

eHealth, Inc.
Form 10-Q
November 14, 2007
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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)

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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.

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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)**

	December 31, 2006	September 30, 2007 (unaudited)
Assets		
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
Liabilities and stockholders' equity		
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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2007	2006	2007
Revenue:				
Commission	\$ 15,867	\$ 21,313	\$ 42,423	\$ 59,486
Sponsorship, licensing and other	795	1,684	1,471	4,072
Total revenue	16,662	22,997	43,894	63,558
Operating costs and expenses:				
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
Total operating costs and expenses	13,987	18,154	38,665	51,848
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
Net income	\$ 2,738	\$ 3,730	\$ 5,432	\$ 9,235
Comprehensive income:				
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
Total comprehensive income	\$ 2,749	\$ 3,796	\$ 5,448	\$ 9,325
Net income per share:				
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	
Net income:				
Allocated to common stock	\$ 2,705	\$ 3,730	\$ 5,376	\$ 9,235
Allocated to Class A nonvoting common stock	33		56	
Net income	\$ 2,738	\$ 3,730	\$ 5,432	\$ 9,235
Weighted-average number of shares used in per share amounts:				
Basic common stock	4,974	23,517	4,903	22,643
Basic Class A nonvoting common stock	61		51	

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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.

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	Nine Months Ended September 30,	
	2006	2007
Operating activities		
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
Investing activities		
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)
Financing activities		
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.

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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.

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