EBIX INC
Form 10-Q
May 10, 2016
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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 March 31, 2016
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.)

1 EBIX WAY	
JOHNS CREEK, GEORGIA	30097
(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 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
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer.

Large accelerated filer þ	Accelerated filer o	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 May 6, 2016 the number of shares of common stock outstanding was 32,760,226.

FORM 10-Q
FOR THE QUARTER ENDED MARCH 31, 2016
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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,	
	2016	2015
Operating revenue	$71,066	$63,753
Operating expenses:		
Cost of services provided	19,602	19,485
Product development	8,065	7,047
Sales and marketing	4,333	3,379
General and administrative, net (see Note 3)	11,583	10,746
Amortization and depreciation	2,720	2,597
Total operating expenses	46,303	43,254
Operating income	24,763	20,499
Interest income	143	61
Interest expense	(1,274)	(719)
Foreign currency exchange gain	469	892
Income before income taxes	24,101	20,733
Income tax expense	(1,750)	(2,397)
Net income including noncontrolling interest	22,351	18,336
Net income attributable to noncontrolling interest (see Note 8)	192	—
Net income attributable to Ebix, Inc.	$22,159	$18,336
Basic earnings per common share attributable to Ebix, Inc.	$0.67	$0.51
Diluted earnings per common share attributable to Ebix, Inc.	$0.67	$0.51
Basic weighted average shares outstanding	33,043	35,708
Diluted weighted average shares outstanding	33,310	35,954

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,	
	2016	2015
Net income including noncontrolling interest	$22,351	$18,336
Other comprehensive income (loss):		
Foreign currency translation adjustments	1,657	(5,400)
Total other comprehensive income (loss)	1,657	(5,400)
Comprehensive income	$24,008	$12,936
Comprehensive income attributable to noncontrolling interest (see Note 8)	192	—
Comprehensive income attributable to Ebix, Inc.	$23,816	$12,936

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, 2016 (Unaudited)	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 69,020	$ 57,179
Short-term investments	2,308	1,538
Trade accounts receivable, less allowances of $1,046 and $3,388, respectively	56,503	47,171
Other current assets	11,423	10,942
Total current assets	139,254	116,830
Property and equipment, net	34,154	34,088
Goodwill	403,210	402,259
Intangibles, net	50,141	51,848
Indefinite-lived intangibles	30,887	30,887
Capitalized software development costs, net	3,226	3,489
Deferred tax asset, net	23,892	23,732
Other assets	12,636	12,856
Total assets	$ 697,400	$ 675,989
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 14,687	$ 23,043
Accrued payroll and related benefits	5,747	4,932
Current portion of long term debt and capital lease obligations, net of discount of $0 and $3, respectively	608	606
Current deferred rent	246	232
Contingent liability for accrued earn-out acquisition consideration	2,143	1,706
Deferred revenue	20,557	20,519
Other current liabilities	248	228
Total current liabilities	44,236	51,266
Revolving line of credit	226,465	206,465
Long term debt and capital lease obligations, less current portion	33	35
Other liabilities	3,324	3,332
Contingent liability for accrued earn-out acquisition consideration	1,599	2,571
Deferred revenue	3,275	1,968
Long term deferred rent	1,269	1,381
Total liabilities	280,201	267,018
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, 2016 and December 31, 2015	—	—
Common stock, $0.10 par value, 60,000,000 shares authorized, 32,977,713 issued and outstanding, at March 31, 2016 and 33,416,110 issued and outstanding at December 31,	3,298	3,342

2015		
Additional paid-in capital	43,806	57,120
Treasury stock (no shares as of March 31, 2016 and December 31, 2015)	—	—

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Retained earnings	398,524	378,787
Accumulated other comprehensive loss	(28,621)	(30,278)
Total Ebix, Inc. stockholders’ equity	417,007	408,971
Noncontrolling interest (see Note 8)	192	—
Total stockholder's equity	$417,199	$408,971
Total liabilities and stockholders’ equity	$697,400	$675,989

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	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling interest	Total
Balance, December 31, 2015	33,416,110	$3,342	$57,120	$378,787	$ (30,278)	$ —	$408,971
Net income attributable to Ebix, Inc.	—	—	—	22,159	—	—	22,159
Net income attributable to noncontrolling interest (see Note 8)						192	192
Cumulative translation adjustment	—	—	—	—	1,657	—	1,657
Repurchase and retirement of common stock	(465,560)	(47)	(13,921)			—	(13,968)
Vesting of restricted stock	15,478	2	(2)	—	—	—	—
Exercise of stock options	13,500	1	28	—	—	—	29
Share based compensation	—	—	647	—	—	—	647
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	(1,815)	—	(66)	—	—	—	(66)
Dividends paid	—	—	—	(2,422)	—	—	(2,422)
Balance, March 31, 2016	32,977,713	$3,298	$43,806	$398,524	$ (28,621)	$ 192	$417,199

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,	
	2016	2015
Cash flows from operating activities:		
Net income attributable to Ebix, Inc.	$22,159	$18,336
Net income attributable to noncontrolling interest	192	—
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,720	2,597
Benefit for deferred taxes	(165)	(161)
Share based compensation	647	458
Provision for doubtful accounts	(241)	9
Debt discount amortization on promissory note payable	—	7
Unrealized foreign exchange gain	(48)	(672)
Amortization of capitalized software development costs	326	—
Reduction of acquisition earnout accruals	(511)	—
Changes in assets and liabilities, net of effects from acquisitions:		
Accounts receivable	(8,669)	(4,689)
Other assets	(220)	(1,250)
Accounts payable and accrued expenses	(7,563)	(21,215)
Accrued payroll and related benefits	717	(564)
Deferred revenue	1,258	308
Deferred rent	(80)	(68)
Reserve for potential uncertain income tax return positions	50	87
Liability - securities litigation settlement payment	—	(690)
Other liabilities	(38)	165
Net cash provided (used) by operating activities	10,534	(7,342)
Cash flows from investing activities:		
Acquisition of Via Media Health, net of cash acquired	—	(1,000)
Capitalized software development costs	(144)	—
Purchases of marketable securities	(596)	—
Capital expenditures	(1,028)	(5,778)
Net cash used in investing activities	(1,768)	(6,778)
Cash flows from financing activities:		
Proceeds from revolving line of credit, net	20,000	15,000
Repurchases of common stock	(14,787)	(22,282)
Excess tax benefit from share-based compensation	—	31
Proceeds from the exercise of stock options	29	1,117
Forfeiture of certain shares to satisfy exercise costs and the recipients income tax obligations related to stock options exercised and restricted stock vested	(66)	(1,117)
Dividend payments	(2,422)	(2,729)
Principal payments of debt obligations	—	(12)
Net cash provided by (used in) financing activities	2,754	(9,992)

Effect of foreign exchange rates on cash	321	(991)
Net change in cash and cash equivalents	11,841	(25,103)
Cash and cash equivalents at the beginning of the period	57,179	52,300
Cash and cash equivalents at the end of the period	$69,020	$27,197
Supplemental disclosures of cash flow information:		
Interest paid	$1,987	$2,335
Income taxes paid	$7,015	$20,163

See accompanying notes to the condensed consolidated financial statements.

Supplemental schedule of noncash financing activities:

During the three months ended March 31, 2016 there were 1,815 shares, totaling $66 thousand, used to satisfy exercise costs and the recipients' income tax obligations related to stock options exercised and restricted stock vesting.

As of December 31, 2015 there were 25,000 shares totaling $820 thousand of share repurchases that were not settled until January 2016.

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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, healthcare and financial industries. 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 Johns Creek, Georgia and also conducts operating activities in Australia, Canada, India, New Zealand, Singapore, United Kingdom and Brazil. International revenue accounted for 25.7% and 23.9% of the Company’s total revenue for the three months ended March 31, 2016 and 2015, 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, 2016 and 2015.

	Three Months Ended March 31,	
(dollar amounts in thousands)	2016	2015
Exchanges	$50,086	$46,678
Broker Systems	3,212	3,736
Risk Compliance Solutions (“RCS”)	16,751	12,175
Carrier Systems	1,017	1,164
Totals	$71,066	$63,753

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, 2016 and 2015 are not necessarily indicative of the results that may be expected for future quarters or the full year of 2016. The condensed consolidated December 31, 2015 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, 2015.

Advertising—With the exception of certain direct-response costs, advertising costs are expensed as incurred. Advertising costs amounted to $1.7 million and $663 thousand in the first three months of 2016 and 2015, 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 the first three months of 2016 as a result of the deferment of (net of amortization) $86 thousand of certain direct-response advertising costs associated with our

acquisition of Oakstone, which have been capitalized in accordance with Accounting Standards Codification ("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, 2016 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, 2016 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, 2016 and December 31, 2015, 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	Balance, March 31, 2016	Fair Values at Reporting Date Using* 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	$2,308	$ 2,308	$ —	$ —
Total assets measured at fair value	$2,308	$ 2,308	$ —	$ —
Liabilities				
Derivatives:				
Contingent accrued earn-out acquisition consideration (a)	$3,742	$ —	$ —	$ 3,742
Total liabilities measured at fair value	$3,742	$ —	$ —	$ 3,742

(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, 2016 there were no transfers between fair value Levels 1, 2 or 3.

Descriptions	Balance, December 31, 2015	Fair Values at Reporting Date Using* 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	$1,538	1,538	$ —	$ —
Total assets measured at fair value	$1,538	$ 1,538	$ —	$ —
Liabilities				
Derivatives:				
Contingent accrued earn-out acquisition consideration (a)	$4,277	$ —	$ —	$ 4,277
Total liabilities measured at fair value	$4,277	$ —	$ —	$ 4,277

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

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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 three months ended March 31, 2016 and during the year ended December 31, 2015:

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

Contingent Liability for Accrued Earn-out Acquisition Consideration	Balance, March 31, 2016	Balance, December 31, 2015
	(in thousands)	
Beginning balance	$4,277	$ 5,367
Total remeasurement adjustments:		
(Gains) or losses included in earnings **	(511)	(1,533)
Reductions recorded against goodwill	—	(2,000)
Foreign currency translation adjustments ***	(24)	(73)
Acquisitions and settlements		
Business acquisitions	—	2,516
Settlement payments	—	—
Ending balance	$3,742	$ 4,277
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.	$(511)	$ (1,533)

** 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 March 31, 2016	Valuation Technique	Significant Unobservable Input
Contingent acquisition consideration: (Qatarlyst, PB Systems, and Via Media acquisitions)	$3,742	Discounted cash flow	Projected revenue and probability of achievement

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(in thousands)	Fair Value at December 31, 2015	Valuation Technique	Significant Unobservable Input
Contingent acquisition consideration: (Qatarlyst, Vertex, PB Systems, and Via Media acquisitions)	$4,277	Discounted cash flow	Projected revenue and probability of achievement

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. The Company applies these terms in its calculation and determination of the fair value of contingent earn out liabilities for purchased businesses as part of the related valuation and purchase price allocation exercise for the corresponding acquired assets and liabilities. During the 1st quarter of 2016 the cited contingent earn out liabilities were adjusted because of changes to anticipated future revenues from these acquired businesses.

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 $42.9 million of trade receivables stated at invoice billed amounts and $13.6 million of unbilled receivables, net of the estimated allowance for doubtful accounts receivable in the amount of $1.0 million,. 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 $8.9 million of deferred revenue is included in billed accounts receivable at March 31,

2016. The Company recognized and recorded bad debt expense (benefit) in the amount of $(241) thousand for the three-month periods ended March 31, 2016 and $9 thousand for the three-month period ended March 31, 2015. Accounts receivable are written off against the allowance account when the Company has exhausted all reasonable collection efforts. During the three months ending March 31, 2016, $2.1 million of accounts receivable were written off.

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

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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 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, 2015 we had no impairment of our reporting unit goodwill balances.

Changes in the carrying amount of goodwill for the three months ended March 31, 2016 and the year ended December 31, 2015 are reflected in the following table.

	March 31, 2016	December 31, 2015
	(In thousands)	
Beginning Balance	$402,259	$ 402,220
Additions	—	8,868
Purchase accounting adjustments for prior year acquisitions	—	(2,099)
Contributed portions of CurePet investment to Joint Venture, see Note 9, "Investment in Joint Venture"	—	(1,783)
Foreign currency translation adjustments	951	(4,947)
Ending Balance	$403,210	$ 402,259

Capitalized Software Development Costs—In accordance with the relevant FASB accounting guidance regarding the development of software to be sold, leased, or marketed, the Company expenses such costs as they are incurred until technological feasibility has been established, at and after which time those costs are capitalized until the product is available for general release to customers. Costs incurred to enhance our software products, after general market release of the services using the products, is expensed in the period they are incurred.

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
Backlog	1.2
Database	10

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The carrying value of finite-lived and indefinite-lived intangible assets at March 31, 2016 and December 31, 2015 are as follows:

	March 31, 2016	December 31, 2015
	(In thousands)	
Finite-lived intangible assets:		
Customer relationships	$76,373	$ 76,275
Developed technology	15,129	15,121
Trademarks	2,722	2,729
Non-compete agreements	764	743
Backlog	140	140
Database	212	212
Total intangibles	95,340	95,220
Accumulated amortization	(45,199)	(43,372)
Finite-lived intangibles, net	$50,141	$ 51,848
Indefinite-lived intangibles:		
Customer/territorial relationships	$30,887	$ 30,887

Amortization expense recognized in connection with acquired intangible assets was $1.7 million for the three months ended March 31, 2016 and $1.8 million for the three months ended March 31, 2015.

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.

The Company has applied the provisions under FAS update No. 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carry Forward, A Similar Tax Loss, or a Tax Credit Carry Forward Exists. Under

these provisions, 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 carry forward, a similar tax loss, or a tax credit carry forward in most cases. This

provision has been applied resulting in $341 thousand and $341 thousand of unrecognized tax benefits have been applied against NOL carry forward amounts as of March 31, 2016 and December 31, 2015, respectively.
Recent Relevant Accounting Pronouncements—The following is a brief discussion of recently released accounting pronouncements that are pertinent to the Company's business:
In March 2016 the FASB issued Accounting Standards Update (ASU) No. 2016-08, "Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)". The amendments relate to when another party, along with the Company, is involved in providing a good or service to a customer. Topic 606 Revenue from Contracts with Customers requires an entity to determine whether the nature of its promise is to provide that good or service to the customer (i.e., the entity is a principal) or to arrange for the good or service to be provided to the customer by the other party (i.e., the entity is an agent). The amendments are intended to improve the operability and understandability of the implementation guidance on principal versus agent considerations by clarifying the following:
> An entity determines whether it is a principal or an agent for each specified good or service promised to a customer.
> An entity determines the nature of each specified good or service (e.g., whether it is a good, service, or a right to a good or service).
> When another entity is involved in providing goods or services to a customer, an entity that is a principal obtains control of: (a) a good or another asset from the other party that it then transfers to the customer; (b) a right to a service that will be performed by another party, which gives the entity the ability to direct that party to provide the service to the customer on the entity's behalf; or (c) a good or service from the other party that it combines with other goods or services to provide the specified good or service to the customer.
> The purpose of the indicators in paragraph 606-10-55-39 is to support or assist in the assessment of control. The amendments in paragraph 606-10-55-39A clarify that the indicators may be more or less relevant to the control assessment and that one or more indicators may be more or less persuasive to the control assessment, depending on the facts and circumstances.
The effective date and transition of these amendments is the same as the effective date and transition of ASU 2014-09, Revenue from Contracts with Customers (Topic 606). Public entities should apply the amendments in ASU 2014-09 for annual reporting periods beginning after December 15, 2017, including interim reporting periods therein (i.e., January 1, 2018, for a calendar year entity). The Company will adopt this new technical accounting guidance at that time and does not expect its adoption to have a material effect on its result of operations or financial position.

In March 2016 the FASB issued ASU 2016-07 "Investments - Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting". The amendments affect all entities that have an investment that becomes qualified for the equity method of accounting as a result of an increase in the level of ownership interest or degree of influence. The amendments eliminate the requirement that when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence, an investor must adjust the investment, results of operations, and retained earnings retroactively on a step-by-step basis as if the equity method had been in effect during all previous periods that the investment had been held. The amendments require that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. Therefore, upon qualifying for the equity method of accounting, no retroactive adjustment of the investment is required. The amendments are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. The amendments should be applied prospectively upon their effective date to increases in the level of ownership interest or degree of influence that result in the adoption of the equity method. Earlier application is permitted. The Company will adopt this new technical guidance in 2017, and has not yet determined the impact of its adoption.

In March 2016 the FASB issued ASU 2016-09 ", "Compensation - Stock Compensation (Topic 718)". This amendment simplifies the requirements for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The

amendments in this ASU are effective for annual periods beginning after December 31, 2016, and interim periods within those annual periods. The Company will adopt ASU in January 2017, but has not fully assessed the impact its adoption will have on the Company's results of operations or financial position.

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In February 2016 the FASB's issued ASU 2016-02, "Leases (Topic 842)". This new accounting guidance is intended to improve financial reporting about leasing transactions. The ASU affects all companies and other organizations that lease assets such as real estate, airplanes, and manufacturing equipment. The ASU will require organizations that lease assets referred to as “Lessees” to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. An organization is to provide disclosures designed to enable users of financial statements to understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements concerning additional information about the amounts recorded in the financial statements. Under the new guidance, a lessee will be required to recognize assets and liabilities for leases with lease terms of more than twelve months. Consistent with current GAAP, the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. However, unlike current GAAP which requires only capital leases to be recognized on the balance sheet the new ASU will require both types of leases (i.e. operating and capital) to be recognized on the balance sheet. The FASB lessee accounting model will continue to account for both types of leases. The capital lease will be accounted for in substantially the same manner as capital leases are accounted for under existing GAAP. The operating lease will be accounted for in a manner similar to operating leases under existing GAAP, except that lessees will recognize a lease liability and a lease asset for all of those leases. The leasing standard will be effective for calendar year-end public companies beginning after December 15, 2018. Public companies will be required to adopt the new leasing standard for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted for all companies and organizations. For calendar year-end public companies, this means an adoption date of January 1, 2019 and retrospective application to previously issued annual and interim financial statements for 2018 and 2017. Lessees with a large portfolio of leases are likely to see a significant increase in balance sheet assets and liabilities. See Note 5 for the Company’s current lease commitments. The Company is in the process of evaluating the impact that this new leasing ASU will have on its financial statements.

In September 2015 the FASB issued ASU No. 2015-16, "Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments". This pronouncement simplifies the accounting for adjustments made to provisional amounts recognized in a business combination, the amendments eliminate the requirement to retrospectively account for those adjustments.
U.S. GAAP currently requires that during the measurement period, the acquirer retrospectively adjust the provisional amounts recognized at the acquisition date with a corresponding adjustment to goodwill. Those adjustments are required when new information is obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the measurement of the amounts initially recognized or would have resulted in the recognition of additional assets or liabilities. The acquirer also must revise comparative information for prior periods presented in financial statements as needed, including revising depreciation, amortization, or other income effects as a result of changes made to provisional amounts.
The amendments require that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The amendments require that the acquirer record and disclose, in the same period’s financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. The amendments require an entity to present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date.
For public business entities, the amendments are effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. The amendments should be applied prospectively to adjustments to provisional amounts that occur after the effective date with earlier application permitted for financial statements that have not been issued. The only disclosures required at transition should be the nature of and reason for the change in accounting principle. An entity should disclose that information in the first annual period of adoption and in the interim periods within the first annual period if there is a measurement-period adjustment during the first annual

period in which the changes are effective. The Company adopted this ASU during the third quarter of 2015 and its adoption did not have a material impact on its financial statements.

In November 2015, the FASB issued Accounting Standards Update No. 2015-17, Balance Sheet Classification of Deferred Taxes, or ASU 2015-17. This amendment requires that all deferred tax assets and liabilities, along with any related valuation allowance, be classified as noncurrent on the balance sheet. Prior to the issuance of ASU 2015-17, deferred taxes were required to be presented as a net current asset or liability and a net noncurrent asset or liability. We adopted the provisions of ASU 2015-17 upon issuance and prior period amounts have been reclassified to conform to the current period presentation. As of December 31, 2014, the previously reported balance of our net current deferred tax assets of $2.11 million was reclassified in the cons