

EBIX INC
Form 10-Q
May 11, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934
For the quarterly period ended March 31, 2015

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

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

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

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 No

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 No N/A

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer.

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

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

As of May 8, 2015 the number of shares of common stock outstanding was 34,982,048.

FORM 10-Q

FOR THE QUARTER ENDED MARCH 31, 2015

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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		
	March 31,		
	2015	2014	
Operating revenue	\$63,753	\$51,404	
Operating expenses:			
Cost of services provided	19,485	9,612	
Product development	7,047	6,693	
Sales and marketing	3,379	3,301	
General and administrative, net (see Note 3)	10,746	9,841	
Amortization and depreciation	2,597	2,552	
Total operating expenses	43,254	31,999	
Operating income	20,499	19,405	
Interest income	61	135	
Interest expense	(719)) (247)
Non-operating (loss)/income - put options	—	454	
Foreign currency exchange gain (loss)	892	(119)
Income before income taxes	20,733	19,628	
Income tax expense	(2,397) (4,211)
Net income	\$18,336	\$15,417	
Basic earnings per common share	\$0.51	\$0.40	
Diluted earnings per common share	\$0.51	\$0.40	
Basic weighted average shares outstanding	35,708	38,318	
Diluted weighted average shares outstanding	35,954	38,600	

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 March 31,	
	2015	2014
Net income	\$18,336	\$15,417
Other comprehensive income (loss):		
Foreign currency translation adjustments	(5,400) 1,128
Total other comprehensive income (loss)	(5,400) 1,128
Comprehensive income	\$12,936	\$16,545

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)

	March 31, 2015 (Unaudited)	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$27,197	\$52,300
Short-term investments	265	281
Trade accounts receivable, less allowances of \$1,529 and \$1,619, respectively	44,869	41,100
Deferred tax asset, net	2,021	2,113
Other current assets	8,643	8,067
Total current assets	82,995	103,861
Property and equipment, net	28,121	24,661
Goodwill	399,408	402,220
Intangibles, net	46,875	49,371
Indefinite-lived intangibles	30,887	30,887
Deferred tax asset, net	19,203	18,758
Other assets	5,739	4,553
Total assets	\$613,228	\$634,311
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$18,471	\$40,121
Accrued payroll and related benefits	4,554	5,280
Current portion of long term debt and capital lease obligations, net of discount of \$0 and \$7, respectively	631	936
Current deferred rent	282	268
Contingent liability for accrued earn-out acquisition consideration	887	887
Deferred revenue	22,858	22,192
Other current liabilities	102	102
Total current liabilities	47,785	69,786
Revolving line of credit	135,465	120,465
Long term debt and capital lease obligations, less current portion, net of discount of \$7	593	593
Other liabilities	2,449	2,179
Contingent liability for accrued earn-out acquisition consideration	4,443	4,480
Deferred revenue	1,837	2,496
Long term deferred rent	1,962	2,091
Total liabilities	194,534	202,090
Commitments and Contingencies, Note 5		
Stockholders' equity:		
Preferred stock, \$0.10 par value, 500,000 shares authorized, no shares issued and outstanding at March 31, 2015 and December 31, 2014	—	—
	3,527	3,619

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Common stock, \$0.10 par value, 60,000,000 shares authorized, 35,271,413 issued and outstanding, at March 31, 2015 and 36,232,074 issued and 36,191,565 outstanding at December 31, 2014

Additional paid-in capital	113,383	137,101
Treasury stock (no shares as of March 31, 2015 and 40,509 shares as of December 31, 2014)	—	(76)

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Retained earnings	325,333	309,726	
Accumulated other comprehensive loss	(23,549) (18,149)
Total stockholders' equity	418,694	432,221	
Total liabilities and stockholders' equity	\$613,228	\$634,311	
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			Treasury Stock Shares	Treasury Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
	Issued Shares	Amount	Stock Shares						
Balance, December 31, 2014	36,232,074	\$3,619	(40,509)	76	\$ (76)	\$137,101	\$309,726	\$ (18,149)	\$432,221
Net income	—	—	—	—	—	—	18,336	—	18,336
Cumulative translation adjustment	—	—	—	—	—	—	—	(5,400)	(5,400)
Repurchase and retirement of common stock	(994,869)	(100)	—	—	—	(24,123)	—	—	(24,223)
Vesting of restricted stock	55,802	6	—	—	(6)	—	—	—	—
Exercise of stock options	56,250	6	—	—	1,111	—	—	—	1,117
Share based compensation	—	—	—	—	458	—	—	—	458
Tax benefit related to share-based compensation	—	—	—	—	31	—	—	—	31
Forfeiture of certain shares to satisfy exercise costs and the recipients income tax obligations related to stock options exercised and restricted stock vested	(37,335)	(4)	—	—	(1,113)	—	—	—	(1,117)
Retirement of treasury stock	(40,509)	—	40,509	76	(76)	—	—	—	—
Dividends paid	—	—	—	—	—	—	(2,729)	—	(2,729)
Balance, March 31, 2015	35,271,413	\$3,527	—	—	\$—	\$113,383	\$325,333	\$ (23,549)	\$418,694

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)

	Three Months Ended March 31,	
	2015	2014
Cash flows from operating activities:		
Net income	\$18,336	\$15,417
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,597	2,552
Provision (benefit) for deferred taxes	(161)	(441)
Share based compensation	458	395
Provision for doubtful accounts	9	353
Debt discount amortization on promissory note payable	7	10
Unrealized foreign exchange (gain)	(672)	216
(Gain) loss on put option	—	(454)
Reduction of acquisition earnout accruals	—	(1,762)
Changes in assets and liabilities, net of effects from acquisitions:		
Accounts receivable	(4,689)	(4,716)
Other assets	(1,250)	576
Accounts payable and accrued expenses	(21,215)	(65)
Accrued payroll and related benefits	(564)	1,029
Deferred revenue	308	(2)
Deferred rent	(68)	(163)
Reserve for potential uncertain income tax return positions	87	2,133
Liability - securities litigation settlement payment	(690)	(4,218)
Other liabilities	165	(56)
Net cash provided/(used) by operating activities	(7,342)	10,804
Cash flows from investing activities:		
Acquisition of Media Health, net of cash acquired	(1,000)	—
Acquisition of CurePet, Inc., net of cash acquired	—	3
Purchases of marketable securities	—	(10)
Capital expenditures	(5,778)	(413)
Net cash used in investing activities	(6,778)	(420)
Cash flows from financing activities:		
Proceeds from / (Repayments) on revolving line of credit, net	15,000	—
Principal payments of term loan obligation	—	(2,406)
Repurchases of common stock	(22,282)	(2,234)
Excess tax benefit from share-based compensation	31	(3,200)
Proceeds from the exercise of stock options	1,117	788
Forfeiture of certain shares to satisfy exercise costs and the recipients income tax obligations related to stock options exercised and restricted stock vested	(1,117)	(25)
Dividend payments	(2,729)	(2,896)
Principal payments of debt obligations	(12)	(9)
Payments of capital lease obligations	—	(56)
Net cash used in financing activities	(9,992)	(10,038)

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Effect of foreign exchange rates on cash	(991) 708
Net change in cash and cash equivalents	(25,103) 1,054
Cash and cash equivalents at the beginning of the period	52,300	56,674
Cash and cash equivalents at the end of the period	\$27,197	\$57,728
Supplemental disclosures of cash flow information:		
Interest paid	\$2,335	\$208
Income taxes paid	\$20,163	\$3,087

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 included 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 date of the acquisition. This contingent earnout liability is estimated to have a fair value of zero. 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

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made by Ebix, Inc. Previously during 2012, Ebix acquired a minority 19.8% interest in CurePet for cash consideration in the amount of \$2.0 million.

During the three months ended March 31, 2015 there were 37,335 shares, totaling \$1.12 million, forfeited to satisfy exercise costs and the recipients income tax obligations related to stock options exercised and restricted stock vesting.

As of March 31, 2015 there were 64,893 share repurchases totaling \$1.94 million that were not settled until April 2015.

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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 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 23.9% and 32.3% of the Company’s total revenue for the three months ended March 31, 2015 and 2014, 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 months ended March 31, 2015 and 2014.

(dollar amounts in thousands)	Three Months Ended	
	March 31, 2015	2014
Exchanges	\$46,678	\$42,105
Broker Systems	3,736	4,486
Risk Compliance Solutions (“RCS”)	12,175	3,425
Carrier Systems	1,164	1,388
Totals	\$63,753	\$51,404

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 three months ended March 31, 2015 and 2014 are not necessarily indicative of the results that may be expected for future quarters or the full year of 2015. The condensed consolidated December 31, 2014 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, 2014.

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.

Advertising—With the exception of certain direct-response costs, advertising costs are expensed as incurred. Advertising costs amounted to \$496 thousand and \$121 thousand in Q1 2015 and 2014, respectively, and are included in sales and marketing expenses in the accompanying Condensed Consolidated Statements of Income. Sales and marketing expenses have been reduced in Q1 2015 as a result of the deferment of (net of amortization) \$1.2 million of certain direct-response advertising costs associated with our recent acquisition of Oakstone, which have been capitalized in accordance with Accounting Standards Codification

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("ASC") Topic 340. These costs are being amortized to expense over periods ranging from twelve to twenty-four months based on the type of product the customer purchases.

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.

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 March 31, 2015 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 condensed consolidated balance sheet at March 31, 2015 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 Company believes that the estimated fair value of such instruments at March 31, 2015 and December 31, 2014, 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, March 31, 2015	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	\$265	\$265	\$—	\$—
Total assets measured at fair value	\$265	\$265	\$—	\$—
Liabilities				
Derivatives:				
Contingent accrued earn-out acquisition consideration (a)	5,330	—	—	5,330
Total liabilities measured at fair value	\$5,330	\$—	\$—	\$5,330

(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 three months ended March 31, 2015 there were no transfers between fair value Levels 1, 2 or 3.