sale being considered commercially unreasonable, nor shall the Bank be liable or accountable to the Borrower for any discount allowed by reason of the fact that Collateral was sold in compliance with any such limitation or restriction.

ARTICLE 11

MISCELLANEOUS

11.1. Obligations Absolute. None of the following shall affect the Obligations of the Borrower to the Bank under this Agreement or the Bank's rights with respect to the Collateral:

- (A) acceptance or retention by the Bank of other property or any interest in property as security for the Obligations of the Borrower;
- (B) release by the Bank of the Borrower of all or any part of the Collateral or of any party liable with respect to the Obligations of the Borrower;
- (C) release, extension, renewal, modification or substitution by the Bank of any Note, or any note evidencing any of the Obligations of the Borrower; or
- (D) failure of the Bank to resort to any other security or to pursue the Borrower or any other obligor liable for any of the Obligations of the Borrower before resorting to remedies against the Collateral.

11.2. No Waiver. No failure or delay on the part of the Bank in exercising any right, power or remedy hereunder or under any other Loan Documents shall operate as a waiver thereof, nor shall any single or partial exercise of any such right, power or remedy preclude any other or further exercise thereof or the exercise of any other right, power or remedy hereunder or under any other Loan Document. The remedies herein provided and under any other Loan Document are cumulative and not exclusive of any remedies provided by Law.

11.3. Entire Agreement. This Agreement and the other Loan Documents constitute the entire agreement between the parties and there are no promises expressed or implied unless contained herein and therein. No amendment, modification, termination or waiver of any provision of the Loan Documents nor consent to any departure by the Borrower therefrom shall in any event be effective unless the same shall be in writing and signed by the Bank, and then such waiver or consent shall be effective only for the specific purpose for which given, and shall not be deemed a waiver of or consent to any other matter or to the same matter in a different instance. No notice to or demand on the Borrower in any case shall entitle the Borrower to any other or further notice or demand in similar or other circumstances.

11.4. Costs, Fees and Expenses. The Borrower will pay any documentary, stamp or similar taxes payable in respect of the Loan Documents or the Collateral granted hereby or in connection herewith. The Borrower will, on demand, reimburse the Bank for the fees and expenses of legal counsel for the Bank incurred by the Bank in connection with the preparation of the Loan Documents, and the negotiation and closing of the transactions contemplated hereby. The Borrower will further, on demand, reimburse the Bank for all expenses, including the fees and expenses of legal counsel for the Bank, incurred by the Bank in connection with any amendment or modification of the Loan Documents, the administration of the Loans and the enforcement of the Loan Documents and the collection or attempted collection of the Obligations of the Borrower.

11.5. WAIVER OF DEFENSES. THE BORROWER, ON BEHALF OF ITSELF AND ANY GUARANTOR OF ANY OF THE OBLIGATIONS, WAIVES EVERY PRESENT AND FUTURE DEFENSE, CAUSE OF ACTION, COUNTERCLAIM OR SETOFF WHICH THE BORROWER MAY NOW HAVE OR HEREAFTER MAY HAVE TO ANY ACTION BY THE BANK IN ENFORCING THIS AGREEMENT. PROVIDED THE BANK ACTS IN

GOOD FAITH, THE BORROWER RATIFIES AND CONFIRMS WHATEVER THE BANK MAY DO PURSUANT TO THE TERMS OF THIS AGREEMENT. THIS PROVISION IS A MATERIAL INDUCEMENT FOR THE BANK GRANTING ANY FINANCIAL ACCOMMODATION TO THE BORROWER.

11.6. Forum Selection.

(A) *Consent to Jurisdiction.* For the purposes of any action or proceeding involving the Loan Documents or any other agreement or document referred to therein, the Borrower hereby expressly submits to the jurisdiction of all federal and state courts located in the State of Illinois and consents that any order, process, notice of motion or other application to or by any of said courts or a judge thereof may be served within or without such court's jurisdiction by registered mail or by personal service, provided a reasonable time for appearance is allowed. The Borrower hereby irrevocably waives any objection that it may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to this Agreement or any other Loan Document brought in any federal or state court sitting in Cook County, State of Illinois, and hereby further irrevocably waives any claim that any such suit, action or proceeding brought in any such court has been brought in an inconvenient forum.

(B) *WAIVER OF JURY TRIAL.* THE BORROWER HEREBY KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVES (TO THE EXTENT PERMITTED BY APPLICABLE LAW) ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY OF ANY DISPUTE ARISING UNDER OR RELATING TO THIS AGREEMENT, THE NOTE, ANY OTHER OF THE DOCUMENTS OR ANY OTHER AGREEMENT OR DOCUMENT REFERRED TO HEREIN OR THEREIN AND AGREES THAT ANY SUCH DISPUTE SHALL BE TRIED BEFORE A JUDGE SITTING WITHOUT A JURY.

11.7. Indemnification. The Borrower agrees to indemnify the Bank from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever (including, without limitation, fees and disbursements of counsel) which may be imposed on, incurred by, or asserted against the Bank in any litigation, proceeding or investigation instituted or conducted by any governmental agency or instrumentality or any other Person with respect to any aspect of, or any transaction contemplated by, or referred to in, or any matter related to, this Agreement, whether or not the Bank is a party thereto, except to the extent that any of the foregoing arises out of the gross negligence or willful misconduct of the Bank.

11.8. Validity of Financing Statements. The Borrower acknowledges and agrees that this Agreement constitutes a commitment on the part of the Bank to make advances, incur obligations and otherwise to give value to the Borrower and that all financing statements filed hereunder shall remain in full force and effect until this Agreement shall have been terminated even if, at any time or times prior to such termination, no Loans or other Obligations shall be outstanding hereunder. Accordingly, the Borrower waives any rights which it may have under Section 9-404(1) of the UCC to demand the filing of termination statements with respect to the Collateral, and agrees that the Bank shall not be required to send such termination statements to the Borrower, or to file them with any filing office, unless and until this Agreement shall have been terminated and all Obligations of the Borrower shall have been paid in full in immediately available funds.

11.9. Notices. Any notices or consents required or permitted by this Agreement shall be in writing and shall be delivered in person or sent by certified mail, postage prepaid, return receipt requested, or delivered by facsimile, or delivered by a nationally recognized overnight express delivery service, in any case addressed as follows, unless such address is changed by written notice hereunder:

- (i) If to the Borrower: Ebix, Inc. f/k/a Ebix.com, Inc., a Delaware corporation

1900 E. Golf Road, Suite 1200
Schaumburg, Illinois 60173

(ii) If to the Bank: LaSalle Bank, N.A., national banking association
135 S. LaSalle Street
Chicago, Illinois 60603
Attention: William J. Robertson

Any such notice or communication shall be deemed to have been given either at the time of personal delivery, or in the case of overnight express delivery, as of the date delivery was first attempted, or in the case of facsimile, upon receipt or in the case of certified mail, five (5) days after delivery to the United States Postal Service.

11.10. Counterparts; Facsimile Signatures. This Agreement may be executed in any number of counterparts and by the different parties hereto in separate counterparts, each of which when so executed and delivered shall be deemed to be an original and all of which taken together shall constitute but one and the same instrument. Receipt of an executed signature page to this Agreement by facsimile or other electronic transmission shall constitute effective delivery thereof. Electronic records of executed Loan Documents maintained by the Bank shall be deemed to be originals thereof.

11.11. Assignability. The Bank may at any time assign the Bank's rights in this Agreement, the other Loan Documents, the Obligations of the Borrower, or any part thereof and transfer the Bank's rights in any or all of the Collateral, and the Bank thereafter shall be relieved from all liability with respect to such Collateral. In addition, the Bank may at any time sell one or more participations in the Loans. The Borrower may not sell or assign this Agreement, or any other agreement with the Bank or any portion thereof, either voluntarily or by operation of Law, without the prior written consent of the Bank. This Agreement shall become effective when it shall have been executed by the Borrower and the Bank, and thereafter shall be binding upon and inure to the benefit of the Borrower and the Bank and their respective successors. All references herein to the Borrower shall be deemed to include any successors, whether immediate or remote. In the case of a joint venture or partnership, the term "Borrower" shall be deemed to include all joint venturers or partners thereof, who shall be jointly and severally liable hereunder.

11.12. Confirmations. The Borrower and the Bank agree from time to time, upon written request received by it from the other, to confirm to the other in writing the aggregate unpaid principal amount of the Loans then outstanding under such Note.

11.13. Confidentiality. The Bank agrees to use commercially reasonable efforts (equivalent to the efforts the Bank applies to maintain the confidentiality of its own confidential information) to maintain as confidential all information provided to them by the Borrower and designated as confidential, except that the Bank may disclose such information (A) to Persons employed or engaged by the Bank in evaluating, approving, structuring or administering the Loans; (B) to any assignee or participant or potential assignee or participant that has agreed to comply with the covenant contained in this Section 11.13 (and any such assignee or participant or potential assignee or participant may disclose such information to Persons employed or engaged by them as described in clause (A) above); (C) as required or requested by any federal or state regulatory authority or examiner, or any insurance industry association, or as reasonably believed by the Bank to be compelled by any court decree, subpoena or legal or administrative order or process; (D) as, on the advice of the Bank's counsel, is required by Law; (E) in connection with the exercise of any right or remedy under the Loan Documents or in connection with any litigation to which the Bank is a party; (F) to any nationally recognized rating agency that requires access to information about the Bank's investment portfolio in connection with ratings issued with respect to the Bank; (G) to any Affiliate of the Bank who

may provide Bank Products to the Borrower or any Subsidiary, or (H) that ceases to be confidential through no fault of the Bank.

11.14. Governing Law. This Agreement has been, and any other Loan Documents will be, delivered and accepted in and shall be deemed to be, contracts made under and governed by the Laws of the State of Illinois, and for all purposes shall be construed in accordance with the Laws of said State.

11.15. Severability. Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof or affecting the validity or enforceability of such provision in any other jurisdiction; wherever possible, each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable Law.

11.16. Survival of Borrower Representations. All covenants, agreements, representations and warranties made by the Borrower herein and any and all certificates and instruments delivered by the Borrower in connection herewith shall, notwithstanding any investigation by the Bank, be deemed material and relied on by the Bank and shall survive the execution and delivery to the Bank of this Agreement, the Notes, the other Loan Documents, and any extension or renewal thereof.

11.17. Extensions of Bank's Commitments. This Agreement shall secure and govern the terms of any amendments, extensions or renewals to the Note and the Loan Documents.

11.18. Time of Essence. Time is of the essence in making payments of all amounts due the Bank under this Agreement and in the performance and observance by the Borrower of each covenant, agreement, provision and term of this Agreement.

11.19. Release of Claims Against Bank. In consideration of the Bank making the Loan, the Borrower and all other Obligor do each hereby release and discharge the Bank of and from any and all claims, harm, injury, and damage of any and every kind, known or unknown, legal or equitable, which any Obligor may have against the Bank from the date of their respective first contact with the Bank until the date of this Loan Agreement including, but not limited to, any claim arising from any reports (environmental reports, surveys, appraisals, etc.) prepared by any parties hired or recommended by the Bank. The Borrower and all other Obligor confirm to Bank that they have reviewed the effect of this release with competent legal counsel of their choice, or have been afforded the opportunity to do so, prior to execution of this Loan Agreement and the Loan Documents and do each acknowledge and agree that the Bank is relying upon this release in extending the Loans to the Borrower.

11.20. Additional Documents. From time to time, the Borrower will execute and deliver to Bank such additional documents and will provide such additional information as the Bank may reasonably require to carry out the terms of this Agreement and be informed of the Borrower's status and affairs.

11.21. Exhibits and Schedules. All Exhibits and Schedules attached to this Agreement shall be deemed incorporated herein by this reference.

11.22. Business Day. Whenever under the terms of this Agreement, the time for performance of a covenant or condition falls upon a day which is not a Business Day, such time for performance shall be extended to the next Business Day. Unless otherwise stated, all references herein to "days" shall mean calendar days.

11.23. Revival and Reinstatement of Obligations. If the incurrence or payment of the Obligations by any Obligor or the transfer to the Bank of any property should for any reason subsequently be declared to be void or voidable under

any state or federal Law relating to creditors' rights, including provisions of the Bankruptcy Code relating to fraudulent conveyances, preferences, or other voidable or recoverable payments of money or transfers of property (collectively, a "Voidable Transfer"), and if the Bank is required to repay or restore, in whole or in part, any such Voidable Transfer, or elects to do so upon the reasonable advice of its counsel, then, as to any such Voidable Transfer, or the amount thereof that the Bank is required or elects to repay or restore, and as to all reasonable costs, expenses, and attorneys fees of the Bank, the Obligations shall automatically shall be revived, reinstated, and restored and shall exist as though such Voidable Transfer had never been made.

11.24. Customer Identification - USA Patriot Act Notice. The Bank hereby notifies the Borrower that pursuant to the requirements of the USA Patriot Act (Title III of Pub. L. 107-56, signed into law October 26, 2001) (the "Act"), and the Bank's policies and practices, the Bank is required to obtain, verify and record certain information and documentation that identifies the Borrower, which information includes the name and address of the Borrower and such other information that will allow the Bank to identify the Borrower in accordance with the Act.

11.25. Continuing Indebtedness. This Agreement amends and restates the Original Loan Agreement and the Revolving Credit Note constitutes a renewal and restatement of, and a replacement and substitution for, the existing Amended and Restated Revolving Credit Note (the "Existing Revolving Note"). The indebtedness evidenced by the Existing Revolving Note is continuing indebtedness evidenced by the Revolving Credit Note and nothing herein shall be deemed to constitute a payment, settlement or novation of the Existing Revolving Note, or to release or otherwise adversely affect any lien, mortgage or security interest securing such indebtedness or any rights of the Bank against any collateral therefor or any guarantor, surety or other party primarily or secondarily liable for such indebtedness.

11.26. Final Agreement. This Agreement and the other Loan Documents supersede all prior negotiations, understandings and agreements of the parties hereto and thereto in respect of the transactions contemplated hereby, including without limitation those expressed in any commitment or proposal letter.

[Signature Page To Follow]

IN WITNESS WHEREOF, the parties have hereunto caused this Agreement to be executed by their respective officers thereunto duly authorized, as of the date first above written.

BORROWER:

EBIX, INC. f/k/a EBIX.COM, INC., A DELAWARE CORPORATION,

By: /s/ R. J. Baum
Print Name: R. J. Baum
Title: CFO

BANK:

LASALLE BANK, N.A.

By: /s/ Wm. Robertson
Print Name: Wm. Robertson
Title: SVP

EXHIBIT A

REVOLVING CREDIT NOTE

EXHIBIT B

TERM NOTE

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Schedule Index

Schedule 5.3(a)-	State of Incorporation or Organization
Schedule 5.3(b)-	Addresses of Borrower's Other Locations
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Schedule 5.3(e)-	Borrower's Instruments, Deposit Accounts, etc.
Schedule 5.3(f)-	Collateral Not Located in the United States
Schedule 5.3(g)-	Collateral Located with Third Parties
Schedule 5.3(h)-	Collateral Subject to Certificates of Title
Schedule 6.13-	Capital Securities owned by Borrower

SCHEDULE 5.3(a)

STATE OF INCORPORATION OR ORGANIZATION

Information Required	Company
Exact Legal Name	
State of Organization	
Type of Organization	
Organizational I.D. Number	
Place of Business (or, if more than one, the Chief Executive Office)	

[ALL SCHEDULES TO BE COMPLETED FOR EACH DEBTOR]

SCHEDULE 5.3(b)

ADDRESSES OF BORROWER'S OTHER LOCATIONS

SCHEDULE 5.3(c)

TRADE NAMES, PRIOR LEGAL NAMES, ETC.

SCHEDULE 5.3(d)

PATENTS

Patent/Serial No.	Country	Co. Name Held In	Issue Date

TRADEMARKS

Trademark Name	Registration/Serial No.	Country	Co. Name Held In.	Issue Date

COPYRIGHTS

Copyright Name	Country	Co. Name Held In.	Issue Date

SCHEDULE 5.3(e)

Instruments:

Deposit Accounts:

Investment Property:

Letter-of-Credit Rights:

Chattel Paper:

Documents:

Commercial Tort Claims:

SCHEDULE 5.3(f)

COLLATERAL NOT LOCATED IN THE UNITED STATES

SCHEDULE 5.3(g)

COLLATERAL LOCATED WITH THIRD PARTIES

SCHEDULE 5.3(h)

COLLATERAL SUBJECT TO CERTIFICATE OF TITLE

SCHEDULE 6.13

CAPITAL SECURITIES OWNED BY BORROWER

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: November 20, 2006

/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: November 20, 2006

/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 September 30, 2006 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

November 20, 2006

**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 September 30, 2006, 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

November 20, 2006
