EBIX INC
Form 10-Q
August 09, 2013

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 June 30, 2013
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 August 7, 2013 the number of shares of common stock outstanding was 37,966,222.

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FOR THE QUARTER ENDED JUNE 30, 2013
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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 June 30,		Six Months Ended June 30	
	2013	2012	2013	2012
Operating revenue	$51,004	$47,716	$103,570	$91,543
Operating expenses:				
Cost of services provided	10,358	9,157	20,249	18,186
Product development	6,724	5,814	13,759	10,086
Sales and marketing	3,827	4,296	7,739	8,108
General and administrative, net (see Note 3)	8,253	8,577	18,224	15,021
Amortization and depreciation	2,548	2,161	5,000	4,102
Total operating expenses	31,710	30,005	64,971	55,503
Operating income	19,294	17,711	38,599	36,040
Interest income	91	110	184	277
Interest expense	(281)	(312)	(643)	(565)
Other non-operating income (loss)	(1,425)	262	(1,343)	262
Foreign currency exchange gain (loss)	(123)	2,591	(293)	2,295
Income before income taxes	17,556	20,362	36,504	38,309
Income tax expense	(4,014)	(2,295)	(5,618)	(4,557)
Net income	$13,542	$18,067	$30,886	$33,752
Basic earnings per common share	$0.36	$0.49	$0.83	$0.92
Diluted earnings per common share	$0.35	$0.47	$0.80	$0.86
Basic weighted average shares outstanding	37,210	36,908	37,189	36,679
Diluted weighted average shares outstanding	38,789	38,827	38,784	39,175

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 June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Net income	$13,542	$18,067	$30,886	$33,752
Other comprehensive income (loss):				
Foreign currency translation adjustments	(3,578)	(7,705)	$(4,096)	(3,378)
Total other comprehensive income (loss)	(3,578)	(7,705)	(4,096)	(3,378)
Comprehensive income	$9,964	$10,362	$26,790	$30,374

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)

	June 30, 2013 (Unaudited)	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$35,394	$36,449
Short-term investments	707	971
Trade accounts receivable, less allowances of $1,595 and $1,157, respectively	38,500	37,298
Deferred tax asset, net	2,047	1,835
Other current assets	5,201	5,116
Total current assets	81,849	81,669
Property and equipment, net	9,226	10,082
Goodwill	333,872	326,748
Intangibles, net	53,969	52,591
Indefinite-lived intangibles	30,887	30,887
Deferred tax asset, net	24,308	11,245
Other assets	3,933	3,724
Total assets	$538,044	$516,946
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$23,552	$15,497
Accrued payroll and related benefits	6,464	5,431
Short term debt	12,375	11,344
Contingent liability for accrued earn-out acquisition consideration	6,343	3,265
Current portion of long term debt and capital lease obligations, net of discount of $29 and $13, respectively	845	915
Deferred revenue	16,995	19,888
Put option liability	2,530	—
Current deferred rent	254	237
Other current liabilities	105	113
Total current liabilities	69,463	56,690
Revolving line of credit	32,840	37,840
Long term debt and capital lease obligations, less current portion, net of discount of $39 and$78, respectively	25,750	31,592
Other liabilities	8,794	6,429
Contingent liability for accrued earn-out acquisition consideration	9,155	14,230
Put option liability	—	1,186
Deferred revenue	168	375
Long term deferred rent	2,285	1,449
Total liabilities	148,455	149,791
Commitments and Contingencies, Note 5		
Temporary equity, Note 10	5,000	5,000

Stockholders' equity:		
Preferred stock, $0.10 par value, 500,000 shares authorized, no shares issued and outstanding at June 30, 2013 and December 31, 2012	—	—

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Common stock, $0.10 par value, 60,000,000 shares authorized, 37,016,509 issued and 36,976,000 outstanding at June 30, 2013 and 37,131,777 issued and 37,091,268 outstanding at December 31, 2012	3,698	3,709
Additional paid-in capital	162,795	164,346
Treasury stock (40,509 shares as of June 30, 2013 and December 31, 2012)	(76)	(76)
Retained earnings	229,186	201,094
Accumulated other comprehensive loss	(11,014)	(6,918)
Total stockholders' equity	384,589	362,155
Total liabilities and stockholders' equity	$538,044	$516,946

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)

	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, 2012	37,131,777	$3,709	(40,509)	$ (76)	$164,346	$201,094	$ (6,918)	$362,155
Net income	—	—	—	—	—	30,886	—	30,886
Cumulative translation adjustment	—	—	—	—	—	—	(4,096)	(4,096)
Repurchase and retirement of common stock	(250,900)	(25)			(2,467)			(2,492)
Vesting of restricted stock	47,173	5	—	—	(5)	—	—	—
Exercise of stock options	136,419	14	—	—	648	—	—	662
Share based compensation	—	—	—	—	996	—	—	996
Tax benefit related to share-based compensation	—	—	—	—	—	—	—	—
Forfeiture of certain shares to satisfy exercise costs and the recipients income tax obligations related to stock options exercised and restricted stock vested	(47,960)	(5)	—	—	(723)	—	—	(728)
Dividends paid	—	—	—	—	—	(2,794)	—	(2,794)
Balance, June 30, 2013	37,016,509	$3,698	(40,509)	$ (76)	$162,795	$229,186	$ (11,014)	$384,589

See accompanying notes to the condensed consolidated financial statements.

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

	Six Months Ended June 30, 2013	2012
Cash flows from operating activities:		
Net income	$30,886	$33,752
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,000	4,102
Benefit for deferred taxes	(14,119)	(956)
Share based compensation	996	1,059
Provision for doubtful accounts	527	316
Debt discount amortization on convertible debt	23	13
Unrealized foreign exchange (gain) loss	339	(593)
(Gain) loss on put option	1,344	(263)
Reduction of acquisition earnout accruals	(6,114)	—
Changes in assets and liabilities, net of effects from acquisitions:		
Accounts receivable	(2,101)	2,163
Other assets	182	(1,009)
Accounts payable and accrued expenses	7,303	(858)
Accrued payroll and related benefits	1,296	(384)
Deferred revenue	(3,051)	(225)
Deferred rent	11	(56)
Other liabilities	2,317	(2,338)
Net cash provided by operating activities	24,839	34,723
Cash flows from investing activities:		
Acquisition of Qatarlyst, net of cash acquired	(4,740)	—
Investment in MCN	—	(1,537)
Acquisition of BSI, net of cash acquired	—	(992)
Acquisition of Taimma, net of cash acquired	—	(5,003)
Acquisition of Fintechnix, net of cash acquired	—	(4,713)
Acquisition of Planetsoft, net of cash acquired	—	(33,967)
Investment in Curepet, Inc.	—	(2,000)
Investment in Taimma	(2,250)	—
Investment in USIX	(727)	—
Maturities of marketable securities (net of purchases)	225	194
Capital expenditures	(652)	(1,079)
Net cash used in investing activities	(8,144)	(49,097)
Cash flows from financing activities:		
Repayments on revolving line of credit, (net of proceeds)	(5,000)	1,090
Proceeds from term loan	—	45,000
Principal payments of term loan obligation	(4,125)	(15,000)
Repurchases of common stock	(2,492)	(9,396)
Excess tax benefit from share-based compensation	—	50

Proceeds from the exercise of stock options	662	714
Forfeiture of certain shares to satisfy exercise costs and the recipients income tax obligations related to stock options exercised and restricted stock vested	(728)	—
Dividend payments	(2,794)	(3,296)
Principal payments of debt obligations	(624)	(600)
Payments of capital lease obligations	(155)	(165)
Net cash provided by/ (used in) financing activities	(15,256)	18,397
Effect of foreign exchange rates on cash	(2,494)	(2,406)
Net change in cash and cash equivalents	(1,055)	1,617
Cash and cash equivalents at the beginning of the period	36,449	23,696
Cash and cash equivalents at the end of the period	$35,394	$25,313
Supplemental disclosures of cash flow information:		
Interest paid	$635	$567
Income taxes paid	$11,830	$4,842

See accompanying notes to the condensed consolidated financial statements.

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Supplemental schedule of noncash financing activities:

Effective June 1, 2012, Ebix acquired PlanetSoft, Inc. for aggregate consideration in the amount of $40.0 million. Under terms of the merger agreement, the former PlanetSoft shareholders received, as part of the aggregate purchase consideration, 296,560 shares of Ebix common stock with a fair value of $5.0 million.

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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 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, China, India, Japan, New Zealand, Singapore, United Kingdom and Brazil. International revenue accounted for 31.5% and 29.3% of the Company's total revenue for the six months ended June 30, 2013 and 2012, 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 six months ended June 30, 2013 and 2012.

	Three Months Ended June 30,		Six Months Ended June 30,	
(dollar amounts in thousands)	2013	2012	2013	2012
Exchanges	$40,501	$38,182	$82,187	$72,828
Broker Systems	4,766	4,422	9,488	9,176
Business Process Outsourcing ("BPO")	4,013	3,890	8,177	7,461
Carrier Systems	1,724	1,222	3,718	2,078
Totals	$51,004	$47,716	$103,570	$91,543

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 six months ended June 30, 2013 and 2012 are not necessarily indicative of the results that may be expected for the full year. The condensed consolidated December 31, 2012 balance sheet included in this interim period filing has been derived from the audited financial statements at that date but does not 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, 2012.

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 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.

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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 June 30, 2013 the Company had the following financial instruments to which it had to consider fair values and had to make fair assessments:

- Common share-based put option for which the fair value was measured as a Level 2 instrument.
- 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 June 30, 2013 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 and term loans with Citibank. The estimated fair value of such instruments at June 30, 2013 approximates their carrying value as reported on the unaudited 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 table:

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Descriptions	Fair Values at Reporting Date Using* Balance, June 30, 2013 (In thousands)	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Available-for-sale securities:				
Commercial bank certificates of deposits	$ 707	$ 707	$—	$—
Total assets measured at fair value	$ 707	$ 707	$—	$—
Liabilities				
Derivatives:				
Common share-based put option (a)	$ 2,530	$—	$ 2,530	$—
Contingent accrued earn-out acquisition consideration (b)	15,498	—	—	15,498
Total liabilities measured at fair value	$ 18,028	$—	$ 2,530	$ 15,498

(a) 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 expires in June 2014, is exercisable during the thirty-day period immediately following the two-year anniversary date of the business acquisition, which if exercised would enable them 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, which represents a 10% discount off of the per-share value established on the effective date of the closing of Ebix's acquisition of PlanetSoft. A portion of the total purchase consideration was allocated to this put liability based on its initial fair value, which was determined to be $1.4 million using a Black-Scholes model. 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.
(b) 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 three months ended June 30, 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 six months ending June 30, 2013:

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Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

	Contingent Liability for Accrued Earn-out Acquisition Consideration (in thousands)
Beginning balance at January 1, 2013	$ 17,495
Total remeasurement adjustments:	
(Gains) or losses included in earnings **	(6,114)
Foreign currency translation adjustments ***	(194)
Acquisitions and settlements	
Business acquisitions	7,288
Settlements	(2,977)
Ending balance at June 30, 2013	$ 15,498
The amount of total (gains) or losses for the six months ended June 30, 2013 included in earnings or changes to net assets, attributable to changes in unrealized (gains) or losses relating to assets or liabilities still held at year-end.	$ (6,159)

** 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 June 30, 2013	Valuation Technique	Significant Unobservable Input
Contingent acquisition consideration: (Taimma, Planetsoft, TriSystems, and Qatarlyst acquisitions)	$15,498	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 developed by the Company's management 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 (lower) higher 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 business process outsourcing services, and fees for software development projects including associated fees for consulting, implementation, training, and project management provided to customers with installed systems. 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, 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. Generally 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 $28.8 million of trade receivables stated at invoice billed amounts net of the estimated allowance for doubtful accounts receivable, and $9.7 million of unbilled receivables. Approximately $4.4 million deferred revenue is included in billed accounts receivable at June 30, 2013. The Company recognized and recorded bad debt expense in the amount of $527 thousand for the three and six-month periods ended June 30, 2013 and $50 thousand and $316 thousand for the three and six-month periods ended June 30, 2012, respectively. The bad debt expenses that was recognized during the recent quarterly period pertained to significant increases in the aging of certain specific customer receivables within our PlanetSoft, ADAM, and Singapore operations. 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 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 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

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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, 2012 we had no impairment of our reporting unit goodwill balances.

Changes in the carrying amount of goodwill for the six months ended June 30, 2013 are reflected in the following table. Goodwill increased during this period due to one business acquisition that was made in April.

	June 30, 2013 (In thousands)
Beginning Balance at January 1, 2013	$326,748
Additions	8,998
Foreign currency translation adjustments	(1,874)
Ending Balance at June 30, 2013	$333,872

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

The carrying value of finite-lived and indefinite-lived intangible assets at June 30, 2013 and December 31, 2012 are as follows:

	June 30, 2013	December 31, 2012
	(In thousands)	
Finite-lived intangible assets:		
Customer relationships	$61,966	$57,638
Developed technology	14,526	14,025
Trademarks	2,611	2,638
Non-compete agreements	538	538
Backlog	140	140
Database	212	212
Total intangibles	79,993	75,191
Accumulated amortization	(26,024)	(22,600)
Finite-lived intangibles, net	$53,969	$52,591
Indefinite-lived intangibles:		
Customer/territorial relationships	$30,887	$30,887

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Amortization expense recognized in connection with acquired intangible assets was $1.8 million and $3.5 million for the three and six months ended June 30, 2013 and $1.4 million and $2.5 million for the three and six months ended June 30, 2012.
Foreign Currency Translation-Historically the functional currency for the Company's foreign subsidiaries in India and Singapore had been the Indian rupee and Singapore dollar, respectively. As a result of the Company's rapid growth, including its acquisition of PlanetSoft in 2012, the expansion of its intellectual property research and development activities in its Singapore subsidiary, and its product development activities and information technology enabled services for the insurance industry provided by its India subsidiary in support of Ebix's operating divisions across the world (both of which are transacted in U.S. dollars), management undertook a reconsideration of functional currency designations for these two foreign subsidiaries in India and Singapore, and concluded that effective July 1, 2012 the functional currency for these entities should be changed to the U.S. dollar. The Company believes that the acquisition of PlanetSoft along with the other four business acquisitions completed in 2012 during the current year combined with the cumulative effect of business acquisitions made over the last few years which necessitated the rapid growth of the Company's operations in India and Singapore, were indicative of a significant change in the economic facts and circumstances that justified the reconsideration and ultimate change in the functional currency.
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 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. Early adoption is permitted. The amendments should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted. The Company will adopt this new standard in 2014, and it may have an affect on how unrecognized tax benefits are accounted for and presented in the Company's balance sheet.

In July 2012, the FASB issued Accounting Standards Update No. 2012-02, "Testing Indefinite-Lived Intangible Assets for Impairment" (the revised standard). The revised standard is intended to reduce the cost and complexity of testing indefinite-lived intangible assets other than goodwill for impairment. It allows companies to perform a qualitative assessment to determine whether further impairment testing of indefinite-lived intangible assets is necessary, similar in approach to the goodwill impairment test. The revised standard is effective for annual and interim impairment tests performed for fiscal years beginning after September

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15, 2012. Early adoption is permitted. The Company will adopt this new standard in 2013 for use in its annual impairment evaluations of indefinite-lived intangible assets, which are performed as of September of each year.

In September 2011, the FASB issued technical guidance regarding an entity's evaluation of goodwill for possible impairment. Under this new guidance an entity has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If after assessing the totality of events or circumstances, an entity determines that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step quantitative impairment test is unnecessary. This new technical guidance was effective for fiscal years beginning after December 15, 2011. Early adoption was permitted for annual and interim goodwill impairment evaluations performed as of a date before September 2011, if an entity's financial statements for the most recent annual or interim period had not yet been issued. The Company elected to adopt this technical guidance early and accordingly applied it to the 2011 and 2012 annual impairment evaluation of goodwill.

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 June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(In thousands, except per share data)			
Net income for basic and diluted earnings per share	$13,542	$18,067	$30,886	$33,752
Basic Weighted Average Shares Outstanding	37,210	36,908	37,189	36,679
Dilutive effect of stock options and restricted stock awards	1,579	1,919	1,595	2,496
Diluted weighted average shares outstanding	38,789	38,827	38,784	39,175
Basic earnings per common share	$0.36	$0.49	$0.83	$0.92
Diluted earnings per common share	$0.35	$0.47	$0.80	$0.86

Note 3: Business Combinations

The Company executes 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. Since June 1, 2012 the Company has completed four business acquisitions including PlanetSoft, Inc. which is considered significant and is discussed further below. The valuation and purchase price allocation for one of these acquisitions is considered preliminary and subject to change.

A significant component of the purchase price consideration for many of the Company's business acquisitions is a potential future cash earnout based on reaching certain specified future revenue targets. The Company recognizes these potential obligations as contingent liabilities as reported 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 and six months ending June 30, 2013 these aggregate contingent accrued earn-out business acquisition consideration liabilities, were reduced by $5.8 million and $6.1 million, respectively, due to remeasurements as based on the then assessed fair value and changes in anticipated future revenue levels. As of June 30, 2013, the total of these contingent liabilities was $15.5 million, of which $9.2 million is reported in long-term liabilities, and $6.3 million is included in current liabilities in the Company's Condensed Consolidated Balance Sheet. As of December 31, 2012 the total of these contingent liabilities was $17.5 million, of which $14.2 million is reported in long-term liabilities, and

$3.3 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

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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.

During the six months ended June 30, 2012 the Company received a termination fee in connection with a failed business acquisition. In this regard the Company recorded a reduction to general and administrative expense in the approximate amount of $971 thousand (net of directly related internal operating costs incurred by the Company and a portion of the fee that was paid to our investment banker).

Effective June 1, 2012 Ebix closed the merger of California based PlanetSoft, Inc. ("PlanetSoft"). Under the terms of the merger agreement the former PlanetSoft shareholders received $35.0 million cash and 296,560 shares of Ebix common stock valued at $16.86 per share or $5.0 million in the aggregate. Furthermore, under the terms of the agreement the PlanetSoft shareholders hold a put option exercisable during the thirty-day period immediately following the two-year anniversary date of the business acquisition, which if exercised would enable them to sell the underlying shares of common stock back to the Company at a 10% discount off of the per-share value established on the effective date of the closing of Ebix's acquisition of PlanetSoft. The initial fair value of this put option liability was determined to be $1.4 million. This put option is described in more detail in Note 7. Included in the Company's revenues as reported in its condensed consolidated statement of income for the six months ended June 30, 2013 is $7.9 million of PlanetSoft's operating revenue. The revenue derived from PlanetSoft's operations is included in the Company's Exchange division. The Company accounted for this acquisition by recording $44.1 million of goodwill, $9.8 million of intangible assets pertaining to customer relationships, and $540 thousand of intangible assets pertaining to acquired technology. The former shareholders of PlanetSoft retain the right to earn up to an additional cash consideration if certain incremental revenue targets are achieved over the two-year anniversary date subsequent to the effective date of the acquisition. The Company has determined that the approximate fair value of this contingent consideration liability to be $10.2 million as of June 30, 2013.

The aggregated unaudited pro forma financial information pertaining to all of the Company's acquisitions made during the six months ending June 30, 2012 and June 30, 2013, which includes the acquisitions of BSI, Taimma, PlanetSoft, Fintechnix, TriSystems, and Qatarlyst 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 2013 and 2012 pro forma financial information below assumes that all such business acquisitions were made on January 1, 2012, whereas the Company's reported financial statements for the three and six months ended June 30, 2012 only include the operating results from the businesses since the effective date that they were acquired by Ebix.

	Three Months Ending June 30, 2013		Three Months Ending June 30, 2012		Six Months Ending June 30, 2013		Six Months Ending June 30, 2012	
	As Reported	Pro Forma	As Reported	Pro Forma	As Reported	Pro Forma	As Reported	Pro Forma
	(unaudited)		(unaudited)		(unaudited)		(unaudited)	
	(In thousands, except per share data)							
Revenue	$51,004	$51,004	$47,716	$54,072	$103,570	$104,479	$91,543	$105,375
Net Income	$13,542	$13,542	$18,067	$15,347	$30,886	$29,577	$33,752	$27,076
Basic EPS	$0.36	$0.36	$0.49	$0.42	$0.83	$0.80	$0.92	$0.73
Diluted EPS	$0.35	$0.35	$0.47	$0.39	$0.80	$0.76	$0.86	$0.69

In the above table, the unaudited pro forma revenue for the three months ended June 30, 2013 decreased by $3.1 million from the unaudited pro forma revenue during the same period in 2012 of $54.1 million to $51.0 million , representing a 5.7% decrease. Correspondingly, the reported revenue for the three months ended June 30, 2013 increased by $3.3 million or 6.9% from the reported revenue during the same period in 2012. The unaudited pro forma revenue for the six months ended June 30, 2013 decreased by $0.9 million from the unaudited pro forma revenue during the same period in 2012 of $105.4 million to $104.5 million , representing a 0.9% increase. Correspondingly, the reported revenue for the six months ended June 30, 2013 increased by $12.0 million or 13.1% from the reported revenue during the same period in 2012.

Note 4: Debt with Commercial Bank

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On April 26, 2012, Ebix entered into a credit agreement providing for a $100 million secured syndicated credit facility (the “Secured Syndicated Credit Facility”) with Citibank, N.A. ("Citibank") as administrative agent and Citibank, Wells Fargo Capital Finance, LLC, and RBS Citizens, N.A. as joint lenders. The financing is comprised of a four-year, $45 million secured revolving credit facility, a $45 million secured term loan which amortizes over a four year period with quarterly principal and interest payments that commenced on June 30, 2012 and a final payment of all remaining outstanding principal and accrued interest due on April 26, 2016, and an accordion feature that provides for the expansion of the credit facility by an additional $10 million. This new $100 million credit facility with Citibank, as administrative agent, replaced the former $55 million facility that the Company had in place with Bank of America, N.A. The initial interest rate applicable to the Secured Syndicated Credit Facility is LIBOR plus 1.50% or currently 1.70%. Under the Secured Syndicated Credit Facility the maximum interest rate that could be charged depending upon the Company's leverage ratio is LIBOR plus 2.00%. The credit facility is used by the Company to fund working capital requirements primarily in support of current operations, organic growth, and accretive business acquisitions. The Company incurred $744 thousand of origination costs in connection with this new credit facility, and is amortizing these costs into interest expense over the four-year life of the credit agreement. As of June 30, 2013 the Company's consolidated balance sheet includes $527 thousand of remaining deferred financing costs. The underlying financing agreement contains financial covenants regarding the Company's annualized EBITDA, fixed charge coverage ratio, and leverage ratio, as well as certain restrictive covenants pertaining to such matters as the incurrence of new debt, the aggregate amount of repurchases of the Company's equity shares, and the consummation of new business acquisitions. The Company currently is in compliance with all such financial and restrictive covenants.

At June 30, 2013, the outstanding balance on the revolving line of credit was $32.8 million and the facility carried an interest rate of 1.70%. During the six months ended June 30, 2013, $5.0 million of payments were made against the revolving line of credit with Citibank.This balance is included in the long-term liabilities section of the Condensed Consolidated Balance Sheets. During the six month period ending June 30, 2013, the average and maximum outstanding balances on the revolving line of credit were $36.4 million and $37.8 million, respectively.

At June 30, 2013, the outstanding balance on the term loan was $36.8 million of which $12.4 million is due within the next twelve months. This term loan also carried an interest rate of 1.70%. During the six months ended June 30, 2013, $4.1 million of scheduled payments were made against the existing term loan with Citibank. The current and long-term portions of the term loan are included in the respective current and long-term sections of the Condensed Consolidated Balance Sheets, the amounts of which were $12.4 million and $24.8 million respectively at June 30, 2013.

Note 5: Commitments and Contingencies

Contingencies-Between July 14, 2011 and July 21, 2011, securities class action complaints were filed against the Company and certain of its officers in the United States District Court for the Southern District of New York and in the United States District Court for the Northern District of Georgia. The complaints assert claims against (i) the Company and the Company's CEO and CFO for alleged violations of Section 10(b) of the Securities Exchange Act of 1934 (the "Exchange Act") and Rule 10b-5 promulgated thereunder and (ii) the Company's CEO and CFO as alleged controlling persons. The complaints generally allege false statements in earnings reports, SEC filings, press releases, and other public statements that allegedly caused the Company's stock to trade at artificially inflated prices. Plaintiffs seek an unspecified amount of damages. The New York action has been transferred to Georgia and has been consolidated with the Georgia action, now styled In re: Ebix, Inc. Securities Litigation, Civil Action No. 1:11-CV-02400-RSW (N.D. Ga.). A Consolidated Amended Complaint (“CAC”) was filed by Plaintiffs on November 28, 2011. On January 12, 2012, the Company filed a Motion to Dismiss the CAC, which raised various defenses that the CAC failed to state a claim. On September 28, 2012, the Court entered an order denying the Company's Motion to Dismiss. On December 7, 2012, Plaintiffs filed their Motion for Class Certification. On June 19, 2013, Defendants filed a Motion for Judgment on the Pleadings, which is presently pending. On July 2, 2013, the Court denied Plaintiffs'

Motion for Class Certification without prejudice to Plaintiffs' refiling their Motion should the Court deny, in whole or in part, Defendants' Motion for Judgment on the Pleadings. On July 16, 2013, the Court entered a Stipulated Order Staying Discovery Pending Resolution of Defendants' Motion for Judgment on the Pleadings. In connection with this shareholder class action suit, there have been three derivative complaints brought by certain shareholders on behalf of the Company, which name certain of the Company's officers and its entire board of directors as Defendants. The first such derivative action was brought by an alleged shareholder named Paul Nauman styled Nauman v. Raina, et al., Civil Action File No. 2011-cv-205276 (Superior Court of Fulton County, Georgia). The second such derivative action was brought by an alleged shareholder named Gilbert Spagnola styled Spagnola v. Bhalla, et al., Civil action No. 1:13-CV-00062-RWS (N.D. Ga.), filed January 7, 2013. The third such derivative action was brought by an alleged shareholder named Hotel Trades Council and Hotel Association of New York City Pension Fund styled Hotel Trades Council and Hotel Association of New York City, Inc. Pension Fund v. Raina, et al., Civil Action No. 1:13-CV-00246-RWS (N.D. Ga.), filed January 23, 2013. These derivative actions are based on substantially the same factual allegations in the shareholder class action suit, but also variously

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claim breach of fiduciary duties, abuse of control, gross mismanagement, the wasting of corporate assets, negligence, unjust enrichment by the Company's directors, and violation of Section 14 of the Exchange Act. The Nauman case has been stayed pending the completion of expert discovery in the shareholder class action suit. On April 12, 2013, the Court entered an Order consolidating the Spagnola and Hotel derivative cases under the style In re Ebix, Inc. Derivative Litigation, File No. 1:13-CV-00062- RWS (N.D. Ga.), appointing Hotel Trades Council and Hotel Association of New York City, Inc. Pension Fund as Lead Derivative Plaintiff, and appointing the law firm Cohen Milstein Sellers & Toll PLLC as Lead Derivative Counsel and The Law Offices of David A. Bain LLC as Liaison Counsel. Lead Derivative Plaintiff filed its Consolidated Shareholder Derivative and Class Action Complaint on May 20, 2013. Thereafter, the Court entered a Consent Order on June 4, 2013, setting a schedule for Lead Derivative Plaintiff to amend its complaint in light of the anticipated preliminary proxy related to the transaction announced on May 1, 2013 with affiliates of Goldman Sachs & Co. Based on the termination of the merger agreement relating to that transaction, as announced on June 19, 2013, the parties are conferring regarding future case scheduling. The Company denies any liability and intends to defend the federal and derivative actions vigorously. The likelihood of an unfavorable outcome for this matter is not estimable.

On June 6, 2013, the Company was notified that the U.S Attorney for the Northern District of Georgia had opened an investigation into allegations of intentional misconduct that had been brought to its attention from the pending shareholder class action lawsuit against the Company's directors and officers, the media and other sources. The Company is cooperating with the U.S. Attorney's office.

Following the announcement on May 1, 2013 of the execution of a merger agreement with affiliates of Goldman Sachs & Co., eleven putative class action complaints challenging the proposed merger were filed in the Delaware Court of Chancery. These complaints name as defendants some combination of the Company, its directors, Goldman Sachs & Co and affiliated entities. On June 10, 2013, the eleven complaints were consolidated by the Delaware Court of Chancery under the caption In re Ebix, Inc. Stockholder Litigation, CA No. 8526-CS. On June 19, 2013, the Company announced that the merger agreement had been terminated pursuant to a Termination and Settlement Agreement. Defendants then moved to dismiss the consolidated proceeding. Lead Plaintiffs have indicated that they intend to amend their operative complaint and an order requiring them to do so on before August 20, 2013 was entered by the Court on July 24, 2013.

The Company has been sued by Microsoft in the N.D. Ga. for alleged copyright infringement, breach of contract, and unjust enrichment. Microsoft Corporation and Microsoft Licensing, GP v. Ebix, Inc., Case No. 1:13-CV-01655-CAP (N.D. Ga), filed May 15, 2013. The Company has not yet been able to determine exposure as the case concerns alleged underlicensing of Microsoft software. The Company filed a motion to dismiss the case on July 10, 2013. On August 5, 2013, Plaintiffs filed their First Amended Complaint. The Company has and will continue to defend itself aggressively against Microsoft's claims.

In the normal course of business, the Company is involved in various other claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate likely disposition of these matters will not have a material adverse effect on the Company's business, consolidated financial position, results of operations or liquidity.

Lease Commitments—The Company leases office space under non-cancelable operating leases with expiration dates ranging through 2019, with various renewal options. Capital leases range from three to five years and are primarily for computer equipment. There were multiple assets under various individual capital leases at June 30, 2013 and 2012. Rental expense for office facilities and certain equipment subject to operating leases for the six months ended June 30, 2013 and 2012 was $3.3 million and $2.7 million, respectively.

Self Insurance—For most of the Company’s U.S. employees the Company is self-insured for its health insurance program and has a stop loss policy that limits the individual liability to $100 thousand per person and the aggregate liability to 125% of the expected claims based upon the number of participants and historical claims. As of June 30, 2013, the amount accrued on the Company’s Condensed Consolidated Balance Sheet for the self-insured component of the Company’s employee health insurance was $277 thousand. The maximum potential estimated cumulative liability for the annual contract period, which ends in September 2013, is $3.0 million.

Note 6: Income Taxes

The Company's consolidated world-wide effective tax rate reflects the tax benefits of conducting operating activities in certain foreign jurisdictions where earnings are taxed at rates lower than U.S. statutory rates and where certain components of the Company's income are exempt from taxation. Furthermore, the Company's world-wide product development operations and intellectual property ownership have been centralized into our India and Singapore subsidiaries. Our operations in India benefit from a tax holiday which will continue through 2015; and as such the income generated by our India operations, other than passive interest income, is not taxed. After the tax holiday expires in 2015 the income generated by our India operations will be taxed at

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50% of the normal 33.99% corporate tax rate for a period of five years. The Company also has a relatively low income tax rate in Singapore in which our operations are taxed at a 10% marginal tax rate as a result of concessions granted by the local Singapore Economic Development Board for the benefit of in-country intellectual property owners. The concessionary 10% income tax rate will expire after 2015, at which time our Singapore operations will be subject to the prevailing corporate tax rate in Singapore, which is currently 17%, unless the Company reaches a subsequent agreement to extend the incentive period and the then applicable concessionary rate.

The Company recognized income tax expense of $5.6 million for the six months ended June 30, 2013. The Company's interim period income tax provisions are based on an estimate of the effective income tax rate expected to be applicable to the corresponding annual period, after eliminating discrete items unique to the respective interim period being reported. The estimated annual effective tax rate, net of the discrete item pertaining to the increase in the reserve for uncertain tax positions, for the second quarter of 2013 was 8.77% as compared to 10.46% for the same period in 2012. The effective rate increased primarily due to increased taxable income from jurisdictions with higher tax rates.

At June 30, 2013, the Company had remaining available domestic net operating loss (“NOL”) carry-forwards of approximately $48.9 million which are available to offset future federal and certain state income taxes. The Company reviews its NOL positions to validate that all NOL carry-forwards will be utilized before they begin to expire in 2020.

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction, and various states and foreign jurisdictions. With the exception of NOL carry-forwards, the Company is no longer subject to U.S. federal or state tax examinations by tax authorities for years before 2007 due to the expiration of the statute of limitations. There is an open federal income tax audit for taxable years 2008 through 2011. In connection with this open audit, the Company has responded to a number of information requests from the IRS, but there have been no substantive discussions or identification of potential deficiencies to date. Regarding our foreign operations as of December 31, 2012, the tax years that remain open and possibly subject to examination by the tax authorities in those jurisdictions are Australia (2006 to 2012), Singapore and Brazil (2007 to 2012), New Zealand (2008 to 2012), and India (2010 to 2012).

Accounting for Uncertainty in Income Taxes—The Company has applied the FASB’s accounting guidance on accounting for uncertain income tax positions. As of June 30, 2013 the Company’s Condensed Consolidated Balance Sheet includes a liability of $8.3 million for unrecognized tax benefits which is included in other long-term liabilities. During the six months ended June 30, 2013 there were $2.4 million in changes to this liability. A reconciliation of the beginning and ending amounts of the Company’s liability reserves for unrecognized tax benefits is as follows:

	(in thousands)
Balance at January 1, 2013	$5,925
Additions for tax positions related to current year	2,349
Additions for tax positions of prior years	68
Reductions for tax position of prior years	—
Balance at June 30, 2013	$8,342

The Company recognizes interest accrued and penalties related to unrecognized tax benefits as part of income tax expense. As of June 30, 2013 approximately $766 thousand of estimated interest and penalties is included in other long-term liabilities in the accompanying Condensed Consolidated Balance Sheet, and is part of the balance of the liability for unrecognized tax benefits in the above table.

Note 7: Derivative Instruments

The Company periodically uses derivative instruments that are not designated as hedges under FASB accounting guidance related to the accounting for derivative instruments, to hedge the fluctuations in foreign exchange rates for recognized balance sheet items such as intercompany receivables. As of June 30, 2013, all of the Company's pre-existing foreign currency hedge contracts have matured. The inputs that were used in the valuation of the hedge contracts included the USD/INR foreign currency exchange spot rates in effect at the inception date of the contract, forward premiums, forward foreign currency exchange rates, terms, and contract maturity dates.

The intended purpose of these hedging instruments was to offset the income statement impact of recorded foreign exchange transaction gains and losses resulting from U.S. dollar denominated intercompany invoices issued by our Indian subsidiary whose functional currency had been the Indian rupee until it was changed to the U.S. dollar effective July 1, 2012. The change in the fair value of these derivatives was recorded in foreign currency exchange gains in the Condensed Consolidated Statements of Income

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and was zero and $1.2 million for the six months ended June 30, 2013 and 2012, respectively. These gains are in addition to the consolidated foreign exchange gains (losses) equivalent to $(293) thousand and $1.1 million recorded during the six months ended June 30, 2013 and 2012, respectively, incurred by our subsidiaries for settlement of transactions denominated in other than their functional currency. The Company classifies its foreign currency hedges, for which the fair value is remeasured on a recurring basis at each reporting date, as a Level 2 instrument (i.e. wherein fair value is determined and based on observable inputs other than quoted market prices), which we believe is the most appropriate level within the fair value hierarchy based on the inputs used to determine the fair value at the measurement date. This disclosure specifically pertains to the hedging instruments outstanding at March 31, 2012, rather than the current year, in that as of June 30, 2013, all of the Company's pre-existing foreign currency hedge contracts have matured and there were no such other hedging instruments outstanding on this date.

In connection with the acquisition of PlanetSoft effective June 1, 2012, Ebix issued a put option to PlanetSoft's three shareholders. The put option, which expires in June 2014, is exercisable during the thirty-day period immediately following the two-year anniversary date of the business acquisition, which if exercised would enable them 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, which represents a 10% discount off of the per-share value established on the effective date of the closing of Ebix's acquisition of PlanetSoft. In accordance with the relevant authoritative accounting literature a portion of the total purchase consideration was allocated to this put liability based on its initial fair value, which was determined to be $1.4 million using a Black-Scholes model. 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. At June 30, 2013 the fair value of the put option liability was re-measured and was determined to have increased $1,344 thousand