

eHealth, Inc.
Form 10-Q
May 12, 2008
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

□ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2008

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.)

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440 EAST MIDDLEFIELD ROAD

MOUNTAIN VIEW, CALIFORNIA 94043

(Address of principal executive offices)

(650) 584-2700

(Registrant's telephone number, including area code)

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, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐ Smaller reporting company ☐

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

The number of shares of the registrant's common stock, par value \$0.001 per share, outstanding as of April 30, 2008 was 24,920,599 shares.

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

	December 31, 2007	March 31, 2008 (unaudited)
Assets		
Current assets:		
Cash and cash equivalents	\$ 81,395	\$ 90,880
Marketable securities	40,119	37,038
Accounts receivable	1,300	1,640
Deferred income taxes	13,240	10,799
Prepaid expenses and other current assets	2,098	2,050
Total current assets	138,152	142,407
Property and equipment, net	3,791	3,718
Deferred income taxes	4,535	4,535
Other assets	975	905
Total assets	\$ 147,453	\$ 151,565
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 1,495	\$ 1,698
Accrued compensation and benefits	4,849	3,275
Accrued marketing expenses	2,454	2,803
Deferred revenue	436	525
Other current liabilities	2,073	2,291
Total current liabilities	11,307	10,592
Other non-current liabilities	252	218
Commitments and contingencies		
Stockholders' equity:		
Preferred stock		
Common stock	25	25
Additional paid-in capital	167,847	169,232
Deferred stock-based compensation	(104)	(84)
Accumulated deficit	(32,060)	(28,763)
Accumulated other comprehensive income	186	345
Total stockholders' equity	135,894	140,755
Total liabilities and stockholders' equity	\$ 147,453	\$ 151,565

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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 INCOME AND COMPREHENSIVE INCOME****(In thousands, except per share amounts, unaudited)**

	Three Months Ended March 31,	
	2007	2008
Revenue:		
Commission	\$ 18,374	\$ 24,119
Sponsorship, licensing and other	1,115	2,161
Total revenue	19,489	26,280
Operating costs and expenses:		
Cost of revenue-sharing	417	437
Marketing and advertising	6,930	9,649
Customer care and enrollment	2,999	3,625
Technology and content	2,995	3,479
General and administrative	3,455	4,365
Total operating costs and expenses	16,796	21,555
Income from operations	2,693	4,725
Interest and other income, net	1,167	1,209
Income before income taxes	3,860	5,934
Provision for income taxes	1,583	2,637
Net income	\$ 2,277	\$ 3,297
Comprehensive income:		
Net income	\$ 2,277	\$ 3,297
Change in unrealized gain on investments, net of taxes		113
Foreign currency translation adjustment, net of taxes	12	46
Total comprehensive income	\$ 2,289	\$ 3,456
Net income per share:		
Basic	\$ 0.10	\$ 0.13
Diluted	\$ 0.09	\$ 0.13
Weighted-average number of shares used in per share amounts:		
Basic	21,739	24,766
Diluted	25,428	25,974

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)**

	Three Months Ended March 31,	
	2007	2008
Operating activities		
Net income	\$ 2,277	\$ 3,297
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred income taxes	1,493	2,441
Depreciation and amortization	426	430
Stock-based compensation expense	272	659
Deferred rent	27	(21)
Changes in operating assets and liabilities:		
Accounts receivable	(171)	(340)
Prepaid expenses and other current assets	(350)	(74)
Other assets	(43)	71
Accounts payable	108	201
Accrued compensation and benefits	(1,115)	(1,461)
Accrued marketing expenses	486	349
Deferred revenue	139	89
Other current liabilities	(142)	205
Net cash provided by operating activities	3,407	5,846
Investing activities		
Purchases of property and equipment	(224)	(334)
Changes in restricted cash	(1)	
Purchases of marketable securities		(19,315)
Sales of marketable securities		4,047
Maturities of marketable securities		18,462
Net cash (used in) provided by investing activities	(225)	2,860
Financing activities		
Net proceeds from exercise of common stock options	101	746
Principal payments in connection with capital leases	(104)	
Net cash (used in) provided by financing activities	(3)	746
Effect of exchange rate changes on cash and cash equivalents	16	33
Net increase in cash and cash equivalents	3,195	9,485
Cash and cash equivalents at beginning of period	90,316	81,395
Cash and cash equivalents at end of period	\$ 93,511	\$ 90,880

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. (the Company, we or us) offers 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.

Basis of Presentation The accompanying condensed consolidated balance sheet as of March 31, 2008 and the condensed consolidated statements of income and comprehensive income and the condensed consolidated statements of cash flows for the three months ended March 31, 2007 and 2008, respectively, are unaudited. The condensed consolidated balance sheet data as of December 31, 2007 was derived from the audited consolidated financial statements which are included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2007, which was filed with the Securities and Exchange Commission on March 17, 2008. The accompanying statements should be read in conjunction with the audited consolidated financial statements and related notes contained in our Annual Report on Form 10-K.

The accompanying condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles, or GAAP, for interim financial information. Accordingly, they do not include all of the financial information and footnotes required by GAAP for complete financial statements. The unaudited condensed consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements in our Annual Report on Form 10-K, and include all adjustments necessary for the fair presentation of eHealth's statement of financial position as of March 31, 2008, and its results of operations and its cash flows for the three months ended March 31, 2007 and 2008. All adjustments are of a normal recurring nature. The results for the three months ended March 31, 2008 are not necessarily indicative of the results to be expected for any subsequent quarter or for the fiscal year ending December 31, 2008.

Significant Customers Revenue for all periods presented was generated from customers located solely in the United States. The following carriers (or carriers owned by them) represented 10% or more of our total revenue for the three months ended March 31, 2007 and 2008 (unaudited):

	Three Months Ended March 31,	
	2007	2008
UnitedHealthcare	20%	18%
Wellpoint	19%	15%
Aetna	10%	12%

Revenue attributable to individual and family product offerings in the three months ended March 31, 2007 and 2008 represented approximately 84% and 87% of our commission revenue, respectively. 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.

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

Recent Accounting Pronouncements We implemented SFAS No. 157 (SFAS 157), *Fair Value Measurement*, effective January 1, 2008 for our financial assets and liabilities that are re-measured and reported at fair value at each reporting period, and non-financial assets and liabilities that are re-measured and reported at fair value at least annually. In accordance with the provisions of FASB Staff Position No. FAS 157-2, *Effective Date of FASB Statement No. 157*, we have elected to defer until January 1, 2009, implementation of SFAS 157 for all non-financial assets and liabilities, except those that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis. The partial adoption of SFAS 157 did not have a material impact on our consolidated financial position, results of operations or cash flows.

We adopted SFAS No. 159 (SFAS 159) *The Fair Value Option for Financial Assets and Financial Liabilities* effective January 1, 2008. SFAS 159 allows an entity the irrevocable option to elect fair value for the initial and subsequent measurement for specified financial assets and liabilities on a contract-by-contract basis. The implementation of SFAS 159 did not have an impact on our consolidated financial position, results of operations or cash flows, as we did not elect to adopt the fair value option under this Statement.

Note 2 Cash, Cash Equivalents and Marketable Securities

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

	As of December 31, 2007	As of March 31, 2008 (unaudited)
Cash and cash equivalents:		
Cash	\$ 4,580	\$ 2,114
Money market funds	55,292	72,502
Commercial paper	21,523	11,278
U.S. government-sponsored enterprise discount notes		4,986
Total	\$ 81,395	\$ 90,880

Marketable Securities Our investments in available-for-sale marketable securities consisted of the following (in thousands):

	As of December 31, 2007	As of March 31, 2008 (unaudited)
Corporate bonds	\$ 15,398	\$ 13,323
U.S. government-sponsored enterprise bonds	11,322	12,903
U.S. government-sponsored enterprise discount notes		4,988
Commercial paper	13,049	5,474
Certificates of deposit	350	350
Total marketable securities	\$ 40,119	\$ 37,038

Table of Contents**EHEALTH, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(unaudited)****Note 3 Fair Value Measurements**

SFAS 157 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and enhances disclosures about fair value measurements. Fair value is defined under SFAS 157 as the price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value under SFAS 157 must maximize the use of observable inputs and minimize the use of unobservable inputs. SFAS No. 157 classifies the inputs used to measure fair value into the following hierarchy:

- Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities
- Level 2 Unadjusted quoted prices in active markets for similar assets or liabilities, or
- Unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or
- Inputs other than quoted prices that are observable for the asset or liability
- Level 3 Unobservable inputs for the asset or liability

The following table presents information about our financial assets (cash equivalents and marketable securities) that are re-measured and reported at fair value on a recurring basis as of March 31, 2008, and indicates the fair value hierarchy of the valuation techniques we utilized to determine such fair value (in thousands, unaudited):

	As of March 31, 2008		
	Level 1	Level 2	Total
Cash equivalents:			
Money market funds	\$ 72,502	\$	\$ 72,502
Commercial paper		11,278	11,278
U.S. government-sponsored enterprise discount notes		4,986	4,986
	72,502	16,264	88,766
Marketable securities:			
Corporate bonds		13,323	13,323
U.S. government-sponsored enterprise bonds		12,903	12,903
U.S. government-sponsored enterprise discount notes			