eHealth, Inc.
Form 10-Q
August 05, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2011

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	**56-2357876**
(State or other jurisdiction of incorporation or organization)	**(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)

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 x NO ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulations S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES x 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	x
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 x

The number of shares of the registrant s common stock, par value $0.001 per share, outstanding as of July 29, 2011 was 21,406,832 shares.

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EHEALTH, INC. FORM 10-Q

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PART I

FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

EHEALTH, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

	December 31, 2010	June 30, 2011 (unaudited)
Assets		
Current assets:		
Cash and cash equivalents	$ 128,074	$ 135,893
Accounts receivable	10,810	4,998
Deferred income taxes	5,347	4,227
Prepaid expenses and other current assets	4,361	3,582
Total current assets	148,592	148,700
Property and equipment, net	4,528	4,582
Deferred income taxes	3,119	3,311
Other assets	3,248	5,482
Acquired intangible assets, net	12,262	11,408
Goodwill	14,096	14,096
Total assets	$ 185,845	$ 187,579
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	$ 3,573	$ 2,405
Accrued compensation and benefits	7,523	6,854
Accrued marketing expenses	3,644	3,414
Deferred revenue	2,785	656
Other current liabilities	2,672	1,636
Total current liabilities	20,197	14,965
Other non-current liabilities	3,451	3,636
Stockholders equity:		
Common stock	26	26
Additional paid-in capital	203,231	209,110
Treasury stock, at cost	(56,202)	(59,998)
Retained earnings	14,937	19,650
Accumulated other comprehensive income	205	190
Total stockholders equity	162,197	168,978
Total liabilities and stockholders equity	$ 185,845	$ 187,579

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

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EHEALTH, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share amounts, unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2011	2010	2011
Revenue:				
Commission	$ 31,872	$ 30,079	$ 63,645	$ 60,839
Other	4,384	6,107	8,600	12,902
Total revenue	36,256	36,186	72,245	73,741
Operating costs and expenses:				
Cost of revenue	881	2,555	1,859	5,206
Marketing and advertising	13,883	11,668	28,701	24,577
Customer care and enrollment	3,902	4,610	7,848	10,020
Technology and content	4,999	5,415	9,580	10,885
General and administrative	6,554	6,661	12,321	13,382
Amortization of acquired intangible assets	285	427	285	854
Total operating costs and expenses	30,504	31,336	60,594	64,924
Income from operations	5,752	4,850	11,651	8,817
Interest and other income (expense), net	(12)	(21)	16	(40)
Income before income taxes	5,740	4,829	11,667	8,777
Provision for income taxes	2,699	2,097	5,393	4,064
Net income	$ 3,041	$ 2,732	$ 6,274	$ 4,713
Net income per share:				
Basic	$ 0.13	$ 0.13	$ 0.27	$ 0.22
Diluted	$ 0.13	$ 0.12	$ 0.26	$ 0.21
Weighted-average number of shares used in per share amounts:				
Basic	23,529	21,390	23,493	21,371
Diluted	24,266	22,119	24,306	22,079

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

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EHEALTH, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands, unaudited)

	Six Months Ended June 30, 2010	Six Months Ended June 30, 2011
Operating activities		
Net income	$ 6,274	$ 4,713
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred income taxes	4,936	3,664
Depreciation and amortization	1,043	1,266
Amortization of acquired intangible assets	285	854
Amortization and accretion on marketable securities, net	50	
Stock-based compensation expense	3,249	3,798
Excess tax benefits from stock-based compensation	(5,237)	(2,553)
Deferred rent	2	(20)
Loss on disposal of property and equipment	6	3
Changes in operating assets and liabilities:		
Accounts receivable	101	6,577
Prepaid expenses and other current assets	687	1,525
Other assets	91	26
Accounts payable	1	(1,169)
Accrued compensation and benefits	676	(679)
Accrued marketing expenses	258	(230)
Deferred revenue	23	(2,129)
Other current liabilities	(1,188)	(1,055)
Net cash provided by operating activities	11,257	14,591
Investing activities		
Purchases of property and equipment	(1,344)	(1,239)
Acquisition of PlanPrescriber, net of cash acquired	(27,203)	
Purchase of other assets		(3,769)
Maturities of marketable securities	22,100	
Net cash used in investing activities	(6,447)	(5,008)
Financing activities		
Proceeds from exercise of common stock options	464	72
Cash used to net-share settle equity awards	(557)	(544)
Excess tax benefits from stock-based compensation	5,237	2,553
Repurchases of common stock		(3,796)
Principal payments in connection with capital lease	(21)	(30)
Net cash provided by (used in) financing activities	5,123	(1,745)
Effect of exchange rate changes on cash and cash equivalents	6	(19)
Net increase in cash and cash equivalents	9,939	7,819
Cash and cash equivalents at beginning of period	131,339	128,074

Cash and cash equivalents at end of period	$ 141,278	$ 135,893

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

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, eHealth, we or us) offers Internet-based health 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 compare and purchase health insurance plans from health insurance carriers across the nation. We began actively marketing the availability of Medicare related insurance plans during 2010 and we offer Medicare plan comparison tools and educational materials for Medicare-related insurance plans, including Medicare Advantage, Medicare Supplement and Medicare Part D prescription drug plans. The revenue we have generated in our Medicare plan business is primarily referral fees paid to us based on leads generated by our online platforms that are delivered and sold to third parties. We are licensed to market and sell health insurance in all 50 states and the District of Columbia.

Book of Business Transfers In November 2010 we entered into an agreement with a partner, whereby the partner transferred certain of its existing Medicare insurance members to us as the broker of record on the underlying policies. Total consideration of $3.3 million is being amortized to cost of revenue in the consolidated statements of income and comprehensive income as we recognize commission revenue related to the transferred members over a period of up to five years. In May 2011, we entered into a similar agreement with the same partner, whereby the partner transferred certain of its existing Medicare insurance members to us as the broker of record on the underlying policies. Total arrangement consideration of $3.0 million paid to the partner is being amortized to cost of revenue as we recognize commission revenue related to the transferred members over a period of up to five years.

Basis of Presentation The accompanying condensed consolidated balance sheet as of June 30, 2011, the condensed consolidated statements of income for the three and six months ended June 30, 2010 and 2011 and the condensed consolidated statements of cash flows for the six months ended June 30, 2010 and 2011, respectively, are unaudited. The condensed consolidated balance sheet data as of December 31, 2010 was derived from the audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2010, which was filed with the Securities and Exchange Commission on March 15, 2011. 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 U.S. GAAP, for interim financial information. Accordingly, they do not include all of the financial information and footnotes required by U.S. 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 for the year ended December 31, 2010, and include all adjustments necessary for the fair presentation of eHealth s statement of financial position as of June 30, 2011, its results of operations for the three and six months ended June 30, 2010 and 2011 and its cash flows for the six months ended June 30, 2010 and 2011. All adjustments are of a normal recurring nature. The results for the three months ended June 30, 2011 are not necessarily indicative of the results to be expected for any subsequent quarter or for the fiscal year ending December 31, 2011.

Revenue Recognition In October 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2009-13 *Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements* (ASU 2009-13). ASU 2009-13 addresses how to measure and allocate arrangement consideration to one or more units of accounting within certain multiple-deliverable arrangements. ASU 2009-13 modifies the requirements for determining whether a deliverable can be treated as a separate unit of accounting by removing the criterion that objective evidence of fair value must exist for the undelivered elements. ASU 2009-13 was effective for us prospectively for revenue arrangements entered into or materially modified on or after January 1, 2011.

In accordance with ASU 2009-13, effective January 1, 2011, we allocate revenue to all units of accounting within an arrangement with multiple deliverables at the inception of the arrangement using the relative selling price method. The relative selling price method allocates any discount in an arrangement proportionally to each deliverable on the basis of each deliverable s relative selling price. The relative selling price established for each deliverable is based on vendor-specific objective evidence of fair value (VSOE) if available, third-party evidence of selling price if VSOE is not available, or best estimate of selling price if neither VSOE nor third-party evidence is available. When used, the best estimate of selling price reflects our best estimates of what the selling prices of certain deliverables would be if they were sold regularly on a stand-alone basis.

EHEALTH, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

Our process for determining best estimate of selling price for deliverables without VSOE or third-party evidence of selling price considers multiple factors that may vary depending upon the unique facts and circumstances related to each deliverable. Key factors considered by us in developing the relative selling prices for our technology licensing fees include prices charged by us for similar offerings and our historical pricing practices. We may also consider additional factors as appropriate, including competition.

A deliverable constitutes a separate unit of accounting when it has stand-alone value and there are no customer-negotiated right of refunds for the delivered elements. If the arrangement includes a customer-negotiated right of refund relative to the delivered item, and the delivery and performance of the undelivered item is considered probable and substantially in our control, the delivered element constitutes a separate unit of accounting. In circumstances when the aforementioned criteria are not met, the deliverable is combined with the undelivered elements, and the allocation of the arrangement consideration and revenue recognition is determined for the combined unit as a single unit. Allocation of the consideration is determined at the inception of the arrangement on the basis of each unit s relative selling price. The new standards do not generally change the units of accounting for our revenue transactions.

After the arrangement consideration has been allocated to each unit of accounting within an arrangement with multiple deliverables based on their relative selling prices, we apply revenue recognition criteria separately to each respective unit of accounting in the arrangement in accordance with applicable accounting guidance. Our multiple-element arrangements primarily consist of ecommerce technology licensing agreements, which typically include delivery of a customized website, maintenance and support services to host the website and professional services. Since our recognition of technology licensing revenue in accordance with ASU 2009-13 is not materially different from our recognition of technology licensing revenue prior to the adoption of ASU 2009-13, the adoption of ASU 2009-13 did not have a material impact on our results of operations and cash flows for the three and six months ended June 30, 2011. We cannot reasonably estimate the effect of adopting ASU 2009-13 on future financial periods as the impact will vary depending on the nature and volume of new or materially modified agreements in any given period.

Recent Accounting Pronouncements In May 2011, the Financial Accounting Standards Board (FASB) issued updated accounting guidance related to fair value measurements and disclosures that result in common fair value measurements and disclosures between GAAP and International Financial Reporting Standards. This guidance includes amendments that clarify the intent about the application of existing fair value measurements and disclosures, while other amendments change a principle or requirement for fair value measurements or disclosures. This guidance is effective for interim and annual periods beginning after December 15, 2011. The new guidance is to be adopted prospectively and early adoption is not permitted. We do not believe the adoption of this guidance will have a material impact on our consolidated financial statements.

In June 2011, the FASB issued authoritative guidance related to the presentation of comprehensive income. The guidance requires that all non-owner changes in stockholders equity be presented in a single continuous statement of comprehensive income or in two separate but consecutive statements. The guidance does not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. This guidance is effective for interim and annual periods beginning after December 15, 2011. The new guidance is to be applied retrospectively and early adoption is permitted. We will adopt the guidance in beginning in the first quarter of 2012 and we do not believe the adoption of this guidance will have a material impact on our consolidated financial statements.

Note 2 Cash and Cash Equivalents

Cash and Cash Equivalents We invest our cash and cash equivalents with major banks and financial institutions and such investments are often in excess of federally insured limits. As of December 31, 2010 and June 30, 2011, our cash and cash equivalent balances were invested as follows (in thousands):

	December 31, 2010	June 30, 2011
Cash	$ 11,663	$ 14,510

Money market funds (1)		116,411		121,383
Total cash and cash equivalents	$	128,074	$	135,893

(1) At December 31, 2010 and June 30, 2011, money market accounts were invested primarily in U.S. government-sponsored enterprise bonds and discount notes, U.S. government treasury bills and notes and repurchase agreements collateralized by U.S. government obligations.

At December 31, 2010 and June 30, 2011, our cash equivalents carried no unrealized gains or losses and we did not realize any significant gains or losses on sales of cash equivalents during the three and six months ended June 30, 2010 and 2011.

At December 31, 2010 and June 30, 2011, our cash equivalents were invested in money market funds and were classified as Level 1 within the fair market valuation hierarchy. We endeavor to utilize the best available information in measuring fair value. We used observable prices in active markets in determining the classification of our money market funds as Level 1.

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EHEALTH, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

Note 3 Stockholders Equity and Stock Plans

Stock Plans The following table summarizes option activity under our 2006 Equity Incentive Plan (the 2006 Plan), 1998 Stock Plan and 2005 Stock Plan (collectively, the Stock Plans) (in thousands, except per share amounts and weighted average remaining contractual life data):

	Shares Available for Grant (1)	Number of Option Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (years)	Aggregate Intrinsic Value (2)
Balance at December 31, 2010	3,283	3,491	$ 11.62	4.69	$ 16,349
Additional shares authorized (3)	863				
Options granted	(214)	214	$ 12.48		
Restricted stock units granted (4)	(323)				
Options exercised		(10)	$ 6.74		
Options cancelled	94	(94)	$ 15.07		
Restricted stock units cancelled	16				
Balance at June 30, 2011	3,719	3,601	$ 11.59	4.27	$ 14,700

(1) Shares available for grant exclude treasury stock of 3,956,128 shares and 4,271,021 shares at December 31, 2010 and June 30, 2011, respectively, which could be granted if we determined to do so.
(2) The aggregate intrinsic value is calculated as the difference between eHealth s closing stock price as of December 31, 2010 and June 30, 2011 and the exercise price of in-the-money options as of those dates.
(3) On January 1, 2011, the number of shares authorized for issuance under the 2006 Plan was automatically increased by 862,989 shares, pursuant to the terms of the 2006 Plan.
(4) Includes a grant of 115,080 restricted stock units with both service and performance-based vesting criteria to our executive officers.

The total grant date fair value of stock options vested during the three and six months ended June 30, 2011 was $1.4 million and $2.9 million, respectively. The total grant date fair value of stock options vested during the three and six months ended June 30, 2010 was $0.9 million and $2.1 million, respectively.

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

	Number Outstanding	Weighted-Average Remaining Contractual Life (years)	Aggregate Intrinsic Value (1)

Balance as of December 31, 2010	370	2.22	$ 5,254
Granted (2)	323		
Vested	(137)		
Cancelled	(16)		
Balance as of June 30, 2011	540	2.15	$ 7,219

(1) The aggregate intrinsic value is calculated as eHealth s closing stock price as of December 31, 2010 and June 30, 2011 multiplied by the number of restricted stock units outstanding as of December 31, 2010 and June 30, 2011.

(2) Includes the grant of 115,080 restricted stock units with both service and performance-based vesting criteria to our executive officers.

The total grant date fair value of restricted stock units vested during the three and six months ended June 30, 2011 was $0.2 million and $1.7 million, respectively. The total grant date fair value of restricted stock units vested during the three and six months ended June 30, 2010 was $0.1 million and $1.7 million, respectively.

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EHEALTH, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

Stock Repurchase Program On July 27, 2010, we announced that our board of directors approved a stock repurchase program authorizing us to purchase up to $30 million of our common stock. In January 2011, we completed this stock repurchase program, having repurchased in the aggregate 2,297,705 shares for approximately $30.0 million at an average price of $13.06 per share including commissions. The cost of the repurchased shares was funded from available working capital. Shares repurchased under this program complied with Rule 10b-18 under the Securities Exchange Act of 1934, as amended.

On June 14, 2011, we announced that our board of directors approved a stock repurchase program authorizing us to purchase up to an additional $30 million of our common stock. Repurchases under this program began in the third quarter of 2011. Purchases under the repurchase program may be made in open market or unsolicited negotiated transactions and are expected to comply with Rule 10b-18 under the Securities Exchange Act of 1934, as amended. The timing of purchases and the exact number of shares to be purchased will depend upon market conditions. The repurchase program does not require us to acquire a specific number of shares, and the repurchase program may be suspended from time to time or discontinued at any time. The cost of the repurchased shares will be funded from available working capital.

For accounting purposes, common stock repurchased under our stock repurchase programs was recorded based upon the settlement date of the applicable trade. Such repurchased shares are held in treasury and are presented using the cost method. All shares repurchased under these programs are returned to the status of authorized but unissued shares of common stock.

Stock repurchase activity under our stock repurchase programs as of December 31, 2010 and June 30, 2011 and during the six months ended June 30, 2011 is summarized as follows (in thousands, except share and per share amounts):

	Total Number of Shares Purchased	Average Price Paid per Share (2)	Amount of Repurchase
Cumulative balance at December 31, 2010 (1)	3,904,652	$ 14,39	$ 56,202
Repurchases of common stock	270,903	$ 14.01	3,796
Cumulative balance at June 30, 2011 (1)	4,175,555	$ 14.37	$ 59,998

(1) Cumulative balances at December 31, 2010 and June 30, 2011 include shares repurchased in connection with our stock repurchase program announced on July 27, 2010, as well as a previous stock repurchase plan announced in 2008.
(2) Average price paid per share includes commissions.

In addition to the 4,175,555 shares repurchased under our repurchase programs as of June 30, 2011, we have in treasury 95,466 shares that were surrendered by employees to satisfy tax withholdings due in connection with the vesting of certain restricted stock units. As of December 31, 2010 and June 30, 2011, we had a total of 3,956,128 shares and 4,271,021 shares, respectively, held in treasury.

Comprehensive Income The following table sets forth the activity for each component of comprehensive income, net of related taxes, for the three and six months ended June 30, 2010 and 2011 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2011	2010	2011

Comprehensive income:				
Net income	$ 3,041	$ 2,732	$ 6,274	$ 4,713
Change in unrealized gain on investments, net of taxes	8		(11)	
Foreign currency translation adjustment, net of taxes	6	(8)	8	(15)
Total comprehensive income	$ 3,055	$ 2,724	$ 6,271	$ 4,698

As of December 31, 2010 and June 30, 2011, accumulated other comprehensive income, net of related taxes, was comprised solely of foreign currency translation adjustments, net of taxes.

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EHEALTH, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

Note 4 Stock-Based Compensation

In the three months ended June 30, 2011, we issued restricted stock units representing 115,080 shares of common stock with both service and performance-based vesting criteria to our executive officers. The performance-based contingency period for these restricted stock units is fiscal 2011 ending December 31, 2011, and the measurement of achievement is based on our 2011 revenue, non-GAAP operating earnings and EBITDA results. These performance-based restricted stock units were granted pursuant to the terms of our 2006 Plan. Shares which are earned and eligible to vest following our 2011 results will vest one-third annually in 2012, 2013 and 2014.

The fair value of stock options granted to employees for the three and six months ended June 30, 2010 and 2011 was estimated using the following weighted average assumptions:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2011	2010	2011
Expected term	4.7 years	4.6 years	4.6 years	4.6 years
Expected volatility	52.0%	48.9%	52.8%	49.0%
Expected dividend yield	0%	0%	0%	0%
Risk-free interest rate	2.45%	2.05%	2.44%	2.02%
Weighted-average fair value	$ 5.62	$ 5.35	$ 7.32	$ 5.34

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.

The following table summarizes stock-based compensation expense recorded during the three and six months ended June 30, 2010 and 2011 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2011	2010	2011
Common stock options	$ 1,008	$ 1,001	$ 1,944	$ 2,048
Restricted stock units	588	936	1,305	1,750
Total stock-based compensation expense	$ 1,596	$ 1,937	$ 3,249	$ 3,798

The following table summarizes stock-based compensation expense by operating function for the three and six months ended June 30, 2010 and 2011 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2011	2010	2011
Marketing and advertising	$ 201	$ 276	$ 408	$ 522
Customer care and enrollment	88	74	181	181

Technology and content	413	470	856	925
General and administrative	894	1,117	1,804	2,170
Total stock-based compensation expense	$ 1,596	$ 1,937	$ 3,249	$ 3,798

Note 5 Income Taxes

During the three and six months ended June 30, 2011, we recorded a provision for income taxes of $2.1 million and $4.1 million, respectively, representing effective tax rates of approximately 43.4% and 46.3%, respectively. During the three and six months ended June 30, 2010, we recorded a provision for income taxes of $2.7 million and $5.4 million, respectively, representing effective tax rates of approximately 47.0% and 46.2%, respectively. Our effective tax rates in the three and six months ended June 30, 2010 and 2011 were higher than statutory federal and state tax rates due primarily to non-deductible lobbying expenses and tax shortfalls related to share-based payments.

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EHEALTH, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

During the three and six months ended June 30, 2011, we utilized excess federal and state tax benefits related to share-based payments, which resulted in increases of $1.5 million and $2.6 million, respectively, in additional paid-in capital in the condensed consolidated balance sheet. During the three and six months ended June 30, 2010, we utilized excess federal and state tax benefits related to share-based payments, which resulted in increases of $2.6 million and $5.2 million, respectively, in additional paid-in capital in the condensed consolidated balance sheet. These amounts are classified in the condensed consolidated statements of cash flows as both financing cash inflows and operating cash outflows.

Note 6 Net Income Per Share

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. Diluted net income per share is computed giving effect to all potential dilutive common stock, including options, restricted stock and restricted stock units. The computation of diluted net income per share includes restricted stock units with both service and performance-based vesting criteria that will be earned and eligible to vest based on the assumption that the current amount of revenue, non-GAAP operating earnings and EBITDA will remain unchanged until the end of the performance-based contingency period on December 31, 2011. The dilutive effect of outstanding awards is reflected in diluted earnings per share by application of the treasury stock method.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2011	2010	2011
Basic:				
Numerator:				
Net income allocated to common stock	$ 3,041	$ 2,732	$ 6,274	$ 4,713
Denominator:				
Weighted average number of common stock shares	25,456	25,661	25,409	25,621
Weighted average number of common stock shares held in treasury	(1,927)	(4,271)	(1,916)	(4,250)
Net weighted average number of common stock shares	23,529	21,390	23,493	21,371
Net income per share basic:	$ 0.13	$ 0.13	$ 0.27	$ 0.22
Diluted:				
Numerator:				
Net income allocated to common stock	$ 3,041	$ 2,732	$ 6,274	$ 4,713
Denominator:				
Net weighted average number of common stock shares	23,529	21,390	23,493	21,371
Weighted average number of options	721	692	782	679
Weighted average number of restricted stock units	16	37	31	29
Total common stock shares used in per share calculation	24,266	22,119	24,306	22,079

Net income per share diluted:	$ 0.13	$ 0.12	$ 0.26	$ 0.21

EHEALTH, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

For each of the three and six months ended June 30, 2010 and 2011, we had securities outstanding that could potentially dilute earnings per share, but the 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. The number of outstanding weighted average anti-dilutive shares that were excluded from the computation of diluted net income per share consisted of the following (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2011	2010	2011
Common stock options	1,604	1,863	1,318	1,892
Restricted stock units	350	217	386	90
Total	1,954	2,080	1,704	1,982

Note 7 Geographic Information and Significant Customers

Geographic Information As of December 31, 2010 and June 30, 2011, our long-lived assets consisted primarily of property and equipment, goodwill and other indefinite-lived intangible assets and finite-lived intangible assets. 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):

	As of December 31, 2010	As of June 30, 2011
United States	$ 33,495	$ 35,039
China	639	529
Total	$ 34,134	$ 35,568

Significant Customers Substantially all revenue for all periods presented was generated from customers located in the United States. Carriers representing 10% or more of our total revenue in any of the three- and six-month periods ended June 30, 2010 and 2011 are presented in the table below.

	Percentage of Total Revenue			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2011	2010	2011
UnitedHealthcare (1)	14%	15%	15%	14%
WellPoint (2)	14%	12%	14%	12%
Aetna	15%	8%	15%	10%

(1) UnitedHealthcare includes other carriers owned by UnitedHealthcare.

(2) Wellpoint includes other carriers owned by Wellpoint.

Commission revenue attributable to major medical individual and family health insurance plans was approximately 89% and 90% of our total commission revenue in the three and six months ended June 30, 2011, respectively. Commission revenue attributable to major medical individual and family health insurance plans was approximately 91% of our total commission revenue in both the three and six months ended June 30, 2010. We define our individual and family plan offerings as major medical individual and family health insurance plans, which do not include small business, short-term major medical, stand-alone dental, life, student and Medicare-related health insurance plan offerings.

We do not require collateral or other security for our accounts receivable. As of June 30, 2011, two customers represented 43% and 19%, respectively, for a total of 62% of our $5.0 million outstanding accounts receivable. No other customers represented 10% or more of our total accounts receivable. We believe the potential for collection issues with any of our customers is minimal as of June 30, 2011. Accordingly, our allowance for uncollectible amounts at June 30, 2011 was not material.

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EHEALTH, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

Note 8 Subsequent Event

On July 8, 2011, we entered into an amendment to our lease agreement for our headquarters office in Mountain View, California, which extends the lease for an additional seven years through August 2018. This amendment has escalating rent payment provisions of 3% per year for each year of the lease. Future minimum payments under this non-cancellable operating lease amendment are presented in the table below (in thousands):

Years Ending December 31,	Lease Extension Obligation
2011 (September - December)	$ 174
2012	527
2013	542
2014	559
2015	575
Thereafter (January 2016 August 2018)	1,619
Total	$ 3,996

We recognize rent expense on our operating leases on a straight-line basis over the terms of the leases, although actual cash payment obligations under certain of these agreements fluctuate over the terms of the agreements.

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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 regarding our potential for collection issues; the impact of health care reform laws on the health insurance industry and on our business; impact of medical loss ratio regulations and commission rate changes; our expectations and projections relating to our commission rates; our expectations relating to revenue, our Medicare lead referral business, cost of revenue, seasonality, marketing and advertising expenses, customer care and enrollment expenses, technology and content expenses, general and administrative expenses, and stock-based compensation expense; estimates relating to critical accounting policies and related impact on our financial statements; our expectations regarding future dividends; the sufficiency of our cash, cash equivalents and marketable securities; future capital requirements; expenditures related to the development of our business; our projections relating to future revenue growth and earnings per share; our plans and expectations relating to our Medicare business and factors impacting its success; reduction of our cost of acquiring new members; our future competitors; expansion into new business areas and additional geographic regions; the duration of our federal government contract; 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 2011, and the audited consolidated financial statements and related notes contained therein. We undertake no obligation to revise or publicly release the results of any revision to these forward-looking statements. 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. Through our website addresses (*www.eHealth.com*, *www.eHealthInsurance.com*, *www.eHealthMedicare.com* and *www.PlanPrescriber.com)*, consumers can get quotes from leading health insurance carriers, compare plans side-by-side, and apply for and purchase individual and family, small business, short-term, ancillary and Medicare-related health insurance plans. Our ecommerce technology also enables us to deliver consumers health insurance applications electronically to health insurance carriers. As a result, we simplify and streamline the complex and traditionally paper-intensive health insurance sales and purchasing process.

We have invested heavily in 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 member acquisition programs and establishing relationships with over 180 leading insurance carriers, enabling us to offer thousands of health insurance plans online. Our ecommerce platform can be accessed directly through our website as well as through our network of marketing partners.

We generate revenue primarily from commissions we receive from health insurance carriers whose individual, family and small business policies are purchased through our ecommerce platform. Commission revenue represented 83% of total revenue for both the three and six months ended June 30, 2011, and represented 88% of total revenue for both the three and six months ended June 30, 2010. The commission payments we receive are typically a percentage of the premium on an individual, family or small business health insurance policy that we sold and are made to us on a monthly basis for as long as a policy remains active with us. 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. Additionally, health insurance pricing, which is set by the health insurance carrier and approved by state regulators, is not subject to negotiation or discounting by health insurance carriers or our competitors.

We began actively marketing the availability of Medicare-related health insurance plans during 2010 through our online Medicare plan platforms (*www.eHealthMedicare.com* and *www.PlanPrescriber.com)*. In April 2010, we acquired PlanPrescriber, Inc., a privately-held provider of online tools to help Medicare eligible individuals navigate Medicare health insurance options. Our Medicare plan platforms enable consumers to research and compare Medicare-related health insurance plans, including Medicare Advantage, Medicare Supplement and Medicare Part D prescription drug plans. The revenue we have generated in our Medicare plan business is primarily referral fees paid to us based on leads generated by our online platforms that are delivered and sold to third parties. In 2010 we also launched online application capabilities for certain Medicare plans, and telephonic enrollment capabilities through our customer care center in Salt Lake City, Utah. To the extent that we assist in the sale of Medicare-related insurance plans as a health insurance agent, we generate revenue from commissions we receive from health insurance carriers. These Medicare commissions are included in commission revenue.

We also derive revenue from licensing the use of our health insurance ecommerce technology. Our technology platform enables health insurance carriers and agents to market and distribute health insurance plans online. We also recently began to license our ecommerce technology for use by government agencies and intend to market this technology to states implementing health insurance exchanges as a result of health care reform legislation.

In March 2010, the federal Patient Protection and Affordable Care Act and related amendments in the Health Care and Education Reconciliation Act were signed into law. These health care reform laws contain provisions that have and will continue to change the health insurance industry in substantial ways. Among several other provisions, they include a mandate requiring individuals to be insured or face tax penalties; a requirement that persons 26 years of age and younger be able to stay on a parent s health insurance plan; a mandate that certain employers offer their employees group health insurance coverage or face tax penalties; prohibitions against insurance companies using pre-existing health conditions as a reason to deny an application for health insurance; establishment of state and/or federal health insurance exchanges to facilitate access to, and the purchase of, health insurance; subsidies and cost-sharing credits to make health insurance more affordable for those below certain income levels; and medical loss ratio requirements that require each health insurance carrier to spend a certain percentage of their premium revenue on reimbursement for clinical services and activities that improve health care quality and, if they do not, provide rebates to policyholders. While many aspects of health care reform do not become effective until 2014, health insurance carriers are required to maintain medical loss ratios of eighty percent in their individual and family health insurance business beginning in 2011. The implementation of the medical loss ratio requirements by insurance carriers has resulted in a reduction in the commission rates that we are paid as a result of our selling individual and family health insurance plans. These commission rate changes began to impact our individual and family health insurance plan commission-based revenue in 2011 and are expected to have a more significant adverse impact in future quarters.

Sources of Revenue

Commission Revenue

Our commission revenue generally represents a percentage of the insurance premium and, to a much 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. After the first twelve months, commission rates generally decline significantly. As a result, if we do not add a sufficient number of members on new policies, our revenue growth will be negatively impacted. Individuals, families and small businesses purchasing health insurance through us typically pay their premiums on a monthly basis. Insurance carriers typically pay commissions to us monthly, after they receive the premium payment from the member. For certain Medicare health insurance policies, we receive an annual commission payment in the first year after the policy is issued and a monthly commission payment beginning the second year of the policy for up to an additional five years. We generally 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 commission revenue is recurring in nature.

Although our membership base grew 7% from June 30, 2010 to June 30, 2011, our individual and family health insurance plan commission revenue was adversely impacted in the three and six months ended June 30, 2011 due to the reduction in the commission rates that we are paid on new policies as a result of our selling individual and family health insurance plans subsequent to the implementation of the new medical loss ratio requirements beginning in 2011.

Commission rate changes due to the implementation of the new medical loss ratio requirements apply prospectively to applicable commissions earned on or after January 1, 2011 and the majority of the changes applied only to commissions earned on new members approved in 2011 and thereafter. We define a member as an individual covered by an insurance plan for which we are entitled to receive compensation. For the majority of members that were approved prior to the effective date of the commission rate changes, we are being paid commissions at the rates in effect prior to the changes. As a

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result, the adverse impact to our overall commission rate structure will phase in over time. Our future commission rates will depend on the mix between members approved prior to the commission rate changes and those approved after the changes, and the mix of new approved members by state, health insurance carrier and plan, among other factors. Additionally, other programs that health insurance carriers have supported, such as commission overrides and sponsorship advertising programs, have also been reduced as carriers look to reduce costs to comply with the new medical loss ratio requirements. Based on information currently available to us, we expect commission revenue to decrease in absolute dollars and as a percentage of total revenue in 2011 compared to 2010.

During both the three and six months ended June 30, 2011, we experienced a 13% decrease in the number of applications submitted through us for individual and family health insurance, compared to the three and six months ended June 30, 2010. Partially offsetting this decrease was an increase in the number of individuals per approved application for individual and family health insurance during both the three and six months ended June 30, 2011. As a result, the number of individuals approved for individual and family health insurance declined at a lower rate than applications submitted for individual and family health insurance in the three and six months ended June 30, 2011. The number of individuals approved for individual and family health insurance decreased 6% and 9%, respectively, in the three and six months ended June 30, 2011 compared to the three and six months ended June 30, 2010. We believe the decrease in the number of applications submitted through us for individual and family health insurance was impacted by certain healthcare reform provisions of the federal Patient Protection and Affordable Care Act, including a provision that allows individuals 18 to 26 years of age the option of staying on their parents policies. We also believe the decrease in the number of applications submitted through us for individual and family health insurance was impacted by our decision to reduce our marketing and advertising spending in our online advertising channel relating to those plans given the reduction in the commission rates that we are paid on new individual and family plans as a result of the implementation of the new medical loss ratio requirements beginning in 2011. We believe the increase in the number of individuals per approved application resulted in part from a provision in the federal Patient Protection and Affordable Care Act that prohibits health insurance carriers from denying applications for child-only health insurance plans for health reasons.

Many carriers have since dropped child-only plans from their offerings, which has caused us to receive fewer applications for child-only plans and more applications with an adult and a child together. We are also experiencing a higher growth rate in applications submitted by older individuals for individual and family health insurance. The growth rate in applications submitted by all individuals over 40 years of age was positive in the three months ended June 30, 2011, compared to the three months ended June 30, 2010. Individuals over 40 years of age typically choose products with higher premiums than children and young adults, which results in a higher premium base from which our commissions are calculated.

We generally recognize commission revenue when commissions are 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 corroborating communication within ten business days following the end of the accounting period. If the second corroborating communication is not received within ten business days following the end of the accounting period, we recognize revenue in the period the second communication is received. We use the data in the commission statements to help 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. As a result, we recognize the net amount of compensation earned as the agent in the transaction. 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 revenue for a particular quarter could be higher or lower than expectations due to the timing of the reporting of commission override revenue to us.

We began actively marketing the availability of Medicare-related health insurance plans during 2010 through our online Medicare plan platforms (*www.eHealthMedicare.com* and *www.PlanPrescriber.com)*. To the extent that we assist in the sale of Medicare-related insurance plans as a health insurance agent, we generate revenue from commissions we receive from health insurance carriers, and these Medicare commissions are included in commission revenue.

Commission revenue attributable to major medical individual and family health insurance plans represented approximately 91% and 89% of our total commission revenue in the three months ended June 30, 2010 and 2011, respectively, and represented approximately 91% and 90% of our total commission revenue in the six months ended June 30, 2010 and 2011, respectively. Major medical individual and family health insurance plans do not include small business, short-term, stand-alone dental, life, student and Medicare-related health insurance plans.

Other Revenue

In addition to the commission revenue we derive from the sale of health insurance plans, we derive other revenue from generating and delivering leads, primarily for Medicare plans, from licensing the use of our ecommerce technology and from our online sponsorship and advertising program.

Medicare Lead Referral. Our online Medicare plan platforms (*www.eHealthMedicare.com* and *www.PlanPrescriber.com),* enable consumers to research and compare Medicare-related insurance plans, including Medicare Advantage, Medicare Supplement and Medicare Part D prescription drug plans. The revenue we have generated in our Medicare plan business is primarily referral fees paid to us based on leads generated by our online platforms that are delivered and sold to third parties. We are dependent upon a limited number of purchasers of our leads, and the majority of our lead referral revenue is generated during the Medicare annual enrollment period, which occurs during the fourth quarter of the calendar year. Although we expect to continue to sell a substantial number of Medicare leads to third parties in the future, we intend to perform services for an increasing number of Medicare leads ourselves as a health insurance agent. To the extent that we do so, we will be entitled to receive commissions rather than a one-time referral fee. Medicare commissions we receive are included in commission revenue.

Technology Licensing. We derive revenue from licensing the use of our health insurance ecommerce technology. Our technology platform enables health insurance carriers and agents to market and distribute health insurance plans online. In our technology licensing business, we are paid implementation fees and performance-based fees that are based on metrics such as submitted health insurance applications. Typically, we are paid a one-time implementation fee commencing once the technology is available for use by the third party. In addition, we generate revenue based on performance criteria that are either measured based on data tracked by us, or based on data tracked by the third party. In instances where the performance criteria data are tracked by us, we recognize revenue in the period of performance. In instances where the performance criteria data are 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 recently began to license our technology for use by government agencies and we are currently marketing our ecommerce technology to states implementing health insurance exchanges as a result of health care reform legislation. In our government systems business, which may also include information services, we may earn a combination of fixed license fees and time- and materials-based fees or we may be paid performance-based fees.

Online Sponsorship Advertising. We derive revenue from our online sponsorship advertising program that allows carriers to purchase advertising space in specific markets in a sponsorship area on our website. In return, we are typically paid a monthly fee and a performance-based fee based on metrics such as submitted health insurance applications.

We expect other revenue to increase in absolute dollars and as a percentage of total revenue in 2011 compared to 2010 as a result of growth in our technology licensing and government systems business, as well as growth in revenue derived from fees paid to us through the generation and delivery of leads, primarily for Medicare-related insurance plans.

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 primarily designed to encourage consumers to complete an online application for health insurance on our ecommerce platform. In addition, we may refer Medicare-eligible individuals to third parties who may assist them in enrolling in a Medicare plan. Our marketing channels are as follows:

Direct. Our direct member acquisition channel consists of consumers who access our website addresses (*www.eHealth.com, www.eHealthInsurance.com, www.eHealthMedicare.com* and *www.PlanPrescriber.com*) either directly or through algorithmic natural search listings on Internet search engines and directories. For the three months ended June, 2010 and 2011, applications submitted through us for individual and family health insurance from our direct channel constituted 44% and 45%, respectively, of all individual and family health insurance applications submitted on our website. For the six months ended June, 2010 and 2011, applications submitted through us for

individual and family health insurance from our direct channel constituted 43% and 44%, respectively, of all individual and family health insurance applications submitted on our website.

Marketing Partners. Our marketing partner member acquisition channel consists of consumers who access our websites through a network of affiliate partners and financial services and other companies. Growth in our marketing partner channel depends upon our expanding marketing programs with existing partners and adding new partners to our network. For the three months ended June 30, 2010 and 2011, applications submitted through us for individual and family health insurance plans from our marketing partner member acquisition channel constituted approximately 28% and 32%, respectively, of all individual and family health insurance applications submitted on our website. For the six months ended June 30, 2010 and 2011, applications submitted through us for individual and family health insurance plans from our marketing partner member acquisition channel constituted approximately 28% and 32%, respectively, of all individual and family health insurance applications submitted on our website.

Online Advertising. Our online advertising member acquisition channel consists of consumers who access our websites 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 and email marketing. For the three months ended June 30, 2010 and 2011, applications submitted through us for individual and family health insurance plans from our online advertising channel constituted approximately 28% and 23%, respectively, of all individual and family health insurance applications submitted on our website. For the six months ended June 30, 2010 and 2011, applications submitted through us for individual and family health insurance plans from our online advertising channel constituted approximately 29% and 24%, respectively, of all individual and family health insurance applications submitted on our website.

Operating Costs and Expenses

Cost of Revenue

Included in cost of revenue are 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, 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.

Cost of revenue also includes direct labor and other direct costs incurred in connection with our government systems activities. Initial direct labor and other direct costs incurred prior to the availability of our technology for use by a government agency were deferred and included in prepaid expenses and other current assets in our consolidated balance sheet and are being amortized to cost of revenue from the date our technology was available for use by the government agency in October 2010 to the end of the initial one-year term of the contract in July 2011. Direct labor and other direct costs incurred subsequent to the availability of our technology for use by the government agency are recognized as cost of revenue as incurred.

Additionally, cost of revenue includes the amortization of consideration we paid to certain brokers in connection with the transfer of their health insurance members to us as the new broker of record on the underlying policies. In November 2010, we entered into an agreement with a partner, whereby the partner transferred certain of its existing Medicare insurance members to us as the broker of record on the underlying policies. Total arrangement consideration of $3.3 million is being amortized to cost of revenue as we recognize commission revenue related to the transferred members over a period of up to five years. In May 2011, we entered into a similar agreement with the same partner, whereby the partner transferred certain of its existing Medicare insurance members to us as the broker of record on the underlying policies. Total arrangement consideration of $3.0 million is being amortized to cost of revenue as we recognize commission revenue related to the transferred members over a period of up to five years.

We expect cost of revenue to increase in absolute dollars in 2011 compared to 2010 due to a full year of costs related to our government systems activities, an increase in the amortization of the consideration we paid in connection with the transfer of certain Medicare members to us from a partner, and an expected increase in the amount of revenue-sharing expense related to partners.

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Marketing and Advertising

Marketing and advertising expenses consist primarily of member acquisition expenses associated with our direct, marketing partner and online advertising member acquisition channels, in addition to compensation and other expenses related to marketing, business development, partner management, public relations and carrier relations personnel who support our offerings. Our direct channel expenses primarily consist of costs for television advertising, radio advertising, print advertising, direct mail and email marketing.

Our marketing partner channel expenses consist primarily of fees paid to marketing partners with which we have a relationship. We compensate a significant number of our marketing partners by paying a fee each time a consumer referral from a partner results in a submitted health insurance application on our ecommerce platform, regardless of whether the consumer s application is approved by the health insurance carrier. Many of our marketing partners have tiered arrangements in which the amount of the fee increases as the volume of submitted applications we receive 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 individual and family 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 or flattening in individual and family 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 are influenced by these 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 marketing partner arrangements, we could incur expenses in excess of, or below, the amounts we had planned in periods of rapid change in the volume of submitted applications from marketing partner referrals. 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. Similar to our marketing partner channel, expenses in our online advertising channel will increase or decrease in relation to any increase or decrease in consumers referred to our website as a result of such search engine advertising. For example, due to the substantial increase in the number of consumers referred to our website from paid keyword search advertising performed during the Medicare annual enrollment period in the fourth quarter of 2010, we experienced a significant increase in our Medicare online marketing expenses during the fourth quarter of 2010 compared to other quarters in 2010. We expect this same seasonal pattern to impact our Medicare online marketing expenses in the fourth quarter of 2011.

We expect our marketing and advertising expenses to decrease in absolute dollars in 2011 compared to 2010. We have reduced our advertising expenses for individual and family health insurance plans in response to the reduction in commission rates we are paid on those plans that began in 2011. The decline in advertising expenses for individual and family health insurance plans is expected to be partially offset by increased marketing and advertising expenses related to our Medicare plan and government system businesses.

Customer Care and Enrollment

Customer care and enrollment expenses primarily consist of compensation and benefits costs for personnel engaged in pre-sales assistance to applicants who call our customer care center and for enrollment personnel who assist applicants during the underwriting process. We intend to hire a number of additional employees in our customer care centers as part of our plan to increase the number of Medicare leads serviced by us as a health insurance agent. We expect customer care and enrollment expenses to increase in absolute dollars in 2011 compared to 2010 as a result of additional personnel and expenditures necessary to develop future Medicare plan sales capabilities, and a full year of costs related to our customer care center in Salt Lake City, Utah that we opened during the second half of 2010.

Technology and Content

Technology and content expenses consist primarily of compensation and benefits costs for personnel associated with developing and enhancing our website technology as well as maintaining our website. A majority of our technology and content group is located at our wholly owned subsidiary in China, where technology development costs are generally lower than in the United States. We expect technology and content expenses to increase in absolute dollars in 2011 compared to 2010 due to our continued focus on technology development, technology licensing implementations, an increase in technology and content employees and the enhancement of our current ecommerce platform for Medicare-related insurance plans.

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General and Administrative

General and administrative expenses include compensation and benefits costs for staff working in our executive, finance, corporate development, investor relations, government relations, legal, human resources, internal audit, facilities and internal information technology departments. These expenses also include fees paid for outside professional services, including audit, tax, legal and information technology fees. We expect our general and administrative expenses to increase in absolute dollars in 2011 compared to 2010 due to the increased costs necessary to support the future growth of our business.

Amortization of Acquired Intangible Assets

Acquired intangible assets with finite useful lives, which include purchased technology, pharmacy and customer relationships, trade names, trademarks and website addresses, are amortized over their estimated useful lives and are reviewed for impairment annually on or about November 30 of each year or when facts or circumstances suggest that the carrying value of these assets may not be recoverable.

Summary of Selected Metrics

The following table shows certain selected quarterly metrics as of June 30, 2010 and 2011 and for the three months ended June 30, 2010 and 2011:

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2011
Key Metrics:		
Operating cash flows (1)	$ 8,164,000	$ 7,816,000
IFP submitted applications (2)	117,200	101,600
IFP approved members (3)	93,400	87,600
Total approved members (4)	122,700	124,400
Commission revenue (5)	$ 31,872,000	$ 30,079,000
Commission revenue per estimated member for the period (6)	$ 42.21	$ 37.47
Total revenue (7)	$ 36,256,000	$ 36,186,000
Total revenue per estimated member for the period (8)	$ 48.02	$ 45.08
	As of June 30, 2010	**As of June 30, 2011**
IFP estimated membership (9)	660,500	688,100
Total estimated membership (10)	754,900	804,100
	Three Months Ended June 30, 2010	**Three Months Ended June 30, 2011**
Marketing and advertising expenses (11)	$ 13,883,000	$ 11,668,000
Marketing and advertising expenses as a percentage of total revenue (12)	38%	32%
Other Metrics:		
Source of IFP submitted applications (as a percentage of total IFP applications for the period):		
Direct (13)	44%	45%
Marketing partners (14)	28%	32%
Online advertising (15)	28%	23%

Total	100%	100%

Notes:

(1) Net cash provided by operating activities for the period from the consolidated statements of cash flows.

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(2) IFP applications submitted on eHealth s website during the period. Applications are counted as submitted when the applicant completes the application, provides a method for payment and clicks the submit button on our website and submits the application to us. The applicant generally has additional actions to take before the application will be reviewed by the insurance carrier, such as providing additional information and providing an electronic signature. In addition, an applicant may submit more than one application. We include applications for IFP plans for which we receive commissions as well as other forms of payment. We define our IFP offerings as major medical individual and family health insurance plans, which does not include small business, short-term, stand-alone dental, life, student or Medicare-related health insurance plans.
(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.
(4) New members for all plans, including Medicare plans, 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) Commission revenue (from all sources) recognized during the period from the consolidated statements of income.
(6) Calculated as commission revenue recognized during the period (see note (5) above) divided by average estimated membership for the period (calculated as beginning and ending estimated membership for all plans for the period, divided by two).
(7) Total revenue (from all sources) recognized during the period from the consolidated statements of income.
(8) Calculated as total revenue recognized during the period (see note (7) above) divided by average estimated membership for the period (calculated as beginning and ending estimated membership for all plans for the period, divided by two).
(9) Estimated number of members active on IFP insurance policies as of the date indicated.
(10) Estimated number of members active on all insurance policies, including Medicare policies, as of the date indicated.
(11) Marketing and advertising expenses for the period from the consolidated statements of income.
(12) Calculated as marketing and advertising expenses for the period (see note (11) above) divided by total revenue for the period (see note (7) above).
(13) Percentage of IFP submitted applications from applicants who came directly to the eHealth website through algorithmic search engine results or otherwise. See note (2) above for further information as to what constitutes a submitted application.
(14) Percentage of IFP submitted applications from applicants sourced through eHealth s network of marketing partners. See note (2) above for further information as to what constitutes a submitted application.
(15) Percentage of IFP submitted applications from applicants sourced through paid search and other online advertising activities. See note (2) above for further information as to what constitutes a submitted application.

Our insurance carrier partners bill and collect insurance premiums paid by our members. Carrier partners do not report to us the number of members that we have as of a given date. The majority of our members who terminate their policies do so by discontinuing their premium payments to the carrier and do not inform us of the cancellation. Also, some of our members pay their premiums less frequently than monthly. Given the number of months required to observe non-payment of commissions in order to confirm cancellations, we estimate the number of members who are active on insurance policies as of a specified date. We estimate the number of continuing members on non-small business insurance policies as of a specific date by taking the sum of (i) the number of members for whom we have received a commission payment for the month that is six months (or three months in the case of short-term, student and dental insurance) prior to the date of estimation (after reducing that number using historical experience for assumed member cancellations over, as applicable, the three-month or six-month period); and (ii) the number of approved members over the six-month period (or three months in the case of short-term, student and dental insurance) prior to the date of estimation (after reducing that number using historical experience for an assumed number of members who do not accept their approved policy and for estimated member cancellations through the date of the estimate). We estimate the number of small business group members using the number of initial members at the time the group is approved, and we update this number for changes in membership if such changes are reported to us by the group or carrier in the period it is reported. However, groups generally notify the carrier directly of policy cancellations and increases or decreases in group size without informing us. Additionally, our carrier partners often do not communicate this information to us. We often are made aware of policy cancellations at the time of annual renewal and update our membership statistics accordingly in the period they are reported.

After we have estimated membership for a period, we may receive information from health insurance carriers that would have impacted the estimate if we had received the information prior to the date of estimation. We may receive commission payments or other information that indicates that a member who was not included in our estimates for a prior period was in fact an active member at that time, or that a member who was included in our estimates was in fact not an active member of ours. For instance, we reconcile information carriers provide to us and may determine that we were not historically paid commissions owed to us, which would cause us to have underestimated our membership. Conversely, carriers may require us to return commission payments paid in a prior period due to policy cancellations for members we previously estimated as being active. We reflect updated information regarding our membership in the membership estimate for the current period that we are estimating, if applicable. As a result of the delay in our receipt of information from insurance carriers, actual trends in our membership are most discernable over periods longer than from one quarter to the next. In addition, and as a result of the delay we experience in receiving information about our membership, it is difficult for us to determine with any certainty the impact of current economic and other conditions on our membership retention.

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Critical Accounting Policies and Estimates

The discussion and analysis of our consolidated 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, but not limited to, allowances for commission forfeitures payable to carriers, the assumptions used in determining stock-based compensation, the useful lives of long-lived assets including property and equipment and intangible assets, fair value of acquired intangible assets, goodwill, valuation allowance for deferred income taxes, provision for income taxes and fair value of investments. 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. 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.

We believe the following critical accounting policies, in conjunction with the critical accounting policies presented in our Annual Report on Form 10-K for the year ended December 31, 2010, affect our more significant judgments used in the preparation of our consolidated financial statements.

Revenue Recognition

Adoption of ASU 2009-13. In October 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2009-13 *Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements* (ASU 2009-13). ASU 2009-13 addresses how to measure and allocate arrangement consideration to one or more units of accounting within certain multiple-deliverable arrangements. ASU 2009-13 modifies the requirements for determining whether a deliverable can be treated as a separate unit of accounting by removing the criterion that objective evidence of fair value must exist for the undelivered elements. ASU 2009-13 was effective for us prospectively for revenue arrangements entered into or materially modified on or after January 1, 2011.

In accordance with ASU 2009-13, effective January 1, 2011, we allocate revenue to all deliverables in an arrangement with multiple deliverables at the inception of the arrangement using the relative selling price method. The relative selling price method allocates any discount in an arrangement proportionally to each deliverable on the basis of each deliverable s relative selling price. The relative selling price established for each deliverable is based on vendor-specific objective evidence of fair value (VSOE) if available, third-party evidence of selling price if VSOE is not available, or best estimate of selling price if neither VSOE nor third-party evidence is available. When used, the best estimate of selling price reflects our best estimates of what the selling prices of certain deliverables would be if they were sold regularly on a stand-alone basis.

Our process for determining best estimate of selling price for deliverables without VSOE or third-party evidence of selling price considers multiple factors that may vary depending upon the unique facts and circumstances related to each deliverable. Key factors considered by us in developing the relative selling prices for our technology licensing fees include prices charged by us for similar offerings and our historical pricing practices. We may also consider additional factors as appropriate, including competition.

A deliverable constitutes a separate unit of accounting when it has stand-alone value and there are no customer-negotiated right of refunds for the delivered elements. If the arrangement includes a customer-negotiated right of refund relative to the delivered item, and the delivery and performance of the undelivered item is considered probable and substantially in our control, the delivered element constitutes a separate unit of accounting. In circumstances when the aforementioned criteria are not met, the deliverable is combined with the undelivered elements, and the allocation of the arrangement consideration and revenue recognition is determined for the combined unit as a single unit. Allocation of the consideration is determined at arrangement inception on the basis of each unit s relative selling price. The new standards do not generally change the units of accounting for our revenue transactions.

After the arrangement consideration has been allocated to each unit of accounting within an arrangement with multiple deliverables based on their relative selling prices, we apply revenue recognition criteria separately to each respective unit of accounting in the arrangement in accordance with applicable accounting guidance. Our multiple-element arrangements primarily consist of ecommerce technology licensing agreements, which typically include delivery of a customized website, maintenance and support services to host the website, and professional services.

Stock-Based Compensation

We recognize stock-based compensation expense in the accompanying consolidated statements of income based on the fair value of our stock-based awards over their respective vesting periods, which is generally four years. The estimated grant date fair value of our stock-based awards is determined using the Black-Scholes-Merton pricing model and a single option award approach.

Prior to 2011, the weighted-average expected term for stock options granted was calculated using the simplified method, as we did not have sufficient historical option exercise behavior on which to estimate expected terms. The simplified method defines the expected term as the average of the contractual term and the vesting period of the stock option. Beginning in 2011, the weighted-average expected term for stock options granted is calculated based on historical option exercise behavior. The weighted-average expected terms are materially the same using both methodologies, so the change did not have a material impact on our financial position, results of operations or cash flows.

Prior to 2011, we estimated the volatility used as an input to the model based on an analysis of our stock price since our initial public offering in October 2006, as well as an analysis of similar public companies for which we have data. We estimated our expected volatility using the weighted-average of: our implied volatility; our mean reversion volatility; and the mean reversion volatility of 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 data for these companies. Since we have over four years of historical data regarding the volatility of our stock price, beginning in 2011, expected volatility for stock options granted is calculated based on the historical volatility of our stock. The estimated volatility of our stock is materially the same using both methodologies, so the change did not have a material impact on our financial position, results of operations or cash flows.

The dividend yield is determined by dividing the expected per share dividend during the coming year by the grant date stock price. Through June 30, 2011, we had not declared or paid any cash dividends, and we do not expect to pay any in the foreseeable future.

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 assumptions used in calculating the fair value of stock-based payment awards represent our best estimates, but these estimates involve inherent uncertainties and the application of management judgment. We will continue to use judgment in evaluating the expected term and volatility related to our own stock-based awards on a prospective basis, and incorporating these factors into the model. Changes in key assumptions will significantly impact the valuation of such instruments.

In the three months ended June 30, 2011, we issued restricted stock units representing 115,080 shares of common stock with both service and performance-based vesting criteria to our executive officers. These performance-based restricted stock units are designed to align the interests of our executive officers with the interests of our stockholders. The performance-based contingency period for these restricted stock units is fiscal 2011 ending December 31, 2011, and the measurement of achievement is based on our 2011 revenue, non-GAAP operating earnings and EBITDA results. These performance-based restricted stock units were granted pursuant to the terms of our 2006 Plan. Shares which are earned and eligible to vest following our 2011 results will vest one-third annually in 2012, 2013 and 2014. The criteria for vesting is as follows: up to one-third of the total number of shares will be considered earned and eligible for vesting based upon achieving each of a pre-determined 2011 revenue goal, 2011 non-GAAP operating earnings goal and 2011 EBITDA goal. For achievement at less than 95% of a goal, no shares will be earned relating to that goal. For achievement at 95% to 95.99% of a goal, 25% of the shares related to that goal (i.e., 1/12th of the total number of shares subject to this restricted stock unit) will be considered earned and eligible for vesting. For achievement at 96% to 96.99% of a goal, 30% of the shares related to that goal will be considered earned and eligible for vesting. For achievement at 97% to 97.99% of a goal, 35% of the shares subject to that goal will be considered earned and eligible for vesting. For achievement at 98% to 98.99% of a goal, 40% of the shares related to that goal will be considered earned and eligible for vesting. For achievement at 99% to 99.99% of a goal, 45% of the shares related to that goal will be considered earned and eligible for vesting. For achievement at 100% or more of a goal, 100% of the shares related to that goal will be considered earned and eligible for vesting. Stock-based compensation expense related to these performance-based restricted stock units will be recognized only if there is a high degree of

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probability (greater than 70% chance) of achieving the vesting criteria. As of June 30, 2011, we evaluated the achievement potential for each of the performance criterions for all of our executive officers and we will continue to monitor the achievement potential during the remainder of 2011 to determine if any accumulated stock-based compensation expense requires adjustment for shares that are not expected to vest. Accumulated stock-based compensation expense related to shares determined not to be earned and not eligible to vest will be reversed.

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 to the extent the number of equity awards issued and outstanding increases.

Results of Operations

The following table sets forth our operating results and the related percentage of total revenues for the three and six months ended June 30, 2010 and 2011 (dollars in thousands):

	Three Months Ended June 30,				Six Months Ended June 30,			
	2010		2011		2010		2011	
Revenue:								
Commission	$ 31,872	88%	$ 30,079	83%	$ 63,645	88%	$ 60,839	83%
Other	4,384	12	6,107	17	8,600	12	12,902	17
Total revenue	36,256	100	36,186	100	72,245	100	73,741	100
Operating costs and expenses:								
Cost of revenue	881	2	2,555	7	1,859	3	5,206	7
Marketing and advertising	13,883	38	11,668	32	28,701	40	24,577	33
Customer care and enrollment	3,902	11	4,610	13	7,848	11	10,020	14
Technology and content	4,999	14	5,415	15	9,580	13	10,885	15
General and administrative	6,554	18	6,661	18	12,321	17	13,382	18
Amortization of acquired intangible assets	285	1	427	1	285	0	854	1
Total operating costs and expenses	30,504	84	31,336	87	60,594	84	64,924	88
Income from operations	5,752	16	4,850	13	11,651	16	8,817	12
Interest and other income (expense), net	(12)	(0)	(21)	(0)	16	0	(40)	(0)
Income before provision for income taxes	5,740	16	4,829	13	11,667	16	8,777	12
Provision for income taxes	2,699	7	2,097	6	5,393	7	4,064	6
Net income	$ 3,041	8%	$ 2,732	8%	$ 6,274	9%	$ 4,713	6%

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2011	2010	2011
Marketing and advertising	$ 201	$ 276	$ 408	$ 522
Customer care and enrollment	88	74	181	181
Technology and content	413	470	856	925
General and administrative	894	1,117	1,804	2,170
Total	$ 1,596	$ 1,937	$ 3,249	$ 3,798

Three and Six Months Ended June 30, 2010 and 2011

Revenue

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

	Three Months Ended June 30,		Change		Six Months Ended June 30,		Change	
	2010	2011	$	%	2010	2011	$	%
Commission	$ 31,872	$ 30,079	$ (1,793)	(6)%	$ 63,645	$ 60,839	$ (2,806)	(4)%
Percentage of total revenue	88%	83%			88%	83%		
Other	$ 4,384	$ 6,107	$ 1,723	39%	$ 8,600	$ 12,902	$ 4,302	50%
Percentage of total revenue	12%	17%			12%	17%		
Total revenue	$ 36,256	$ 36,186	$ (70)	(0)%	$ 72,245	$ 73,741	$ 1,496	2%

Three Months Ended June 30, 2011 and 2010 Commission revenue decreased $1.8 million, or 6%, in the three months ended June 30, 2011 compared to the three months ended June 30, 2010, due primarily to a reduction in the commission rates we are paid on individual and family health insurance policies as a result of the implementation of the medical loss ratio requirements by insurance carriers. These commission rate changes began to impact our individual and family health insurance plan commission-based revenue in 2011. Partially offsetting the reduction in the commission rates was a 7% increase in our estimated membership to approximately 804,100 members at June 30, 2011 from 754,900 members at June 30, 2010. Other revenue increased $1.7 million, or 39%, in the three months ended June 30, 2011 compared to the three months ended June 30, 2010, due primarily to revenue we received related to our government systems activities and an increase in Medicare-related health insurance product lead referral revenue, partially offset by a decline in sponsorship advertising revenue.

Six Months Ended June 30, 2011 and 2010 Commission revenue decreased $2.8 million, or 4%, in the six months ended June 30, 2011 compared to the six months ended June 30, 2010, due primarily to a reduction in the commission rates we are paid on individual and family health insurance policies as a result of the implementation of the medical loss ratio requirements by insurance carriers beginning in 2011. Partially offsetting the reduction in the commission rates was a 7% increase in our estimated membership. Other revenue increased $4.3 million, or 50%, in the six months ended June 30, 2011 compared to the six months ended June 30, 2010, due primarily to revenue we received related to our government systems activities and an increase in Medicare-related health insurance product lead referral revenue, partially offset by a decline in sponsorship advertising revenue.

Operating Costs and Expenses

Cost of Revenue

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

	Three Months Ended June 30,		Change		Six Months Ended June 30,		Change	
	2010	2011	$	%	2010	2011	$	%
Cost of revenue	$ 881	$ 2,555	$ 1,674	190%	$ 1,859	$ 5,206	$ 3,347	180%
Percentage of total revenue	2%	7%			3%	7%		

Three Months Ended June 30, 2011 and 2010 Cost of revenue increased $1.7 million, or 190%, in the three months ended June 30, 2011 compared to the three months ended June 30, 2010, primarily due to costs we recognized on our government systems activities, which began in the second half of 2010.

Six Months Ended June 30, 2011 and 2010 Cost of revenue increased $3.3 million, or 180%, in the six months ended June 30, 2011 compared to the six months ended June 30, 2010, primarily due to costs we recognized on our government systems activities, which began in the second half of 2010.

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Marketing and Advertising

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

	Three Months Ended June 30,		Change		Six Months Ended June 30,		Change	
	2010	2011	$	%	2010	2011	$	%
Marketing and advertising	$ 13,883	$ 11,668	$ (2,215)	(16)%	$ 28,701	$ 24,577	$ (4,124)	(14)%
Percentage of total revenue	38%	32%			40%	33%		

Three Months Ended June 30, 2011 and 2010 Marketing and advertising expenses decreased $2.2 million, or 16%, in the three months ended June 30, 2011 compared to the three months ended June 30, 2010. This was due primarily to a decrease in online and other advertising expenses of $2.6 million as a result of our strategic decision to reduce our advertising expenses for individual and family health insurance plans in response to the reduction in individual and family health insurance plan commission rates. Partially offsetting the decrease in online and other advertising expenses was an increase of $0.2 million in compensation and benefit costs due primarily to an increase in personnel since June 30, 2010.

Six Months Ended June 30, 2011 and 2010 Marketing and advertising expenses decreased $4.1 million, or 14%, in the six months ended June 30, 2011 compared to the six months ended June 30, 2010. This was due primarily to a decrease in online and other advertising expenses of $5.8 million as a result of our strategic decision to reduce our advertising expenses for individual and family health insurance plans in response to the reduction in individual and family health insurance plan commission rates. Partially offsetting the decrease in online and other advertising expenses was an increase of $0.7 million in fees we pay to marketing partners for referrals that result in the submission of a health insurance application on our website. Additionally, compensation and benefit costs increased $0.6 million due primarily to an increase in personnel since June 30, 2010.

Customer Care and Enrollment

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

	Three Months Ended June 30,		Change		Six Months Ended June 30,		Change	
	2010	2011	$	%	2010	2011	$	%
Customer care and enrollment	$ 3,902	$ 4,610	$ 708	18%	$ 7,848	$ 10,020	$ 2,172	28%
Percentage of total revenue	11%	13%			11%	14%		

Three Months Ended June 30, 2011 and 2010 Customer care and enrollment expenses increased $0.7 million, or 18%, in the three months ended June 30, 2011 compared to the three months ended June 30, 2010, due primarily to incremental compensation, benefits and other personnel costs associated with the customer care center we established in Salt Lake City, Utah in the second half of 2010 to service our Medicare product sales business. As a result, compensation, benefits and other personnel costs increased $0.5 million and other operating costs increased $0.2 million in the three months ended June 30, 2011.

Six Months Ended June 30, 2011 and 2010 Customer care and enrollment expenses increased $2.2 million, or 28%, in the six months ended June 30, 2011 compared to the six months ended June 30, 2010, due primarily to incremental compensation, benefits and other personnel costs associated with the customer care center we established in Salt Lake City, Utah in the second half of 2010 to service our Medicare product sales business. As a result, compensation, benefits and other personnel costs increased $1.6 million and other operating costs increased $0.5 million in the six months ended June 30, 2011.

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Technology and Content

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

	Three Months Ended June 30,		Change		Six Months Ended June 30,		Change	
	2010	**2011**	**$**	**%**	**2010**	**2011**	**$**	**%**
Technology and content	$ 4,999	$ 5,415	$ 416	8%	$ 9,580	$ 10,885	$ 1,305	14%
Percentage of total revenue	14%	15%			13%	15%		

Three Months Ended June 30, 2011 and 2010 Technology and content expenses increased $0.4 million, or 8%, for the three months ended June 30, 2011 compared to the three months ended June 30, 2010. This increase was due primarily to an increase of $0.4 million in compensation, benefits and other personnel costs associated with an increase in technology and content personnel since June 30, 2010.

Six Months Ended June 30, 2011 and 2010 Technology and content expenses increased $1.3 million, or 14%, for the six months ended June 30, 2011 compared to the six months ended June 30, 2010. This increase was due primarily to an increase of $1.1 million in compensation, benefits and other personnel costs associated with an increase in technology and content personnel since June 30, 2010. Additionally, depreciation expense increased $0.2 million as a result of capital expenditures we made for our data centers since June 30, 2010.

General and Administrative

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

	Three Months Ended June 30,		Change		Six Months Ended June 30,		Change	
	2010	**2011**	**$**	**%**	**2010**	**2011**	**$**	**%**
General and administrative	$ 6,554	$ 6,661	$ 107	2%	$ 12,321	$ 13,382	$ 1,061	9%
Percentage of total revenue	18%	18%			17%	18%		

Three Months Ended June 30, 2011 and 2010 General and administrative expenses increased $0.1 million, or 2%, in the three months ended June 30, 2011 compared to the three months ended June 30, 2010, due primarily to a $0.5 million increase in compensation, benefits and other personnel costs due to an increase in general and administrative personnel, primarily as a result of our acquisition of PlanPrescriber in April 2010, and an increase in stock-based compensation expense of $0.2 million related to additional equity grants to employees in our general and administrative departments and to members of our board of directors. Partially offsetting these increases was a decrease of $0.6 million project consultant fees related to the completion of a one-time consulting project in the three months ended June 30, 2010.

Six Months Ended June 30, 2011 and 2010 General and administrative expenses increased $1.1 million, or 9%, in the six months ended June 30, 2011 compared to the six months ended June 30, 2010, due primarily to a $1.3 million increase in compensation, benefits and other personnel costs due to an increase in general and administrative personnel, primarily as a result of our acquisition of PlanPrescriber in April 2010, and an increase in stock-based compensation expense of $0.4 million related to additional equity grants to employees in our general and administrative departments and to members of our board of directors. Partially offsetting these increases was a decrease of $0.6 million project consultant fees related to the completion of a one-time consulting project in the six months ended June 30, 2010.

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Interest and Other Income (Expense), Net

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

	Three Months Ended June 30,		Change		Six Months Ended June 30,		Change	
	2010	2011	$	%	2010	2011	$	%
Interest and other income (expense), net	$ (12)	$ (21)	$ (9)	(75)%	$ 16	$ (40)	$ (56)	(450)%
Percentage of total revenue	(0)%	(0)%			0%	(0)%		

Three and Six Months Ended June 30, 2011 and 2010 In the three and six months ended June 30, 2010 and 2011, interest and other income (expense), net, primarily consisted of interest expense on our capital lease obligations, administrative bank fees and investment management fees, partially offset by interest income earned on our invested cash. In the three months ended June 30, 2010 and 2011, and the six months ended June 30, 2011, capital lease obligations, administrative bank fees and investment management fees exceeded interest income earned on our invested cash.

Provision for Income Taxes

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

	Three Months Ended June 30,		Change		Six Months Ended June 30,		Change	
	2010	2011	$	%	2010	2011	$	%
Provision for income taxes	$ 2,699	$ 2,097	$ (602)	(22)%	$ 5,393	$ 4,064	$ (1,329)	(25)%
Percentage of total revenue	7%	6%			7%	6%		

Three and Six Months Ended June 30, 2011 and 2010 During the three and six months ended June 30, 2011, we recorded provisions for income taxes of $2.1 million and $4.1 million, respectively, representing effective tax rates of 43.4% and 46.3%, respectively. Our effective tax rates in the three and six months ended June 30, 2011 were higher than statutory federal and state tax rates due primarily to non-deductible lobbying expenses and tax shortfalls related to share-based payments. During the three and six months ended June 30, 2010, we recorded provisions for income taxes of $2.7 million and $5.4 million, respectively, representing effective tax rates of 47.0% and 46.2%, respectively. Our effective tax rates in the three and six months ended June 30, 2010 were higher than statutory federal and state tax rates due primarily to non-deductible lobbying expenses and, to a lesser extent, tax shortfalls related to share-based payments.

Liquidity and Capital Resources

At June 30, 2011 and December 31, 2010, our cash and cash equivalents totaled $135.9 million and $128.1 million, respectively. Cash equivalents are comprised of financial instruments with an original maturity of 90 days or less from the date of purchase, primarily money market funds. At December 31, 2010 and June 30, 2011, our money market accounts were invested primarily in U.S. government-sponsored enterprise bonds and discount notes, U.S. government treasury bills and notes and repurchase agreements collateralized by U.S. government obligations.

On July 27, 2010, we announced that our board of directors approved a stock repurchase program authorizing us to purchase up to $30 million of our common stock. In January 2011, we completed this stock repurchase program, having repurchased in the aggregate 2,297,705 shares for approximately $30.0 million at an average price of $13.06 per share including commissions. The cost of the repurchased shares was funded from available working capital. Shares repurchased under this program complied with Rule 10b-18 under the Securities Exchange Act of 1934, as amended.

On June 14, 2011, we announced that our board of directors approved a stock repurchase program authorizing us to purchase up to an additional $30 million of our common stock. Repurchases under this program began in the third quarter of 2011. Purchases under the repurchase program may be made in open market or unsolicited negotiated transactions and are expected to comply with Rule 10b-18 under the Securities Exchange Act of 1934, as amended. The timing of purchases and the exact number of shares to be purchased will depend upon market conditions. The repurchase program does not require us to acquire a specific number of shares, and the repurchase program may be suspended from time to time or discontinued at any time. The cost of the repurchased shares will be funded from available working capital.

For accounting purposes, common stock repurchased under our stock repurchase programs was recorded based upon the settlement date of the applicable trade. Such repurchased shares are held in treasury and are presented using the cost method. All shares repurchased under these programs are returned to the status of authorized but unissued shares of common stock.

Stock repurchase activity under our stock repurchase programs as of December 31, 2010 and June 30, 2011 and during the six months ended June 30, 2011 is summarized as follows (in thousands, except share and per share amounts):

	Total Number of Shares Purchased	Average Price Paid per Share (2)	Amount of Repurchase
Cumulative balance at December 31, 2010 (1)	3,904,652	$ 14,39	$ 56,202
Repurchases of common stock	270,903	$ 14.01	3,796
Cumulative balance at June 30, 2011 (1)	4,175,555	$ 14.37	$ 59,998

(1) Cumulative balances at December 31, 2010 and June 30, 2011 include shares repurchased in connection with our stock repurchase program announced on July 27, 2010, as well as a previous stock repurchase plan announced in 2008.
(2) Average price paid per share includes commissions.

In addition to the 4,175,555 shares repurchased under our repurchase programs as of June 30, 2011, we have in treasury 95,466 shares that were surrendered by employees to satisfy tax withholdings due in connection with the vesting of certain restricted stock units. As of December 31, 2010 and June 30, 2011, we had a total of 3,956,128 shares and 4,271,021 shares, respectively, held in treasury.

The following table presents a summary of our cash flows for the six months ended June 30, 2010 and 2011 (in thousands):

	Six Months Ended June 30,	
	2010	2011
Net cash provided by operating activities	$ 11,257	$ 14,591
Net cash used in investing activities	$ (6,447)	$ (5,008)
Net cash provided by (used in) financing activities	$ 5,123	$ (1,745)

The cash flow statement for the six months ended June 30, 2011 includes a $6.2 million cash flow benefit from deferred income taxes, of which $3.7 million of tax benefit, primarily from the utilization of net operating loss carry forwards, is included in cash flow from operations and approximately $2.6 million of net operating loss carry forwards, from the utilization of excess tax benefits related to share-based payments, is included in cash flows from operating activities.

The cash flow statement for the six months ended June 30, 2010 includes a $10.2 million cash flow benefit from deferred income taxes, of which $4.9 million of tax benefit is included in cash flow from operations and approximately $5.2 million of net operating loss carry forwards, from the utilization of excess tax benefits related to share-based payments, is included in cash flow from financing activities.

Operating Activities

Cash provided by operating activities primarily consists of net income, adjusted for certain non-cash items including deferred income taxes, depreciation and amortization, amortization of acquired intangible assets, stock-based compensation expense, excess tax benefits from stock-based compensation, and the effect of changes in working capital and other activities.

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 adversely 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 compared to the other quarters due to the payment of annual performance bonuses to employees in the first quarter of the year. In the first quarter of 2011 our operating cash flow was favorably impacted due to a decrease in accounts receivable as a result of collections of Medicare lead referral receivables recorded during the Medicare annual enrollment period in the fourth quarter of 2010, which occurred from November 15, 2010 to December 31, 2010. 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 adversely 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.

Six Months Ended June 30, 2011 Our operating activities generated cash of $14.6 million during the six months ended June 30, 2011 and consisted of net income of $4.7 million, increased by non-cash items of $7.0 million and cash provided for working capital and other activities of $2.9 million. Adjustments for non-cash items primarily consisted of $3.8 million of stock-based compensation expense, $3.7 million of deferred income taxes and $2.1 million of depreciation and amortization, including amortization of acquired intangible assets, partially offset by approximately $2.6 million of excess tax benefits from stock-based compensation. Cash provided for working capital and other activities primarily consisted of a decrease of $6.6 million in accounts receivable and a decrease of $1.5 million in prepaid expenses and other current assets, partially offset by a decrease of $2.1 million in deferred revenue, a decrease of $1.2 million in accounts payable, a decrease of $1.1 million in other current liabilities and a decrease of $0.7 million in accrued compensation and benefits. Accounts receivable decreased primarily due to collections of receivables from our government systems business as well as collection of Medicare lead referral receivables recorded during the Medicare annual enrollment period in the fourth quarter of 2010. Accrued compensation and benefits decreased primarily due to the payment of performance bonuses to employees that were earned during 2010 and accounts payable decreased due to the timing of payments to our vendors.

Six Months Ended June 30, 2010 Our operating activities generated cash of $11.3 million during the six months ended June 30, 2010 and consisted of net income of $6.3 million, increased by non-cash items of $4.3 million and cash provided for working capital and other activities of $0.7 million. Adjustments for non-cash items primarily consisted of $4.9 million of deferred income taxes, $3.2 million of stock-based compensation expense and $1.3 million of depreciation and amortization, including amortization of acquired intangible assets, partially offset by $5.2 million of excess tax benefits from stock-based compensation. Cash provided for working capital and other activities primarily consisted of a decrease of $0.7 million in prepaid expenses and other current assets and an increase of $0.7 million in accrued compensation and benefits, partially offset by a decrease of $1.2 million in other current liabilities.

Investing Activities

Our investing activities have primarily consisted of purchases, sales and maturities of marketable securities and purchases of computer hardware and software to enhance our website and to support our growth.

Six Months Ended June 30, 2011 Net cash used in investing activities of $5.0 million during the six months ended June 30, 2011 included a $3.0 payment related to the transfer of a book of business in the three months ended June 30, 2011 and a $0.8 million final payment related to the transfer of a book of business in the fourth quarter of 2010. For both transfers, we became the broker of record on the underlying policies for certain Medicare insurance members that were transferred to us. Additionally, net cash used by investing activities included capital expenditures of $1.2 million.

Six Months Ended June 30, 2010 Net cash used in investing activities of $6.4 million during the six months ended June 30, 2010 was attributable to cash used for the acquisition of PlanPrescriber of $27.2 million and capital expenditures of $1.3 million, partially offset by maturities of marketable securities of $22.1 million.

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Financing Activities

Six Months Ended June 30, 2011 Net cash used in financing activities of $1.7 million during the six months ended June 30, 2011 was due to $3.8 million used to repurchase 270,903 shares of our common stock and $0.5 million used to net-share settle the tax obligation related to equity awards, partially offset by $2.6 million of excess tax benefits from stock-based compensation.

Six Months Ended June 30, 2010 Net cash provided by financing activities of $5.1 million during the six months ended June 30, 2010 was due to $5.2 million of excess tax benefits from stock-based compensation and $0.5 million of proceeds received from the issuance of common stock pursuant to stock option exercises, partially offset by $0.6 million used to net-share settle the tax obligation related to equity awards.

Future Needs

We believe that cash generated from operations and our current cash, cash equivalents and marketable securities will be sufficient to fund our operations for at least the next twelve months. Our future capital requirements will depend on many factors, including our level of investment in technology and advertising initiatives. 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 raise additional capital through public or private equity or debt financing to the extent such funding sources are available.

Contractual Obligations and Commitments

The following table presents a summary of our future minimum payments under non-cancellable operating lease agreements and certain contractual service and licensing obligations as of June 30, 2011 (in thousands):

Years Ending December 31,	Operating Lease Obligations	Service and Licensing Obligations	Total Obligations
2011 (6 months)	$ 1,976	$ 369	$ 2,345
2012	3,208	151	3,359
2013	1,037	151	1,188
2014	772	38	810
2015	576		576
Thereafter	1,619		1,619
Total	$ 9,188	$ 709	$ 9,897

Operating Lease Obligations

We lease certain of our office, operating facilities, equipment and furniture and fixtures under various operating leases, the latest of which expires in August 2018. Certain of these leases have free or escalating rent payment provisions. We recognize rent expense on our operating leases on a straight-line basis over the terms of the leases, although actual cash payment obligations under certain of these agreements fluctuate over the terms of the agreements.

On July 8, 2011, we entered into an agreement to extend the lease on our headquarters office in Mountain View, California, for an additional seven years through August 2018. Lease obligations totaling $4.0 million related to this lease are included in the contractual obligations table as of June 30, 2011 above, and can also be found in *Note 8 Subsequent Event* of the *Notes to Condensed Consolidated Financial Statements*.

Service and Licensing Obligations

We have entered into service and licensing agreements with third party vendors to provide various services, including network access, equipment maintenance and software licensing. The terms of these services and licensing agreements are generally up to three years. We record the related service and licensing expenses on a straight-line basis, although actual cash payment obligations under certain of these agreements fluctuate over the terms of the agreements.

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.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Credit Risk

Our financial instruments that are exposed to concentrations of credit risk principally consist of cash and cash equivalents and accounts receivable. We invest our cash and cash equivalents with major banks and financial institutions and such investments are often in excess of federally insured limits. At December 31, 2010 and June 30, 2011, our money market accounts were invested primarily in U.S. government-sponsored enterprise bonds and discount notes, U.S. government treasury bills and notes and repurchase agreements collateralized by U.S. government obligations.

We do not require collateral or other security for our accounts receivable. As of June 30, 2011, two customers represented 43% and 19%, respectively, for a total of 62% of our $5.0 million outstanding accounts receivable. No other customers represented 10% or more of our total accounts receivable. We believe the potential for collection issues with any of our customers is minimal as of June 30, 2011. Accordingly, our allowance for uncollectible amounts at June 30, 2011 was not material.

Significant Customers

Substantially all revenue for all periods presented was generated from customers located in the United States. Carriers representing 10% or more of our total revenue in any of the three- and six-month periods ended June 30, 2010 and 2011 are presented in the table below.

	Percentage of Total Revenue			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2011	2010	2011
UnitedHealthcare (1)	14%	15%	15%	14%
WellPoint (2)	14%	12%	14%	12%
Aetna	15%	8%	15%	10%

(1) UnitedHealthcare includes other carriers owned by UnitedHealthcare.
(2) Wellpoint includes other carriers owned by Wellpoint.

Foreign Currency Exchange Risk

To date, substantially 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 Yuan Renminbi. Foreign currency fluctuations have not had a material impact historically on our results of operations; however, there can be no assurance that future fluctuations will not have material adverse effects on our results of operations. We have not engaged in any foreign currency hedging or other derivative transactions to date.

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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 Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended, 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 June 30, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

Our management, including our chief executive officer and chief financial officer, do not expect that our disclosure controls or our internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the controls. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

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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 also have become, and may in the future become, involved in litigation in the ordinary course of our business.

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ITEM 1A. RISK FACTORS

In addition to other information in this Annual Report on Form 10-K 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

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 health care delivery and health insurance carriers use of, and payment of commissions to, agents and brokers to market individual and family health insurance plans. In March 2010, the federal Patient Protection and Affordable Care Act and related amendments in the Health Care and Education Reconciliation Act were signed into law. These health care reform laws contain provisions that have and will continue to change the industry in which we operate in substantial ways. Among several other provisions, they include a mandate requiring individuals to be insured or face tax penalties; a mandate that certain employers offer their employees group health insurance coverage or face tax penalties; requirements relating to employer contribution to employee health coverage; prohibitions against insurance companies using pre-existing health conditions as a reason to deny an application for health insurance; prohibitions on rescission of health insurance; prohibitions on lifetime limits; requirements for guaranteed renewability of health insurance plans; health insurance premium setting guidelines; limitations on deductibles and cost-sharing; medical loss ratio requirements that require each health insurance carrier to spend a certain percentage of their premium revenue on reimbursement for clinical services and activities that improve health care quality and, if they do not, to provide rebates to policyholders; minimum benefit levels for health insurance plans; establishment of state and/or federal health insurance exchanges to facilitate access to, and the purchase of, health insurance; optional open enrollment periods for individual health insurance; assistance for member run health insurance issuers; creation of multi-state health insurance plans to be offered on the exchanges and with oversight from the Office of Personnel Management; requirements for uniform disclosure relating to the costs and benefits of health insurance; government subsidized high risk pools; and subsidies and cost-sharing credits to make health insurance more affordable for those below certain income levels. Many aspects of health care reform do not go into effect until 2014, although certain provisions currently are effective, such as medical loss ratio requirements for individual, family and small business health insurance, a prohibition against insurance companies using pre-existing health conditions as a reason to deny the application of children for health insurance and a requirement that persons 26 years of age and younger be able to stay on a parent s health insurance plan. Healthcare reform legislation requires various departments of the executive branch to adopt regulations implementing its provisions. In addition, state governments have adopted, and will continue to adopt, changes to their existing laws and regulations in light of federal healthcare reform legislation and regulations.

Challenges to the constitutionality of health care reform legislation have been initiated in the federal courts. The challenges center upon the constitutionality of the mandate to purchase health insurance. Decisions on the issue have been inconsistent. These decisions will be appealed and it is impossible to predict the outcome of them.

The implementation of health care reform could increase our competition; reduce or eliminate the need for health insurance agents or demand for the health insurance for individuals, families or small businesses that we sell; decrease the number of health insurance plans that we sell as well as the number of health insurance carriers offering them; cause health insurance carriers to apply more rigorous underwriting standards (until provisions in health care reform legislation limiting underwriting go into effect in 2014) or change the benefits and/or premiums for the plans they sell; or cause health insurance carriers to reduce the amount they pay for our services or change our relationship with them in other ways, any of which could materially harm our business, operating results and financial condition. For instance, the manner in which the federal government and the states implement health insurance exchanges and the process for receiving subsidies and cost-sharing credits could substantially increase our competition and member turnover and substantially reduce the number of individuals, families and small businesses that purchase insurance through us, which would materially harm our business, operating results and financial condition. Various aspects of health care reform could cause health insurance carriers to determine to limit the type of health insurance plans we sell and the geographies in which we sell them, to exit the business of selling insurance plans in a particular jurisdiction, to eliminate certain categories of products or attempt to move members into new plans for which we receive lower commissions, any of which would materially harm our business, operating results and financial condition.

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The medical loss ratio requirements that are a part of health care reform could harm our business.

The federal Patient Protection and Affordable Care Act enacted in March 2010 and related amendments in the Health Care and Education Reconciliation Act of 2010 contain provisions requiring health insurance carriers to maintain specified medical loss ratios. The medical loss ratio requirements for both individual and family and small business health insurance are effective for calendar year 2011 and later years and, among other things, require health insurance companies to spend 80% of their premium revenue in each of their state individual and small group businesses on reimbursement for clinical services and activities that improve health care quality. The medical loss ratio requirement for Medicare Advantage plans is 85% and goes into effect in 2014. Carrier reaction to the individual and family medical loss ratio requirements has been to significantly reduce the commissions we receive in connection with the sale of these plans. These reductions will significantly impact our business and operating results beginning in 2011. Health insurance carriers may determine to further reduce our commissions as a result of the medical loss ratio requirements or other aspects of health care reform, which would harm our business, operating results and financial condition. In addition, if health insurance companies fail to meet medical loss ratio requirements, they may contend that we are required to pay back commissions that are related to any amounts the carriers are required to pay policy holders. The medical loss ratio requirements may cause certain health insurance carriers to limit the geographies in which they sell health insurance or exit certain markets altogether, place less reliance on agents to distribute their plans, apply stricter underwriting standards (until provisions in health care reform registration limiting underwriting go into effect in 2014) or limit their health insurance offerings in any number of other ways, each of which would harm our business, operating results and financial condition. The implementation of medical loss ratio requirements has caused and could further cause health insurance carriers to reduce the amount they are willing to spend in connection with our sponsorship and technology licensing businesses, which also could harm our business, operating results and financial condition.

Our business may be harmed if we lose our relationship with health insurance carriers or our relationship with health insurance carriers is modified.

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. In many cases, health insurance carriers also may amend the terms of our agreements unilaterally on short notice. Carriers may be unwilling to allow us to sell their existing or new health insurance plans, or desire to amend our agreements with them, for a variety of reasons, including for competitive or regulatory reasons, as a result of health care reform, as a result of a reluctance to distribute their plans over the Internet or because they do not want to be associated with our brand. In the future, and as a result of health care reform or for other reasons, an increasing number of health insurance carriers may decide to rely on their own internal distribution channels, including traditional in-house agents and carrier websites, to sell their own plans and, in turn, could limit or prohibit us from selling their plans on our ecommerce platform. For instance, carriers may choose to exclude us from their most profitable or popular plans or may determine not to distribute insurance plans in the individual, family and small business markets in certain geographies or altogether. The termination or amendment of our relationship with a carrier could reduce the variety of health insurance plans we offer, which could harm our business, operating results and financial condition. We also could lose a source of or be paid reduced commissions for future sales and for past sales, which would materially harm our business, operating results and financial condition. 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 plans.

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. We derived 14% and 15% of our total revenue in the three months ended June 30, 2010 and 2011 from carriers owned by UnitedHealthcare. We derived 14% and 12% of our total revenue in the three months ended June 30, 2010 and 2011, respectively, from carriers owned by WellPoint. We derived 15% and 8% of our total revenue in the three months ended June 30, 2010 and 2011, respectively, from Aetna. We have many agreements that govern our sale of individual health insurance plans with these health insurance carriers. Many of these agreements may be unilaterally amended or terminated by the carrier on short notice and the amendment or termination could adversely impact the commission payments that we receive from these health insurance carriers. 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, 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. The termination, amendment or consolidation of our relationship with these and other health insurance carriers could harm our business, operating results and financial condition.

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Our rate of growth will likely decline.

We have recently experienced a significant reduction in the commission rates that health insurance carriers pay us on the individual and family health insurance plans that we sell. We also have in the past and may in the future continue to make significant expenditures related to the development of our business, including expenditures relating to marketing, website technology development, the expansion of our technology licensing business to governmental entities and the development of our business selling Medicare related health insurance plans. Although we have experienced revenue growth in prior periods, we do not project that we will grow our revenue in 2011 compared to 2010, and we also expect our earnings per share to be substantially lower in 2011 than 2010. Our ability to resume revenue and earnings per share growth thereafter will be dependent upon a number of factors, including the success of our Medicare product sales business, our ability to attract individuals, families and small businesses to purchase health insurance through our ecommerce platform, our maintaining our relationships with health insurance carriers and the commission rates we receive for our sale of health insurance plans, our ability to maintain our relationship with existing members within historical levels and our success in entering into relationships with government entities to perform services and license our technology for use in the implementation of health insurance exchanges and other health care reform related endeavors. If we are not successful in these areas, our business, operating results and financial condition will be harmed.

Our revenue will be adversely impacted if our membership does not grow or if the growth rate in our membership declines. The commission rates that we receive are typically higher in the first twelve months of a policy. After the first twelve months, they generally decline significantly. Accordingly, to the extent that our addition of net new members slows or we experience a reduction in the number of our members, our revenue would be adversely impacted due to a decline in commissions we receive for members whose policies have been active for more than twelve months in addition to the reduction in revenue growth that would occur solely as a result of a decline in our membership growth rate. The commission rates we receive are impacted by a variety of other factors, including the particular health insurance policies chosen by our members, the carriers offering those policies, our members states of residence, the laws and regulations in those jurisdictions and health care reform. 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 and other factors cause our commission rate per member to decline, our rate of revenue growth ma