EBIX INC
Form 10-Q
November 10, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

þ	QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the quarterly period ended September 30, 2014
OR	
o	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 0-15946
Ebix, Inc.
(Exact name of registrant as specified in its charter)

DELAWARE	77-0021975
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

5 CONCOURSE PARKWAY, SUITE 3200	
ATLANTA, GEORGIA	30328
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: 678-281-2020
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 þ No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o N/A o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer.

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ
As of November 7, 2014 the number of shares of common stock outstanding was 36,677,663.

FORM 10-Q
FOR THE QUARTER ENDED SEPTEMBER 30, 2014
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PART I — FINANCIAL INFORMATION

Item 1: CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	Three Months Ended September 30,		Nine Months Ended September 30	
	2014	2013	2014	2013
Operating revenue	$50,808	$50,293	$153,688	$153,863
Operating expenses:				
Cost of services provided	10,275	10,136	29,851	30,385
Product development	6,779	6,625	20,230	20,384
Sales and marketing	3,559	4,024	10,644	11,763
General and administrative, net (see Note 3)	6,008	8,448	26,917	26,672
Amortization and depreciation	2,449	2,459	7,442	7,459
Total operating expenses	29,070	31,692	95,084	96,663
Operating income	21,738	18,601	58,604	57,200
Interest income	61	159	326	343
Interest expense	(392)	(318)	(850)	(961)
Non-operating (loss)/income - put options	(19)	93	296	(1,250)
Non-operating expense - securities litigation	(350)	(4,226)	(350)	(4,226)
Foreign currency exchange gain (loss)	987	(33)	532	(326)
Income before income taxes	22,025	14,276	58,558	50,780
Income tax expense	(4,010)	(1,133)	(11,547)	(6,751)
Net income	$18,015	$13,143	$47,011	$44,029
Basic earnings per common share	$0.47	$0.35	$1.23	$1.18
Diluted earnings per common share	$0.47	$0.34	$1.22	$1.14
Basic weighted average shares outstanding	38,050	37,919	38,264	37,435
Diluted weighted average shares outstanding	38,253	38,451	38,499	38,676

See accompanying notes to the condensed consolidated financial statements.

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Ebix, Inc. and Subsidiaries
Condensed Consolidated Statements of Comprehensive Income
(In thousands)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net income	$18,015	$13,143	$47,011	$44,029
Other comprehensive income (loss):				
Foreign currency translation adjustments	(4,546)	1,670	$(1,947)	(2,426)
Total other comprehensive income (loss)	(4,546)	1,670	(1,947)	(2,426)
Comprehensive income	$13,469	$14,813	$45,064	$41,603

See accompanying notes to the condensed consolidated financial statements.

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

	September 30, 2014 (Unaudited)	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$47,350	$56,674
Short-term investments	1,326	801
Trade accounts receivable, less allowances of $1,609 and $1,049, respectively	38,361	39,070
Deferred tax asset, net	997	256
Other current assets	6,251	5,548
Total current assets	94,285	102,349
Property and equipment, net	22,648	8,528
Goodwill	350,255	337,068
Intangibles, net	46,504	50,734
Indefinite-lived intangibles	30,887	30,887
Deferred tax asset, net	15,003	12,194
Other assets	4,890	3,682
Total assets	$564,472	$545,442
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$11,138	$17,818
Accrued payroll and related benefits	4,251	6,482
Short term debt	—	13,062
Current portion of long term debt and capital lease obligations, net of discount of $14 and $10, respectively	724	827
Current deferred rent	230	254
Contingent liability for accrued earn-out acquisition consideration	564	4,137
Liability – securities litigation settlement	—	4,226
Put option liability	—	845
Deferred revenue	18,575	18,918
Other current liabilities	84	106
Total current liabilities	35,566	66,675
Revolving line of credit	63,465	22,840
Long term debt and capital lease obligations, less current portion, net of discount of $8 and $38, respectively	898	20,124
Other liabilities	15,895	4,719
Contingent liability for accrued earn-out acquisition consideration	10,286	10,283
Deferred revenue	144	391
Long term deferred rent	1,848	2,185
Total liabilities	128,102	127,217
Commitments and Contingencies, Note 5		
Temporary equity, Note 10	—	5,000

Stockholders’ equity:		
Preferred stock, $0.10 par value, 500,000 shares authorized, no shares issued and outstanding at September 30, 2014 and December 31, 2013	—	—

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Common stock, $0.10 par value, 60,000,000 shares authorized, 37,191,888 issued and 37,151,379 outstanding at September 30, 2014 and 38,088,391 issued and 38,047,882 outstanding at December 31, 2013	3,715	3,805
Additional paid-in capital	151,039	164,216
Treasury stock (40,509 shares as of September 30, 2014 and December 31, 2013)	(76)	(76)
Retained earnings	295,933	257,574
Accumulated other comprehensive loss	(14,241)	(12,294)
Total stockholders’ equity	436,370	413,225
Total liabilities and stockholders’ equity	$564,472	$545,442

See accompanying notes to the condensed consolidated financial statements.

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Ebix, Inc. and Subsidiaries
Condensed Consolidated Statements of Stockholders' Equity
(unaudited)
(In thousands except for share figures)

	Common Stock							
	Issued Shares	Amount	Treasury Stock Shares	Treasury Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance, December 31, 2013	38,088,391	$3,805	(40,509)	$(76)	$164,216	$257,574	$(12,294)	$413,225
Net income	—	—	—	—	—	47,011	—	47,011
Cumulative translation adjustment	—	—	—	—	—	—	(1,947)	(1,947)
Repurchase and retirement of common stock	(1,178,662)	(118)			(17,247)			(17,365)
Vesting of restricted stock	44,117	4	—	—	(4)	—	—	—
Exercise of stock options	450,000	45	—	—	743	—	—	788
Share based compensation	—	—	—	—	1,333	—	—	1,333
Shares reaquired in connection with put option	(209,656)	(21)	—	—	(2,965)	—	—	(2,986)
Forfeiture of certain shares to satisfy exercise costs and the recipients income tax obligations related to stock options exercised and restricted stock vested	(2,302)	—	—	—	(37)	—	—	(37)
Reclassification of shares previously reported as temporary equity in connection with an acquisition	—	—	—	—	5,000	—	—	5,000
Dividends paid	—	—	—	—	—	(8,652)	—	(8,652)
Balance, September 30, 2014	37,191,888	$3,715	(40,509)	$(76)	$151,039	$295,933	$(14,241)	$436,370

See accompanying notes to the condensed consolidated financial statements.

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

	Nine Months Ended September 30, 2014	2013
Cash flows from operating activities:		
Net income	$47,011	$44,029
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7,442	7,459
Provision (benefit) for deferred taxes	(1,810)	(4,682)
Share based compensation	1,333	1,481
Provision for doubtful accounts	1,083	1,361
Debt discount amortization on promissory note payable	26	32
Unrealized foreign exchange (gain)	(256)	(94)
(Gain) loss on put option	(296)	1,250
Reduction of acquisition earnout accruals	(7,533)	(10,253)
Changes in assets and liabilities, net of effects from acquisitions:		
Accounts receivable	(1,901)	(4,562)
Other assets	(3,977)	845
Accounts payable and accrued expenses	(8,064)	(2,568)
Accrued payroll and related benefits	1,027	(1,205)
Deferred revenue	(704)	(2,802)
Deferred rent	(272)	(60)
Reserve for potential uncertain income tax return positions	9,337	3,405
Liability - securities litigation settlement payment	(3,868)	4,226
Other liabilities	(188)	(86)
Net cash provided by operating activities	38,390	37,776
Cash flows from investing activities:		
Acquisition of Qatarlyst, net of cash acquired	—	(4,740)
Acquisition of HealthCare Magic, net of cash acquired	(5,856)	—
Acquisition of CurePet, Inc., net of cash acquired	3	—
Payment of acquisition earn-out contingency, Taimma	(2,250)	(2,250)
Payment of acquisition earn-out contingency, USIX	—	(727)
Maturities of marketable securities	—	104
Purchases of marketable securities	(595)	—
Capital expenditures	(15,922)	(887)
Net cash used in investing activities	(24,620)	(8,500)
Cash flows from financing activities:		
Proceeds from / (Repayments) on revolving line of credit, net	40,625	(15,000)
Principal payments of term loan obligation	(31,938)	(6,531)
Repurchases of common stock	(16,482)	(2,492)
Excess tax benefit from share-based compensation	(3,200)	—
Proceeds from the exercise of stock options	788	1,425
Forfeiture of certain shares to satisfy exercise costs and the recipients income tax obligations related to stock options exercised and restricted stock vested	(37)	(916)

Dividend payments	(8,652)	(2,794)
Shares reaquired in connection with put option	(3,535)	—
Principal payments of debt obligations	(336)	(636)
Payments of capital lease obligations	(144)	(221)
Net cash used in financing activities	(22,911)	(27,165)
Effect of foreign exchange rates on cash	(183)	(1,671)
Net change in cash and cash equivalents	(9,324)	440
Cash and cash equivalents at the beginning of the period	56,674	36,449
Cash and cash equivalents at the end of the period	$47,350	$36,889
Supplemental disclosures of cash flow information:		
Interest paid	$802	$901
Income taxes paid	$10,782	$13,009

See accompanying notes to the condensed consolidated financial statements.
Supplemental schedule of noncash financing activities:

Effective January 27, 2014 Ebix acquired the entire business of CurePet, Inc. ("CurePet") in an asset purchase agreement with the total purchase consideration being in the amount of $6.35 million of which includes a possible future one

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time contingent earnout payment of up to $5.0 million based on earned revenues over the subsequent thirty-six month period following the date of the acquisition. This contingent earnout liability is currently estimated to have a fair value of $1.6 million. Additional required cash consideration of $1.35 million was offset against open receivable balances due to Ebix, Inc. from CurePet, and thusly no actual cash outlay was made by Ebix, Inc. Previously during 2012, Ebix acquired a minority19.8% interest in CurePet for cash consideration in the amount of $2.0 million.

During the nine months ended September 30, 2014 there were 2,302 shares, totaling $37 thousand, forfeited to satisfy exercise costs and the recipients income tax obligations related to stock options exercised and restricted stock vesting.

As of September 30, 2014 there were 62,595 shares totaling $883 thousand of share repurchases that were not settled until October 2014.

Ebix, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements

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

Description of Business— Ebix, Inc. and subsidiaries ("Ebix" or the "Company") is an international supplier of on-demand software and e-commerce solutions to the insurance industry. Ebix provides various application software products for the insurance industry ranging from data exchanges, carrier systems, and agency systems, to custom software development for business entities across the insurance industry. The Company's products feature fully customizable and scalable on-demand software applications designed to streamline the way insurance professionals manage distribution, marketing, sales, customer service, and accounting activities. The Company has its headquarters in Atlanta, Georgia and also conducts operating activities in Australia, Canada, India, New Zealand, Singapore, United Kingdom and Brazil. International revenue accounted for 32.8% and 31.5% of the Company's total revenue for the nine months ended September 30, 2014 and 2013, respectively.

The Company's revenues are derived from four product/service groups. Presented in the table below is the breakout of our revenue streams for each of those product/service groups for the three and nine months ended September 30, 2014 and 2013.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(dollar amounts in thousands)	2014	2013	2014	2013
Exchanges	$41,757	$40,554	$125,212	$122,741
Broker Systems	4,511	4,390	13,862	13,878
Risk Compliance Solutions ("RCS"), fka Business Process Outsourcing ("BPO")	3,346	3,604	10,423	11,781
Carrier Systems	1,194	1,745	4,191	5,463
Totals	$50,808	$50,293	$153,688	$153,863

Summary of Significant Accounting Policies

Basis of Presentation—The accompanying unaudited condensed consolidated financial statements and these notes have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") and in accordance with U.S. Generally Accepted Accounting Principles ("GAAP") with the effect of inter-company balances and transactions eliminated. Certain information and note disclosures normally included in annual financial statements prepared in accordance with GAAP and SEC rules have been condensed or omitted as permitted by and pursuant to those rules and regulations, although the Company believes that the disclosures made are adequate to make the information not misleading. These unaudited condensed consolidated financial statements contain adjustments (consisting only of normal recurring items) necessary to fairly present the consolidated financial position of the Company and its consolidated results of operations and cash flows. Operating results for the nine months ended September 30, 2014 and 2013 are not necessarily indicative of the results that may be expected for the full year. The condensed consolidated December 31, 2013 balance sheet included in this interim period filing has been derived from the audited financial statements at that date but does not necessarily include all of the information and related notes required by GAAP for complete financial statements. These condensed interim financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

Reclassification—The change in reserve for potential uncertain income tax return positions had been previously netted against the provision for deferred taxes line in the consolidated statements of cash flows, it is now shown separately. Also, beginning in 2014 the Company has applied the new provisions under Financial Accounting Standard ("FAS") update No. 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, A Similar Tax Loss, or a Tax Credit Carryforward Exists and as more fully described in Note 6 "Income Taxes". A

portion of potential uncertain income tax return positions previously reported in "Other Liabilities" on the condensed consolidated balance sheets are now netted against the "Deferred tax asset, net" line in the long term asset section of the condensed consolidated balance sheets.

Fair Value of Financial Instrument—The Company follows the relevant GAAP guidance concerning fair value measurements which provides a consistent framework to define, measure, and disclose the fair value of assets and liabilities in financial statements. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction. This guidance establishes a three-level hierarchy priority for disclosure of assets and liabilities recorded at fair value. The ordering of priority

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reflects the degree to which objective data from external active markets are available to measure fair value. The classification of assets and liabilities within the hierarchy is based on whether the inputs to the valuation methodology used for measurement are observable or unobservable.

- Level 1 Inputs - Unadjusted quoted prices available in active markets for identical investments to the reporting entity at the measurement date
- Level 2 Inputs - Other than quoted prices included in Level 1 inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.
- Level 3 Inputs - Unobservable inputs, which are used to the extent that observable inputs are not available, and used in situations where there is little or no market activity for the asset or liability and wherein the reporting entity makes estimates and assumptions related to the pricing of the asset or liability including assumptions regarding risk.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

As of September 30, 2014 the Company had the following financial instruments to which it had to consider fair values and had to make fair assessments:

- Short-term investments for which the fair values are measured as a Level 1 instrument.
- Contingent accrued earn-out business acquisition consideration liabilities for which fair values are measured as Level 3 instruments. These contingent consideration liabilities were recorded at fair value on the acquisition date and are remeasured quarterly based on the then assessed fair value and adjusted if necessary. The increases or decreases in the fair value of contingent consideration payable can result from changes in anticipated revenue levels and changes in assumed discount periods and rates. As the fair value measure is based on significant inputs that are not observable in the market, they are categorized as Level 3.

Other financial instruments not measured at fair value on the Company's unaudited consolidated balance sheet at September 30, 2014 but which require disclosure of their fair values include: cash and cash equivalents, accounts receivable, accounts payable and accrued expenses, accrued payroll and related benefits, capital lease obligations, and debt under the revolving line of credit with Regions Financial Corporation. The estimated fair value of such instruments at September 30, 2014 and December 31, 2013, approximates their carrying value as reported on the unaudited Condensed Consolidated Balance Sheet.
Additional information regarding the Company's assets and liabilities that are measured at fair value on a recurring basis is presented in the following tables:

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Descriptions	Fair Values at Reporting Date Using*			
	Balance, September 30, 2014	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(In thousands)			
Assets				
Available-for-sale securities:				
Commercial bank certificates of deposits	$1,326	$1,326	$—	$—
Total assets measured at fair value	$1,326	$1,326	$—	$—
Liabilities				
Derivatives:				
Contingent accrued earn-out acquisition consideration (a)	10,850	—	—	10,850
Total liabilities measured at fair value	$10,850	$—	$—	$10,850

(a) The income valuation approach is applied and the valuation inputs include the contingent payment arrangement terms, projected cash flows, rate of return, and probability assessments.
* During the nine months ended September 30, 2014 there were no transfers between fair value Levels 1, 2 or 3.

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Descriptions	Balance, December 31, 2013	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	Fair Values at Reporting Date Using*			
	(In thousands)			
Assets				
Available-for-sale securities:				
Commercial bank certificates of deposits	$801	801	$—	$—
Total assets measured at fair value	$801	$801	$—	$—
Liabilities				
Derivatives:				
Common share-based put option (b)	$845	$—	845	$—
Contingent accrued earn-out acquisition consideration (a)	14,420	—	—	14,420
Total liabilities measured at fair value	$15,265	$—	$845	$14,420

(a) The income valuation approach is applied and the valuation inputs include the contingent payment arrangement terms, projected cash flows, rate of return, and probability assessments.
(b) In connection with the acquisition of PlanetSoft effective June 1, 2012, Ebix issued a put option to the PlanetSoft's three shareholders. The put option, which expired in July 9, 2014, was exercisable during the thirty-day period immediately following the two-year anniversary date of the closing of the business acquisition, which if exercised would enable the PlanetSoft shareholders to sell the underlying 296,560 shares of Ebix common stock they received as part of the purchase consideration, back to the Company at a price of $16.86 per share. The inputs used in the valuation of the put option include term, stock price volatility, current stock price, exercise price, and the risk free rate of return. During the months of July and August 2014 the former shareholders of PlanetSoft elected to exercise their put option rights with respect to the remaining 209,656 shares of Ebix common stock they still held. Accordingly the shareholders put those shares back to the Company at $16.86 per share plus interest at the rate of 20% as per the PlanetSoft acquisition agreement. The total consideration paid by the Company in connection with the exercise of these put options was $3.6 million.
* During the twelve months ended December 31, 2013 there were no transfers between fair value Levels 1, 2 or 3.

For the Company's assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3), the following table provides a reconciliation of the beginning and ending balances for each category therein, and gains or losses recognized during the nine months ended September 30, 2014 and during the year ended December 31, 2013:

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Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

Contingent Liability for Accrued Earn-out Acquisition Consideration	Balance, September 30, 2014	Balance, December 31, 2013
	(in thousands)	
Beginning balance	$ 14,420	$ 17,495
Total remeasurement adjustments:		
(Gains) or losses included in earnings **	(7,533)	(10,253)
Foreign currency translation adjustments ***	(228)	730
Acquisitions and settlements		
Business acquisitions	6,441	9,425
Settlement payments	(2,250)	(2,977)
Ending balance	$ 10,850	$ 14,420
The amount of total (gains) or losses for the period included in earnings or changes to net assets, attributable to changes in unrealized (gains) or losses relating to assets or liabilities still held at period-end.	$ (6,540)	$ (9,954)

** recorded as an adjustment to reported general and administrative expenses
*** recorded as a component of other comprehensive income within stockholders' equity

Quantitative Information about Level 3 Fair Value Measurements
The significant unobservable inputs used in the fair value measurement of the Company's contingent consideration liabilities designated as Level 3 are as follows:

(in thousands)	Fair Value at September 30, 2014	Valuation Technique	Significant Unobservable Input
Contingent acquisition consideration: (TriSystems, Qatarlyst, CurePet, and HealthCare Magic acquisitions)	$10,850	Discounted cash flow	Projected revenue and probability of achievement

(in thousands)	Fair Value at December 31, 2013	Valuation Technique	Significant Unobservable Input
Contingent acquisition consideration: (Taimma, Planetsoft, TriSystems, and Qatarlyst acquisitions)	$14,420	Discounted cash flow	Projected revenue and probability of achievement

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Sensitivity to Changes in Significant Unobservable Inputs
As presented in the table above, the significant unobservable inputs used in the fair value measurement of contingent consideration related to business acquisitions are projected revenue forecasts as developed by the relevant members of Company's management team and the probability of achievement of those revenue forecasts. The discount rate used in these calculations is 1.75%. Significant increases (decreases) in these unobservable inputs in isolation would result in a significantly higher (lower) fair value measurement.
Revenue Recognition—The Company derives its revenues primarily from subscription and transaction fees pertaining to services delivered over our exchanges or from our ASP platforms, fees for risk compliance solution services, and fees for software development projects including associated fees for consulting, implementation, training, and project management provided to customers with installed systems and applications. Sales and value-added taxes are not included in revenues, but rather are recorded as a liability until the taxes assessed are remitted to the respective taxing authorities.
In accordance with Financial Accounting Standard Board (“FASB”) and SEC accounting guidance on revenue recognition, the Company considers revenue earned and realizable when: (a) persuasive evidence of the sales arrangement exists, provided that the arrangement fee is fixed or determinable, (b) delivery or performance has occurred, (c) customer acceptance has been received or is assured, if contractually required, and (d) collectability of the arrangement fee is probable. The Company uses signed contractual agreements as persuasive evidence of a sales arrangement. We apply the provisions of the relevant generally accepted accounting principles related to all transactions involving the license of software where the software deliverables are considered more than inconsequential to the other elements in the arrangement.
For contracts that contain multiple deliverables, we analyze the revenue arrangements in accordance with the relevant technical accounting guidance, which provides criteria governing how to determine whether goods or services that are delivered separately in a bundled sales arrangement should be considered as separate units of accounting for the purpose of revenue recognition. These types of arrangements include deliverables pertaining to software licenses, system set-up, and professional services associated with product customization or modification. Delivery of the various contractual elements typically occurs over periods of less than eighteen months. These arrangements generally do not have refund provisions or have very limited refund terms.
Software development arrangements involving significant customization, modification or production are accounted for in accordance with the appropriate technical accounting guidance issued by FASB using the percentage-of-completion method. The Company recognizes revenue using periodic reported actual hours worked as a percentage of total expected hours required to complete the project arrangement and applies the percentage to the total arrangement fee.
Accounts Receivable and the Allowance for Doubtful Accounts Receivable—Reported accounts receivable include $29.4 million of trade receivables stated at invoice billed amounts net of the estimated allowance for doubtful accounts receivable in the amount of $1.6 million, and $10.6 million of unbilled receivables. The unbilled receivables pertain to certain projects for which the timing of billing is tied to contractual milestones. The Company adheres to such contractually stated performance milestones and accordingly issues invoices to customers as per contract billing schedules. Approximately $7.5 million of deferred revenue is included in billed accounts receivable at September 30, 2014. The Company recognized and recorded bad debt expense in the amount of $336 thousand and $1.1 million for the three and nine-month periods ended September 30, 2014 and $834 thousand and $1.4 million for the three and nine-month periods ended September 30, 2013, respectively. Accounts receivable are written off against the allowance account when the Company has exhausted all reasonable collection efforts.
Goodwill and Other Indefinite-Lived Intangible Assets—Goodwill represents the cost in excess of the fair value of the net assets of acquired businesses. Indefinite-lived intangible assets represent the fair value of certain acquired contractual customer relationships for which future cash flows are expected to continue indefinitely. In accordance with the relevant FASB accounting guidance, goodwill and indefinite-lived intangible assets are not amortized but are tested for impairment at the reporting unit level on an annual basis or on an interim basis if an event occurs or circumstances change that would likely have reduced the fair value of a reporting unit below its carrying value. Potential impairment indicators include a significant change in the business climate, legal factors, operating

performance indicators, competition, and the sale or disposition of a significant portion of the business. The impairment evaluation process involves an assessment of certain qualitative factors to determine whether the existence of events or circumstances would indicate that it is more likely than not that the fair value of any of our reporting units was less than its carrying amount. If after assessing the totality of events or circumstances, we were to determine that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then the Company would not perform the two-step quantitative impairment testing described further below.

The aforementioned two-step quantitative testing process involves comparing the reporting unit carrying values to their respective fair values; we determine fair value of our reporting units by applying the discounted cash flow method using the

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present value of future estimated net cash flows. If the fair value of a reporting unit exceeds its carrying value, then no further testing is required. However, if a reporting unit's fair value were to be less than its carrying value, we would then determine the amount of the impairment charge, if any, which would be the amount that the carrying value of the reporting unit's goodwill exceeded its implied value. Projections of cash flows are based on our views of growth rates, operating costs, anticipated future economic conditions and the appropriate discount rates relative to risk and estimates of residual values. We believe that our estimates are consistent with assumptions that marketplace participants would use in their estimates of fair value. The use of different estimates or assumptions for our projected discounted cash flows (e.g., growth rates, future economic conditions, discount rates and estimates of terminal values) when determining the fair value of our reporting units could result in different values and may result in a goodwill impairment charge. We perform our annual goodwill impairment evaluation and testing as of September 30th of each year. This evaluation is done during the fourth quarter each year. During the year ended December 31, 2013 we had no impairment of our reporting unit goodwill balances.

Changes in the carrying amount of goodwill for the nine months ended September 30, 2014 and the year ended December 31, 2013 are reflected in the following table. Goodwill increased during this period due to the two business acquisitions that were made in January and May, and as more fully described in Note 3 "Business Combinations".

	September 30, 2014	December 31, 2013
	(In thousands)	
Beginning Balance	$337,068	$326,748
Additions	14,353	11,136
Foreign currency translation adjustments	(1,166)	(816)
Ending Balance	$350,255	$337,068

Finite-lived Intangible Assets—Purchased intangible assets represent the estimated acquisition date fair value of customer relationships, developed technology, trademarks and non-compete agreements obtained in connection with the businesses we acquire. We amortize these intangible assets on a straight-line basis over their estimated useful lives, as follows:

Category	Life (yrs)
Customer relationships	7-20
Developed technology	3–12
Trademarks	3–15
Non-compete agreements	5
Database	10

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The carrying value of finite-lived and indefinite-lived intangible assets at September 30, 2014 and December 31, 2013 are as follows:

	September 30, 2014	December 31, 2013
	(In thousands)	
Finite-lived intangible assets:		
Customer relationships	$62,974	$62,408
Developed technology	15,000	14,630
Trademarks	2,773	2,646
Non-compete agreements	759	538
Backlog	140	140
Database	212	212
Total intangibles	81,858	80,574
Accumulated amortization	(35,354)	(29,840)
Finite-lived intangibles, net	$46,504	$50,734
Indefinite-lived intangibles:		
Customer/territorial relationships	$30,887	$30,887

Amortization expense recognized in connection with acquired intangible assets was $1.9 million and $5.6 million for the three and nine months ended September 30, 2014 and $1.9 million and $5.4 million for the three and nine months ended September 30, 2013, respectively.

Foreign Currency Translation—The functional currency for the Company's foreign subsidiaries in India and Singapore is the U.S. dollar because the intellectual property research and development activities provided by its Singapore subsidiary, and the product development and information technology enabled services activities for the insurance industry provided by its India subsidiary, both in support of Ebix's operating divisions across the world, are transacted in U.S. dollars.

The functional currency of the Company's other foreign subsidiaries is the local currency of the country in which the subsidiary operates. The assets and liabilities of these foreign subsidiaries are translated into U.S. dollars at the rates of exchange at the balance sheet dates. Income and expense accounts are translated at the average exchange rates in effect during the period. Gains and losses resulting from translation adjustments are included as a component of accumulated other comprehensive income in the accompanying consolidated balance sheets, and are included in the condensed consolidated statements of comprehensive income. Foreign exchange transaction gains and losses that are derived from transactions denominated in a currency other than the subsidiary's functional currency are included in the determination of net income.

Income Taxes—Deferred income taxes are recorded to reflect the estimated future tax effects of differences between the financial statement and tax basis of assets, liabilities, operating losses, and tax credit carry forwards using the tax rates expected to be in effect when the temporary differences reverse. Valuation allowances, if any, are recorded to reduce deferred tax assets to the amount management considers more likely than not to be realized. Such valuation allowances are recorded for the portion of the deferred tax assets that are not expected to be realized based on the levels of historical taxable income and projections for future taxable income over the periods in which the temporary differences will be deductible.

The Company also applies FASB accounting guidance on accounting for uncertainty in income taxes positions. This guidance clarifies the accounting for uncertainty in income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. In this regard we recognize the tax benefit from uncertain tax positions only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position.

Recent Relevant Accounting Pronouncements—The following is a brief discussion of recently released accounting pronouncements that are pertinent to the Company's business:

In May 2014 the FASB issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers". ASU 2014-09 affects any entity using U.S. GAAP that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (e.g., insurance contracts or lease contracts). This ASU will supersede the revenue recognition requirements in Topic

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605, Revenue Recognition, and most industry-specific guidance. This ASU also supersedes some cost guidance included in Subtopic 605-35, Revenue Recognition—Construction-Type and Production-Type Contracts. In addition, the existing requirements for the recognition of a gain or loss on the transfer of nonfinancial assets that are not in a contract with a customer (e.g., assets within the scope of Topic 360, Property, Plant, and Equipment, and intangible assets within the scope of Topic 350, Intangibles—Goodwill and Other) are amended to be consistent with the guidance on recognition and measurement (including the constraint on revenue) in this ASU.

The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps:

Step 1: Identify the contract(s) with a customer.

Step 2: Identify the performance obligations in the contract.

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the performance obligations in the contract.

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

For a public entity, the amendments in this ASU are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted.

An entity should apply the amendments in this ASU using one of the following two methods:

1. Retrospectively to each prior reporting period presented and the entity may elect any of the following practical expedients:

- For completed contracts, an entity need not restate contracts that begin and end within the same annual reporting period.
- For completed contracts that have variable consideration, an entity may use the transaction price at the date the contract was completed rather than estimating variable consideration amounts in the comparative reporting periods.
- For all reporting periods presented before the date of initial application, an entity need not disclose the amount of the transaction price allocated to remaining performance obligations and an explanation of when the entity expects to recognize that amount as revenue.

2. Retrospectively with the cumulative effect of initially applying this ASU recognized at the date of initial application. If an entity elects this transition method it also should provide the additional disclosures in reporting periods that include the date of initial application of:

- The amount by which each financial statement line item is affected in the current reporting period by the application of this ASU as compared to the guidance that was in effect before the change.
- An explanation of the reasons for significant changes.

The Company will adopt this new accounting standard effective January 1, 2017 and it has not presently determined the impact that the adoption of ASU No. 2014-09 will have on its income statement, balance sheet, or statement of cash flows. Furthermore, the Company has not yet determined the method of retrospective adoption it will use as described in paragraphs 1 and 2 immediately above.

In July 2013, the FASB issued Accounting Standards Update No. 2013-11, "Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists". This accounting standard states that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except as follows. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. This accounting standards update applies to all entities that have unrecognized tax benefits when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists at the reporting date. The accounting standards update is effective for fiscal years, and interim periods within those

years, beginning after December 15, 2013. This pronouncement should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted. The Company adopted this new standard during the interim three-month

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reporting period ending March 31, 2014, and it materially effected how unrecognized tax benefits were accounted for and presented in the Company's balance sheet.

In February 2013 The FASB has issued Accounting Standards Update (ASU) No. 2013-02, "Comprehensive Income Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income", to improve the transparency of reporting these reclassifications. Other comprehensive income includes gains and losses that are initially excluded from net income for an accounting period. Those gains and losses may later be reclassified out of accumulated other comprehensive income into net income. The amendments in this ASU do not change the current requirements for reporting net income or other comprehensive income in financial statements. The new amendments requires an organization to:

- Present (either on the face of the statement where net income is presented or in the notes) the effects on the line items of net income of significant amounts reclassified out of accumulated other comprehensive income - but only if the item reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period.
- Cross-reference to other disclosures currently required under U.S. GAAP for other reclassification items (that are not required under U.S. GAAP) to be reclassified directly to net income in their entirety in the same reporting period. This would be the case when a portion of the amount reclassified out of accumulated other comprehensive income is initially transferred to a balance sheet account instead of directly to income or expense.

The amendments apply to all public and private companies that report items of other comprehensive income. Public companies are required to comply with these amendments for all reporting periods (interim and annual).

The amendments were effective for reporting periods beginning after December 15, 2012 for public companies. Early adoption was permitted. The Company adopted this new standard in 2013 and it did not have effect on its financial statements.

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Note 2: Earnings per Share

A reconciliation between basic and diluted earnings per share is as follows (in thousands, except per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(In thousands, except per share data)			
Net income for basic and diluted earnings per share	$18,015	$13,143	$47,011	$44,029
Basic Weighted Average Shares Outstanding	38,050	37,919	38,264	37,435
Dilutive effect of stock options and restricted stock awards	203	532	235	1,241
Diluted weighted average shares outstanding	38,253	38,451	38,499	38,676
Basic earnings per common share	$0.47	$0.35	$1.23	$1.18
Diluted earnings per common share	$0.47	$0.34	$1.22	$1.14

Note 3: Business Combinations

The Company seeks to execute accretive business acquisitions in combination with organic growth initiatives as part of its comprehensive business growth and expansion strategy. The Company looks to acquire businesses that are complementary to Ebix's existing products and services.

During the nine months ended September 30, 2014, the Company completed two business acquisitions. The first being CurePet, Inc. ("CurePet") effective January 27, 2014. Previously Ebix had a minority investment in CurePet, which is more fully described in Note 9. Ebix acquired the entire business of CurePet in an asset purchase agreement with total purchase consideration being $6.35 million which includes a possible future one time contingent earnout payment of up to $5.0 million based on earned revenues over the subsequent thirty-six month period following the effective date of the acquisition. This contingent earnout liability is currently estimated to have a fair value of $1.6 million. The valuation and purchase price allocation for the CurePet acquisition remains preliminary and will be finalized prior to December 31, 2014.

The other business acquisition completed during the nine months ended September 30, 2014 was HealthCare Magic Private Limited ("HealthCare Magic") which was acquired on May 21, 2014. HealthCare Magic is a medical advisory service with an online network of approximately 15,000 General Physicians and Surgeons spread across 50 specialties including alternative medicine. The Company acquired HealthCare Magic for aggregate cash consideration in the amount of $6.0 million plus a possible future one time contingent earnout payment of up to $12.36 million based on earned revenues over the subsequent twenty-four month period following the effective date of the acquisition. This contingent earnout liability is currently estimated to have a fair value of $4.72 million. The Company funded the HealthCare Magic acquisition from available cash reserves on hand. The valuation and purchase price allocation for the HealthCare Magic acquisition is considered preliminary and will be finalized prior to December 31, 2014.

A significant component of the purchase price consideration for many of the Company's business acquisitions is a potential subsequent cash earnout payment based on reaching certain specified future revenue targets. The Company recognizes these potential obligations as contingent liabilities and are reported accordingly on its Condensed Consolidated Balance Sheets. As discussed in more detail in Note 1, these contingent consideration liabilities are recorded at fair value on the acquisition date and are remeasured quarterly based on the then assessed fair value and adjusted if necessary. During the three months ended September 30, 2014 and 2013 these aggregate contingent accrued earn-out business acquisition consideration liabilities, were reduced by $5.8 million and $4.1 million, respectively, and during the nine months ended September 30, 2014 and 2013 these contingent liabilities were reduced by $7.5 million and $10.3 million, respectively, due to remeasurements as based on the then assessed fair value and changes in anticipated future revenue levels. These reductions to the contingent accrued earn-out liabilities resulted in corresponding reduction to general and administrative expenses as reported on the Condensed Consolidated

Statements of Income. As of September 30, 2014, the total of these contingent liabilities was $10.85 million, of which $10.29 million is reported in long-term liabilities, and $564 thousand is included in current liabilities in the Company's Condensed Consolidated Balance Sheet. As of December 31, 2013 the total of these contingent liabilities was $14.42 million, of which $10.28 million is

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reported in long-term liabilities, and $4.14 million is included in current liabilities in the Company's Condensed Consolidated Balance Sheet.

Consideration paid by the Company for the businesses it purchases is allocated to the assets and liabilities acquired based upon their estimated fair values as of the date of the acquisition. The excess of the purchase price over the estimated fair values of assets acquired and liabilities assumed is recorded as goodwill. Recognized goodwill pertains to the value of the expected synergies to be derived from combining the operations of the businesses we acquire including the value of the acquired workforce.

The aggregated unaudited pro forma financial information pertaining to all of the Company's acquisitions made during the nine months ended September 30, 2013 and September 30, 2014, which includes the acquisitions of Qatarlyst, CurePet, and HealthCare Magic as presented in the table below is provided for informational purposes only and does not project the Company's expected results of operations for any future period. No effect has been given in this pro forma information for future synergistic benefits that may still be realized as a result of combining these companies or costs that may yet be incurred in integrating their operations. The 2014 and 2013 pro forma financial information below assumes that all such business acquisitions were made on January 1, 2013, whereas the Company's reported financial statements for the three and nine months ended September 30, 2014 only include the operating results from the businesses since the effective date that they were acquired by Ebix.

	Three Months Ended September 30, 2014		Three Months Ended September 30, 2013		Nine Months Ending September 30, 2014		Nine Months Ending September 30, 2013	
	As Reported (unaudited)	Pro Forma	As Reported (unaudited)	Pro Forma	As Reported (unaudited)	Pro Forma	As Reported (unaudited)	Pro Forma
	(In thousands, except per share data)							
Revenue	$50,808	$50,808	$50,293	$50,697	$153,688	$154,227	$153,863	$154,997
Net Income	$18,015	$18,015						