

eHealth, Inc.  
Form 10-Q  
November 14, 2007  
Table of Contents

---

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

\_\_\_\_\_  
**FORM 10-Q**  
\_\_\_\_\_

**b QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the quarterly period ended September 30, 2007

OR

**.. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

001-33071

(Commission File Number)

**EHEALTH, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**56-2357876**  
(I.R.S. Employer  
Identification No.)

**440 EAST MIDDLEFIELD ROAD**  
**MOUNTAIN VIEW, CALIFORNIA 94043**

(Address of principal executive offices)

**(650) 584-2700**

(Registrant's telephone number, including area code)

## Edgar Filing: eHealth, Inc. - Form 10-Q

### Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

The number of shares of the registrant's common stock, par value \$0.001 per share, outstanding as of October 31, 2007 was 24,219,643 shares.

---

**Table of Contents**

**EHEALTH, INC. FORM 10-Q**

**TABLE OF CONTENTS**

	<b>PAGE</b>
<b>PART I FINANCIAL INFORMATION</b>	
Item 1. <u>Financial Statements (unaudited)</u>	1
<u>Condensed Consolidated Balance Sheets at December 31, 2006 and September 30, 2007</u>	1
<u>Condensed Consolidated Statements of Operations and Comprehensive Income for the three and nine months ended September 30, 2006 and 2007</u>	2
<u>Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2006 and 2007</u>	3
<u>Notes to Condensed Consolidated Financial Statements</u>	4
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	21
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	39
Item 4. <u>Controls and Procedures</u>	40
<b>PART II OTHER INFORMATION</b>	
Item 1. <u>Legal Proceedings</u>	41
Item 1A. <u>Risk Factors</u>	42
Item 6. <u>Exhibits</u>	60
<u>Signatures</u>	61

**Table of Contents****PART I****FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****EHEALTH, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****(In thousands, except share and per share information)**

	<b>December 31, 2006</b>	<b>September 30, 2007 (unaudited)</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 90,316	\$ 78,726
Short-term marketable securities	158	33,974
Accounts receivable	717	1,048
Deferred income taxes	2,257	358
Prepaid expenses and other current assets	1,926	2,659
Total current assets	95,374	116,765
Property and equipment, net	3,936	3,537
Deferred income taxes	5,165	744
Other assets	453	975
Total assets	\$ 104,928	\$ 122,021
<b>Liabilities and stockholders equity</b>		
Current liabilities:		
Accounts payable	\$ 1,440	\$ 885
Accrued compensation and benefits	3,743	4,377
Accrued marketing expenses	1,647	2,423
Deferred revenue	62	277
Other current liabilities	1,979	2,435
Total current liabilities	8,871	10,397
Other non-current liabilities	317	255
Commitments and contingencies		
Stockholders equity:		
Preferred stock; \$0.001 par value; 10,000,000 shares authorized; no shares issued or outstanding at December 31, 2006 and September 30, 2007		
Common stock; \$0.001 par value; 100,000,000 shares authorized; 21,748,932 and 24,103,272 shares issued and outstanding at December 31, 2006 and September 30, 2007, respectively	22	24
Additional paid-in capital	159,576	165,763
Deferred stock-based compensation	(254)	(139)
Accumulated deficit	(63,655)	(54,420)
Accumulated other comprehensive income	51	141
Total stockholders equity	95,740	111,369

Edgar Filing: eHealth, Inc. - Form 10-Q

Total liabilities and stockholders' equity	\$ 104,928	\$ 122,021
--	------------	------------

*The accompanying notes are an integral part of these condensed consolidated financial statements.*

**Table of Contents****EHEALTH, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME****(In thousands, except per share amounts, unaudited)**

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2006</b>	<b>2007</b>	<b>2006</b>	<b>2007</b>
<b>Revenue:</b>				
Commission	\$ 15,867	\$ 21,313	\$ 42,423	\$ 59,486
Sponsorship, licensing and other	795	1,684	1,471	4,072
<b>Total revenue</b>	<b>16,662</b>	<b>22,997</b>	<b>43,894</b>	<b>63,558</b>
<b>Operating costs and expenses:</b>				
Cost of revenue-sharing	411	427	894	1,245
Marketing and advertising	5,798	7,309	15,804	21,021
Customer care and enrollment	2,740	3,002	8,044	8,859
Technology and content	2,668	3,108	7,321	9,025
General and administrative	2,370	4,308	6,602	11,698
<b>Total operating costs and expenses</b>	<b>13,987</b>	<b>18,154</b>	<b>38,665</b>	<b>51,848</b>
Income from operations	2,675	4,843	5,229	11,710
Other income, net	145	1,403	357	3,849
Income before income taxes	2,820	6,246	5,586	15,559
Provision for income taxes	82	2,516	154	6,324
<b>Net income</b>	<b>\$ 2,738</b>	<b>\$ 3,730</b>	<b>\$ 5,432</b>	<b>\$ 9,235</b>
<b>Comprehensive income:</b>				
Net income	\$ 2,738	\$ 3,730	\$ 5,432	\$ 9,235
Change in unrealized gain on investments		49		43
Foreign currency translation adjustment	11	17	16	47
<b>Total comprehensive income</b>	<b>\$ 2,749</b>	<b>\$ 3,796</b>	<b>\$ 5,448</b>	<b>\$ 9,325</b>
<b>Net income per share:</b>				
Basic common stock	\$ 0.54	\$ 0.16	\$ 1.10	\$ 0.41
Basic Class A nonvoting common stock	\$ 0.54		\$ 1.10	
Diluted common stock	\$ 0.14	\$ 0.14	\$ 0.28	\$ 0.36
Diluted Class A nonvoting common stock	\$ 0.14		\$ 0.28	
<b>Net income:</b>				
Allocated to common stock	\$ 2,705	\$ 3,730	\$ 5,376	\$ 9,235
Allocated to Class A nonvoting common stock	33		56	
<b>Net income</b>	<b>\$ 2,738</b>	<b>\$ 3,730</b>	<b>\$ 5,432</b>	<b>\$ 9,235</b>
<b>Weighted-average number of shares used in per share amounts:</b>				
Basic common stock	4,974	23,517	4,903	22,643
Basic Class A nonvoting common stock	61		51	

Edgar Filing: eHealth, Inc. - Form 10-Q

Diluted	common stock	19,334	26,263	19,158	25,746
Diluted	Class A nonvoting common stock	61		51	

*The accompanying notes are an integral part of these condensed consolidated financial statements.*

**Table of Contents****EHEALTH, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(In thousands, unaudited)**

	<b>Nine Months Ended September 30,</b>	
	<b>2006</b>	<b>2007</b>
<b>Operating activities</b>		
Net income	\$ 5,432	\$ 9,235
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred income taxes		6,109
Depreciation and amortization	1,116	1,275
Stock-based compensation expense	296	962
Deferred rent	40	(22)
Loss on disposal of fixed assets		18
Changes in operating assets and liabilities:		
Accounts receivable	(673)	(331)
Prepaid expenses and other current assets	(224)	184
Other assets	(29)	(523)
Accounts payable	198	(302)
Accrued compensation and benefits	(192)	(67)
Accrued marketing expenses	701	776
Deferred revenue	(464)	215
Other current liabilities	292	753
Net cash provided by operating activities	6,493	18,282
<b>Investing activities</b>		
Purchases of property and equipment, net	(1,738)	(1,053)
Proceeds from the sale of property and equipment		14
Changes in restricted investments	(3)	
Purchases of short-term marketable securities		(36,520)
Sales of short-term marketable securities		2,156
Maturities of short-term marketable securities		588
Net cash used in investing activities	(1,741)	(34,815)
<b>Financing activities</b>		
Costs incurred in connection with initial public offering	(1,909)	(252)
Net proceeds from exercise of common stock options	439	5,343
Principal payments in connection with capital leases	(72)	(212)
Net cash (used in) provided by financing activities	(1,542)	4,879
Effect of exchange rate changes on cash and cash equivalents	16	64
Net increase (decrease) in cash and cash equivalents	3,226	(11,590)
Cash and cash equivalents at beginning of period	9,415	90,316
Cash and cash equivalents at end of period	\$ 12,641	\$ 78,726

*The accompanying notes are an integral part of these condensed consolidated financial statements.*





---

**Table of Contents**

**EHEALTH, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(unaudited)**

**Note 1 - Summary of Business and Significant Accounting Policies**

**Description of Business** eHealth, Inc. and subsidiaries ( the Company, we or us ) offer Internet-based insurance agency services for individuals, families and small businesses in the United States, as well as technology licensing and Internet advertising services. Our services and technology enable individuals, families and small businesses to research, analyze, compare and purchase health insurance products from health insurance carriers across the nation. We are licensed to market and sell health insurance in all 50 states and the District of Columbia.

**Unaudited Interim Financial Information** The accompanying unaudited condensed consolidated balance sheet as of September 30, 2007, the condensed consolidated statements of operations and comprehensive income for the three and nine months ended September 30, 2006 and 2007 and the condensed consolidated statements of cash flows for the nine months ended September 30, 2006 and 2007 have been prepared in accordance with U.S. GAAP for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the financial information and footnotes required by U.S. GAAP for complete annual financial statements. In our opinion, these unaudited interim consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements included in our Annual Report on Form 10-K as filed with the Securities and Exchange Commission on March 21, 2007 and include all adjustments, which include only normal recurring adjustments, necessary for the fair presentation of our financial position at September 30, 2007, results of operations for the three and nine months ended September 30, 2006 and 2007 and cash flows for the nine months ended September 30, 2006 and 2007. The results of operations for the three and nine months ended September 30, 2007 are not necessarily indicative of the results to be expected for the year ending December 31, 2007 or for any other interim period or future year. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto contained in our Annual Report on Form 10-K for the year ended December 31, 2006. The information as of December 31, 2006 is derived from those financial statements.

**Reverse Stock Split** We effected a 1-for-2 reverse stock split of our outstanding common stock, convertible preferred stock and restricted Class A nonvoting common stock ( Class A common stock ) on September 25, 2006. All share and per share amounts contained in the consolidated financial statements have been retroactively adjusted to reflect the reverse stock split.

**Principles of Consolidation** The consolidated financial statements include the accounts of eHealth, Inc. and its wholly-owned subsidiaries, eHealthInsurance Services, Inc., eHealth China, Inc. and eHealth China (Xiamen) Technology Co., Ltd. All intercompany accounts and transactions have been eliminated in consolidation. The consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ( U.S. GAAP ).

**Segments** We operate in one business segment. See *Note 7- Segment and Geographic Information* for additional information regarding our business segment.

**Use of Estimates** The preparation of consolidated financial statements and related disclosures in conformity with U.S. GAAP requires management to make estimates, judgments and assumptions that affect the amounts reported and disclosed in the consolidated financial statements and accompanying notes. On an ongoing basis, we evaluate our estimates, including those related to, but not limited to, the useful lives of long-lived assets including property and equipment, fair value of investments, fair value of intangible assets, allowances for commission forfeitures payable to carriers, valuation allowance for deferred income taxes, provision for income taxes, and, prior to our initial public offering ( IPO ) in October 2006, the value of our common stock for the purpose of determining stock-based compensation. We base our estimates of the carrying value of certain assets and liabilities on historical experience and on various other assumptions that we believe to be reasonable. Actual results may differ from these estimates.

**Cash Equivalents** We consider all highly liquid investments with an original maturity of three months or less from the date of purchase to be cash equivalents. Cash and cash equivalents, which primarily consist of cash on deposit with banks, money market funds and commercial paper, are stated at fair value.

**Table of Contents****EHEALTH, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(unaudited)**

**Marketable Securities** We invest a portion of our cash in investment-grade marketable securities (See Note 2 – *Balance Sheet Accounts*). These investments are classified as available-for-sale in accordance with Statement of Financial Accounting Standards ( SFAS ) No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. We do not have any investments classified as held-to-maturity or trading. Marketable securities are carried at their fair value, with unrealized gains and losses, net of deferred income taxes, reported as a component of accumulated other comprehensive income in the accompanying consolidated balance sheets. Realized gains and losses on marketable securities, are recognized in earnings as a component of other income in the statements of operations.

We determine the appropriate classification of our investments in marketable securities at the time of purchase and reevaluate such designation at each balance sheet date. We may or may not hold securities with stated maturities greater than twelve months until maturity. In response to changes in the availability of and the yield on alternative investments, we may sell certain securities prior to their stated maturities. Available-for-sale investments that we intend to hold for more than three months and that are available for use in current operations are classified as short-term in the accompanying consolidated balance sheets.

**Concentration of Credit Risk and Significant Customers** Our financial instruments that are exposed to concentrations of credit risk principally consist of cash, cash equivalents, marketable securities and accounts receivable. We deposit our cash, cash equivalents and marketable securities in accounts with major banks and financial institutions and such investments generally are in excess of federally insured limits. We do not require collateral or other security for our accounts receivable. As of September 30, 2007, three customers each represented 10% or more of our total accounts receivable and, in aggregate, represented 38%, or \$399,000, of our total accounts receivable. We do not anticipate collection issues with any of these customers.

Revenue for all periods presented was generated from customers located solely in the United States. Revenue under separate agreements with individual unaffiliated carriers in excess of 10% of total revenue was as follows (unaudited):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2007	2006	2007
Golden Rule	15%	16%	15%	16%
Aetna	7%	12%	7%	11%
Blue Cross of California and Unicare	10%	8%	12%	9%

**Seasonality** The number of health insurance applications submitted through our ecommerce platform has generally increased in our first quarter compared to our fourth quarter and in our third quarter compared to our second quarter. Conversely, we have generally experienced a decline in submitted applications in our second quarter compared to our first quarter and in our fourth quarter compared to our third quarter. Since a significant portion of our marketing and advertising expenses are driven by the number of health insurance applications submitted on our website, those expenses generally have increased or decreased in conjunction with these seasonal patterns.

**Revenue Recognition** We recognize revenue for our services using the criteria set forth in Staff Accounting Bulletin ( SAB ) No. 104 ( SAB 104 ), *Revenue Recognition*. SAB 104 states that revenue is recognized when each of the following four criteria is met: persuasive evidence of an arrangement exists; delivery has occurred or services have been rendered; the seller's price to the buyer is fixed or determinable; and collectibility is reasonably assured.

Our revenue is primarily comprised of compensation paid to us by health insurance carriers related to insurance policies that have been purchased by a member who used our service. We define a member as an individual currently covered by an insurance product for which we are entitled to receive compensation from an insurance carrier. Our compensation generally represents a percentage of the premium amount collected by the carrier during the period that a member maintains coverage under a policy (commissions) and, to a lesser extent, override commissions that health insurance carriers pay us for achieving certain objectives. Premium-based commissions are reported to us after the premiums are collected by the carrier, generally on a monthly basis. We determine that there is persuasive evidence of an arrangement when we

## Edgar Filing: eHealth, Inc. - Form 10-Q

have a commission agreement with a health insurance carrier and a carrier reports to us that it has approved an application submitted through our ecommerce platform. Our services are complete when a carrier has approved an application. Commissions are deemed fixed or determinable and collectibility is reasonably assured when commission amounts have been reported to us by a carrier. We recognize commission override revenue when reported to us by a carrier based on the actual attainment of predetermined target sales levels or other objectives as determined by the carrier.

---

**Table of Contents****EHEALTH, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(unaudited)**

We recognize commission revenue when our commission is reported to us by a health insurance carrier, net of an allowance for future forfeiture amounts payable to carriers due to policy cancellations. Commissions are reported to us by a cash payment and commission statement. We generally receive these communications simultaneously. In instances when we receive the cash payment and commission statement separately and in different accounting periods, we recognize revenue in the period that we receive the earliest communication, provided we receive the second communication corroborating the amount reported in the first communication within ten business days. If the second corroborating communication is not received within ten business days, we recognize revenue in the period the second communication is received. We use the data in the commission statement to identify the members for which we are receiving a commission payment and the amount received for each member, and to estimate our allowance for forfeitures.

Certain commission amounts are subject to forfeiture in circumstances where a member has prepaid his or her premium for a future period of coverage and subsequently cancels his or her policy before the completion of that period. We record an allowance for these forfeitures based on historical cancellation experience using data provided on commission statements. The allowance for forfeitures payable to carriers totaled \$386,000 and \$424,000 at December 31, 2006 and September 30, 2007, respectively, and is included in other current liabilities in the accompanying consolidated balance sheets.

We also evaluate the criteria outlined in Emerging Issues Task Force ( EITF ) Issue No. 99-19, *Reporting Revenue Gross as a Principal Versus Net as an Agent*, in determining whether it is appropriate to record the gross amount of the insurance premiums from our transactions or the net amount earned as commissions. We are not obligated with respect to the insurance coverage sold through our ecommerce platform. As a result, we recognize the net amount of compensation earned as the agent in the transaction.

In addition, we generate sponsorship revenue from carrier advertisements that appear on our website. Specifically, carriers who have purchased advertising can choose to have specific health insurance plans displayed prominently after a consumer has entered certain census information. In return, we are typically paid a monthly fee, which is recognized over the period that advertising is displayed, and often a performance fee based on metrics such as submitted health insurance applications. In instances where the performance criteria is measured based on data that is tracked by us, revenue is recognized in the period of performance. In instances where the performance criteria is measured based on data that is tracked by the carrier, revenue is recognized when the amounts earned are both fixed and determinable and collection is reasonably assured. Typically, this occurs through our receipt of a cash payment from the carrier along with a detailed statement containing the data that is tracked by the carrier.

We also generate revenue from the licensing of our technology to third parties, such as carriers and agents. Typically, we are paid a one-time implementation fee, which we recognize on a straight-line basis over the initial term of the agreement, commencing once the technology is available for use by the third party. In addition, these license agreements generally include performance criteria that is either measured based on data that is tracked by us or based on data that is tracked by the third party. In instances where the performance criteria data is tracked by us, we recognize revenue in the period of performance. In instances where the performance criteria data is tracked by the third party, we recognize revenue when the amounts earned are both fixed and determinable and collection is reasonably assured. Typically, this occurs through our receipt of a cash payment from the third party along with a detailed statement containing the data that is tracked by the third party.

**Deferred Revenue** Deferred revenue consists of deferred technology licensing implementation fees as well as amounts collected from sponsorship or technology licensing customers in advance of our performing our service for such customers, or amounts that have been reported to us related to transactions where our services are complete, but where we cannot currently estimate the allowance for future forfeitures related to those amounts. Deferred revenue at December 31, 2006 and September 30, 2007 was \$62,000 and \$277,000, respectively.

**Internal-Use Software and Website Development Costs** We account for internal-use software and website development costs in accordance with the guidance set forth in Statement of Position No. 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*, and EITF Issue No. 00-02, *Accounting for Web Site Development Costs*. We capitalize costs of materials, consultants and compensation and related expenses of employees who devote time to the development of internal-use software; however, we expense as incurred all website development costs for new features and functionalities until it is probable that they will result in additional functionality, generally when they are both developed and tested with confirmation that they are more effective than the current set of features and functionalities



**Table of Contents****EHEALTH, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(unaudited)**

on our website. Our judgment is required in determining the point at which various projects enter the states at which costs may be capitalized, in assessing the ongoing value of the capitalized costs and in determining the estimated useful lives over which the costs are amortized, which is generally three years. To the extent that we change the manner in which we develop and test new features and functionalities related to our website, assess the ongoing value of capitalized assets or determine the estimated useful lives over which the costs are amortized, the amount of website development costs we capitalize and amortize in future periods would be impacted. At September 30, 2007 our capitalized internal-use software had a carrying value of \$210,000 and was included in other assets in the accompanying condensed consolidated balance sheet. At December 31, 2006 our capitalized internal-use software was fully depreciated and had a net carrying value of zero.

**Stock-Based Compensation** Effective January 1, 2006, we adopted the fair value recognition provisions of SFAS No. 123R ( SFAS 123R ), *Share-Based Payment*, which requires us to measure the cost of employee services received in exchange for an award of equity instruments, based on the fair value of the award on the date of grant, and to recognize the cost over the period during which the employee is required to provide services in exchange for the award. Prior to the adoption of SFAS 123R, we accounted for stock option grants in accordance with Accounting Principles Board ( APB ) Opinion No. 25 ( APB 25 ), *Accounting for Stock Issued to Employees*, and complied with the disclosure provisions of SFAS No. 123, *Accounting for Stock Based Compensation*, as amended by SFAS No. 148, *Accounting for Stock Based Compensation Transition and Disclosure*. Under APB 25, deferred stock-based compensation expense is recorded for the intrinsic value of options (the difference between the fair value of our common stock and the option exercise price) at the grant date and is amortized ratably over the option s vesting period. See *Note 3 Stockholder s Equity and Stock-Based Compensation* for information regarding stock-based compensation and the financial impact of adopting SFAS 123R.

We account for equity instruments issued to non-employees in accordance with SFAS 123, EITF Issue No. 96-18, *Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring or in Conjunction with Selling, Goods or Services*, and the Financial Accounting Standards Board ( FASB ) Interpretation No. 44 ( FIN 44 ), *Accounting for Certain Transactions Involving Stock Compensation*, which is an interpretation of APB 25. All transactions in which equity instruments are issued in consideration for the receipt of goods or services are accounted for based on the fair value of the consideration received or the fair value of the equity instrument issued, whichever is more reliably measurable. The measurement date of the fair value of the equity instrument issued is the earlier of the date on which the counterparty s performance is complete or the date on which it is probable that performance will occur.

**Income Taxes** We account for income taxes using the liability method as required by SFAS No. 109 ( SFAS 109 ), *Accounting for Income Taxes*. Under SFAS 109, deferred income taxes are determined based on the differences between the financial reporting and tax bases of assets and liabilities, using enacted statutory tax rates in effect for the year in which the differences are expected to reverse. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized.

**Foreign Currency Translation** Our only foreign subsidiary is located in Xiamen, China. The functional currency of our foreign subsidiary is its local currency (the Chinese Yuan Renminbi) and its financial statements are translated into U.S. Dollars using month-end rates of exchange for assets and liabilities, and average rates of exchange for revenues, costs and expenses. Translation adjustments are reflected in accumulated other comprehensive income in the accompanying consolidated balance sheets, while gains and losses resulting from foreign currency transactions are included in other income, net in the accompanying consolidated statements of operations and comprehensive income. We did not recognize any material gains or losses resulting from foreign currency transactions during the three and nine months ended September 30, 2006 or 2007.

**Comprehensive Income** In accordance with SFAS No. 130, *Reporting Comprehensive Income*, all components of comprehensive income, including net income, are reported in our consolidated financial statements in the period in which they are recognized. Comprehensive income is defined as the change in equity during a period from transactions and other events and circumstances from non-owner sources (primarily foreign currency translation gains and losses and unrealized gains and losses on marketable securities). Foreign currency translation gains and losses included in other comprehensive income are attributable to foreign currency translation adjustments with our wholly-owned subsidiary in China. Statements of comprehensive income have been included within the accompanying consolidated statements of operations and comprehensive income. Accumulated other comprehensive income was \$51,000 and \$141,000 at December 31, 2006 and September 30, 2007, respectively.





**Table of Contents****EHEALTH, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(unaudited)**

**Net Income Per Share** We calculate net income per share in accordance with SFAS No. 128 ( SFAS 128 ), *Earnings Per Share*. Under SFAS 128, basic net income per share is computed by dividing net income by the weighted-average number of common shares outstanding for the period (excluding shares subject to repurchase). Diluted net income per share is computed by dividing the net income for the period by the weighted-average number of common and common equivalent shares outstanding during the period. Potentially dilutive securities, composed of incremental common shares issuable upon the exercise of stock options and the conversion of convertible preferred stock and Class A common stock, are included in diluted net income per share to the extent such shares are dilutive.

**Recent Accounting Pronouncements** In September 2006, the FASB issued SFAS No. 157 ( SFAS 157 ), *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value in U.S. GAAP, and expands disclosures about fair value measurements. SFAS 157 does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. The measurement and disclosure requirements are effective for us beginning January 1, 2008. We are currently assessing whether adoption of SFAS 157 will have a material impact on our financial statements.

In February 2007, the FASB issued SFAS No. 159 ( SFAS 159 ), *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115*, which permits entities to choose to measure many financial instruments and certain other items at fair value at specified election dates. A business entity is required to report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. This statement is expected to expand the use of fair value measurement. SFAS 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. We will adopt this pronouncement in the first quarter of fiscal 2008 and we are currently evaluating the impact of this pronouncement on our consolidated results of operations and financial condition.

**Note 2 Balance Sheet Accounts**

**Cash and Cash Equivalents** Cash and cash equivalents consisted of the following (in thousands):

	As of December 31, 2006	As of September 30, 2007 (unaudited)
Cash and cash equivalents:		
Cash	\$ 3,050	\$ 2,081
Money market funds	87,266	54,467
Commercial paper		21,678
Certificates of deposit		500
Total	\$ 90,316	\$ 78,726

At December 31, 2006 and September 30, 2007, our cash and cash equivalents consisted primarily of cash, money market funds, commercial paper and certificates of deposit, which are highly liquid in nature. Since the duration of these securities is short, the risk of fluctuations in market interest rates and yields is not significant.

We did not realize any significant gains or losses on the sale of cash equivalents during the three and nine months ended September 30, 2006 and 2007.

## Edgar Filing: eHealth, Inc. - Form 10-Q

**Short-Term Marketable Securities** Short-term marketable securities consist of investment-grade readily marketable available-for-sale securities, primarily corporate and government bonds, commercial paper and certificates of deposit. The cost of investments sold is based on the specific identification method. Our investments in short-term marketable securities consisted of the following (in thousands):

	As of December 31, 2006	As of September 30, 2007 (unaudited)
Corporate and government bonds	\$	\$ 27,282
Commercial paper		6,269
Certificates of deposit	158	423
 Total short-term marketable securities	 \$ 158	 \$ 33,974

**Table of Contents****EHEALTH, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(unaudited)**

As of September 30, 2007, the cost, gross unrealized gains and losses and estimated fair value of our short-term marketable securities consisted of the following (in thousands, unaudited):

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Corporate and government bonds	\$ 27,239	\$ 46	\$ 3	\$ 27,282
Commercial paper	6,269			6,269
Certificates of deposit	423			423
Total short-term marketable securities	\$ 33,931	\$ 46	\$ 3	\$ 33,974

The contractual maturities of our short-term marketable securities as of September 30, 2007, were as follows (in thousands):

	As of September 30, 2007 (unaudited)
Due within 1 year	\$ 20,156
Due within 1 year to 2 years	13,818
Total short-term marketable securities	\$ 33,974

We realized a net loss of \$1,000 on the sale of short-term marketable securities during the three and nine months ended September 2007. We did not realize any gains or losses on the sale of short-term marketable securities during the three and nine months ended September 30, 2006.

**Prepaid Expenses and Other Current Assets** Prepaid expenses and other current assets consisted of the following (in thousands):

	As of December 31, 2006	As of September 30, 2007 (unaudited)
Prepaid insurance	\$ 540	\$ 323
Prepaid maintenance contracts	356	338
Prepaid advertising	115	289
Interest receivable	396	342
Employee income taxes withheld		707
Other	519	660
Prepaid expenses and other current assets	\$ 1,926	\$ 2,659

## Edgar Filing: eHealth, Inc. - Form 10-Q

**Property and Equipment** Property and equipment consisted of the following (in thousands):

	As of December 31, 2006	As of September 30, 2007 (unaudited)
Computer equipment and software	\$ 7,177	\$ 5,742
Office equipment and furniture	703	759
Leasehold improvements	479	523
	8,359	7,024
Less accumulated depreciation and amortization	(4,423)	(3,487)
Property and equipment, net	\$ 3,936	\$ 3,537

**Table of Contents****EHEALTH, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(unaudited)**

During the nine months ended September 30, 2007, primarily as a result of the closure of a data center, we disposed of property and equipment with a cost of \$2.0 million and a net book value of \$32,000. Disposals by category were as follows (in thousands, unaudited):

	<b>Nine Months Ended September 30, 2007</b>
Computer equipment and software	\$ 2,020
Office equipment and furniture	18
	2,038
Less accumulated depreciation and amortization	(2,006)
Property and equipment, net	\$ 32

Depreciation expense, which includes depreciation expense related to assets under capital lease, for the three months ended September 30, 2006 and 2007 amounted to \$422,000 and \$424,000, respectively. Depreciation expense for the nine months ended September 30, 2006 and 2007 amounted to \$ 1.1 million and \$1.3 million, respectively.

Assets under capital leases are included in the condensed consolidated balance sheets as follows (in thousands):

	<b>As of December 31, 2006</b>	<b>As of September 30, 2007 (unaudited)</b>
Office equipment and furniture	\$ 416	\$ 416
Less accumulated depreciation	(31)	(141)
Total assets under capital leases	\$ 385	\$ 275

**Other Current Liabilities** Other current liabilities consisted of the following (in thousands):

	<b>As of December 31, 2006</b>	<b>As of September 30, 2007 (unaudited)</b>
Professional fees	\$ 659	\$ 1,487
Payable to carriers	386	424
Income taxes payable	248	
Capital lease obligation - current portion	221	8
Other accrued expenses	465	516

Other current liabilities \$ 1,979 \$ 2,435

**Note 3 Stockholder s Equity and Stock-Based Compensation**

**Stockholder s Equity**

**Preferred Stock** Our board of directors has the authority, without any further action by our stockholders, to issue up to 110,000,000 shares, par value \$0.001 per share, of which 10,000,000 shares are designated as preferred stock. At September 30, 2007, no shares of preferred stock were outstanding.

**Common Stock** On all matters submitted to our stockholders for vote, our common stockholders are entitled to one vote per share, voting together as a single class, and do not have cumulative voting rights. Subject to preferences that may apply to any shares of preferred stock outstanding, the holders of common stock are entitled to share equally in any dividends, when and if declared by our board of directors. At September 30, 2007, 24,103,272 shares of common stock were outstanding.

**Shares Reserved** Shares of authorized but unissued common stock reserved for future issuance were as follows (in thousands, unaudited):

	<b>As of</b>
	<b>September 30, 2007</b>
	<b>(unaudited)</b>
Common stock:	
Stock options issued and outstanding	3,115
Unvested restricted stock units issued and outstanding	28
Stock options and awards available for future grant	2,562
	<b>5,705</b>

**Table of Contents****EHEALTH, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(unaudited)**

**Stock Plans** Our 2006 Equity Incentive Plan (the 2006 Plan ) became effective in October 2006. As of September 30, 2007, we had a remaining reserve of 2,562,104 shares of our common stock for issuance under the 2006 Plan. In general, if options or shares awarded under the 2006 Plan are forfeited or repurchased, those options or shares will again become available for grant or award under the 2006 Plan. In addition, on January 1 of each year, the number of shares reserved under the 2006 Plan will automatically increase by the lowest of (a) 1,500,000 shares, (b) 4% of the total number of shares of our common stock then outstanding or (c) a lower number determined by our board of directors or its compensation committee. As of January 1, 2007, shares reserved under the 2006 Plan automatically increased by 869,957 shares, or 4% of the total number of shares of our common stock then outstanding. Employees, non-employee members of our board of directors and consultants of our company and our subsidiaries are eligible to participate in our 2006 Plan. The 2006 Plan requires that the exercise price of stock options and stock appreciation rights awarded shall in no event be less than 100% of the fair market value of a share of common stock on the date of grant.

We also maintain the 1998 Stock Plan and the 2005 Stock Plan, under which we previously granted options to purchase shares of our common stock and restricted common stock. The 1998 and 2005 Stock Plans were terminated with respect to the grant of additional awards upon the effective date of the registration statement related to our IPO in October 2006, although we will continue to issue new shares of common stock upon the exercise of stock options previously granted under the 1998 and 2005 Stock Plans.

Our stock options and restricted stock awards granted under the 2006 Plan and the 1998 and 2005 Stock Plans (collectively, the Stock Plans ) generally vest over four years at a rate of 25% after one year and 1/48<sup>th</sup> per month thereafter. Our stock options generally expire after ten years from the date of grant. Options granted prior to our IPO in October 2006 typically may be exercised at any time, with unvested shares issued upon exercise being subject to repurchase rights by us at the exercise price of the stock option. As of December 31, 2006 and September 30, 2007, no shares were subject to repurchase. Our restricted stock unit awards granted under the 2006 Plan generally vest over four years at a rate of 25% after one year and 25% annually thereafter.

The following table summarizes activity under the Stock Plans (in thousands, except per share amounts, unaudited):

	Shares Available for Grant	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (years)	Aggregate Intrinsic Value
Balance at December 31, 2006	1,844	5,436	\$ 3.85		
Automatic increase in shares authorized (1)	870				
Reduction in number of authorized shares (2)	(126)				
Granted exercise price equal to fair value	(155)	155	\$ 21.81		
Exercised		(2,347)	\$ 2.28		
Cancelled	129	(129)	\$ 9.40		
Balance at September 30, 2007	2,562	3,115	\$ 5.70	6.22	\$ 63,968
Exercisable at September 30, 2007		2,219	\$ 2.93	5.28	\$ 51,701

- (1) In accordance with the provisions of the 2006 Plan, shares reserved for issuance under such plan automatically increased on January 1, 2007 by 4% of the total number of shares of our common stock then outstanding.

## Edgar Filing: eHealth, Inc. - Form 10-Q

- (2) The number of shares authorized for issuance under the 1998 and 2005 Stock Plans decreased due to cancellations of stock options and awards previously granted under those plans. These plans have been terminated with respect to the grant of additional awards.



**Table of Contents****EHEALTH, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(unaudited)**

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying stock options and the fair value of our common stock at September 30, 2007. Total intrinsic value of stock options exercised during the three months ended September 30, 2006 and 2007 was \$322,000 and \$19.3 million, respectively. Total intrinsic value of stock options exercised during the nine months ended September 30, 2006 and 2007 was \$1.6 million and \$45.1 million, respectively. Total fair value of stock options accounted for under SFAS 123R, which vested during the three and nine months ended September 30, 2007 was \$240,000 and \$572,000, respectively. No stock options accounted for under SFAS 123R vested during the three and nine months ended September 30, 2006.

During the three months ended September 30, 2006 and 2007, we recorded stock-based compensation expense totaling \$110,000 and \$267,000, respectively, and during the nine months ended September 30, 2006 and 2007, we recorded stock-based compensation expense totaling \$166,000 and \$712,000, respectively, related to stock options granted to employees and non-employee members of our board of directors and accounted for in accordance with the provisions of SFAS 123R. At September 30, 2007, total unrecognized stock-based compensation cost related to stock options granted to employees and non-employee members of our board of directors under our stock plans and accounted for in accordance with SFAS 123R was approximately \$4.2 million, net of estimated forfeitures of \$407,000. This cost will be amortized on a straight-line basis and will be adjusted for subsequent changes in estimated forfeitures.

The following tables summarize information about stock options outstanding as of September 30, 2007 (in thousands, except per share data and lives, unaudited):

Range of Exercise Prices	Outstanding		Vested and Exercisable		
	Number of Shares of Common Stock Subject to Options	Weighted- Average Remaining Contractual Life (years)	Number of Shares of Common Stock Subject to Options	Weighted- Average Exercise Price	
\$0.50 \$1.00	184	3.42	184	\$ 0.95	
\$2.00	1,747	4.99	1,747	\$ 2.00	
\$4.00 \$8.30	324	7.81	104	\$ 7.07	
\$8.80 \$12.90	525	8.28	146	\$ 9.52	
\$13.00 \$25.08	335	9.37	38	\$ 18.34	
\$0.50 \$25.08	3,115	6.22	2,219	\$ 2.93	

We account for grants of restricted stock units in accordance with the provisions of SFAS 123R. The fair value of the restricted stock units is based on eHealth's stock price on the date of grant, and compensation expense is recognized on a straight-line basis over the vesting period. During the three and nine months ended September 30, 2007, we recorded stock-based compensation expense totaling \$50,000 and \$138,000, respectively, related to restricted stock units accounted for in accordance with the provisions of SFAS 123R. As of September 30, 2007, total unrecognized compensation cost related to restricted stock units was \$615,000, net of estimated forfeitures of \$62,000.

The following table summarizes restricted stock unit activity under the Stock Plans (in thousands, except weighted-average remaining contractual life data, unaudited):

**Restricted Stock Units Outstanding**

Edgar Filing: eHealth, Inc. - Form 10-Q

	Number of Shares of Common Stock Covered by Restricted Stock Units	Weighted- Average Remaining Contractual Life (years)	Aggregate Intrinsic Value
Balance as of December 31, 2006	33		
Granted	7		
Released	(9)		
Cancelled	(3)		
Balance as of September 30, 2007	28	8.90	\$ 725

**Table of Contents****EHEALTH, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(unaudited)**

The aggregate intrinsic value is calculated as the fair value at September 30, 2007 of the underlying common stock outstanding and vested and expected to vest as of September 30, 2007. No restricted stock units were granted during the three and nine months ended September 30, 2006. As of September 30, 2007, 28,000 restricted stock units were unvested and subject to release.

**2004 Stock Plan for eHealth China** During November 2004, our board of directors adopted the 2004 Stock Plan for eHealth China, Inc. (the eHealth China Plan ) for the issuance of shares of Class A common stock. Shares of Class A common stock constituted all of the awards granted under the eHealth China Plan and all of those shares converted into common stock in October 2006 in connection with our IPO. In addition, the eHealth China Plan was terminated with respect to the grant of additional shares upon the effective date of the 2006 Plan in October 2006. Shares issued under the eHealth China Plan generally vest over four years at a rate of 25% after one year and 1/48<sup>th</sup> per month thereafter. As of September 30, 2007, there were 14,000 unvested shares of restricted common stock subject to release under the 2004 Stock Plan for eHealth China.

We account for common stock awards granted under the eHealth China Plan subsequent to January 1, 2006 in accordance with the provisions of SFAS 123R. During each of the three months ended September 30, 2006 and 2007, we recorded \$5,000 and during the nine months ended September 30, 2006 and 2007, we recorded \$8,000 and \$15,000, respectively, of stock-based compensation expense related to these awards. As of September 30, 2007, total unrecognized compensation cost related to non-vested stock-based compensation arrangements granted under the eHealth China Plan and accounted for under SFAS 123R was \$52,000, net of estimated forfeitures of \$5,000. This cost will be recognized on a straight-line basis.

**Stock-Based Compensation**

**Adoption of SFAS 123R** Effective January 1, 2006, we adopted the fair value recognition provisions of SFAS 123R, which requires us to measure the cost of employee services received in exchange for an award of equity instruments, based on the fair value of the award on the date of grant, and to recognize the cost over the period during which the employee is required to provide services in exchange for the award. We adopted SFAS 123R using the prospective method. Stock-based compensation expense recognized during the three and nine months ended September 30, 2006 and 2007 consisted of 1) stock-based compensation related to stock option and restricted stock awards granted prior to January 1, 2006, which were calculated in accordance with APB 25, and 2) stock-based compensation for all stock-based awards granted on or after to January 1, 2006, based on the grant-date fair value estimated in accordance with SFAS 123R. The adoption of SFAS 123R did not impact net cash flows from operations or financing. As required by SFAS 123R, we are recognizing stock-based compensation expense only for those equity awards expected to vest.

At September 30, 2007, total unrecognized stock-based compensation expense related to stock options, restricted stock and restricted stock units granted to employees under our stock plans and accounted for in accordance with SFAS 123R was approximately \$4.9 million, net of estimated forfeitures of \$474,000. This cost will be amortized on a straight-line basis and will be adjusted for subsequent changes in estimated forfeitures.

The following table presents total unrecognized stock-based compensation expense related to stock options, restricted stock units and restricted stock granted to employees and accounted for in accordance with SFAS 123R (in thousands, unaudited):

<b>As of September 30, 2007</b>	<b>Stock Options</b>	<b>Restricted Stock Units</b>	<b>Restricted Stock</b>	<b>Total</b>
Unrecognized stock-based compensation expense	\$ 4,591	\$ 677	\$ 57	\$ 5,325
Estimated forfeitures	(407)	(62)	(5)	(474)
Unrecognized stock-based compensation expense, net of estimated forfeitures	\$ 4,184	\$ 615	\$ 52	\$ 4,851

## Edgar Filing: eHealth, Inc. - Form 10-Q

Net cash proceeds from the exercise of stock options were \$62,000 and \$2.4 million for the three months ended September 30, 2006 and 2007, respectively, and were \$439,000 and \$5.3 million for the nine months ended September 30, 2006 and 2007, respectively.

Table of Contents

## EHEALTH, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

We estimate the fair value of stock options granted using the Black-Scholes-Merton pricing model and a single option award approach. This fair value is then amortized on a straight-line basis over the requisite service periods of the awards, which is generally the vesting period. The weighted-average expected terms for stock options granted during the three and nine months ended September 30, 2006 and 2007 were calculated using the simplified method in accordance with the provisions of SAB No. 107, *Share-Based Payment*. The simplified method defines the expected term as the average of the contractual term and the vesting period of the stock option. We have estimated the volatility rates used as inputs to the model and the expected forfeiture rates based on an analysis of our stock price since our IPO in October 2006, as well as an analysis of the most similar public companies for which we have data. We have used judgment in selecting these companies, as well as evaluating our available historical and implied volatility and forfeiture data and the data for these companies. The dividend yield is determined by dividing the expected per share dividend during the coming year by the grant date stock price. Through September 30, 2007, we had not declared or paid any cash dividends. We base the risk-free interest rate on the implied yield currently available on U.S. Treasury zero-coupon issues with a remaining term equal to the expected term of our stock options.

The fair value of stock options and restricted stock awards granted to employees for the three and nine months ended September 30, 2006 and 2007 was estimated using the following weighted-average assumptions:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2007	2006	2007
Expected term	6.1 years	6.1 years	6.1 years	6.1 years
Expected volatility	65.58%	59.58%	65.58%	59.58%
Expected dividend yield				
Risk-free interest rate	4.90%	4.48%	4.90%	4.48%
Weighted-average fair value	\$ 8.33	\$ 14.63	\$ 8.14	\$ 13.04

**Deferred Stock-Based Compensation Expense** We account for Class A common stock awards granted prior to January 1, 2006 in accordance with the provisions of APB 25. Due to uncertainty of the events that would have triggered a conversion of Class A common stock into common stock, we accounted for awards granted under the eHealth China Plan prior to January 1, 2006 as variable awards. Under this method, we recorded no deferred stock-based compensation, but measured and recorded stock-based compensation expense based on the fair value of the underlying Class A common stock at the end of each reporting period within the vesting periods. Upon the completion of our IPO in October 2006, all unvested shares of Class A common stock issued prior to January 1, 2006 were converted into shares of common stock measured at the fair value public offering price of \$14.00 per share and, in accordance with APB 25, we recorded deferred stock-based compensation totaling \$255,000, which is being amortized over the remaining vesting terms of the underlying common stock. We recorded stock-based compensation expense of \$20,000 and \$23,000 in the three months ended September 30, 2006 and 2007, respectively, and recorded \$93,000 and \$73,000 in the nine months ended September 30, 2006 and 2007, respectively, related to these awards. As of September 30, 2007, the remaining unamortized deferred stock-based compensation related to these awards totaled \$139,000.

In connection with certain common stock options and restricted common stock granted prior to January 1, 2006, we recorded deferred stock-based compensation expense. The deferred stock-based compensation was recognized as expense over the vesting period of these options and restricted stock awards. Total amortization expense of deferred stock-based compensation related to these grants totaled \$9,000 and \$5,000 in the three months ended September 30, 2006 and 2007, respectively, and totaled \$29,000 and \$24,000 in the nine months ended September 30, 2006 and 2007, respectively. As of September 30, 2007, all deferred stock-based compensation related to these grants had been recognized.

**Table of Contents****EHEALTH, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(unaudited)**

The following table summarizes stock-based compensation expense recorded during the three and nine months ended September 30, 2006 and 2007 (in thousands, unaudited):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2007	2006	2007
Awards granted to employees and non-employee members of our board of directors accounted for in accordance with SFAS 123R:				
Common stock options	\$ 110	\$ 267	\$ 166	\$ 712
Restricted stock units		50		138
Class A common stock	5	5	8	15
	115	322	174	865
Awards granted to employees accounted for in accordance with APB 25:				
Class A common stock	20	23	93	73
Common stock options and restricted common stock	9	5	29	24
	29	28	122	97
Total stock-based compensation expense	\$ 144	\$ 350	\$ 296	\$ 962

The following table summarizes stock-based compensation expense by operating function included in the condensed consolidated statements of operations for the three and nine months ended September 30, 2006 and 2007 (in thousands, unaudited):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2007	2006	2007
Marketing and advertising	\$ 21	\$ 45	\$ 32	\$ 113
Customer care and enrollment	13	30	27	86
Technology and content	60	143	148	416
General and administrative	50	132	89	347
Total stock-based compensation expense	\$ 144	\$ 350	\$ 296	\$ 962

**Note 4 Income Taxes**

During the three and nine months ended September 30, 2007, we recorded a provision for income taxes of \$2.5 million and \$6.3 million, respectively, representing an effective tax rate of 40% and 41%, respectively; however, due to \$64.4 million and \$33.3 million of federal and state net operating loss carryforwards, respectively, as of December 31, 2006, and approximately \$40.1 million of resulting deductions from stock option exercises during 2007, we do not expect to pay federal and state taxes during 2007. Our deferred tax assets were reduced due to the utilization of net operating losses against taxable income in the current quarter. During the three and nine months ended September 30, 2006, we recorded a provision for income taxes of \$82,000 and \$154,000, respectively, attributable to federal and state alternative minimum taxes currently payable due to limits on the amount of net operating losses that may be applied against income earned during the period under current

tax regulations.

Assessing the realizability of our deferred tax assets in accordance with SFAS 109 is dependent upon several factors, including the likelihood and amount, if any, of future taxable income in relevant jurisdictions during the periods in which those temporary differences become deductible. Management forecasts taxable income by considering available positive and negative evidence, including its history of operating income and losses and its financial plans and estimates that are used to manage the business. These assumptions require significant judgment about future taxable income. As a result, the amount of deferred tax assets considered realizable is subject to adjustment in future periods if estimates of future taxable income change.

Management has historically provided a valuation allowance against the net deferred tax assets to reflect these uncertainties. In the fourth quarter of 2006, we concluded, based upon recent operating results, expectations of future taxable income, available carryforward periods and other factors, that it was more likely than not that we would realize sufficient earnings to utilize a portion of our deferred tax assets. Accordingly, we reduced the valuation allowance against deferred tax assets and recorded a tax benefit of \$7.4 million in 2006. Realization of deferred tax assets is dependent upon future earnings, if any, the timing and amount of which are uncertain. If not utilized, our federal and state net operating loss and tax credit carryforwards will begin to expire in 2019 and 2007, respectively. Our net operating losses and tax credit carryforwards were available without annual limitations as of December 31, 2006, based on an analysis performed as of that date; however, under certain provisions of the Internal Revenue Code of 1986, as amended, the availability of our domestic net operating loss and tax credits may be subject to limitation in the future if there are changes in ownership.

---

**Table of Contents**

**EHEALTH, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(unaudited)**

At September 30, 2007, we had future tax deductions resulting from stock option exercises of approximately \$40.1 million. The benefit of these deductions, if realized, will be recognized as a credit to additional paid-in capital. Under SFAS 123R, we consider stock option deduction benefits in excess of book compensation charges realized when we obtain an incremental benefit determined by the With and Without calculation method. Under the With and Without approach, excess tax benefits related to share-based payments are not deemed to be realized until after the utilization of all other tax benefits available to us.

We adopted the provisions of FASB Interpretation No. 48 ( FIN 48 ), *Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109*, on January 1, 2007. Upon adoption of FIN 48, we had approximately \$0.9 million of unrecognized tax benefits. As of January 1, 2007, there were no unrecognized tax benefits that, if recognized, would impact the effective tax rate. Due to net operating losses, all tax years after 1998 are open to examination and adjustment.

We have elected to record interest and penalties related to uncertain tax positions as income tax expense in the financial statements in accordance with FIN 48. Any subsequent change in classification of FIN 48 interest and penalties will be treated as a change in accounting principle subject to the requirements of SFAS No. 154, *Accounting Changes and Error Corrections*.

**Note 5 Net Income Per Share**

For the three and nine months ended September 30, 2006, basic net income per share is calculated using the weighted-average number of shares of common stock and Class A common stock outstanding during the quarter, excluding shares subject to repurchase or forfeiture. Since our common stock and Class A common stock were both participating securities as defined in SFAS No. 128, *Earnings Per Share*, diluted net income per share is presented using the two-class method in the three and nine months ended September 30, 2006 and gives effect to all dilutive potential common shares outstanding during the period, including convertible preferred stock, common stock options, common stock and Class A common stock subject to repurchase or forfeiture, unless such common stock equivalent shares are anti-dilutive. As a result of our IPO in October 2006, all outstanding Class A common stock was automatically converted into shares of common stock. For the three and nine months ended September 30, 2007, basic net income per share is calculated using the weighted-average number of shares of common stock outstanding during the quarter, excluding shares subject to repurchase or forfeiture, and diluted net income per share gives effect to all dilutive potential common shares outstanding during the period, including common stock options and restricted stock units and common stock subject to repurchase or forfeiture, unless such common stock equivalent shares are anti-dilutive.



**Table of Contents****EHEALTH, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(unaudited)**

The following table sets forth the computation of basic and diluted net income per share (in thousands, except per share data, unaudited):

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2006</b>	<b>2007</b>	<b>2006</b>	<b>2007</b>
<b>Basic:</b>				
<b>Numerator:</b>				
Net income allocated to common stock	\$ 2,705	\$ 3,730	\$ 5,376	\$ 9,235
Net income allocated to Class A common stock	33		56	
	\$ 2,738	\$ 3,730	\$ 5,432	\$ 9,235
<b>Denominator:</b>				
Weighted average number of common stock shares	4,974	23,517	4,903	22,643
Weighted average number of Class A common stock shares	61		51	
<b>Net income per share basic:</b>				
Common stock	\$ 0.54	\$ 0.16	\$ 1.10	\$ 0.41
Class A common stock	\$ 0.54		\$ 1.10	\$
<b>Diluted:</b>				
<b>Numerator:</b>				
Net income allocated to common stock	\$ 2,729	\$ 3,730	\$ 5,418	\$ 9,235
Net income allocated to Class A common stock	9		14	
	\$ 2,738	\$ 3,730	\$ 5,432	\$ 9,235
<b>Denominator:</b>				
Weighted average number of common stock shares	4,974	23,517	4,903	22,643
Weighted average number of restricted stock and restricted stock units	1	16	2	14
Weighted average number of options outstanding	3,403	2,730	3,297	3,089
Weighted average number of assumed issuable shares of common stock upon conversion of convertible preferred stock	10,956		10,956	
Total common stock shares used in per share calculation	19,334	26,263	19,158	25,746
Weighted average number of Class A common stock shares	61		51	
<b>Net income per share diluted:</b>				
Common stock	\$ 0.14	\$ 0.14	\$ 0.28	\$ 0.36
Class A common stock	\$ 0.14		\$ 0.28	

For each of the three and nine-month periods ended September 30, 2006 and 2007, we had securities outstanding that could potentially dilute earnings per share, but the incremental shares from the assumed conversion or exercise of these securities were excluded in the computation of diluted net income per share as their effect would have been anti-dilutive.

**Table of Contents****EHEALTH, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(unaudited)**

The number of weighted-average outstanding securities excluded from the computation of basic and diluted net income per share consisted of the following (in thousands, unaudited):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2007	2006	2007
Outstanding options	217	232	116	177

**Note 6 Commitments and Contingencies**

**Leases** We lease certain of our office and operating facilities and certain furniture and fixtures under various operating leases, the latest of which expires in December 2012. In addition, we lease equipment under operating leases that range in terms from three to five years, the latest of which expires in August 2009. We recognize rent expense on our operating leases on a straight-line basis over the terms of the leases. Total rent expense under all operating leases was approximately \$528,000 and \$621,000 for the three months ended September 30, 2006 and 2007, respectively, and \$1.5 million and \$1.8 million for the nine months ended September 30, 2006 and 2007, respectively.

As of September 30, 2007, we had a capital lease obligation for office equipment, which expires in December 2007.

Future minimum lease payments under non-cancellable operating and capital leases at September 30, 2007 were as follows (in thousands, unaudited):

Year Ending December 31,	Operating Lease Obligations	Capital Lease Obligations
2007 (remaining 3 months)	\$ 572	\$ 9
2008	2,224	
2009	1,689	
2010	439	
2011	40	
Thereafter	6	
<b>Total minimum lease payments</b>	<b>\$ 4,970</b>	<b>9</b>
Less amount representing interest		(1)
<b>Present value of net minimum lease payments</b>		<b>8</b>
Current portion		8
		\$

On November 6, 2007, we entered into an amendment to an operating lease to extend our lease on approximately 28,813 square feet of existing office space located in Gold River, California, and to lease an additional 10,084 square feet of office space in the same building. Pursuant to the lease amendment, the lease expires on December 31, 2012. As a result of the lease amendment, our minimum operating lease obligations are expected to increase \$3.1 million over the minimum lease payments presented in the table above. See *Note 8 Subsequent Event* for additional

information.

**Service Agreements** In November 2005, we entered into an agreement with a third-party service provider to provide certain information services for our website. We record the related service expenses on a straight-line basis although actual cash payment obligations under this agreement escalate over the term of the agreement. In June 2006, we entered into a three-year software licensing agreement that requires us to make annual licensing payments of \$115,000, with the final payment due in June 2008. In March 2007, we entered into a two-year service agreement with a third-party to provide additional functionality not currently available on our website. Under the terms of the agreement, we are required to pay certain up-front fees totaling \$195,000, plus a \$30,000 fee to be paid annually. The up-front fees are being recognized on a straight-line basis through the expiration date of the agreement in March 2009. In May 2007, we entered into an agreement with a separate third-party to assist in the design and development of the business health savings account platform. Under the terms of the agreement, we are required to pay various fees totaling approximately \$71,000 with the final payment due 30 days after completion of the third-party's work. The payment of such fees may be impacted by the progress of the third-party development efforts and other factors.

**Table of Contents****EHEALTH, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(unaudited)**

As of September 30, 2007, future cash payment commitments for services provided in connection with these agreements were as follows (in thousands, unaudited):

Year Ending December 31,	Service Obligations
2007 (remaining 3 months)	\$ 109
2008	355
2009	250
Thereafter	
<b>Total</b>	<b>\$ 714</b>

**Legal Proceedings** In the ordinary course of our business, we have received and may continue to receive inquiries from state regulators relating to various matters. We have become, and in the future may become, involved in litigation in the ordinary course of our business. If we are found to have violated laws or regulations in any state, we could be subject to various fines and penalties, including revocation of our license to sell insurance in that state, and our business and financial results would be materially harmed. We would also be harmed to the extent that related publicity damages our reputation as a trusted source of objective information relating to health insurance and its affordability. It could also be costly to defend ourselves regardless of the outcome.

**Guarantees and Indemnifications** We have agreed to indemnify members of our board of directors and our executive officers for fees, expenses, judgments, fines and settlement amounts incurred in any action or proceeding, including actions or proceedings by or in our right, to which any of them is, or is threatened to be, made a party by reason of their service as one of our directors or officers or service provided to another company or enterprise at our request. The term of the director and officer indemnification is perpetual as to events or occurrences that take place while the director or officer is, or was, serving at our request, and the maximum potential amount of future payment we could be required to make under these indemnification arrangements is unlimited. We, however, maintain directors and officers insurance coverage that limits our exposure under certain circumstances and that may allow us to recover a portion of future amounts paid. We believe the estimated fair value of these indemnification agreements is minimal. Accordingly, we have not recorded any liabilities for these agreements as of December 31, 2006 or September 30, 2007.

While we have made various guarantees included in contracts in the normal course of business, primarily in the form of indemnity obligations under certain circumstances, these guarantees do not represent significant commitments or contingent liabilities of the indebtedness of others. Accordingly, we have not recorded a liability related to these indemnification provisions.

**Note 7 Segment and Geographic Information**

**Operating Segments** SFAS No. 131, *Disclosures About Segments of an Enterprise and Related Information*, establishes standards for reporting information about operating segments. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance of a company. Our chief operating decision maker is considered to be our chief executive officer. Our chief executive officer reviews our financial information presented on a consolidated basis in a manner substantially similar to the accompanying consolidated financial statements. Therefore, we have concluded that we operate in one segment, and accordingly we have provided only the required enterprise-wide disclosures.

**Geographic Information** We have generated revenue solely in the United States. As of December 31, 2006 and September 30, 2007 our long-lived assets consisted primarily of property and equipment. Our long-lived assets are attributed to the geographic location in which they are located. Long-lived assets by geographical area were as follows (in thousands):

Edgar Filing: eHealth, Inc. - Form 10-Q

	As of December 31, 2006	As of September 30, 2007 (unaudited)
United States	\$ 3,874	\$ 3,919
China	515	593
Total	\$ 4,389	\$ 4,512

**Table of Contents****EHEALTH, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(unaudited)****Note 8 Subsequent Event**

On November 6, 2007, we entered into an amendment to an operating lease to extend our lease on approximately 28,813 square feet of existing office space located in Gold River, California, and to lease an additional 10,084 square feet of office space in the same building. Pursuant to the lease amendment, the lease expires on December 31, 2012. As a result of the lease amendment, our future minimum operating lease payments are expected to increase \$3.1 million over the amounts in the tabular presentation of future minimum lease payments under non-cancellable operating leases in *Note 6 Commitments and Contingencies Leases*. The following table shows the increase in our future minimum operating lease obligations as a result of this amendment (in thousands):

Year Ending December 31,	Increase in Operating Lease Obligations as a Result of the Amendment
2007 (remaining 3 months)	\$ 24
2008	292
2009	292
2010	653
2011	924
Thereafter	947
<b>Total</b>	<b>\$ 3,132</b>

**Table of Contents****ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*In addition to historical information, this Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements include, among other things, statements concerning expectations regarding the impact of an increase in submitted applications resulting from marketing partner referrals; existence of an opportunity to accelerate application growth through additional marketing and advertising spending; fluctuation in the cost of acquiring new members and related factors; increased focus on technology development; enhancement of our ecommerce platform; potential expansion of our pilot program to market insurance in China; increases in technology and content expenses, general and administrative expenses, marketing expenses and customer care and enrollment expenses; fluctuation in other income, net; estimate of our allowance for forfeitures; increases in commission revenue as a result of growth in our membership base and our continued spending on marketing initiatives; timing of the introduction and projected benefits of new product or service offerings such as a platform to market health insurance products in combination with health savings accounts, and factors that could impact the success of any such offering; plans to evaluate new strategies and opportunities in other segments of the health insurance market and the related projected benefits; increases in our investment of time and resources in additional revenue sources and increases in sponsorship, licensing and other revenue; plans to increase spending in the marketing partner and online advertising channels and to increase testing and pilot work in the traditional media area; expectations regarding increases in cost of acquisition and marketing expenses as a percentage of revenue; our future effective income tax rate and factors that could affect such tax rate and our valuation allowance; our expectation that we will not pay federal and state taxes in 2007; sufficiency of current cash and cash generated from operations and factors that impact future capital requirements; investments in, or acquisitions of, complementary businesses, products or technologies; the impact of recent accounting pronouncements; exposure to adverse changes in exchange rates; issues with collection; adequacy of resources and expertise to comply with the Sarbanes-Oxley Act of 2002; the growing number of small businesses and increasing number of self-employed; employers seeking to reduce costs associated with providing health insurance; demand in the individual and family health insurance market; increases in stock-based compensation expense; estimates of volatility and forfeiture rates for purposes of SFAS 123R; factors that will impact the successful promotion of our brand; factors that could influence the rate at which we convert consumers visiting our ecommerce platform into members, including the effectiveness of any integration of our technology with our carrier partners and implementation of instant electronic underwriting and membership with a major carrier partner; factors that could influence the success of our relationship with our marketing partners; plans to expand our Chinese operations; our intellectual property providing us a competitive advantage in the distribution of individual, family and small business health insurance; factors that could influence the success of establishing an insurance business in China; our ability to obtain any necessary approvals in China as a result of our subsidiary being wholly foreign owned or otherwise; the date of completion of implementation of our commission accounting system; factors that will influence the success of our sponsorship advertising and technology licensing businesses; introduction of a new sponsorship advertising platform and the utilization or success of such platform; changes to existing insurance regulations and the impact of those changes; factors that will affect our future success and growth; as well as other statements regarding our future operations, financial condition, prospects and business strategies. These forward-looking statements are subject to certain risks and uncertainties that could cause our actual results to differ materially from those reflected in the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in this report, and in particular, the risks discussed under the heading Risk Factors in Part II, Item 1A of this report and those discussed in our other Securities and Exchange Commission filings. The following discussion should be read in conjunction with our Annual Report on Form 10-K as filed with the Securities and Exchange Commission in March 2007, and the audited consolidated financial statements and related notes contained therein. We undertake no obligation to update or revise any of these forward-looking statements whether as a result of new information, future events or otherwise. Given these risks and uncertainties, you are cautioned not to place undue reliance on such forward-looking statements.*

**Overview**

We are the leading online source of health insurance for individuals, families and small businesses. Our ecommerce platform enables individuals, families and small businesses to research, analyze, compare and purchase health insurance products that best meet their needs. Our technology also enables us to communicate electronically with our insurance carrier partners and process consumers' health insurance applications online. As a result, we simplify and streamline the complex and traditionally paper-intensive health insurance sales and purchasing process.

Since our incorporation in November 1997, we have spent a significant amount on technology and content related to our ecommerce platform. We have also invested significant time and resources in obtaining licenses to sell health insurance in all 50 states and the District of Columbia, developing diverse and successful member acquisition programs and establishing relationships with over 160 health insurance carriers, enabling us to offer more than 7,000 health insurance products online. Our first online transaction relating to the sale of a health insurance policy was completed during the fourth quarter of 1998.

---

## **Table of Contents**

Our financial model is characterized by recurring revenue, health insurance pricing that is set by each carrier and approved by state regulators, and members who maintain their health insurance products for an average of more than two years (measured on a revenue weighted-average basis for all products purchased through us, including short-term products, which are held for less than four months on average). We generate revenue primarily from commissions we receive from health insurance carriers whose policies are purchased through us by individuals, families and small businesses. We typically receive commission payments on a monthly basis for as long as a policy remains active. As a result, much of our revenue for a given financial reporting period relates to policies that we sold prior to the beginning of the period and is recurring in nature. Because health insurance pricing is set by the carrier and approved by state regulators, health insurance pricing is fixed. We, therefore, are not generally subject to price negotiation or discounting of prices by health insurance carriers or our competitors.

### **Sources of Revenue**

#### ***Revenue***

We generate most of our revenue from commissions paid to us by health insurance carriers whose health insurance policies we have sold. Commission revenue represented 95% and 97% of our total revenue for the three and nine months ended September 30, 2006, respectively, and represented 93% and 94% of our total revenue for the three and nine months ended September 30, 2007, respectively. The remainder of our revenue is primarily attributable to carrier sponsorship advertising on our website and, to a lesser extent, licensing arrangements related to our technology. Our commission revenue has grown principally as a result of our penetration of the individual, family and small business health insurance markets and corresponding growth in our membership. We estimate that as of September 30, 2007, we had approximately 491,300 members, compared to an estimated 393,900 members at December 31, 2006 and an estimated 363,000 members at September 30, 2006. We define a member as an individual covered by an insurance product for which we are entitled to receive compensation from an insurance carrier.

Our commission revenue generally represents a percentage of the insurance premium a member has paid to his or her insurance carrier and, to a lesser extent, commission override payments that insurance carriers pay us for achieving sales volume thresholds or other objectives. Commission rates vary by carrier and by the type of plan purchased by a member. Commission rates also can vary based upon the amount of time that the policy has been active, with commission rates for individual and family policies typically being higher in the first twelve months of the policy. Individuals, families and small businesses purchasing health insurance through us typically pay their premiums on a monthly basis. Insurance carriers typically pay us our commissions monthly, after they receive the premium payment from the member. We continue to receive the commission payment from the relevant insurance carrier until the health insurance policy is cancelled or we otherwise do not remain the agent on the policy. As a result, the majority of our revenue is recurring in nature and grows in correlation with the growth we experience in our membership base. At the beginning of an accounting period, we have visibility with respect to the majority of our revenue for that accounting period since revenue for that accounting period is primarily attributable to policies previously purchased by our members.

We recognize commission revenue when the commission is reported to us by a carrier, which occurs through our receipt of a cash payment and a commission statement. We report commission revenue net of an allowance for future forfeiture amounts payable to our carriers due to policy cancellations. Commission override payments, which are recognized on the same basis as premium commissions, are generally reported to us in a more irregular pattern than premium commissions. As a result, our revenue for a particular quarter could be higher or lower than expectations due to the timing of the reporting of commission override payments.

Revenue attributable to individual and family product offerings represented approximately 79% of our total revenue in the three and nine-month periods ended September 30, 2006 and 2007. We define individual and family product offerings as major medical individual and family health insurance plans, which does not include small business, short-term major medical, stand-alone dental, life and student health insurance product offerings.

In addition to the revenue we derive from the sale of health insurance products, we derive revenue from our online sponsorship advertising program and from licensing the use of our ecommerce technology. Revenue generated from sponsorship advertising, technology licensing and other sources represented 5% and 3% of our total revenue for the three and nine months ended September 30, 2006, respectively, and represented 7% and 6% of our total revenue for the three and nine months ended September 30, 2007, respectively. Our sponsorship advertising program allows carriers to purchase advertising space in specific markets in a sponsorship area on our website. Specifically, carriers who have purchased advertising can choose to have specific health insurance plans displayed prominently after a consumer has entered certain census information. In return, we are typically paid a monthly fee and a performance fee based on metrics such as submitted or approved health insurance applications. Our technology licensing business allows carriers to offer their own health insurance policies on their websites and agents to utilize our technology to power their quoting and online content. These parties typically pay us certain guaranteed and performance-based fees.





---

**Table of Contents****Member Acquisition**

An important factor in our revenue growth is the growth of our member base. Our marketing initiatives are an important component of our strategy to grow our member base and are focused on three primary member acquisition channels: direct, marketing partners, and online advertising. Our marketing initiatives are designed to drive revenue-generating members to our ecommerce platform and retain those members. In addition to growing our membership base, we are increasingly investing time and resources in other revenue sources, such as carrier sponsorship advertising on our website and technology licensing arrangements.

*Direct.* Our direct member acquisition channel consists of consumers who access our website addresses ([www.ehealth.com](http://www.ehealth.com) and [www.ehealthinsurance.com](http://www.ehealthinsurance.com)) either directly or through algorithmic search listings on Internet search engines and directories. For both the three and nine months ended September 30, 2007, applications submitted through us for individual and family health insurance products from our direct channel constituted approximately 40% of all individual and family health insurance applications submitted on our website, compared to 39% for both the three and nine months ended September 30, 2006.

*Marketing Partners.* Our marketing partner member acquisition channel consists of consumers who access our website through a network of financial services and other companies. Growth in our marketing partner channel depends upon our expanding joint marketing programs with existing partners and adding new partners to our network. For the three and nine months ended September 30, 2007, applications submitted through us for individual and family health insurance products for which we paid fees to our marketing partners constituted approximately 31% and 30% of all individual and family health insurance applications submitted on our website, respectively, compared to 34% and 37% for the three and nine months ended September 30, 2006, respectively.

*Online Advertising.* Our online advertising channel consists of consumers who access our website through paid keyword search advertising from search engines such as Google, MSN and Yahoo!, as well as various Internet marketing programs such as banner advertising, email marketing and an integrated partnership with MSN. For the three and nine months ended September 30, 2007, applications submitted through us for individual and family health insurance products from our online advertising channel constituted approximately 29% and 30% of all individual and family health insurance applications submitted on our website, respectively, compared to 27% and 24% for the three and nine months ended September 30, 2006, respectively.

**Operating Costs and Expenses****Cost of Revenue-Sharing**

Cost of revenue-sharing consists primarily of payments related to health insurance policies sold to members who were referred to our website by marketing partners with whom we have revenue-sharing arrangements. In order to enter into a revenue-sharing arrangement, these marketing partners must be licensed to sell health insurance in the state where the policy is sold. Costs related to revenue-sharing arrangements are expensed as the related revenue is recognized.

**Marketing and Advertising**

Marketing and advertising expenses consist primarily of member acquisition expenses associated with our direct, marketing partner and online advertising channels, in addition to compensation and other expenses related to marketing, business development, public relations and carrier relations personnel who support our offerings. Our direct channel expenses primarily consist of print advertising, certain search engine optimization expenses, direct mail, email and other activities that drive consumers directly to our website.

We compensate marketing partners with whom we do not have revenue-sharing arrangements by paying a one-time fee each time a consumer referral from the marketing partner results in a submitted health insurance application on our ecommerce platform. Many of our marketing partners have tiered volume-incentive arrangements in which the amount of the one-time fee increases as the volume of submitted applications received from the marketing partner increases over a particular period. We recognize these expenditures in the period when a marketing partner's referral results in the submission of a health insurance application on our website.

The number of health insurance applications submitted through our ecommerce platform has generally increased in our first quarter compared to our fourth quarter and in our third quarter compared to our second quarter. Conversely, we have generally experienced a decline in submitted applications in our second quarter compared to our first quarter and in our



## **Table of Contents**

fourth quarter compared to our third quarter. Since a significant portion of our marketing and advertising expenses are driven by the number of health insurance applications submitted on our website, those expenses generally have increased or decreased in conjunction with these seasonal patterns. In addition, because the total volume of submitted applications that we receive from our marketing partners is largely outside of our control, particularly during any short-term period, and because of our tiered volume-incentive marketing partner arrangements, we could incur expenses in excess of the amounts we had planned in periods of rapid growth in the volume of submitted applications from marketing partner referrals. Accordingly, an unanticipated increase in submitted applications resulting from marketing partner referrals could cause our net income to be lower than our expectation since the revenue to be derived from submitted applications that are approved by health insurance carriers will not be recognized until future periods.

Paid keyword search advertising on search engines represents the majority of expenses in our online advertising channel. We incur expenses associated with search engine advertising in the period in which the consumer clicks on the advertisement. We actively manage our paid keyword search advertising expense, taking into account the anticipated return from referrals. We also take into account the productivity and relative cost of paid keyword search as compared to other marketing channels and the anticipated lifetime revenue from members acquired, to control the amount of expense incurred during a given period.

We believe the cost of acquiring new members will continue to fluctuate based upon various factors, including the mix of health insurance applications submitted through our three member acquisition channels, the mix of marketing partners referring consumers to our website, the overall trend in costs of online marketing including keywords purchased by us, seasonality patterns, the amounts we pay marketing partners to refer consumers to our website, fluctuations in the percentage of consumers referred to our website who submit health insurance applications, the percentage of applications actually approved by the carriers, the level of personnel costs required to manage our marketing and advertising programs and our investments in new products and sources of revenue.

We believe an opportunity exists to accelerate application growth through additional marketing and advertising spending. As a result, we plan to increase our spending in the marketing partner and online advertising channels. Also, during the fourth quarter, we plan to increase testing and pilot work in the traditional media area in an effort to raise awareness and demand for eHealth. We expect these activities to increase our overall cost of acquisition and our sales and marketing expenses as a percentage of revenue. In addition, we expect stock-based compensation costs attributed to marketing and advertising expenses to increase as we grant additional equity awards for which we will record the associated share-based payment expense.

### ***Customer Care and Enrollment***

Customer care and enrollment expenses consist of compensation and related expenses for personnel engaged in pre-sales assistance to applicants who call our customer care center and enrollment personnel who assist applicants during the underwriting process. We expect customer care and enrollment expenses to increase in absolute dollars in future periods and intend to increase our investment in technology to support the operations of our customer care center. In addition, we expect stock-based compensation costs attributed to customer care and enrollment expenses to increase as we grant additional equity awards for which we will record the associated share-based payment expense.

### ***Technology and Content***

Technology and content expenses consist primarily of compensation and related expenses for personnel associated with developing and enhancing our website technology as well as maintaining our website. A portion of our technology and content group is employed by our wholly-owned subsidiary in China, where technology development costs are generally lower. Our technology and content expenses incurred in China totaled \$0.3 million for both the three months ended September 30, 2006 and 2007 and totaled \$0.7 million and \$0.9 million during the nine months ended September 30, 2006 and 2007, respectively. We expect our technology and content expenses to increase in absolute dollars in the future due to our increased focus on technology development, including the enhancement of our ecommerce platform and potential expansion of our pilot program to market and sell insurance online in China. In addition, we expect stock-based compensation costs attributed to technology and content expenses to increase as we grant additional equity awards for which we will record the associated share-based payment expense.

### ***General and Administrative***

General and administrative expenses consist primarily of compensation and related expenses for staff working in our finance, legal, human resources, internal audit, facilities and internal information technology departments. These expenses also include fees paid for outside professional services, mainly for audit, tax, legal and information technology consulting.



**Table of Contents**

We expect our general and administrative expenses to continue to increase during the remainder of 2007 due to the increased costs associated with operating as a public company and the costs necessary to support the growth in our business. In addition, we expect stock-based compensation costs attributed to general and administrative expenses to increase as we grant additional equity awards for which we will record the associated share-based payment expense.

**Summary of Selected Metrics**

The following table shows certain selected metrics used by management to evaluate our business (unaudited):

	Three Months Ended September 30, 2006	Three Months Ended September 30, 2007
<b>Key Metrics:</b>		
Operating cash flows (1)	\$ 2,802,000	\$ 7,711,000
IFP submitted applications (2)	78,200	97,900
IFP approved members (3)	68,000	83,600
Total approved members (4)	102,400	125,300
Total revenue (5)	\$ 16,662,000	\$ 22,997,000
Total revenue per estimated member for the period (6)	\$ 46.14	\$ 48.16
	As of	As of
	September 30, 2006	September 30, 2007
IFP estimated membership (7)	297,400	408,100
Total estimated membership (8)	363,000	491,300
	Three Months Ended September 30, 2006	Three Months Ended September 30, 2007
Marketing and advertising expenses (9)	\$ 5,798,000	\$ 7,309,000
Marketing and advertising as a percentage of total revenue (10)	35%	32%
<b>Other Metrics:</b>		
Source of IFP submitted applications (as a percentage of total IFP applications for the period):		
Direct (11)	39%	40%
Marketing partners (12)	34%	31%
Online advertising (13)	27%	29%
Total	100%	100%
Acquisition cost per individual on IFP submitted applications (14)	\$ 48.67	\$ 49.07

**Notes:**

- (1) Net cash provided by operating activities for the period derived from the condensed consolidated statements of cash flows.
- (2) Individual and Family Product ( IFP ) applications submitted on eHealth's website during the period.
- (3) New IFP members reported to eHealth as approved during the period. Some members that are approved by a carrier do not accept the approval and therefore do not become paying members.

## Edgar Filing: eHealth, Inc. - Form 10-Q

- (4) New members for all products reported to eHealth as approved during the period. Some members that are approved by a carrier do not accept the approval and therefore do not become paying members.
- (5) Total revenue recognized during the period (all sources) from the condensed consolidated statements of operations.
- (6) Calculated as total revenue recognized during the period (see note (5)) divided by average estimated membership for the period (calculated as beginning and ending estimated membership for all products for the period, divided by two).
- (7) Estimated number of members active on IFP insurance policies as of the date indicated.
- (8) Estimated number of members active on all insurance policies as of the date indicated.
- (9) Marketing and advertising expenses for the period from the condensed consolidated statements of operations.
- (10) Calculated as marketing and advertising expenses for the period (see note (9)) divided by total revenue for the period (see note (5)).
- (11) Percentage of IFP submitted applications from applicants who came directly to the eHealth website through algorithmic search engine results or otherwise.
- (12) Percentage of IFP submitted applications from applicants sourced through eHealth's network of marketing partners.
- (13) Percentage of IFP submitted applications from applicants sourced through paid search and other online advertising activities.
- (14) Calculated as marketing and advertising expenses for the period (see note (9)) divided by the number of individuals on IFP applications completed on eHealth's website during the period.

---

**Table of Contents****Critical Accounting Policies and Estimates**

The discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires us to make estimates, judgments and assumptions that affect the reported amount of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to the useful lives of long-lived assets including property and equipment, fair value of investments, fair value of intangible assets, allowances for commission forfeitures payable to carriers, income taxes, and, prior to our initial public offering ( IPO ) in October 2006, the fair value of our common stock for the purpose of determining stock-based compensation, among others. We based our estimates of the carrying value of certain assets and liabilities on historical experience and on various other assumptions that we believe to be reasonable. In many cases, we could reasonably have used different accounting policies and estimates. In some cases, changes in the accounting estimates are reasonably likely to occur from period to period. Accordingly, actual results may differ materially from these estimates.

Other than the adoption of the provisions of Financial Accounting Standards Board ( FASB ) Interpretation No. 48 ( FIN 48 ), *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109*, which was effective for us beginning January 1, 2007, there have been no significant changes in our accounting policies during the nine months ended September 30, 2007, as compared to the significant accounting policies described in our Annual Report on Form 10-K for the year ended December 31, 2006.

We believe the following critical accounting policies affect our more significant judgments used in the preparation of our consolidated financial statements.

***Revenue Recognition***

We recognize commission revenue when our commission is reported to us by a health insurance carrier, net of an allowance for future forfeiture amounts payable to carriers due to policy cancellations. Commissions are reported to us by a cash payment and commission statement. We use the data in the commission statements to identify the members for which we are receiving a commission payment and the amount received for each member, and to estimate our allowance for forfeitures payable to carriers. We are not obligated with respect to the insurance coverage sold through our ecommerce platform. As a result, we recognize the net amount of compensation earned as the agent in the transaction.

We rely on health insurance carriers to report accurately and in a timely manner the amount of commissions earned by us, and we calculate our commission revenues, prepare our financial reports, projections and budgets, and direct our marketing and other operating efforts based on the reports we receive from them. Each month we analyze the reports we receive from our carriers by comparing such data to the database we maintain on our members. It is often difficult for us to independently determine whether or not carriers are reporting all commissions due to us, primarily because the majority of our members who terminate their policies do so by discontinuing their premium payments to the carrier instead of by informing us of the cancellation. This results in our having to identify underpayment or non-payment of commissions on a policy and follow up with a carrier to obtain an explanation and/or request correction of the amount of commissions paid to us. To date, we have not had disputes of any significance with our carriers related to reported commissions. To the extent that carriers understate or fail to report the amount of commissions due to us, we will not collect and recognize revenue to which we are entitled, which, if material in amount, would adversely affect our operating results and financial condition.

Commission override revenue, which we recognize on the same basis as premium commissions, is generally reported to us in a more irregular pattern than premium commissions. As a result, our revenues for a particular quarter could be higher or lower than expectations due to the timing of the reporting of commission override revenue to us.

Certain commission amounts are subject to forfeiture in circumstances where a member has prepaid his or her premium for a future period of coverage and subsequently cancels his or her policy before the completion of that period. We estimate and record an allowance for these forfeitures based on historical cancellation experience using data provided on commission statements. The forfeitures are typically reported to us by health insurance carriers one to two months after the commission is reported and paid to us by the carrier. Our estimate of the allowance for forfeitures includes an estimate of both the reporting time lag and the forfeiture amount. Changes in our historical trends would result in changes to our estimated forfeitures in future periods. There were no material changes in our average forfeiture rates or reporting time lag during the three and nine months ended September 30, 2006 and 2007. The allowance for forfeitures payable to carriers at December 31, 2006 and September 30, 2007 totaled \$0.4 million.



---

## **Table of Contents**

In addition, we generate sponsorship revenue from carrier advertisements that appear on our website. We generally bill a fixed monthly amount for these advertisements and the related revenue is recognized over the period that the advertising is displayed. Sponsorship arrangements typically include incentive payments made to us based on performance criteria. In instances where the performance criteria are measured based on data that is tracked by us, revenue is recognized in the period of performance. In instances where the performance criteria is measured based on data that is tracked by the carrier, revenue is recognized when the amounts earned are both fixed and determinable and collection is reasonably assured. Typically, this occurs through our receipt of a cash payment from the carrier along with a detailed statement containing the data that is tracked by the carrier.

We also generate revenue from the licensing of our technology to third parties, such as carriers and agents. Typically, we are paid a one-time implementation fee, which we recognize on a straight-line basis over the initial term of the agreement, commencing once the technology is available for use by the third party. In addition, we typically generate revenue based on performance criteria that is either measured based on data that is tracked by us, or based on data that is tracked by the third party. In instances where the performance criteria data is tracked by us, we recognize revenue in the period of performance. In instances where the performance criteria data is tracked by the third party, we recognize revenue when the amounts earned are both fixed and determinable and collection is reasonably assured. Typically, this occurs through our receipt of a cash payment from the third party along with a detailed statement containing the data that is tracked by the third party.

We defer revenue amounts that have been reported to us related to transactions where our services are complete, but where we cannot currently estimate the allowance for future forfeitures related to those amounts, and we defer revenue amounts collected from sponsorship or technology licensing customers in advance of our performing our service for such customers. Deferred revenue as of September 30, 2007 consisted of deferred technology licensing implementation fees as well as amounts collected from sponsorship or technology licensing customers in advance of our performing our service for such customers.

### ***Internal-Use Software and Website Development Costs***

We account for internal-use software and website development costs in accordance with the guidance set forth in Statement of Position No. 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*, and EITF Issue No. 00-02, *Accounting for Web Site Development Costs*. We capitalize costs of materials, consultants and compensation and related expenses of employees who devote time to the development of internal-use software; however, we expense as incurred all website development costs for new features and functionalities until it is probable that they will result in additional functionality, generally when they are both developed and tested with confirmation that they are more effective than the current set of features and functionalities on our website. Our judgment is required in determining the point at which various projects enter the states at which costs may be capitalized, in assessing the ongoing value of the capitalized costs and in determining the estimated useful lives over which the costs are amortized, which is generally three years. To the extent that we change the manner in which we develop and test new features and functionalities related to our website, assess the ongoing value of capitalized assets or determine the estimated useful lives over which the costs are amortized, the amount of website development costs we capitalize and amortize in future periods would be impacted. At September 30, 2007 our capitalized internal-use software had a carrying value of \$0.2 million and was included in other assets in the accompanying condensed consolidated balance sheet. At December 31, 2006 our capitalized internal-use software was fully depreciated and had a net carrying value of zero.

### ***Stock-Based Compensation***

Prior to the adoption of Statement of Financial Accounting Standards ( SFAS ) No. 123R ( SFAS 123R ), *Share-Based Payment* on January 1, 2006, we accounted for stock option grants in accordance with Accounting Principles Board Opinion No. 25 ( APB 25 ), *Accounting for Stock Issued to Employees*, and complied with the disclosure provisions of SFAS No. 123, *Accounting for Stock Based Compensation*, as amended by SFAS No. 148, *Accounting for Stock Based Compensation Transition and Disclosure*. Under APB 25, deferred stock-based compensation expense is recorded for the intrinsic value of options (the difference between the deemed fair value of our common stock and the option exercise price) at the grant date and is amortized ratably over the option's vesting period.

During the three months ended September 30, 2006 and 2007, we recorded stock-based compensation expense totaling \$29,000 and \$28,000, respectively, and during both the nine-month periods ended September 30, 2006 and 2007, we recorded stock-based compensation expense totaling \$0.1 million related to stock options and restricted stock awards granted under our stock plans and accounted for in accordance with the provisions of APB 25. At September 30, 2007, total deferred stock-based compensation related these stock options and restricted stock awards accounted for in accordance with APB 25 was approximately \$0.1 million.

---

## **Table of Contents**

On January 1, 2006, we adopted the fair value recognition provisions of SFAS 123R, which requires us to measure the cost of employee services received in exchange for an award of equity instruments, based on the fair value of the award on the date of grant, and to recognize the cost over the period during which the employee is required to provide services in exchange for the award. We adopted SFAS 123R using the prospective method, which requires us to apply its provisions only to stock-based awards to employees granted on or after January 1, 2006, and to awards modified, repurchased or cancelled on or after January 1, 2006. In anticipation of the adoption of SFAS 123R, we did not modify the terms of any previously granted stock options or restricted stock awards.

During the three months ended September 30, 2006 and 2007, we recorded stock-based compensation expense totaling \$0.1 million and \$0.3 million, respectively, and during the nine months ended September 30, 2006 and 2007, we recorded stock-based compensation expense totaling \$0.2 million and \$0.9 million, respectively, related to stock options, restricted stock awards and restricted stock units granted to employees and non-employee members of our board of directors and accounted for in accordance with the provisions of SFAS 123R. At September 30, 2007, total unrecognized stock-based compensation cost related to stock options, restricted stock awards and restricted stock units granted under our stock plans and accounted for in accordance with SFAS 123R was approximately \$4.9 million, net of estimated forfeitures of \$0.5 million. This cost will be amortized on a straight-line basis and will be adjusted for subsequent changes in estimated forfeitures.

The adoption of SFAS 123R will result in higher amounts of stock-based compensation expense in the future for awards granted after January 1, 2006 than would have been recorded if we had continued to apply the provisions of APB 25. We estimate the grant date fair value using the Black-Scholes-Merton pricing model and a single option award approach. The weighted-average expected term for stock options granted was calculated using the simplified method in accordance with the provisions of Staff Accounting Bulletin No. 107, *Share-Based Payment*. We have estimated the volatility rates used as inputs to the model and forfeiture rates based on an analysis of our stock price since our IPO in October 2006, as well as an analysis of the most similar public companies for which we have data. We have used judgment in selecting these companies, as well as evaluating the available historical and implied volatility and forfeiture data for these companies. We will continue to use judgment in evaluating the expected term, volatility and forfeiture rate related to our own stock-based awards on a prospective basis, and incorporating these factors into the model.

The accounting for and disclosure of employee and non-employee equity instruments, primarily stock options, restricted common stock, restricted stock units and Class A common stock, requires judgment by management on a number of assumptions. Changes in key assumptions will significantly impact the valuation of such instruments. Because there had been no public market for our stock prior to our IPO in October 2006, our board of directors determined the fair value of our common stock based upon internal valuation analyses prepared by management, which considered sales of our common stock to unrelated independent third parties. Beginning in the second quarter of 2005, our board of directors determined the fair value of our common stock using contemporaneous valuations by an unaffiliated valuation specialist, Financial Strategies Consulting Group, LLC. The contemporaneous valuations used the probability-weighted expected return method.

Future stock-based compensation expense is dependent upon the fair value of each option at the date each option is granted and the number of awards issued and outstanding during each period. We expect stock-based compensation expense will increase in the future as the number of equity awards issued and outstanding increases.

### ***Accounting for Income Taxes***

We account for income taxes using the liability method as required by SFAS No. 109 ( SFAS 109 ), *Accounting for Income Taxes*. Under SFAS 109, deferred income taxes are determined based on the differences between the financial reporting and tax bases of assets and liabilities, using enacted statutory tax rates in effect for the year in which the differences are expected to reverse. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized.

We adopted the provisions of FIN 48 on January 1, 2007. Upon adoption of FIN 48, we had approximately \$0.9 million of unrecognized tax benefits. As of January 1, 2007, there were no unrecognized tax benefits that, if recognized, would impact the effective tax rate. Due to net operating losses, all tax years after 1998 are open to examination and adjustment.

We have elected to record interest and penalties recognized in accordance with FIN 48 in the financial statements as income taxes. Any subsequent change in classification of FIN 48 interest and penalties will be treated as a change in accounting principle subject to the requirements of SFAS No. 154, *Accounting Changes and Error Corrections*.

**Table of Contents**

Since tax laws and financial accounting standards differ in their recognition and measurement of assets, liabilities, equity, revenues, expenses, gains and losses, differences arise between the amount of taxable income and pretax financial income for a year and between the tax bases of assets or liabilities and their reported amounts in our financial statements. Because we assume that the reported amounts of assets and liabilities will be recovered and settled, respectively, a difference between the tax basis of an asset or a liability and its reported amount in the balance sheet will result in a taxable or a deductible amount in some future years when the related liabilities are settled or the reported amounts of the assets are recovered, which gives rise to a deferred tax asset or liability. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income and, to the extent we believe that recovery does not meet the more likely than not criteria, we must establish a valuation allowance.

Management judgment is required in determining any valuation allowance recorded against our net deferred tax assets. In the fourth quarter of 2006, we concluded, based upon recent operating results, expectations of future taxable income, available carryforward periods and other factors, that it was more likely than not that we would realize sufficient earnings to utilize a portion of our deferred tax assets. Accordingly, we reduced the valuation allowance against deferred tax assets and recorded a tax benefit of \$7.4 million in 2006. This benefit was partially offset by a provision for income taxes of \$0.3 million for 2006 related to federal and state alternative minimum taxes currently payable due to limits on the amount of net operating losses that may be applied against income earned in 2006 under current tax regulations. To the extent we conclude that future taxable income and ongoing tax planning strategies warrant the release of all or a portion of the remaining valuation allowance, which totaled \$18.9 million as of December 31, 2006, an adjustment to the valuation allowance would result in significant income tax benefit in such period.

At September 30, 2007, we had future tax deductions resulting from stock option exercises of approximately \$40.1 million. The benefit of these deductions, if realized, will be recognized as a credit to additional paid-in capital. Under SFAS 123R, we consider stock option deduction benefits in excess of book compensation charges realized when we obtain an incremental benefit determined by the With and Without calculation method. Under the With and Without approach, excess tax benefits related to share-based payments are not deemed to be realized until after the utilization of all other tax benefits available to us.

As part of the process of preparing our consolidated financial statements, we are required to estimate our income taxes. This process involves estimating our actual current tax expense together with assessing temporary differences that may result in deferred tax assets. Our effective tax rate during the three and nine months ended September 30, 2007 was 40% and 41%, respectively; however, due to \$64.4 million and \$33.3 million of federal and state net operating loss carryforwards, respectively, as of December 31, 2006, and approximately \$40.1 million of resulting deductions from stock option exercises during 2007, we do not expect to pay federal and state taxes during 2007. Future changes in various factors, such as the amount of stock-based compensation we record during the year, potential limitations on the use of our federal and state net operating loss carryforwards, pending or future tax law changes including rate changes and the tax benefit from research and development credits, changes in our valuation allowance and state and foreign taxes, would impact our estimates, and as a result, could affect our effective tax rate and the amount of income tax expense we record, and pay, in future periods.

**Results of Operations**

The following table sets forth our operating results and the related percentage of total revenues for the three and nine months ended September 30, 2006 and 2007 (dollars in thousands, unaudited):

	Three Months Ended				Nine Months Ended			
	September 30,		September 30,		September 30,		September 30,	
	2006	2007	2006	2007	2006	2007	2006	2007
<b>Revenue:</b>								
Commission	\$ 15,867	95%	\$ 21,313	93%	\$ 42,423	97%	\$ 59,486	94%
Sponsorship, licensing and other	795	5	1,684	7	1,471	3	4,072	6
Total revenue	16,662	100	22,997	100	43,894	100	63,558	100
<b>Operating costs and expenses:</b>								
Cost of revenue-sharing	411	3	427	2	894	2	1,245	2
Marketing and advertising	5,798	35	7,309	32	15,804	36	21,021	33
Customer care and enrollment	2,740	16	3,002	13	8,044	18	8,859	14
Technology and content	2,668	16	3,108	13	7,321	17	9,025	14

## Edgar Filing: eHealth, Inc. - Form 10-Q

General and administrative	2,370	14	4,308	19	6,602	15	11,698	19
Total operating costs and expenses	13,987	84	18,154	79	38,665	88	51,848	82
Income from operations	2,675	16	4,843	21	5,229	12	11,710	18
Other income, net	145	1	1,403	6	357	1	3,849	6
Income before income taxes	2,820	17	6,246	27	5,586	13	15,559	24
Provision for income taxes	82	1	2,516	11	154	1	6,324	10
Net income	\$ 2,738	16%	\$ 3,730	16%	\$ 5,432	12%	\$ 9,235	14%

**Table of Contents**

Operating costs and expenses include the following amounts related to stock-based compensation (in thousands, unaudited):

	Three Months Ended		Nine Months Ended	
	September 30, 2006	September 30, 2007	September 30, 2006	September 30, 2007
Marketing and advertising	\$ 21	\$ 45	\$ 32	\$ 113
Customer care and enrollment	13	30	27	86
Technology and content	60	143	148	416
General and administrative	50	132	89	347
<b>Total</b>	<b>\$ 144</b>	<b>\$ 350</b>	<b>\$ 296</b>	<b>\$ 962</b>

**Three and Nine Months Ended September 30, 2006 and 2007****Revenue**

The following table presents our commission, sponsorship, licensing and other and total revenue and the absolute dollar and percentage changes from the comparable prior year periods (dollars in thousands, unaudited):

	Three Months Ended		Change		Nine Months Ended		Change	
	September 30, 2006	September 30, 2007	\$	%	September 30, 2006	September 30, 2007	\$	%
Commission	\$ 15,867	\$ 21,313	\$ 5,446	34%	\$ 42,423	\$ 59,486	\$ 17,063	40%
Percentage of total revenue	95%	93%			97%	94%		
Sponsorship, licensing and other	\$ 795	\$ 1,684	\$ 889	112%	\$ 1,471	\$ 4,072	\$ 2,601	177%
Percentage of total revenue	5%	7%			3%	6%		
<b>Total revenue</b>	<b>\$ 16,662</b>	<b>\$ 22,997</b>	<b>\$ 6,335</b>	<b>38%</b>	<b>\$ 43,894</b>	<b>\$ 63,558</b>	<b>\$ 19,664</b>	<b>45%</b>

Total revenue increased \$6.3 million, or 38%, in the three months ended September 30, 2007 compared to the three months ended September 30, 2006, and increased \$19.7 million, or 45%, in the nine months ended September 30, 2007 compared to the nine months ended September 30, 2006, primarily due to an increase in commission revenue as a result of an increase in our membership. Our estimated membership increased approximately 35% to 491,300 members at September 30, 2007 from 363,000 members at September 30, 2006. Sponsorship, licensing and other revenue increased \$0.9 million, or 112%, in the three months ended September 30, 2007, compared to the three months ended September 30, 2006, and increased \$2.6 million, or 177%, in the nine months ended September 30, 2007, compared to the nine months ended September 30, 2006, primarily due to the sale of additional carrier sponsorship advertising on our website and, to a lesser extent, new licensing arrangements related to our technology.

As a result of applications submitted through our website, insurance carriers reported to us they had approved for coverage approximately 102,400 and 125,300 members during the three months ended September 30, 2006 and 2007, respectively, an increase of 22%, and approved for coverage approximately 269,000 and 359,500 members, during the nine months ended September 30, 2006 and 2007, respectively, an increase of 34%. The year-over-year growth rate for approved members declined from 32% in the three months ended June 30, 2007 to 22% in the three months ended September 30, 2007. This decline is due to various factors, including a decline in the rate at which submitted applications are approved by our carrier partners and an increase in the prior year base which is used to compute the amount of growth in making the comparison.

**Table of Contents**

All revenue for all periods presented was generated from customers located in the United States. Revenue under separate agreements with individual unaffiliated carriers in excess of 10% of total revenue was as follows (unaudited):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2007	2006	2007
Golden Rule	15%	16%	15%	16%
Aetna	7%	12%	7%	11%
Blue Cross of California and Unicare	10%	8%	12%	9%

We expect commission revenue to increase in absolute dollars as a result of growth in our membership base and our continued spending on our marketing initiatives. We expect sponsorship, licensing and other revenue to increase in absolute dollars and as a percentage of total revenue in the future as we pursue additional carrier sponsorship and technology licensing opportunities.

**Operating Costs and Expenses****Cost of Revenue-Sharing**

The following table presents our cost of revenue-sharing and the absolute dollar and percentage change from the comparable prior year periods (dollars in thousands, unaudited):

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2006	2007	\$	%	2006	2007	\$	%
Cost of revenue-sharing	\$ 411	\$ 427	\$ 16	4%	\$ 894	\$ 1,245	\$ 351	39%
Percentage of total revenue	3%	2%			2%	2%		

Cost of revenue-sharing increased \$16,000, or 4%, in the three months ended September 30, 2007 compared to the three months ended September 30, 2006, and increased \$0.4 million, or 39%, in the nine months ended September 30, 2007 compared to the nine months ended September 30, 2006, primarily due to an increase in the number of health insurance policies sold to members who were referred to our website by marketing partners with whom we have revenue-sharing arrangements. Included in cost of revenue-sharing is expense related to commission revenue we recognized during the quarter associated with a partner who has transferred certain small business members to us and with whom we share a percentage of the ongoing commissions we receive on these transferred policies. This revenue-sharing expense related to transferred small business members totaled \$0.1 million in each of the three-month periods ended September 30, 2006 and 2007, and totaled \$0.2 million in each of the nine-month periods ended September 30, 2006 and 2007. As a percentage of total revenue, cost of revenue-sharing decreased to 2% in the three months ended September 30, 2007 from 3% in the three months ended September 30, 2006 and remained constant at 2% for each of the nine-month periods ended September 30, 2006 and 2007.

**Marketing and Advertising**

The following table presents our marketing and advertising expenses and the absolute dollar and percentage change from the comparable prior year periods (dollars in thousands, unaudited):

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2006	2007	\$	%	2006	2007	\$	%
Marketing and advertising	\$ 5,798	\$ 7,309	\$ 1,511	26%	\$ 15,804	\$ 21,021	\$ 5,217	33%
Percentage of total revenue	35%	32%			36%	33%		

**Table of Contents**

Marketing and advertising expenses increased by \$1.5 million, or 26%, in the three months ended September 30, 2007 compared to the three months ended September 30, 2006. This was primarily due to a \$1.2 million increase in online advertising expenses associated with paid keyword search costs on Internet search engines associated with an increase in the volume of click-throughs from the online advertising channel. Additionally, marketing partner expenses and print advertising increased \$0.3 million and \$0.1 million, respectively. As a percentage of total revenue, total marketing and advertising expenses decreased to 32% in the three months ended September 30, 2007 from 35% in the three months ended September 30, 2006. We expect our marketing expenses to increase in absolute dollars, including expenses in our direct member acquisition channel, as we continue to invest in enhancing our brand and other marketing programs. In addition, we expect stock-based compensation costs attributed to marketing and advertising expenses to increase as we grant additional equity awards for which we will record the associated share-based payment expense.

Marketing and advertising expenses increased by \$5.2 million, or 33%, in the nine months ended September 30, 2007 compared to the nine months ended September 30, 2006. This was primarily due to a \$4.0 million increase in online advertising expenses associated with paid keyword search costs on Internet search engines associated with an increase in the volume of click-throughs from the online advertising channel. Additionally, marketing partner expenses increased \$0.4 million, public relations expenses increased \$0.3 million and print advertising increased \$0.2 million. As a percentage of total revenue, total marketing and advertising expenses decreased to 33% in the nine months ended September 30, 2007 from 36% in the nine months ended September 30, 2006.

Our acquisition cost per member, which we define as total marketing and advertising expenses for a period divided by the number of estimated members included on applications for individual and family product offerings submitted during the period, increased 1% to \$49.07 in the three months ended September 30, 2007 from \$48.67 in the three months ended September 30, 2006, primarily due to an increase in the cost of online advertising per submitted member and, to a lesser extent, an increase in marketing partner and print advertising expenses. This measure of cost of acquisition includes not only online advertising, marketing partner and direct channel advertising expenditures for all product lines, but also compensation and all other departmental expenses of the marketing, business development, public relations and carrier relations departments. It also includes stock-based compensation expense recognized for these departments. The denominator for the calculation of this metric includes only members included on applications for major medical individual and family health insurance plans and does not include members on applications for small business, short-term major medical, stand-alone dental, life and student health insurance products.

We expect the average cost of acquiring new members to fluctuate based upon several factors, including the mix of health insurance applications submitted through our three member acquisition channels, our investment in new product and revenue lines, the mix of marketing partners referring consumers to our website, fluctuations in costs of online marketing including keywords purchased by us, seasonality patterns, the amounts we pay marketing partners to refer consumers to our website, fluctuations in the percentage of consumers referred to our website who submit health insurance applications and the level of personnel costs required to manage our marketing and advertising programs.

Additionally, we may explore new marketing initiatives as part of our efforts to drive more consumers to our website. We believe an opportunity exists to accelerate application growth through additional marketing and advertising spending. As a result, we plan to increase our spending in the marketing partner and online advertising channels. Also, during the fourth quarter, we plan to increase testing and pilot work in the traditional media area in an effort to raise awareness and demand for eHealth. We expect these activities to increase our acquisition cost per member and our sales and marketing expenses as a percentage of revenue if they do not result in a sufficient number of additional members to justify the expenditure. For instance, we have invested in the development of a platform to allow us to market individual and family health insurance products in combination with health savings accounts (HSAs) into businesses of all sizes. The HSA platform is presently in beta mode in a small number of states to allow us to test and refine it. Our investment in this platform may increase our marketing and advertising as well as our technology and content and other expenses.

**Customer Care and Enrollment**

The following table presents our customer care and enrollment expenses and the absolute dollar and percentage change from the comparable prior year periods (dollars in thousands, unaudited):

	Three Months Ended		Change	%	Nine Months Ended		Change	%
	September 30, 2006	September 30, 2007			September 30, 2006	September 30, 2007		
Customer care and enrollment	\$ 2,740	\$ 3,002	\$ 262	10%	\$ 8,044	\$ 8,859	\$ 815	10%
Percentage of total revenue	16%	13%			18%	14%		





**Table of Contents**

Customer care and enrollment expenses increased \$0.3 million, or 10%, in the three months ended September 30, 2007 compared to the three months ended September 30, 2006, and increased \$0.8 million, or 10%, in the nine months ended September 30, 2007 compared to the nine months ended September 30, 2006, primarily due to higher compensation and related expenses associated with the increased number of personnel necessary to service the increased volume of health insurance applications submitted through our website. As a percentage of total revenue, customer care and enrollment expenses decreased to 13% and 14% in the three and nine months ended September 30, 2007, respectively, from 16% and 18% in the three and nine months ended September 30, 2006, respectively, as a result of economies of scale achieved by our customer care and enrollment operations.

We expect customer care and enrollment expenses to increase in absolute dollars as we hire additional personnel to service the growth in health insurance applications submitted through our website and as we increase our investment in technology to support the operations of our customer care center. In addition, we expect stock-based compensation costs attributed to customer care and enrollment expenses to increase as we grant additional equity awards for which we will record the associated share-based payment expense.

**Technology and Content**

The following table presents our technology and content expenses and the absolute dollar and percentage change from the comparable prior year periods (dollars in thousands, unaudited):

	Three Months Ended		Change		Nine Months Ended		Change	
	September 30, 2006	September 30, 2007	\$	%	September 30, 2006	September 30, 2007	\$	%
Technology and content	\$ 2,668	\$ 3,108	\$ 440	16%	\$ 7,321	\$ 9,025	\$ 1,704	23%
Percentage of total revenue	16%	13%			17%	14%		

Technology and content expenses increased by \$0.4 million, or 16%, in the three months ended September 30, 2007 compared to the three months ended September 30, 2006. This increase was primarily due to a \$0.2 million increase in compensation and related expenses associated with an increase in the number of personnel necessary to develop and maintain our technology and website content. Additionally, technology and content stock-based compensation expense increased \$0.1 million as a result of additional equity awards granted to employees and repairs and maintenance expense increased \$0.1 million related to agreements we recently entered into for the maintenance of computer equipment and software used in our new data center. As a percentage of total revenue, technology and content costs decreased to 13% in the three months ended September 30, 2007 from 16% in the three months ended September 30, 2006, as a result of economies of scale achieved by our technology and content operations.

Technology and content expenses increased by \$1.7 million, or 23%, in the nine months ended September 30, 2007 compared to the nine months ended September 30, 2006. This increase was primarily due to a \$1.0 million increase in compensation and related expenses associated with an increase in the number of personnel necessary to develop and maintain our technology and website content. Additionally, technology and content stock-based compensation expense increased \$0.3 million as a result of additional equity awards granted to employees, repairs and maintenance expense increased \$0.2 million related to the agreements we recently entered into for the maintenance of computer equipment and software used in our new data center and rent expense increased \$0.1 million due to our new leased data center. As a percentage of total revenue, technology and content costs decreased to 14% in the nine months ended September 30, 2007 from 17% in the nine months ended September 30, 2006, as a result of economies of scale achieved by our technology and content operations.

We expect our technology and content expenses to increase in absolute dollars due to our increased focus on technology development, including the enhancement of our ecommerce platform, the potential expansion of our pilot program in China and an increase in stock-based compensation costs related to grants of additional equity awards to employees. For instance, we are investing in the development of a platform to allow us to market individual and family health insurance products in combination with health savings accounts into businesses of all sizes. Our investment in this platform will increase our technology and content as well as our marketing and advertising and other expenses.

**Table of Contents****General and Administrative**

The following table presents our general and administrative expenses and the absolute dollar and percentage change from the comparable prior year periods (dollars in thousands, unaudited):

	Three Months Ended		Change		Nine Months Ended		Change	
	September 30, 2006	September 30, 2007	\$	%	September 30, 2006	September 30, 2007	\$	%
General and administrative	\$ 2,370	\$ 4,308	1,938	82%	\$ 6,602	\$ 11,698	\$ 5,096	77%
Percentage of total revenue	14%	19%			15%	19%		

General and administrative expenses increased by \$1.9 million, or 82%, in the three months ended September 30, 2007 compared to the three months ended September 30, 2006, primarily due to an increase in compensation and related expenses of \$0.7 million associated with increased personnel in our finance and legal departments to assist in our operation as a public company. Additional costs associated with operating as a public company include an increase in accounting, audit and other professional service fees of \$0.6 million, an increase in board of director fees of \$0.1 million related to retainer agreements that were recently established for our outside board members, an increase in directors and officers insurance costs of \$0.1 million and an increase in legal fees of \$0.1 million. In addition, general and administrative stock-based compensation expense increased \$0.1 million as a result of additional equity awards granted to employees and depreciation costs increased \$0.1 million. As a percentage of total revenue, general and administrative expenses increased to 19% in the three months ended September 30, 2007 from 14% in the three months ended September 30, 2006.

General and administrative expenses increased by \$5.1 million, or 77%, in the nine months ended September 30, 2007 compared to the nine months ended September 30, 2006, primarily due to an increase in compensation and related expenses of \$1.7 million associated with increased personnel in our finance and legal departments to assist in our operation as a public company. Additional costs associated with operating as a public company include an increase in accounting, audit and other professional service fees of \$1.6 million, an increase in directors and officers insurance costs of \$0.4 million and an increase in legal fees of \$0.4 million. In addition, general and administrative stock-based compensation expense increased \$0.3 million as a result of additional equity awards granted to employees, board of director fees increased \$0.2 million and depreciation expense increased \$0.1 million. As a percentage of total revenue, general and administrative expenses increased to 18% in the nine months ended September 30, 2007 from 15% in the nine months ended September 30, 2006.

We expect our general and administrative expenses to continue to increase in absolute dollars due to the increased costs associated with operating as a public company, the costs necessary to support the growth in our business and an increase in stock-based compensation costs related to grants of additional equity awards to employees.

**Other Income, Net**

The following table presents our other income, net, and the absolute dollar and percentage change from the comparable prior year periods (dollars in thousands, unaudited):

	Three Months Ended		Change		Nine Months Ended		Change	
	September 30, 2006	September 30, 2007	\$	%	September 30, 2006	September 30, 2007	\$	%
Other income, net	\$ 145	\$ 1,403	\$ 1,258	868%	\$ 357	\$ 3,849	\$ 3,492	978%
Percentage of total revenue	1%	6%			1%	6%		

Other income, net, primarily consists of interest income earned on cash, cash equivalents and marketable securities, offset by administrative bank fees and interest expense on our capital lease obligations. Other income, net, increased \$1.3 million, or 868%, in the three months ended September 30, 2007 compared to the three months ended September 30, 2006, and increased \$3.5 million, or 978%, in the nine months ended September 30, 2007 compared to the nine months ended September 30, 2006, primarily due to an increase in interest income as a result of an increase in our cash, cash equivalents

**Table of Contents**

and marketable securities. Cash, cash equivalents and marketable securities increased primarily as a result of the proceeds we received from our IPO in October 2006, cash generated from operations and, to a lesser extent, cash received from the issuance of common stock pursuant to stock option exercises. Additionally, the average yield earned on our invested cash and cash equivalents balances and marketable securities was higher during the three and nine months ended September 30, 2007 compared to the three and nine months ended September 30, 2006.

We expect other income, net, to fluctuate in absolute dollars in the future as a result of fluctuations in yields earned on our portfolio of invested cash and cash equivalents and marketable securities and as a result of fluctuations in our invested cash and cash equivalents and marketable securities balances. Additionally, other income, net, may decrease if we decide to use a portion of our invested cash and cash equivalents for strategic purposes such as acquisitions of complementary businesses, products or technologies.

**Provision for Income Taxes**

The following table presents our provision for income taxes and the absolute dollar and percentage change from the comparable prior year periods (dollars in thousands, unaudited):

	Three Months Ended				Nine Months Ended			
	September 30,		Change		September 30,		Change	
	2006	2007	\$	%	2006	2007	\$	%
Provision for income taxes	\$ 82	\$ 2,516	2,434	2,968%	\$ 154	\$ 6,324	\$ 6,170	4,006%
Percentage of total revenue	1%	11%			1%	10%		

During the three and nine months ended September 30, 2007, we recorded provisions for income taxes of \$2.5 million and \$6.3 million, respectively, representing an effective tax rate of 40% and 41%, respectively. However, due to \$64.4 million and \$33.3 million of federal and state net operating loss carryforwards, respectively, as of December 31, 2006, and approximately \$40.1 million of resulting deductions from stock option exercises during 2007, we do not expect to pay federal and state taxes during 2007. We recorded provisions for income taxes of \$0.1 million and \$0.2 million for the three and nine months ended September 30, 2006 attributable to federal and state alternative minimum taxes currently payable due to limits on the amount of net operating losses that may be applied against income earned during the period under current tax regulations.

Our future effective income tax rate will depend on various factors, such as changes in our valuation allowance, pending or future tax law changes including rate changes and the tax benefit from research and development credits, potential limitations on the use of federal and state net operating loss carryforwards and state and foreign taxes.

**Liquidity and Capital Resources**

The following table presents a summary of our cash flows for the nine months ended September 30, 2006 and 2007 (in thousands, unaudited):

	Nine Months Ended	
	September 30, 2006	September 30, 2007
Net cash provided by operating activities	\$ 6,493	\$ 18,282
Net cash used in investing activities	\$ (1,741)	\$ (34,815)
Net cash (used in) provided by financing activities	\$ (1,542)	\$ 4,879

Prior to our IPO in October 2006, we financed our operations primarily through private sales of equity and internally generated funds. As a result of our IPO, we raised approximately \$70.2 million in net proceeds after deducting underwriting discounts and commissions and offering expenses. At September 30, 2007, our cash and cash equivalents totaled \$78.7 million and our short-term marketable securities totaled \$34.0 million. Our cash equivalents are comprised primarily of highly liquid financial instruments with an original maturity of three months or less from the date of purchase and our short-term marketable securities are comprised of readily marketable available-for-sale securities with an original maturity of more than three months and are available for use in current operations.

---

**Table of Contents*****Operating Activities***

Net cash provided by operating activities primarily consists of net income, adjusted for certain non-cash items including deferred income taxes, depreciation and amortization, stock-based compensation and the effect of changes in working capital and other activities. Our operating activities generated cash of \$18.3 million during the nine months ended September 30, 2007, due to \$9.2 million of net income, \$6.1 million of deferred income tax, \$1.3 million of non-cash depreciation and amortization expenses, \$1.0 million of non-cash stock-based compensation expense, a \$0.8 million increase in accrued marketing expenses, a \$0.8 million increase in other current liabilities and a \$0.2 million increase in deferred revenue. These items were partially offset by a \$0.5 million increase in other assets, a \$0.3 million increase in accounts receivable, a \$0.3 million decrease in accounts payable and a \$0.1 million decrease in accrued compensation and benefits.

Our operating activities generated cash of \$6.5 million during the nine months ended September 30, 2006, due to \$5.4 million of net income, \$1.1 million of non-cash depreciation and amortization expenses, \$0.3 million of non-cash stock-based compensation expense, a \$0.7 million increase in accrued marketing expenses, a \$0.3 million increase in other current liabilities and a \$0.2 million increase in accounts payable. These items were partially offset by a \$0.7 million increase in accounts receivable, a \$0.5 million decrease in deferred revenue, a \$0.2 million increase in prepaid expenses and other current assets and a \$0.2 million decrease in accrued compensation and benefits.

The timing of the recognition of our commission revenue depends upon the timing of our receipt of commission reports and associated commission payments from health insurance carriers. If we were to experience a delay in receiving a commission payment from a health insurance carrier at the end of a quarter, our operating cash flows for that quarter could be negatively impacted. Additionally, commission override payments are reported to us in a more irregular pattern than premium commissions. For example, a carrier may make a commission override payment to us on an annual basis, which would positively impact our cash flows in the quarter the payment is received. The majority of our annual commission override payments are typically received during the first quarter of the year.

Historically, we have experienced a reduction in operating cash flows during the first quarter of the year primarily due to the payment of annual performance bonuses to employees. In addition, a significant portion of our marketing and advertising expenses are driven by the number of health insurance applications submitted on our ecommerce platform. Since our marketing and advertising costs are expensed as incurred and the revenue from approved applications is recognized as commissions are subsequently reported to us, our operating cash flows could be negatively impacted by a substantial increase in the volume of applications submitted during a quarter or positively impacted by a substantial decline in the volume of applications submitted during a quarter.

***Investing Activities***

Our investing activities primarily consist of capital expenditures for property and equipment associated with computer hardware and software to enhance our website and to support our growth and purchases and maturities of marketable securities. Marketable securities generally consist of investment-grade readily marketable available-for-sale securities that we intend to hold for more than three months and that are available for use in current operations. These investments are carried at fair value with unrealized gains and losses, net of taxes, reported as a component of stockholders' equity.

Net cash used in investing activities of \$34.8 million during the nine months ended September 30, 2007 was due to \$36.5 million used for the purchase of marketable securities and \$1.1 million used for the purchase of capital equipment, partially offset by \$2.2 million of proceeds from the sale of marketable securities and \$0.6 million of proceeds received from maturities of marketable securities. Net cash used in investing activities of \$1.7 million during the nine months ended September 30, 2006 was due to \$1.7 million used for the purchase of capital equipment.

***Financing Activities***

Net cash provided by financing activities of \$4.9 million during the nine months ended September 30, 2007 was due to \$5.3 million of net proceeds received from the issuance of common stock pursuant to stock option exercises, partially offset by \$0.3 million of costs paid during the nine months ended September 30, 2007 which had been incurred in connection with our IPO and \$0.2 million used in principal payments on capital leases. Net cash used in financing activities of \$1.5 million during the nine months ended September 30, 2006 was due to \$1.9 million of costs incurred in connection with our IPO, partially offset by \$0.4 million of net proceeds received from the issuance of common stock pursuant to stock option exercises.

**Table of Contents****Future Needs**

We believe that cash generated from operations and our current cash, cash equivalents and investments will be sufficient to fund our operations for at least the next 12 months. Our future capital requirements will depend on many factors, including our level of investment in technology and advertising initiatives. We may make investments in, or acquisitions of, complementary businesses, products or technologies in the future, which could require us to seek equity or debt financing. Aside from capital lease obligations, we currently do not have any bank debt, line of credit facilities or other borrowing arrangements. To the extent that available funds are insufficient to fund our future activities, we may need to attempt to raise additional capital through public or private equity or debt financing.

**Contractual Obligations and Commitments**

The following table presents a summary of our contractual obligations and commitments as of September 30, 2007 (in thousands, unaudited):

Year Ending December 31,	Operating Lease Obligations	Capital Lease Obligations	Service Obligations	Total Obligations
2007 (remaining 3 months)	\$ 572	\$ 9	\$ 109	\$ 690
2008	2,224		355	2,579
2009	1,689		250	1,939
2010	439			439
2011	40			40
Thereafter	6			6
<b>Total</b>	<b>\$ 4,970</b>	<b>\$ 9</b>	<b>\$ 714</b>	<b>\$ 5,693</b>

**Operating Lease Obligations**

We lease certain of our office and operating facilities and certain furniture and fixtures under various operating leases, the latest of which expires in December 2012. In addition, we lease equipment under operating leases that range in terms from three to five years, the latest of which expires in August 2009. We recognize rent expense on our operating leases on a straight-line basis over the terms of the leases. Total rent expense under all operating leases was approximately \$0.5 million for each of the three months ended September 30, 2006 and 2007, and \$1.4 million and \$1.6 million for the nine months ended September 30, 2006 and 2007, respectively.

On November 6, 2007, we entered into an amendment to an operating lease to extend our lease on approximately 28,813 square feet of existing office space located in Gold River, California, and to lease an additional 10,084 square feet of office space in the same building. Pursuant to the lease amendment, the lease expires on December 31, 2012. As a result of the lease amendment, our minimum operating lease obligations are expected to increase \$3.1 million over the minimum lease payments presented in the contractual obligations and commitments table above. See *Item I, Note 8 Subsequent Event of Notes to Condensed Consolidated Financial Statements* for additional information.

**Capital Lease Obligations**

As of September 30, 2007, we had a capital lease obligation for office equipment, which expires in December 2007, and a second capital lease obligation for computer equipment related to our data center, which expired in July 2007.

**Service Obligations**

In November 2005, we entered into an agreement with a third-party service provider to provide certain information services for our website. We record the related service expenses on a straight-line basis although actual cash payment obligations under this agreement escalate over the term of the agreement. In June 2006, we entered into a three-year software licensing agreement that requires us to make annual licensing payments of \$0.1 million, with the final payment due in June 2008. In March 2007, we entered into a two-year service agreement with a third-party to provide additional functionality not currently available on our website in connection with the development of a platform to facilitate employer contributions to employee health savings accounts, employee purchase of individual and family health insurance and employee management of health savings accounts. Under the terms of the agreement, we are required to pay certain up-front fees totaling \$0.2 million, plus a \$30,000 fee to be paid annually. The up-front fees are being recognized on a straight-line basis through the expiration date of the agreement in March 2009.

## Edgar Filing: eHealth, Inc. - Form 10-Q

In May 2007, we entered into an agreement with a separate third-party to assist in the design and development of the business health savings account platform. Under the terms of the agreement, we are required to pay various fees totaling approximately \$0.1 million with the final payment due 30 days after completion of the third-party's work. The payment of such fees may be impacted by the progress of the third-party development efforts and other factors.

**Table of Contents**

**Off-Balance Sheet Arrangements**

We do not have any off-balance sheet arrangements, investments in special purpose entities or undisclosed borrowings or debt. Additionally, we are not a party to any derivative contracts or synthetic leases.

**Recent Accounting Pronouncements**

See *Item I, Note 1- Summary of Business and Significant Accounting Policies of Notes to Condensed Consolidated Financial Statements* for recent accounting pronouncements that could have an effect on us.

**Table of Contents**

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We are exposed to market risk in the ordinary course of business. This market risk consists primarily of interest rate risk associated with our cash and cash equivalents, marketable securities, foreign currency exchange rate risk and credit risk.

***Interest Rate Risk***

As of September 30, 2007, we had cash and cash equivalents of \$78.7 million, which consisted primarily of cash on deposit with banks, highly liquid money market instruments, commercial paper and certificates of deposit with original maturities of three months or less. Because of the short-term nature of these instruments, a sudden change in market interest rates would not be expected to have a material impact on our financial condition or results of operations. As of September 30, 2007, we had short-term marketable securities of \$34.0 million, which consisted primarily of investment-grade readily marketable available-for-sale corporate and government bonds, commercial paper and certificates of deposit. Investments in fixed rate interest earning instruments carry a degree of interest rate risk. Fixed rate securities may have their fair market value adversely impacted due to a rise in interest rates. Our interest income earned on our marketable securities is sensitive to changes in the general level of interest rates and we expect our future investment income will fluctuate as a result of future changes in interest rates.

The primary objective of our investment activities is to preserve principal while maximizing income without significantly increasing risk. Some of the securities in which we invest are subject to market risk. This means that a change in prevailing interest rates may cause the principal amount of the investment to fluctuate. To minimize this risk, we intend to maintain our portfolio of cash equivalents and marketable securities in a variety of investment-grade available-for-sale securities, including commercial paper, money market funds, debt securities and certificates of deposit. We do not use financial instruments for trading or other speculative purposes, nor do we use leveraged financial instruments. If overall interest rates had fallen by 10% in the three months ended September 30, 2007, our interest income would have declined approximately \$145,000, assuming consistent investment levels.

***Foreign Currency Exchange Rate Risk***

To date, all of our revenue has been derived from transactions denominated in United States Dollars. We have exposure to adverse changes in exchange rates associated with operating expenses of our foreign operations, which are denominated in Chinese Renminbi, but we believe this exposure to be limited. We have not engaged in any foreign currency hedging or other derivative transactions to date.

***Credit Risk***

Our financial instruments that are exposed to concentrations of credit risk principally consist of cash, cash equivalents, marketable securities and accounts receivable. We deposit our cash, cash equivalents and marketable securities in accounts with major banks and financial institutions and such investments generally are in excess of federally insured limits. We do not require collateral or other security for our accounts receivable. As of September 30, 2007, three customers each represented 10% or more of our total accounts receivable and, in aggregate, represented 38%, or \$0.4 million of our total accounts receivable. We do not anticipate collection issues with any of these customers.



**Table of Contents**

**ITEM 4. CONTROLS AND PROCEDURES**

*Evaluation of Our Disclosure Controls and Procedures*

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Securities Exchange Act of 1934 as of the end of the period covered by this Quarterly Report on Form 10-Q.

Based on management's evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures are effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

*Changes in Internal Control Over Financial Reporting*

There were no changes in our internal control over financial reporting that occurred during the three months ended September 30, 2007 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

We are required to comply with Section 404 of the Sarbanes-Oxley Act of 2002 by our fiscal year ending December 31, 2007. The evidence of such compliance is due no later than the time we file our annual report for the year ending December 31, 2007. We believe we have adequate resources and expertise, both internal and external, in place to meet this requirement. However, there is no guarantee that our efforts will result in a management assessment, or an attestation by our independent auditors, that our internal controls over financial reporting were adequate.

**Table of Contents**

**PART II**

**OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

In the ordinary course of our business, we have received and may continue to receive inquiries from state regulators relating to various matters. We have become, and may in the future become, involved in litigation in the ordinary course of our business. If we are found to have violated laws or regulations in any state, we could be subject to various fines and penalties, including revocation of our license to sell insurance in that state, and our business and financial results would be materially harmed. We would also be harmed to the extent that related publicity damages our reputation as a trusted source of objective information relating to health insurance and its affordability. It could also be costly to defend ourselves regardless of the outcome.

---

**Table of Contents**

**ITEM 1A. RISK FACTORS**

*In addition to other information in this Quarterly Report on Form 10-Q and in other filings we make with the Securities and Exchange Commission, the following risk factors should be carefully considered in evaluating our business as they may have a significant impact on our business, operating results and financial condition. If any of the following risks actually occurs, our business, financial condition, results of operations and future prospects could be materially and adversely affected. Because of the following factors, as well as other variables affecting our operating results, past financial performance should not be considered as a reliable indicator of future performance and investors should not use historical trends to anticipate results or trends in future periods.*

**Risks Related to Our Business**

*Our future operating results are likely to fluctuate and could fall short of expectations.*

Our operating results are likely to fluctuate as a result of a variety of factors, including the factors described elsewhere in this Risk Factors section, many of which are outside of our control. As a result, comparing our operating results on a period-to-period basis may not be meaningful and you should not rely on our past results as an indication of our future performance. If our revenue or operating results fall below the expectations of investors or securities analysts, the price of our common stock could decline substantially.

Our business model is characterized primarily by recurring revenue based on commissions we receive from insurance carriers whose policies are purchased by our members. Although our services are complete upon the approval of a member's application, we receive commissions and record related revenue, typically on a monthly basis, until the health insurance policy is cancelled or we otherwise do not remain the agent on the policy. A significant component of our marketing and advertising expenses consists of payments owed to our marketing partners in connection with referrals of potential members in the period during which an application is submitted by the potential member. As a result of this timing difference between expense and associated revenue recognition, our operating results and cash flows may be adversely affected in periods where we experience a significant increase in new applicants. In addition, if we incur other unanticipated or one-time expenses in a particular quarter or if we lose a significant amount of our member base for any reason, we would likely be unable to offset these expenses by increasing sales within that quarter or to replace lost revenue in the quarter with revenue from new members. As a result, our quarterly results may suffer due to unanticipated expenses, one-time charges or significant member turnover.

*Our rate of growth may decline.*

We have a history of net losses and have only recently achieved net profitability on an annual basis. As of September 30, 2007, our accumulated deficit was \$54.4 million. We may in the future make significant expenditures related to the development of our business, including expenditures relating to marketing, website and technology development and hiring of additional personnel. In addition, we will continue to incur significant legal, accounting and other expenses as a public company that we did not incur as a private company. Although we have experienced revenue growth in prior periods, this growth may not be sustainable, and we may not achieve sufficient revenue to maintain profitability. Our future revenue growth will depend in large part upon our ability to continue to attract new individuals, families and small businesses to purchase health insurance through our ecommerce platform. To the extent that the rate of growth of our net new members slows, our revenue growth is also likely to slow. In addition, the commission rates that we receive for individuals and families are typically higher in the first twelve months of a policy. As a result, to the extent that the rate of growth of new members slows or our commission rates decrease for other reasons, our revenue could decline.

Commission rates we receive from health insurance carriers also affect our revenue growth. The commission rates we receive are impacted by a variety of factors, including the particular health insurance policies chosen by our members, the carriers offering those policies, the location of members and the laws and regulations in that jurisdiction and the amount of time policies have been active. In addition, our commission rate per member could decrease as a result of either reductions in contractual commission rates or unfavorable changes in health insurance carrier override commission programs, each of which may be beyond our control and may occur on short notice. To the extent these factors cause our commission rate per member to decline, our rate of growth may decline.

## **Table of Contents**

***If the purchase of health insurance over the Internet does not achieve and maintain widespread consumer and health insurance carrier acceptance, or if consumers or carriers opt for more traditional or alternative channels for the purchase and sale of health insurance, our business will be harmed.***

Our success will depend in large part upon widespread consumer and health insurance carrier acceptance of the Internet as a marketplace for the purchase and sale of health insurance. Consumers and health insurance carriers may choose to depend more on traditional sources, such as individual agents, or alternative sources may develop. Our future growth, if any, will depend in part upon:

the growth of the Internet as a commerce medium generally, and as a market for consumer financial products and services specifically;

consumers' willingness to conduct their own health insurance research;

our ability to make the process of purchasing health insurance online an attractive alternative to traditional means of purchasing health insurance;

our ability to successfully and cost-effectively market our services as superior to traditional or alternative sources for health insurance to a sufficiently large number of consumers; and

health insurance carriers' willingness to use us and the Internet as a distribution channel for health insurance products.

If consumers and health insurance carriers do not widely adopt the Internet as a source for the purchase and sale of health insurance, or if they determine that other sources for health insurance and health insurance applications are superior, our business will not grow and our operating results and financial condition would be harmed.

***Our business may not grow if consumers are not informed about the availability and accessibility of affordable health insurance.***

Numerous health insurance products are available to consumers in any given market. Most of these products vary by price, benefits and other policy features. Health insurance terminology and provisions are often confusing and difficult to understand. As a result, researching, selecting and purchasing health insurance can be a complex process. We believe that this complexity has contributed to a perception held by many consumers that individual health insurance is prohibitively expensive and difficult to obtain. We attempt to make the health insurance research and application process on our website understandable and user-friendly. We also attempt to use our website and other means to educate consumers about the accessibility and affordability of health insurance. If consumers are not informed about the availability and accessibility of affordable health insurance or our application process is difficult to navigate, our business may not grow and our operating results and financial condition would be harmed.

***If we are unable to retain our members, our business and operating results would be harmed.***

We receive revenue from commissions health insurance carriers pay to us for health insurance policies sold through our ecommerce platform. When one of these policies is cancelled, or if we otherwise do not remain the agent on the policy, we no longer receive the related commission revenue. Individuals, families and small businesses may choose to discontinue their health insurance policies for a variety of reasons. For example, individuals and families may replace a health insurance policy purchased through us with a health insurance plan provided by a new or existing employer. In addition, our members may choose to transfer their policies to a different agent if, for example, they are not satisfied with our customer service or the health insurance products that we offer. Health insurance carriers may also terminate health insurance plans offered on our ecommerce platform. If we are not successful in transferring members covered under a terminated plan to another policy that we offer, we will lose these members. Our cost in acquiring a new member is substantially greater than the cost involved in maintaining our relationship with an existing member. If we are not able to successfully retain existing members and limit member turnover to levels we have experienced in the past, our revenue and operating margins will be adversely impacted and our business, operating results and financial condition would be harmed.

*Our business may be harmed if we lose our relationships with health insurance carriers, become dependent upon a limited number of insurance carriers or fail to develop new carrier relationships.*

We typically enter into contractual agency relationships with health insurance carriers that are non-exclusive and terminable on short notice by either party for any reason. Carriers may be unwilling to allow us to sell their existing or new health insurance products for a variety of reasons, including for competitive or regulatory reasons, as a result of a reluctance to distribute their products over the Internet or because they do not want to be associated with our brand. For example, one

---

**Table of Contents**

carrier terminated its relationship with us with respect to the policies it offers in a particular state because the carrier decided to sell those policies through agents that exclusively offered that particular carrier's products. In the future, an increasing number of carriers may decide to rely on their own internal distribution channels, including traditional in-house agents and carrier websites, to sell their own products and, in turn, could limit or prohibit us from selling their products on our ecommerce platform. For instance, carriers may choose to exclude us from their most profitable or popular products or may determine not to distribute insurance products in the individual, family and small business markets altogether.

We may decide to terminate our relationship with a carrier for a number of reasons, including as a result of a reduction in a carrier's financial ratings, a carrier determining to pay lower commissions or a carrier demanding a sales process that we believe impairs the value of our service. The termination of our relationship with a carrier could reduce the variety of health insurance products we offer, which could harm our business. We also would lose a source of commissions for future sales and, in a limited number of cases, future commissions for past sales. Our business could also be harmed if in the future we fail to develop new carrier relationships and are unable to offer consumers a wide variety of health insurance products.

The health insurance industry in the United States has experienced a substantial amount of consolidation over the past several years, resulting in a decrease in the number of health insurance carriers. In the future, we may be forced to offer insurance policies from a reduced number of insurance carriers or to derive a greater portion of our revenue from a more concentrated number of carriers as our business and the health insurance industry evolve. Carriers owned by WellPoint and United Healthcare represented 22% and 20% of our total revenue in 2006, respectively, and 18% and 19% of our total revenue in the first nine months of 2007, respectively. We received 11% of our total revenue from Aetna in the first nine months of 2007. Revenue we derived from our agreement with Golden Rule Insurance Company, which is owned by United Healthcare, represented 16% of our total revenue in 2006 and in the first nine months of 2007. Revenue we derived from our agreements with Blue Cross of California and Unicare, which are owned by WellPoint, represented 12% of our total revenue in 2006 and 9% of our total revenue in the first nine months of 2007. Our agreements with Golden Rule Insurance Company, Blue Cross of California and Unicare are terminable on 90 days written notice by either party for any reason and may be terminated on shorter notice under certain circumstances, such as in the case of a breach of the agreement, and our agreement with Aetna is terminable on 30 days written notice by either party for any reason and may be terminated on shorter notice under certain circumstances, such as in the case of a breach of the agreement. Notwithstanding our separate agreements with various carriers directly or indirectly owned by the same entity, certain carriers have attempted and may continue to attempt to consolidate our relationship with them, which could increase the impact of carrier concentration on us, decrease the commission rates we receive and adversely affect our financial results. Should our dependence on fewer carrier relationships increase (whether as a result of the termination of carrier relationships, further carrier consolidation or otherwise), we may become more vulnerable to adverse changes in our relationships with our carriers, particularly in states where we offer health insurance from a relatively smaller number of carriers or where a small number of carriers dominates the market, and our business, operating results and financial condition could be harmed.

***Changes in the quality and affordability of the health insurance products that carriers offer on our ecommerce platform could harm our business and operating results.***

The demand for health insurance marketed through our ecommerce platform is impacted by, among other things, the variety, quality and price of the health insurance products offered on our ecommerce platform. If health insurance carriers do not continue to provide us with a variety of high-quality, affordable health insurance products in the individual, family and small business markets, or if their offerings are limited as a result of consolidation in the health insurance industry or otherwise, our sales may decrease and our business, operating results and financial condition could be harmed.

***Health insurance carriers could determine to reduce the commissions paid to us or to change their underwriting practices in ways that reduce the number of insurance policies sold through our ecommerce platform, which could harm our business and operating results.***

Our commission rates, and the commission override payments we receive from health insurance carriers for achieving sales volume thresholds or other objectives, are either set by each carrier or negotiated between us and each carrier. Carriers have altered, and may in the future alter, the contractual relationships we have with them, either by renegotiation or unilateral action. If these contractual changes result in reduced commissions, our business may suffer and our operating results and financial condition could be harmed. In addition, carriers periodically change the criteria they use for determining whether they are willing to insure individuals as well as other underwriting practices. For example, a large carrier partner of ours recently tightened its underwriting criteria and adopted more rigorous underwriting practices. In the past, changes such as these have resulted in a decrease in the number of insurance policies we would have otherwise sold. Changes in carrier underwriting criteria or practices could negatively impact sales of insurance policies on our ecommerce platform and could harm our business, operating results and financial condition.



---

**Table of Contents**

***If we are not able to maintain and enhance our brand, our business and operating results will be harmed.***

We believe that maintaining and enhancing our brand identity is critical to our relationships with existing members, marketing partners and health insurance carriers and to our ability to attract new members, marketing partners and carriers. The promotion of our brand may require us to make substantial investments and we anticipate that, as our market becomes increasingly competitive, these branding initiatives may become increasingly difficult and expensive. The successful promotion of our brand will depend largely upon our marketing and public relations efforts and our ability to continue to offer high-quality products and services in an understandable and objective manner. Our brand promotion activities may not be successful or yield increased revenue, and to the extent that these activities yield increased revenue, the increased revenue may not offset the expenses we incur. If we do not successfully maintain and enhance our brand, our business may not grow and we could lose marketing partners and members, which could, in turn, cause health insurance carriers to terminate their relationships with us, all of which would harm our business, operating results and financial condition.

***If we are not successful in cost-effectively converting visitors to our website into members, our business and operating results would be harmed.***

Our growth depends in part upon growth in our membership. The rate at which we convert consumers visiting our ecommerce platform and seeking to purchase health insurance into members is a significant factor in the growth of our membership. A number of factors could influence this conversion rate for any given period, some of which are outside of our control. These factors include:

the quality of, and changes to, the consumer experience on our ecommerce platform and with our customer care center;

the variety and affordability of the health insurance products that we offer;

system failures or interruptions in the operation of our ecommerce platform;

changes in the mix of consumers who are referred to us through our direct, marketing partner and online advertising member acquisition channels;

the number, type and identity of the health insurance carriers offering the health insurance products for which consumers have expressed interest, and the degree to which our technology is integrated with those carriers;

the health insurance carrier underwriting practices and guidelines applicable to applications submitted by consumers and the amount of time a carrier takes to make a decision on that application; and

competitive offerings.

In the event the rate at which we convert consumers visiting our ecommerce platform into members does not continue at historical levels or declines, our membership growth rate will decline, which could harm our business, operating results and financial condition. For example, our year-over-year growth rate for approved members declined from 32% in the three months ended June 30, 2007 to 22% in the three months ended September 30, 2007. This decline was due to various factors, including a decline in the rate at which submitted applications were approved by our carrier partners and an increase in the prior year base used to compute the amount of growth in making the comparison. In addition, a decline in the percentage of consumers visiting our ecommerce platform who submit health insurance applications could cause an increase in our cost of acquiring members as a result of increased costs on a per member basis. During the fourth quarter, we plan to increase our advertising spending in the performance partner and online advertising channels to accelerate application growth. We also plan to begin some testing and pilot work in the traditional media area to raise awareness and demand for eHealth. We expect these activities to increase our overall cost of acquisition and our sales and marketing expenses as a percentage of revenue. There can be no assurance that any of the planned advertising and marketing activities will be successful in increasing the number of consumers who visit our ecommerce platform, the number of submitted health insurance



## Edgar Filing: eHealth, Inc. - Form 10-Q

applications or the number of new members. If the advertising and marketing activities are not successful or do not result in sufficient membership growth to offset the expenses of such activities, our operating margins could be adversely impacted and our business and operating results harmed.

---

**Table of Contents**

We previously developed our Electronic Processing Interchange (EPI) technology to simplify the health insurance enrollment process and better integrate our technology systems with those of health insurance carriers. The more our technology is integrated with our carrier partners, the more our application processing times, sales yields and processing costs improve. A carrier partner of ours has made the decision to move forward with instant electronic underwriting and response to consumer health insurance applications, which requires more extensive integration. While we are targeting implementation of this capability with this carrier for 2008, there can be no assurance that it will be implemented in that timeframe or otherwise. In addition, there can be no assurance that we will enter into any additional relationships relating to instant underwriting or that we will continue to integrate our technology systems with those of health insurance carriers. It is too early to determine the effectiveness of any technology or relationship that allows for expedited or instant underwriting, and the effectiveness of any such relationship or technology could be influenced by a number of factors, including sufficient carrier adoption of the technology and willingness to enter into the relationship, carrier allocation of resources and commitment to provide expedited responses to insurance applications, system failures and process breakdowns, malfunctions, bugs or capacity constraints, the performance, reliability and availability of our ecommerce platform and underlying network infrastructure, ecommerce security risks, compliance with insurance and other laws and regulations and changes in laws and regulations. In the event that we are not successful in integrating with our carrier partners to provide expedited underwriting, or if such integration is not effective in improving the rate at which we convert visitors into members, our membership growth rate may decline, which would harm our business, operating results and financial condition.

***System failures or capacity constraints could harm our business and operating results.***

Our revenue depends upon the number of health insurance applications consumers submit utilizing our ecommerce platform that are approved by health insurance carriers. As a result, the performance, reliability and availability of our ecommerce platform and underlying network infrastructure are critical to our financial results, our brand and our relationship with members, marketing partners and health insurance carriers. Although we regularly attempt to enhance our ecommerce platform and system infrastructure, system failures and interruptions may occur if we are unsuccessful in these efforts, if we are unable to accurately project the rate or timing of increases in our website traffic or for other reasons, some of which are completely outside our control. Although we have experienced only minor system failures and interruptions to date, we could experience significant failures and interruptions in the future, which would harm our business, operating results and financial condition.

We rely in part upon third-party vendors, including data center and bandwidth providers, to operate our ecommerce platform. We cannot predict whether additional network capacity will be available from these vendors as we need it, and our network or our suppliers' networks might be unable to achieve or maintain a sufficiently high capacity of data transmission to allow us to process health insurance applications in a timely manner or effectively download data, especially if our website traffic increases. Any system failure that causes an interruption in, or decreases the responsiveness of, our services would impair our revenue-generating capabilities and harm our business and operating results and damage our reputation. In addition, consumers may access our customer care center for assistance in connection with submitting health insurance applications through our ecommerce platform. We depend upon third parties, including telephone service providers, to operate our customer care center. Any failure of the systems that we rely upon in the operation of our customer care center could negatively impact sales of insurance policies through our ecommerce platform or our relationship with consumers and members and could harm our business, operating results and financial condition.

If we experience a system failure, loss of data or disruption for any reason, the performance of our website would be harmed and our service could shut down. In addition, any loss of data could result in loss of customers and subject us to potential liability. Our database and systems are vulnerable to damage or interruption from human error, earthquakes, fire, floods, power loss, telecommunications failures, physical or electronic break-ins, computer viruses, acts of terrorism, other attempts to harm our systems and similar events. In addition, our operations are vulnerable to earthquakes in the San Francisco Bay Area and elsewhere in Northern California. Although we maintain insurance to cover a variety of risks, the scope and amount of our insurance coverage may not be sufficient to cover our losses resulting from system failures or other disruptions to our online operations.

In addition, while we regularly back-up our system and store the system back-ups in a secure third-party offsite location with restricted access near the San Francisco Bay area, we do not have full second-site redundancy. If we were forced to rely on our system back-ups, we would experience significant delays in restoring the functionality of our website and could experience loss of data, which would harm our business and our operating results.

---

**Table of Contents**

***We depend upon Internet search engines to attract a significant portion of the consumers who visit our website, and if we are unable to advertise on search engines on a cost-effective basis, our business and operating results would be harmed.***

We derive a significant portion of our website traffic from consumers who search for health insurance through Internet search engines, such as Google, MSN and Yahoo!. A critical factor in attracting consumers to our website is whether we are prominently displayed in response to an Internet search relating to health insurance. Search engines typically provide two types of search results, algorithmic listings and paid advertisements. We rely on both algorithmic listings and paid advertisements to attract consumers to our website.

Algorithmic search result listings are determined and displayed in accordance with a set of formulas or algorithms developed by the particular Internet search engine. The algorithms determine the order of the listing of results in response to the consumer's Internet search. From time to time, search engines revise these algorithms. In some instances, these modifications have caused our website to be listed less prominently in algorithmic search results, which has resulted in decreased traffic to our website. Our website may also become listed less prominently in algorithmic search results for other reasons, such as search engine technical difficulties, search engine technical changes and changes we decide to make to our website. In addition, search engines have deemed the practices of some companies to be inconsistent with search engine guidelines and decided not to list their website in search result listings at all. If we are listed less prominently in, or removed altogether from, search result listings for any reason, the traffic to our website likely would decline and we may not be able to replace this traffic, which in turn would harm our operating results. If we decide to attempt to replace this traffic, we may be required to increase our marketing expenditures, which would also harm our operating results.

We also purchase paid advertisements on search engines in order to attract users to our website. We typically pay a search engine for prominent placement of our name and website when particular health insurance-related terms are searched for on the search engine, regardless of the algorithmic search result listings. In some circumstances, such as with Google AdWords, the prominence of the placement of our name and website is determined by a combination of factors, including the amount we are willing to pay and algorithms designed to determine the relevance of our paid advertisement to a particular search term. We bid against our competitors and others for the display of these paid search engine advertisements. Many of our competitors, including many health insurance carriers, have greater resources with which to bid and better brand recognition than we do. We recently have experienced increased competition from carriers for both algorithmic search result listings and for paid Internet advertisements, which has increased our marketing and advertising expenses. If this competition increases significantly, our advertising expenses could rise significantly or we could reduce or discontinue our paid search advertisements, either of which could harm our business, operating results and financial condition.

***We rely significantly on marketing partners for the sale of health insurance on our ecommerce platform and our business and operating results would be harmed if we are unable to maintain effective relationships with our existing marketing partners or if we do not establish successful relationships with new marketing partners.***

In addition to marketing through Internet search engines, we frequently enter into contractual marketing relationships with other online and offline businesses that promote us to their customers. These marketing partners include financial and online service companies, affiliate programs and online advertisers and content providers. We typically compensate our marketing partners for their referrals on a submitted health insurance application basis and, if they are licensed to sell health insurance, may share a percentage of the commission we earn from the health insurance carrier for each member referred by the marketing partner. Although many of our marketing partners agree to an initial one or two-year term contract, some of our marketing partner agreements have shorter terms and are terminable more quickly.

Many factors influence the success of our relationship with our marketing partners, including:

the continued positive market presence, reputation and growth of the marketing partner;

the effectiveness of the marketing partner in marketing our website and services, including whether the marketing partner is successful in maintaining the prominence of its website in algorithmic search result listings and paid Internet advertisements;

the interest of the marketing partner's customers in the health insurance products that we offer on our ecommerce platform;

## Edgar Filing: eHealth, Inc. - Form 10-Q

the contractual terms we negotiate with the marketing partner, including the marketing fees we agree to pay a marketing partner;

the percentage of the marketing partner's customers that submit applications or purchase health insurance policies through our ecommerce platform;

---

**Table of Contents**

the ability of a marketing partner to maintain efficient and uninterrupted operation of its website; and

our ability to work with the marketing partner to implement website changes, launch marketing campaigns and pursue other initiatives necessary to maintain positive consumer experiences and acceptable traffic volumes.

If we are unable to maintain successful relationships with our existing marketing partners or fail to establish successful relationships with new marketing partners, our business, operating results and financial condition will be harmed.

***The demand for the health insurance products that we market and sell can be significantly impacted by economic and other factors beyond our control.***

Our revenue currently depends upon demand for health insurance in the individual, family and small business markets, which can be influenced by a variety of factors beyond our control. For instance, we believe that the number of small businesses is growing and that an increasing number of individuals are becoming self-employed. In addition, as a result of substantial health insurance premium inflation in recent years, we believe that many employers are seeking to reduce the costs associated with providing health insurance to their employees, including offering fewer benefits to employees, reducing or eliminating dependent coverage, increasing employee health insurance premium contributions and eliminating health insurance benefits altogether. We also believe that demand in the individual and family health insurance market will increase as the employees of these employers look to other sources for their health insurance needs and as the number of small businesses and self-employed individuals increases. We have no control over the economic and other factors that influence these trends, and if these trends reverse, our business, operating results and financial condition would be harmed. We also continually evaluate and explore new strategies and opportunities in other segments of the health insurance market, such as Medicare, where we may be able to leverage our technology and experience. We may not adopt these new strategies, and even if we do, we cannot predict whether demand for any new product or service will result in increased membership or revenue. However, if we are unable to successfully introduce new products and adopt new strategies for the growth of our business, our business and financial condition may be harmed.

***We rely on health insurance carriers to accurately and regularly prepare commission reports, and if these reports are inaccurate or not sent to us in a timely manner, our business and operating results could be harmed.***

Health insurance carriers typically pay us a specified percentage of the premium amount collected by the carrier during the period that a member maintains coverage under a policy. We rely on carriers to timely and accurately report the amount of commissions earned by us, and we calculate our commission revenue, prepare our financial reports, projections and budgets and direct our marketing and other operating efforts based on the reports we receive from health insurance carriers. It is often difficult for us to independently determine whether or not carriers are reporting all commissions due to us, primarily because the majority of our members terminate their policies by discontinuing their premium payments to the carrier instead of by informing us of the cancellation. To the extent that health insurance carriers understate or fail to report the amount of commissions due to us in a timely manner or at all, we will not collect and recognize revenue to which we are entitled, which would harm our business, operating results and financial condition.

***Our operating results fluctuate depending upon health insurance carrier payment practices and the timing of our receipt of commission reports from health insurance carriers.***

The timing of our revenue depends upon the timing of our receipt of commission reports and associated payments from health insurance carriers. Although carriers typically report and pay commissions to us on a monthly basis, there have been instances where their report of commissions and payment have been delayed for several months. In addition, much of our commission override revenue is not reported and paid to us in accordance with a scheduled pattern, and some is only reported and paid to us once per year. This could result in a large amount of commission revenue from a carrier being recorded in a given quarter that is not indicative of the amount of revenue we may receive from that carrier in subsequent quarters, causing fluctuations in our operating results. We could report revenue below the expectations of our investors or securities analysts in any particular period if a material report or payment from a health insurance carrier were delayed for any reason.

***We may be unsuccessful in competing effectively against current and future competitors.***

The market for selling health insurance products is intensely competitive and the sale of health insurance over the Internet is new and rapidly evolving. Consumers have the ability to use several sources other than our ecommerce platform to research and purchase health insurance. In addition, consumers can research health insurance using our ecommerce



---

**Table of Contents**

platform and purchase their health insurance through one of our competitors. We compete directly with health insurance carriers, including many of the carriers that offer health insurance through our ecommerce platform. Many carriers market and sell their health insurance plans, including those that are offered on our ecommerce platform, directly to consumers using call centers, their own websites and other means.

We also compete with a large number of local insurance agents across the United States that sell health insurance products in their local communities. Some of these traditional insurance agents utilize the Internet in various ways to acquire their customers. For instance, some local agents use lead aggregator services that find potential consumers and are compensated for referring that consumer to the traditional agent. As we do, lead aggregators often use Internet search engines and other forms of online advertising to drive Internet traffic to the lead aggregator's website.

In addition to traditional agents, a number of agents operate websites that provide some form of online shopping experience for consumers interested in purchasing health insurance. Although some of these online agents only sell health insurance in a limited number of states and/or represent only a limited number of health insurance carriers, these agents could expand their service area and product offerings. Moreover, while national insurance brokers, such as Aon Insurance Services, Arthur J. Gallagher & Co., Marsh, Inc. and Willis Group Limited, have traditionally not focused on the individual, family and small business markets, they could enter these markets and compete with us in the future, particularly if these markets continue to grow. We also believe that we are likely to face increasing competition as the online financial services industry develops and evolves.

We may not be able to compete successfully against our current or future competitors. Some of our current and potential competitors have longer operating histories, larger customer bases, greater brand recognition and significantly greater financial, technical, marketing and other resources than we do. As compared to us, our current and future competitors may be able to:

undertake more extensive marketing campaigns for their brands and services;

devote more resources to website and systems development;

negotiate more favorable commission rates and commission override payments; and

make more attractive offers to potential employees, marketing partners and third-party service providers.

Competitive pressures may result in our experiencing increased marketing costs, decreased traffic to our website and loss of market share, or may otherwise harm our business, operating results and financial condition.

***There are many risks associated with our operations in China.***

A portion of our operations is conducted in China. Among other things, we use employees in China to maintain and update a significant amount of software on our ecommerce platform. This and other information is delivered to us through secured communications over the Internet. Our business would be harmed if this connection temporarily failed, and we were prevented from promptly updating our software or implementing other changes to our database and systems. Our operations in China also expose us to different and unfamiliar laws, rules and regulations, including different intellectual property laws, which are not as protective of our intellectual property as the laws in the United States, and different labor and tax laws. United States and Chinese trade laws may impose restrictions on the importation of programming or technology to or from the United States. These risks could cause us to incur increased expenses and could harm our ability to effectively and successfully manage our operations in China, which in turn could cause our business, operating results and financial condition to suffer. We plan to continue to expand our Chinese operations. These plans will require additional management attention and resources and may be unsuccessful, as we have limited experience with respect to operations in China.

In addition, our subsidiary in China recently launched a pilot program to market insurance online in the city of Xiamen in the Fujian province of China. We may attempt to expand the pilot program to additional geographic regions. We will need additional government licenses and approvals to expand beyond the Fujian province and have no prior experience marketing or selling insurance in China or in adapting our business and ecommerce platform to Chinese markets and cultures, legal and regulatory regimes or business customs. For instance, the laws and regulations applicable to our marketing and selling insurance online in China are unclear, and our operations may be in violation of them. The

## Edgar Filing: eHealth, Inc. - Form 10-Q

consequences of such violations are unclear, but they could harm our business as a whole. For various reasons, we may not expand the pilot program to other geographic areas, and even if we do, there can be no assurance that our ecommerce platform in China would ever generate a significant amount of revenue or otherwise be successful.



---

**Table of Contents**

In addition, we may face disadvantages and an inability to obtain necessary approvals as a result of our subsidiary in China being wholly foreign owned. Our success in establishing an insurance business in China also would be dependent upon many of the factors that influence the success of our business in the United States, including acceptance of the Internet and our ecommerce platform as a marketplace for the purchase of insurance, our success in marketing our ecommerce platform and in retaining members who purchase insurance through that platform, our ability to enter into and maintain relationships with insurance carriers, the affordability of the insurance products offered, insurance carrier business practices, the effectiveness with which we establish a brand identity, performance, reliability and availability of our ecommerce platform, competition, the regulatory and healthcare reimbursement environment, our ability to attract qualified personnel and network security.

***Our rate of growth may decline if we are unable to increase our revenue relating to sponsorship advertising.***

We sell advertising space to health insurance carriers on our website through our sponsorship advertising program. Our sponsorship advertising program allows carriers to purchase advertising space in specific markets in a sponsorship area on our website. Specifically, carriers who have purchased advertising can choose to have specific health insurance plans displayed prominently after a consumer has entered certain census information. Our sponsorship advertising initiative is relatively new and unproven and, if we do not continue to successfully increase our revenue from the sale of sponsorship advertising, our rate of growth may decline. The success of our sponsorship advertising program is dependent upon a number of factors, including consumer and health insurance carrier adoption of the Internet and our ecommerce platform as a medium for the purchase and sale of health insurance, our ability to attract consumers visiting our ecommerce platform and convert those consumers into members, the existence of a relationship between us and a diverse group of carriers that offer a number of health insurance plans in the markets in which we attempt to sell sponsorship advertising, the cost and other features of the health insurance product that is the subject of the sponsorship advertising, the impact the sponsorship advertising has on the sale of the health insurance product that is the subject of the advertising and the effectiveness of the carrier's other means of advertising. We plan to launch a new sponsorship advertising platform that would automate much of the current sponsorship process for carrier participants. However, there is no assurance that carriers will participate or utilize this platform, or that it will be otherwise successful. If it is not successful, our revenue relating to sponsorship advertising may decline. In addition, while our practice of selling sponsorship advertising is described on our ecommerce platform, it could cause consumers to perceive us as not objective, which could harm our brand and result in a decline in our health insurance sales. It also could adversely impact our relationship with health insurance carriers that do not purchase our sponsorship advertising. As a result, our business, operating results and financial condition could be harmed.

***We may not be successful in licensing our ecommerce technology to health insurance carriers and other third parties.***

We license the use of our ecommerce technology to health insurance carriers and agents. Carriers use our platform to offer their own health insurance policies on their websites, and agents use it to power their quoting and online content. Our technology licensing initiative is relatively new and, if we do not continue to successfully increase our revenue from the license of our technology, our rate of growth may decline. The business of licensing the use of our technology to others could facilitate carrier and other third party competition with us in the sale of health insurance over the Internet and is subject to a number of additional risks and uncertainties, including consumer and health insurance carrier adoption of our ecommerce platform as a medium for the purchase and sale of health insurance, our ability to establish relationships with new health insurance carriers, the reliability and performance of our ecommerce platform and the relative cost of developing competing technology. If we are not able to offer health insurance carriers and other third parties a reliable platform to cost-efficiently offer their products over the Internet, our technology licensing business will be unsuccessful.

***Our rate of growth may decline and our business may be harmed if our business HSA platform is not successful.***

We are in the process of developing a business health savings account (HSA) platform to facilitate employer contributions to employee HSAs, employee purchase of individual and family health insurance and employee management of HSAs. We have entered into a relationship with a third party that helped to develop and assists in administering the HSA component of the platform, including its HSA bank account component. The HSA platform is currently in a beta mode to allow us to test and refine the HSA offerings for businesses. A number of factors could impact the timing of a broader launch of the platform, including legal and regulatory hurdles, our ability and the ability of third parties to timely complete development of the platform and our dependence on the third party administrator of the HSA component of the platform.

The success of the business HSA platform will depend upon a number of factors, including the attractiveness of the platform to businesses, our effectiveness in engaging partners, such as associations, banks and other financial services partners, to market the platform, our ability to otherwise successfully market the platform, the ability of the third party administrator to successfully manage and operate the HSA aspects of the platform, our ability and the third party administrator's ability to avoid process breakdowns, malfunctions, technical difficulties and bugs in the platform, the performance, reliability and availability of the platform and our success in training our call center representatives to adequately serve customers desiring assistance with respect to HSAs.



**Table of Contents**

We are dependent upon third parties to operate the platform, and the platform's success depends in part on our ability to maintain effective relationships with those partners. In addition, the insurance and other laws and regulations applicable to the platform are complicated and in some cases unclear. For example, it is possible that certain states could take the position that the platform or marketing individual insurance into businesses violates certain laws and regulations, including those relating to the sale of insurance to small businesses. In light of legal and regulatory risks, we may determine not to launch the platform in certain states. Regardless, we could be subject to adverse legal and regulatory action in any state from departments of insurance and otherwise and may need to cease offering the platform in those states. If the business HSA platform is not successful, or does not launch within the projected time frames, our business and operating results could be harmed and our rate of growth may decline.

***We may not be able to adequately protect our intellectual property, which could harm our business and operating results.***

We believe that our intellectual property is an essential asset of our business and that our technology infrastructure currently gives us a competitive advantage in the distribution of individual, family and small business health insurance. We rely on a combination of copyright, trademark and trade secret laws as well as confidentiality procedures and contractual provisions to establish and protect our intellectual property rights in the United States. Although we have pending patent applications in the United States, they may not result in issued patents. We have not filed for protection of our intellectual property in any foreign jurisdiction other than China. We have Chinese-registered computer software copyrights for an internally-developed software system and a project management tool and have filed certain trademark applications in China. We have not filed any patent applications in China. The efforts we have taken to protect our intellectual property may not be sufficient or effective, and our trademarks, copyrights and patents if issued, may be held invalid or unenforceable. Moreover, the law relating to intellectual property is not as developed in China, and our intellectual property rights may not be as respected in China as they are in the United States. Any United States or other patents issued to us may not be sufficiently broad to protect our proprietary technologies, and given the costs of obtaining patent protection, we may choose not to seek patent protection for certain of our proprietary technologies. We may not be effective in policing unauthorized use of our intellectual property, and even if we do detect violations, litigation may be necessary to enforce our intellectual property rights. Any enforcement efforts we undertake, including litigation, could be time-consuming and expensive, could divert our management's attention and may result in a court determining that our intellectual property rights are unenforceable. If we are not successful in cost-effectively protecting our intellectual property rights, our business, operating results and financial condition could be harmed.

***We may in the future be subject to intellectual property rights claims, which are extremely costly to defend, could require us to pay significant damages and could limit our ability to use certain technologies in the future.***

Companies in the Internet and technology industries own large numbers of patents, copyrights, trademarks and trade secrets and frequently enter into litigation based on allegations of infringement or other violations of intellectual property rights. We have received, and may in the future receive, notices that claim we have misappropriated or misused other parties' intellectual property rights, and, to the extent we gain greater visibility, we face a higher risk of being the subject of intellectual property infringement claims. There may be third-party intellectual property rights, including issued or pending patents, that cover significant aspects of our technologies or business methods. Any intellectual property claim against us, with or without merit, could be time consuming, expensive to settle or litigate and could divert our management's attention and other resources. These claims also could subject us to significant liability for damages and could result in our having to stop using technology found to be in violation of a third party's rights. We might be required to seek a license for third-party intellectual property, which may not be available on reasonable terms or at all. Even if a license is available, we could be required to pay significant royalties, which would increase our operating expenses. We may also be required to develop alternative non-infringing technology, which could require significant effort and expense. If we cannot license or develop technology for any infringing aspect of our business, we would be forced to limit our services and may be unable to compete effectively. Any of these results would harm our business, operating results and financial condition.

***Any legal liability, regulatory penalties, or negative publicity for the information on our website or that we distribute will likely harm our business and operating results.***

Our members rely upon information we provide on our website, through our customer care center or otherwise regarding the health insurance plans offered on our website, including information relating to insurance premiums, coverage, benefits, exclusions, limitations, availability, plan comparisons and insurance company ratings. A significant amount of both automated and manual effort is required to maintain the considerable amount of insurance plan information on our website. Separately, from time to time, we use the information provided on our website and otherwise collected by us to publish reports designed to educate consumers, facilitate public debate, and effectuate reform at the state and federal level.

---

**Table of Contents**

relating to the accessibility and affordability of health insurance. If the information we provide on our website, through our customer care center or otherwise is not accurate or is construed as misleading, members, health insurance carriers and others could attempt to hold us liable for damages, and state regulators could attempt to subject us to penalties, revoke our license to transact health insurance business in a particular jurisdiction, and/or compromise the status of our licenses to transact health insurance business in other jurisdictions. In the ordinary course of operating our business, we have received complaints that the information we provided was not accurate or was misleading. Although in the past we have resolved these complaints without significant financial cost, we cannot guarantee that we will be able to do so in the future. In addition, these types of claims could be time-consuming and expensive to defend, could divert our management's attention and other resources, and could cause a loss of confidence in our services. As a result, whether or not we are able to successfully resolve these claims, they could harm our business, operating results and financial condition.

In the ordinary course of our business, we have received and may continue to receive inquiries from state regulators relating to various matters. We have become, and may in the future become, involved in litigation in the ordinary course of our business. If we are found to have violated laws or regulations in any state, we could be subject to various fines and penalties, including revocation of our license to sell insurance in that state, and our business and financial results would be harmed. We would also be harmed to the extent that related publicity damages our reputation as a trusted source of objective information relating to health insurance and its affordability. It could also be costly to defend ourselves regardless of the outcome.

***We rely on insurance to mitigate some risks and, to the extent the cost of insurance increases or we maintain insufficient coverage, our business and operating results may be harmed.***

We contract for insurance to cover potential business risks and liabilities. In the current environment, insurance companies are increasingly specific about what they will and will not insure. It is possible that we may not be able to obtain sufficient insurance to meet our needs, may have to pay very high prices for the coverage we do obtain or may not acquire any insurance for certain types of business risk. This could leave us exposed, and to the extent we incur liabilities and expenses for which we are not adequately insured, our business, operating results and financial condition could be negatively impacted. Also, to the extent the cost of maintaining insurance increases, our operating expenses will rise, which could harm our business, operating results and financial condition.

***Our ability to attract and retain qualified personnel is critical to our success.***

Our success is dependent upon the performance of our senior management and key personnel. Our management and employees can terminate their employment at any time, and the loss of the services of any of our executive officers or key employees could harm our business. For example, we are required to appoint a writing agent with each insurance carrier with which we have a relationship in every state. In the past a single employee has acted as writing agent with respect to many carriers with which we have a relationship, and we are currently in the process of transferring the duties of writing agent to other employees so that we have more than one employee appointed as writing agent with each carrier. If we lose the service of our appointed writing agent(s), the duties of writing agent will need to be transitioned to other company personnel. Due to our national reach and the large number of carrier partners whose policies are purchased by our members, this transition may be difficult and requires a significant period of time to complete. If the transition is not successful, our agency relationship with particular insurance carriers may be terminated, our commission payments could be discontinued and, as a result, our business and operating results could be harmed. Our success is also dependent upon our ability to attract additional personnel for all areas of our organization. Competition for qualified personnel at all levels is increasingly more intense and we may not be successful in attracting and retaining such personnel on a timely basis, on competitive terms or at all. If we are unable to attract and retain the necessary personnel, our business would be harmed.

Our senior management and key employees were substantially vested in their stock options as of September 30, 2007. All of our senior management and key employees have sold shares of our common stock in the open market, and some have sold a significant portion of their vested holdings. While we have in the past, and may in the future, grant these employees additional equity incentives, these employees may be more likely to leave us after their existing stock options fully vest and they have liquidated some or a substantial percentage of their holdings. Our senior management and key employees work for us on an at-will basis and our business could be harmed if we lose their services.

## **Table of Contents**

### ***If we fail to manage future growth effectively, our business and operating results would be harmed.***

We have expanded our operations significantly and anticipate that further expansion will be required in order for us to grow our business. Our growth has placed, and if our growth continues will continue to place, increasing and significant demands on our management, our operational and financial systems and infrastructure and our other resources. If we do not effectively manage our growth, the quality of our services could suffer, which could harm our business, operating results and financial condition. In order to manage future growth, we will need to hire, integrate and retain highly skilled and motivated employees. We will also be required to continue to improve our existing systems for operational and financial management, including our reporting systems, procedures and controls. These improvements may require significant capital expenditures and will place increasing demands on our management. We may not be successful in managing or expanding our operations or in maintaining adequate financial and operating systems and controls. If we do not successfully implement improvements in these areas, our business, operating results and financial condition will be harmed.

### ***Seasonality may cause fluctuations in our financial results.***

The number of health insurance applications submitted through our ecommerce platform has generally increased in our first quarter compared to our fourth quarter and in our third quarter compared to our second quarter. Conversely, we have generally experienced a decline in submitted applications in our second quarter compared to our first quarter and in our fourth quarter compared to our third quarter. Because a significant portion of our marketing and advertising expenses are driven by the number of health insurance applications submitted on our ecommerce platform, those expenses generally have increased or decreased in conjunction with these seasonal patterns. We believe that consumer adoption of the Internet is still in its early stages and, therefore, the reasons for these seasonal patterns are not entirely clear. As the use of the Internet for the purchase and sale of health insurance becomes more widely accepted, other seasonality trends may develop and the existing seasonality and consumer behavior that we experience may change. Any seasonality that we experience may cause fluctuations in our financial results.

### ***Future acquisitions could disrupt our business and harm our financial condition and operating results.***

We may decide to acquire businesses, products and technologies. We have not made any acquisitions to date, and our ability as an organization to successfully make acquisitions is unproven. Acquisitions could require significant capital infusions and could involve many risks, including the following:

an acquisition may negatively impact our results of operations because it may require us to incur charges and substantial debt or liabilities, may require the amortization, write down or impairment of amounts related to deferred compensation, goodwill and other intangible assets, or may cause adverse tax consequences, substantial depreciation or deferred compensation charges;

we may encounter difficulties in assimilating and integrating the business, technologies, products, personnel or operations of companies that we acquire, particularly if key personnel of the acquired company decide not to work for us;

an acquisition may disrupt our ongoing business, divert resources, increase our expenses and distract our management;

we may be required to implement or improve internal controls, procedures and policies appropriate for a public company at a business that prior to the acquisition lacked these controls, procedures and policies;

the acquired businesses, products or technologies may not generate sufficient revenue to offset acquisition costs;

we may have to issue equity securities to complete an acquisition, which would dilute our stockholders' ownership and could adversely affect the market price of our common stock; and

## Edgar Filing: eHealth, Inc. - Form 10-Q

acquisitions may involve the entry into geographic or business markets in which we have little or no prior experience. We cannot assure you that we will be able to identify or consummate any future acquisition on favorable terms, or at all. If we do pursue an acquisition, it is possible that we may not realize the anticipated benefits from the acquisition or that the financial markets or investors will negatively view the acquisition. Even if we successfully complete an acquisition, it could harm our business, operating results and financial condition.

*Issues arising from the implementation of our new commission accounting system and an enterprise data management system could affect our operating results and ability to manage our business effectively.*

We have completed implementation of our new commission accounting system for the majority of our health insurance products. We anticipate completion of the last phase, related to our small business products, by early 2008. In addition, we are in the initial stages of implementing an enterprise data management system. Each of these systems is or will

---

**Table of Contents**

be important to our accounting, financial and operating functions, and the implementation of these systems raises costs and risks associated with the conversion to new systems, including disruption to our normal accounting procedures and problems achieving accuracy in the conversion of electronic data. Failure to properly or adequately address these issues could result in increased costs and the diversion of management's attention and resources and could harm our operating results and ability to manage our business effectively.

***If we fail to maintain proper and effective internal controls, our ability to produce accurate financial statements could be impaired, which could adversely affect our operating results, our ability to operate our business and our stock price.***

We have a complex business organization. Ensuring that we have adequate internal financial and accounting controls and procedures in place to help ensure that we can produce accurate financial statements on a timely basis is a costly and time-consuming effort that needs to be re-evaluated frequently. We are in the process of documenting, reviewing and improving our internal controls and procedures in connection with Section 404 of the Sarbanes-Oxley Act of 2002. Section 404 requires annual management assessments of the effectiveness of our internal controls over financial reporting. Both we and our independent auditors will be testing our internal controls in connection with the Section 404 requirements and could, as part of that documentation and testing, identify areas for further attention or improvement. Implementing any appropriate changes to our internal controls may require specific compliance training of our directors, officers and employees, entail substantial costs in order to modify our existing accounting systems and take a significant period of time to complete. These changes may not, however, be completely effective in maintaining the adequacy of our internal controls, and any failure to maintain that adequacy, or the consequent inability to produce accurate financial statements on a timely basis, could increase our operating costs and could harm our ability to operate our business. In addition, investor perception that our internal controls are inadequate or that we are unable to produce accurate financial statements on a consistent basis may adversely affect our stock price.

***Our net income in future periods could be significantly reduced as a result of employee stock-based compensation expense.***

In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123 (Revised 2004), *Share-Based Payment*, or SFAS 123R. SFAS 123R requires measurement of all employee stock-based compensation awards using a fair value method and the recording of such expense in the consolidated financial statements. The adoption of SFAS 123R requires additional accounting related to the income tax effects, and additional disclosure regarding the cash flow effects, resulting from share-based payment arrangements. We adopted SFAS 123R on January 1, 2006. As permitted, we will continue to account for the portion of awards outstanding on or before December 31, 2005 using the provisions of Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, and its related interpretative guidance. During the three months ended September 30, 2006 and 2007, we recorded stock-based compensation expense totaling \$115,000 and \$322,000, respectively, and during the nine months ended September 30, 2006 and 2007, we recorded stock-based compensation expense totaling \$174,000 and \$865,000, respectively, related to stock options, restricted stock awards and restricted stock units granted to employees and accounted for in accordance with the provisions of SFAS 123R. Total unamortized stock-based compensation cost related to these stock options, restricted stock awards and restricted stock units at September 30, 2007 was approximately \$4.9 million, net of estimated forfeitures of \$474,000. This amount will be amortized on a straight-line basis and will be adjusted for subsequent changes in estimated forfeitures. Because the amount, terms and fair values of awards to be issued in the future are unknown, we are unable to predict the future impact on our consolidated financial statements of stock-based compensation expense related to future awards. However, we expect that the impact will be material over time as the number of awards issued and outstanding increases.

***We have incurred and will continue to incur increased costs as a result of being a public company.***

As a public company, we have incurred and will continue to incur significant legal, accounting and other expenses that we did not incur as a private company. We will continue to incur auditing, consulting and other costs associated with our public company reporting requirements. We also anticipate that we will continue to incur costs associated with corporate governance requirements, including requirements under the Sarbanes-Oxley Act of 2002, as well as rules implemented by the Securities and Exchange Commission and The NASDAQ Global Market. We expect these rules and regulations to continue to increase our legal and financial compliance costs and to make some activities more time-consuming and costly. For instance, we have incurred increased expenses associated with additional personnel in our finance and legal departments and experienced increases in our audit and accounting service fees and outside legal counsel fees. Being a public company has made it more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. We cannot predict or estimate the amount of additional costs we may incur or the timing of such costs. Any of these expenses could harm our business, operating results and financial condition.

## **Table of Contents**

*Any expansion of our business into foreign countries involves significant risks.*

We currently do not sell health insurance or license our technology platform outside the United States other than in China. Our subsidiary in China recently launched a pilot program to market and sell insurance online in the city of Xiamen in the Fujian province of China. We are exploring the possibility of expanding our business in China. We face significant challenges in connection with expanding our business into any foreign country, since we have no prior experience marketing or selling insurance in any foreign jurisdiction. Additionally, demand for private health insurance is not significant in many foreign countries as a result of government-sponsored healthcare systems. In addition to facing many of the same challenges we face domestically, we also would have to overcome other obstacles such as:

legal, political or systemic restrictions on the ability of United States companies to market insurance or otherwise do business in foreign countries;

varied, unfamiliar and unclear legal and regulatory restrictions;

less extensive adoption of the Internet as a commerce medium or information source and increased restriction on the content of websites; and

the adaptation of our website and distribution model to fit the particular foreign country.

As a result of these obstacles, we may find it impossible or prohibitively expensive to expand our services internationally or we may be unsuccessful should we attempt to do so, either of which could harm our business, operating results and financial condition.

### **Risks Related to Insurance Regulation**

*Compliance with the strict regulatory environment applicable to the health insurance industry and the specific products we sell is difficult and costly. If we fail to comply with the numerous laws and regulations that are applicable to our business, our business and operating results would be harmed.*

The health insurance industry is heavily regulated by each state in the United States. For instance, state regulators require us to maintain a valid license in each state in which we transact health insurance business and further require that we adhere to sales, documentation and administration practices specific to that state. In addition, each employee who transacts health insurance business on our behalf must maintain a valid license in one or more states. Because we do business in all 50 states and the District of Columbia, compliance with health insurance-related laws, rules and regulations is difficult and imposes significant costs on our business. Each jurisdiction's insurance department typically has the power, among other things, to:

grant and revoke licenses to transact insurance business;

conduct inquiries into the insurance-related activities and conduct of agents and agencies;

require and regulate disclosure in connection with the sale and solicitation of health insurance;

authorize how, by which personnel and under what circumstances insurance premiums can be quoted and published and an insurance policy sold;



## Edgar Filing: eHealth, Inc. - Form 10-Q

approve which entities can be paid commissions from carriers;

regulate the content of insurance-related advertisements, including web pages;

approve policy forms, require specific benefits and benefit levels and regulate premium rates;

impose fines and other penalties; and

impose continuing education requirements.

Due to the complexity, periodic modification and differing interpretations of insurance laws and regulations, we may not have always been, and we may not always be, in compliance with them. Failure to comply could result in significant liability, additional department of insurance licensing requirements or the revocation of licenses in a particular jurisdiction, which could significantly increase our operating expenses, prevent us from transacting health insurance business in a particular jurisdiction and otherwise harm our business, operating results and financial condition. Moreover, an adverse

**Table of Contents**

regulatory action in one jurisdiction could result in penalties and adversely affect our license status or reputation in other jurisdictions due to the requirement that adverse regulatory actions in one jurisdiction be reported to other jurisdictions. Even if the allegations in any regulatory or other action against us are proven false, any surrounding negative publicity could harm consumer, marketing partner or health insurance carrier confidence in us, which could significantly damage our brand. Because some consumers, marketing partners and health insurance carriers may not be comfortable with the concept of purchasing health insurance using the Internet, any negative publicity may affect us more than it would others in the health insurance industry and would harm our business, operating results and financial condition.

In addition, we have received, and may in the future receive, inquiries from state insurance regulators regarding our marketing and business practices. We typically respond by explaining how we believe we are in compliance with relevant regulations or may modify our practices in connection with the inquiry. Any modification of our marketing or business practices in response to future regulatory inquiries could harm our business, operating results or financial condition.

***Regulation of the sale of health insurance is subject to change, and future regulations could harm our business and operating results.***

The laws and regulations governing the offer, sale and purchase of health insurance are subject to change, and future changes may be adverse to our business. For example, once health insurance pricing is set by the carrier and approved by state regulators, it is fixed and not generally subject to negotiation or discounting by insurance companies or agents. Additionally, state regulations generally prohibit carriers, agents and brokers from providing financial incentives, such as rebates, to their members in connection with the sale of health insurance. As a result, we do not currently compete with carriers or other agents and brokers on the price of the health insurance products offered on our website. If these regulations change, we could be forced to reduce prices or provide rebates or other incentives for the health insurance products sold through our ecommerce platform, which would harm our business, operating results and financial condition.

Another example of a potentially adverse regulatory change relates to the adoption of guaranteed issue laws and regulations in the individual and family health insurance markets. These requirements, which are currently in effect in a limited number of states such as Massachusetts, New Jersey and New York and have been proposed in California, prohibit health insurance carriers from denying health insurance coverage to individuals based on their health status. It has been our experience that substantially fewer health insurance carriers offer plans in the individual and family health insurance market in states with guaranteed issue regulations in effect compared to others. Moreover, health insurance carriers that do offer individual and family plans may charge substantially increased premiums and/or pay reduced commissions to agents. We believe that limited choice and high premiums result in less demand for individual and family health insurance plans which, when coupled with reduced commissions to agents, results in substantially less revenue for us in these states. Our business, operating results and financial condition would be harmed if the adoption of guaranteed issue laws or regulations becomes more widespread and results in less demand and/or reduced commissions.

In some states, guaranteed issue laws have or could be coupled with related measures that may impact our business. For example, a proposal in California included a combination of a number of items, including a guaranteed issue component, a mandate that requires all individuals to purchase or otherwise obtain health insurance and a requirement that health insurance carriers spend 85% of premium revenue on patient care. We do not know what impact a combination of mandates and other related measures would have on our business, but they could harm our business, operating results and financial condition.

We are subject to additional insurance regulatory risks, because we use the Internet as our distribution platform. In many cases, it is not clear how existing insurance laws and regulations apply to Internet-related health insurance advertisements and transactions. To the extent that new laws or regulations are adopted that conflict with the way we conduct our business, or to the extent that existing laws and regulations are interpreted adversely to us, our business, operating results and financial condition would be harmed.

***Changes and developments in the structure of the health insurance system in the United States could harm our business.***

Our business depends upon the private sector of the United States health insurance system, its relative role in financing healthcare delivery and health insurance carriers use of agents and brokers to market their products. Fundamental changes to this system or in the manner in which health insurance is distributed in the United States could reduce or eliminate the demand for private health insurance for individuals, families and small businesses or increase our competition, which would harm our business. Recently, there has been substantial national and state attention and debate regarding the fairest and most effective method of healthcare reimbursement. For instance, some advocates promote a single-payer healthcare system that

**Table of Contents**

would be largely underwritten by the state or federal government. The adoption of state or federal laws that promote or establish a government-sponsored single-payer healthcare system could reduce or eliminate the number of individuals, families and small businesses seeking or permitted to purchase private health insurance or supplemental coverage, which would substantially reduce the demand for our service and harm our business, operating results and financial condition.

Other proposals seek to provide health insurance coverage to all individuals, but do so by maintaining many key aspects of the private sector health insurance system rather than proposing a single-payer system. One example is California, which has in the past proposed a plan that includes guaranteed issue laws, a mandate that requires all individuals to obtain health insurance, incentives for many employers to offer health insurance to workers, and a requirement that health insurance carriers spend 85% of premium revenue on patient care. We do not know what impact the California plan and any related or similar proposals may have on our business, but they could, if implemented, harm our business, operating results and financial condition.

**Risks Related to the Internet and Electronic Commerce**

*Our business is subject to online commerce security risks and, if we are unable to safeguard the security and privacy of confidential data, our business will be harmed.*

Our services involve the collection and storage of confidential information of consumers and the transmission of this information to their chosen health insurance carriers. For example, we collect names, addresses, Social Security and credit card numbers, and information regarding the medical history of consumers in connection with their applications for health insurance. We currently rely on encryption technology licensed from third parties to facilitate secure transmittal of confidential information. We incorporate a multi-level firewall infrastructure to help prevent unauthorized access to our systems and data and have implemented intrusion detection systems. While we have not to date experienced any security breaches of which we are aware that has resulted in the theft of information, we cannot guarantee that we will be free of security breaches in the future. We may be required to expend significant capital and other resources to protect against security breaches or to alleviate problems caused by security breaches. Despite our implementation of security measures, techniques used to obtain unauthorized access or to sabotage systems change frequently. As a result, we may be unable to anticipate these techniques or to implement adequate preventative measures. Any compromise or perceived compromise of our security could damage our reputation and our relationship with our members, marketing partners and health insurance carriers, could reduce demand for our services and could subject us to significant liability as well as regulatory action, which would harm our business, operating results and financial condition.

*Government regulation of the Internet could adversely affect our business.*

The laws governing general commerce on the Internet remain unsettled and it may take years to fully determine whether and how existing laws such as those governing intellectual property, privacy and taxation apply to the Internet. In addition, the growth and development of the market for electronic commerce may prompt calls for more stringent consumer protection laws that may impose additional burdens on companies conducting business over the Internet. Any new laws or regulations or new interpretations of existing laws or regulations relating to the Internet could harm our business and we could be forced to incur substantial costs in order to comply with them, which would harm our business, operating results and financial condition.

*Our business could be harmed if we are unable to correspond with our consumers by email.*

We use email to market our services to potential members and as the primary means of communicating with our existing members. The laws and regulations governing the use of email for marketing purposes continue to evolve and the growth and development of the market for commerce over the Internet may lead to the adoption of additional legislation. If new laws or regulations are adopted, or existing laws and regulations are interpreted, to impose additional restrictions on our ability to send email to our members or potential members, we may not be able to communicate with them in a cost-effective manner. In addition to legal restrictions on the use of email, Internet service providers and others attempt to block the transmission of unsolicited email, commonly known as spam. If an Internet service provider or software program identifies email from us as spam, we can be placed on a restricted list that will block our email to members or potential members who maintain email accounts with these Internet service providers or who use these software programs. If we are unable to communicate by email with our members and potential members as a result of legislation, blockage or otherwise, our business, operating results and financial condition would be harmed.

---

## **Table of Contents**

*Consumers depend upon third-party service providers to access our website, and our business and operating results could be harmed as a result of technical difficulties experienced by these service providers.*

Consumers using our website depend upon Internet, online and other service providers for access to our website. Many of these service providers have experienced significant outages, delays and other difficulties in the past and could experience them in the future. Any significant interruption in access to our website or increase in our website's response time as a result of these difficulties could damage our relationship with insurance carriers, marketing partners and existing and potential members and could harm our business, operating results and financial condition.

### **Risks Related to the Ownership of Our Common Stock**

*Future sales of shares of our common stock by existing stockholders could depress the market price of our common stock.*

We completed our initial public offering in October 2006, and the 180-day contractual lockup applicable to our equity holders at the time of our initial public offering expired in April of this year. As a result, additional shares of our common stock have become eligible for sale in the public market, including shares held by directors, executive officers and other affiliates. In addition, outstanding options to purchase shares of our common stock and restricted stock units covering shares of common stock under our 2006 Equity Incentive Plan, 2005 Stock Plan and 1998 Stock Plan, as well as additional shares reserved for issuance under our 2006 Equity Incentive Plan have become, and will continue to become, eligible for sale in the public market, subject to certain legal and contractual limitations. Many of these shares have been sold in the public market since the expiration of the lockup period. If a significant portion of these additional shares continue to be sold, or if it is perceived that they will continue to be sold, in the public market, the trading price of our common stock could decline substantially.

*The trading price of our common stock may be subject to significant fluctuations and volatility, and our stockholders may be unable to resell their shares at a profit.*

The stock markets, in general, and the markets for high technology stocks in particular, have experienced high levels of volatility. The market for technology stocks has been extremely volatile and frequently reaches levels that bear no relationship to the past or present operating performance of those companies. These broad market fluctuations may adversely affect the trading price of our common stock. In addition, the trading price of our common stock has been subject to significant fluctuations and may continue to fluctuate or decline. Factors that could cause fluctuations in the trading price of our common stock include, but are not limited to, the following:

price and volume fluctuations in the overall stock market from time to time;

significant volatility in the market price and trading volume of technology companies in general, and companies in our industry;

actual or anticipated changes in our results of operations or fluctuations in our operating results;

actual or anticipated changes in the expectations of investors or securities analysts, including changes in financial estimates or investment recommendations by securities analysts who follow our business;

speculation in the press or investment community;

technological advances or introduction of new products by us or our competitors;

actual or anticipated developments in our competitors' businesses or the competitive landscape generally;

Edgar Filing: eHealth, Inc. - Form 10-Q

litigation involving us, our industry or both;

regulatory developments in the United States, foreign countries or both;

major catastrophic events;

our sale of common stock or other securities in the future;

the trading volume of our common stock, as well as sales of large blocks of our stock; or

departures of key personnel.

---

**Table of Contents**

These factors, as well as general economic and political conditions and the announcement of proposed and completed acquisitions or other significant transactions, or any difficulties associated with such transactions, by us or our strategic partners, customers or our current competitors, may materially adversely affect the market price of our common stock in the future. In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been instituted against that company. Such litigation could result in substantial cost and a diversion of management's attention and resources. In addition, volatility, lack of positive performance in our stock price or changes to our overall compensation program, including our equity incentive program, may adversely affect our ability to retain key employees.

***Certain provisions in our charter documents and Delaware law could discourage takeover attempts and lead to management entrenchment.***

Our certificate of incorporation and bylaws contain provisions that could have the effect of delaying or preventing changes in control or changes in our management without the consent of our board of directors. These provisions include:

a classified board of directors with three-year staggered terms, which may delay the ability of stockholders to change the membership of a majority of our board of directors;

cumulative voting in the election of directors is prohibited, which limits the ability of minority stockholders to elect director candidates;

the exclusive right of our board of directors to elect a director to fill a vacancy created by the expansion of the board of directors or the resignation, death or removal of a director, which prevents stockholders from being able to fill vacancies on our board of directors;

the ability of our board of directors to determine to issue shares of preferred stock and to determine the price and other terms of those shares, including preferences and voting rights, without stockholder approval, which could be used to significantly dilute the ownership of a hostile acquiror;

a prohibition on stockholder action by written consent, which forces stockholder action to be taken at an annual or special meeting of our stockholders;

the requirement that a special meeting of stockholders may be called only by the chairman of the board of directors, the chief executive officer or the board of directors, which may delay the ability of our stockholders to force consideration of a proposal or to take action, including the removal of directors; and

advance notice procedures that stockholders must comply with in order to nominate candidates to our board of directors or to propose matters to be acted upon at a stockholders' meeting, which may discourage or deter a potential acquiror from conducting a solicitation of proxies to elect the acquiror's own slate of directors or otherwise attempting to obtain control of us.

We are also subject to certain anti-takeover provisions under Delaware law. Under Delaware law, a corporation may, in general, not engage in a business combination with any holder of 15% or more of its capital stock unless the holder has held the stock for three years or, among other things, the board of directors has approved the transaction.

**Table of Contents****ITEM 6. EXHIBITS**

## (a) Exhibits

Except as so indicated in Exhibits 32.1 and 32.2, the following exhibits are filed as part of, or incorporated by reference into, this quarterly report.

		<b>Incorporation by reference herein</b>	
<b>Exhibit</b>			
<b>Number</b>	<b>Description of Exhibit</b>	<b>Form</b>	<b>Date</b>
3.2.1	Amendment to Amended and Restated Bylaws of the Registrant	Current Report on Form 8-K, (File No. 001-33071)	September 17, 2007
10.9.1*	Letter Amendment, dated November 2007, amending Offer Letter dated November 30, 1999, between Gary Lauer and eHealthInsurance Services, Inc.		
10.12.1*	Letter Amendment, dated September 2007, amending Offer Letter dated April 6, 2000 and Offer Letter Supplement dated August 7, 2000, between Bruce Telkamp and eHealthInsurance Services, Inc.		
31.1	Certification of Gary L. Lauer, Chief Executive Officer of eHealth, Inc., pursuant to Exchange Act Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.		
31.2	Certification of Stuart M. Huizinga, Chief Financial Officer of eHealth, Inc., pursuant to Exchange Act Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.		
32.1	Certification of Gary L. Lauer, Chief Executive Officer of eHealth, Inc., pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.		
32.2	Certification of Stuart M. Huizinga, Chief Financial Officer of eHealth, Inc., pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.		

Filed herewith.

Furnished herewith.

\* Indicates a management contract or compensatory plan or arrangement.





**Table of Contents**

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized on the 14<sup>th</sup> day of November 2007.

/s/ GARY L. LAUER  
Gary L. Lauer  
*Chief Executive Officer*  
*(Duly Authorized Officer on Behalf of the Registrant)*

/s/ STUART M. HUIZINGA  
Stuart M. Huizinga  
*Chief Financial Officer*  
*(Principal Financial Officer)*

**Table of Contents****EXHIBIT INDEX**

		Incorporation by reference herein	
Exhibit			
Number	Description of Exhibit	Form	Date
3.2.1	Amendment to Amended and Restated Bylaws of the Registrant	Current Report on Form 8-K, (File No. 001-33071)	September 17, 2007
10.9.1*	Letter Amendment, dated November 2007, amending Offer Letter dated November 30, 1999, between Gary Lauer and eHealthInsurance Services, Inc.		
10.12.1*	Letter Amendment, dated September 2007, amending Offer Letter dated April 6, 2000 and Offer Letter Supplement dated August 7, 2000, between Bruce Telkamp and eHealthInsurance Services, Inc.		
31.1	Certification of Gary L. Lauer, Chief Executive Officer of eHealth, Inc., pursuant to Exchange Act Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.		
31.2	Certification of Stuart M. Huizinga, Chief Financial Officer of eHealth, Inc., pursuant to Exchange Act Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.		
32.1	Certification of Gary L. Lauer, Chief Executive Officer of eHealth, Inc., pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.		
32.2	Certification of Stuart M. Huizinga, Chief Financial Officer of eHealth, Inc., pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.		

Filed herewith.

Furnished herewith.

\* Indicates a management contract or compensatory plan or arrangement.