eHealth, Inc.
Form 10-Q
May 07, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2013

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 April 30, 2013 was 19,467,859 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, 2012	March 31, 2013 (unaudited)
Assets		
Current assets:		
Cash and cash equivalents	$ 140,849	$ 113,610
Accounts receivable	4,468	7,364
Deferred income taxes	4,098	6,204
Prepaid expenses and other current assets	6,643	5,636
Total current assets	156,058	132,814
Property and equipment, net	6,185	7,082
Deferred income taxes	2,928	4,018
Other assets	8,123	6,467
Intangible assets, net	8,911	8,557
Goodwill	14,096	14,096
Total assets	$ 196,301	$ 173,034

Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 6,123	$ 4,528
Accrued compensation and benefits	8,244	6,633
Accrued marketing expenses	3,941	4,050
Deferred revenue	926	1,358
Other current liabilities	1,575	1,831
Total current liabilities	20,809	18,400
Non-current liabilities	4,625	4,922
Stockholders' equity:		
Common stock	27	28
Additional paid-in capital	232,903	238,396
Treasury stock, at cost	(90,991)	(119,998)
Retained earnings	28,743	31,104
Accumulated other comprehensive income	185	182
Total stockholders' equity	170,867	149,712
Total liabilities and stockholders' equity	$ 196,301	$ 173,034

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

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EHEALTH, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands, except per share amounts, unaudited)

	Three Months Ended March 31,	
	2012	2013
Revenue		
Commission	$ 31,464	$ 38,251
Other	5,611	4,956
Total revenue	37,075	43,207
Operating costs and expenses:		
Cost of revenue	1,675	2,651
Marketing and advertising	12,987	14,835
Customer care and enrollment	5,971	7,166
Technology and content	5,482	6,741
General and administrative	6,604	7,519
Amortization of intangible assets	447	354
Total operating costs and expenses	33,166	39,266
Income from operations	3,909	3,941
Other income (expense), net	21	(25)
Income before provision for income taxes	3,930	3,916
Provision for income taxes	1,805	1,555
Net income	$ 2,125	$ 2,361
Net income per share:		
Basic	$ 0.11	$ 0.11
Diluted	$ 0.10	$ 0.11
Weighted-average number of shares used in per share amounts:		
Basic	19,536	20,571
Diluted	20,449	21,166
Comprehensive income:		
Net income	$ 2,125	$ 2,361
Foreign currency translation adjustment	(2)	(3)
Comprehensive income	$ 2,123	$ 2,358

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)

	Three Months Ended March 31,	
	2012	2013
Operating activities		
Net income	$ 2,125	$ 2,361
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred income taxes	(184)	(2,887)
Depreciation and amortization	576	642
Amortization of book-of-business consideration	1,113	2,097
Amortization of intangible assets	447	354
Stock-based compensation expense	1,625	1,634
Deferred rent and other	(10)	3
Changes in operating assets and liabilities:		
Accounts receivable	1,815	(2,896)
Prepaid expenses and other assets	(847)	568
Accounts payable	842	(1,595)
Accrued compensation and benefits	(2,432)	(1,614)
Accrued marketing expenses	(2,531)	108
Deferred revenue	1,275	438
Other current liabilities	1,279	249
Net cash provided by (used in) operating activities	5,093	(538)
Investing activities		
Purchases of property and equipment	(203)	(1,539)
Consideration paid in connection with book-of-business transfers	(4,373)	-
Net cash used in investing activities	(4,576)	(1,539)
Financing activities		
Net proceeds from exercise of common stock options	994	1,223
Cash used to net-share settle equity awards	(980)	(820)
Excess tax benefits from stock-based compensation	551	3,457
Repurchase of common stock	(8,441)	(29,007)
Principal payments in connection with capital leases	(6)	(13)
Net cash used in financing activities	(7,882)	(25,160)

Effect of exchange rate changes on cash and cash equivalents	(1)	(2)
Net decrease in cash and cash equivalents	(7,366)	(27,239)
Cash and cash equivalents at beginning of period	123,607	140,849
Cash and cash equivalents at end of period	$ 116,241	$ 113,610

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

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EHEALTH, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Summary of Business and Significant Accounting Policies

Description of Business—eHealth, Inc. (the "Company," "eHealth," "we" or "us") is the leading online source of health insurar for individuals, families and small businesses in the United States. 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, Medicare-related, small business and ancillary health insurance plans. We actively market the availability of Medicare-related insurance plans and 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. 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 are licensed to market and sell health insurance in all 50 states and the District of Columbia.

Basis of Presentation—The accompanying condensed consolidated balance sheet as of March 31, 2013, the condensed consolidated statements of comprehensive income for the three months ended March 31, 2012 and 2013 and the condensed consolidated statements of cash flows for the three months ended March 31, 2012 and 2013, respectively, are unaudited. The condensed consolidated balance sheet data as of December 31, 2012 was derived from the audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2012, which was filed with the Securities and Exchange Commission on March 13, 2013. 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, 2012, and include all adjustments necessary for the fair presentation of eHealth's statement of financial position as of March 31, 2013, its results of operations for the three months ended March 31, 2012 and 2013 and its cash flows for the three months ended March 31, 2012 and 2013. All adjustments are of a normal recurring nature. The results for the three months

ended March 31, 2013 are not necessarily indicative of the results to be expected for any subsequent quarter or for the fiscal year ending December 31, 2013.

Seasonality—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 of individual and family submitted applications in our second quarter compared to our first quarter and in our fourth quarter compared to our third quarter. The majority of Medicare plans are sold in our fourth quarter during the Medicare annual enrollment period, when Medicare-eligible individuals are permitted to change their Medicare Advantage and Medicare Part D prescription drug coverage for the following year. As a result, we generate a significant amount of Medicare plan-related revenue in the fourth quarter of the year. Additionally, we recognize a majority of our renewal Medicare Advantage and Medicare Part D prescription drug plan commission revenue in the first quarter of each year as the majority of policies sold during the annual enrollment period typically renew on January 1 of each year.

Since a significant portion of our marketing and advertising expenses are driven by the number of health insurance applications submitted on our ecommerce platform, those expenses are influenced by these patterns. As a result, marketing and advertising expenses related to individual and family health insurance plans are highest in our first and third quarters, while marketing and advertising expenses related to Medicare plans are highest in our third and fourth quarters. Additionally, in preparation for the Medicare annual enrollment period, we begin ramping up our temporary customer care center staff during our second and third quarters and employ our temporary customer care center staff until the end of the Medicare annual enrollment period in December. Accordingly, our customer care center staffing costs are significantly higher in our third and fourth quarters compared to our first and second quarters.

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EHEALTH, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED

Recently Issued Accounting Standards—In March 2013, the Financial Accounting Standards Board ("FASB") issued an accounting standards update providing guidance with respect to the release of cumulative translation adjustments into net income when a parent sells either a part or all of its investment in a foreign entity. The update also requires the release of cumulative translation adjustments when a company no longer holds a controlling financial interest in a subsidiary or group of assets that is a business within a foreign entity, and provides guidance for the acquisition in stages of a controlling interest in a foreign entity. The standards update is effective for fiscal years beginning after December 15, 2013, with early adoption permitted. The adoption of this standards update will not have a material impact on our consolidated financial statements.

Recently Adopted Accounting Standards—Effective January 1, 2013, we adopted an accounting standards update with new guidance on the presentation of reclassifications from accumulated other comprehensive income to net income. This standard requires an entity to present reclassifications from accumulated other comprehensive income to net income either on the face of the condensed consolidated financial statements or in the notes to the condensed consolidated financial statements. In the three months ended March 31, 2013, we did not have any reclassifications from accumulated other comprehensive income to net income.

Note 2 – Cash, Cash Equivalents and Accounts Receivable

Cash and Cash Equivalents—As of December 31, 2012 and March 31, 2013, our cash equivalents consisted of money market accounts that invested 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, 2012 and March 31, 2013, 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 months ended March 31, 2012 and 2013.

As of December 31, 2012 and March 31, 2013, our cash and cash equivalent balances were invested as follows (in thousands):

	December 31, 2012	March 31, 2013
Cash	$ 27,484	$ 41,492
Money market funds	113,365	72,118
Total cash and cash equivalents	$ 140,849	$ 113,610

We used observable prices in active markets in determining the classification of our money market funds as Level 1 as of December 31, 2012 and March 31, 2013.

Accounts Receivable—As of December 31, 2012 and March 31, 2013, our accounts receivable consisted of the following (in thousands):

	December 31, 2012	March 31, 2013
Accounts receivable - from other revenues	$ 3,319	$ 3,242
Commissions receivable	1,149	4,122
Total accounts receivable	$ 4,468	$ 7,364

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EHEALTH, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED

Note 3 – Stockholders' Equity

Stock Plans—The following table summarizes activity under our 2006 Equity Incentive Plan, 1998 Stock Plan and 2005 Stock Plan (collectively, the "Stock Plans") (in thousands):

	Shares Available for Grant
Shares available for grant December 31, 2012 (1)	3,982
Additional shares authorized (2)	818
Restricted stock units granted	(3)
Options granted	-
Restricted stock units cancelled	15
Options cancelled	24
Shares available for grant March 31, 2013 (1)	4,836

(1) Shares available for grant do not include treasury stock shares that could also become available for grant if we determined to do so.

(2) On January 1, 2013, the number of shares authorized for issuance under the 2006 Equity Incentive Plan was automatically increased pursuant to the terms of the 2006 Equity Incentive Plan.

The following table summarizes stock option activity under the Stock Plans (in thousands, except per share amounts and weighted average remaining contractual life data):

	Number of Stock Options	Weighted Average Exercise Price	Weighted-Average Remaining Contractual Life (years)	Aggregate Intrinsic Value (1)
Balance outstanding at December 31, 2012	2,956	$ 13.41	3.91	$ 41,642
Granted	-	-		
Exercised	(569)	$ 2.15		
Cancelled	(24)	$ 17.71		
Balance outstanding at March 31, 2013	2,363	$ 16.08	4.47	$ 6,435
Vested and expected to vest at March 31, 2013	2,286	$ 16.04	4.42	$ 6,332
Exercisable at March 31, 2013	1,454	$ 15.53	3.67	$ 4,964

(1) The aggregate intrinsic value is calculated as the difference between eHealth's closing stock price as of December 31, 2012 and March 31, 2013 and the exercise price of in-the-money options as of those dates.

The total grant date fair value of stock options vested during the three months ended March 31, 2012 and 2013 was $0.9 million and $1.3 million, respectively.

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EHEALTH, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED

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 outstanding as of December 31, 2012	381	2.22	$ 10,464
Granted	3		
Vested	(115)		
Cancelled	(15)		
Balance outstanding as of March 31, 2013	254	2.21	$ 4,549

(1) The aggregate intrinsic value is calculated as eHealth's closing stock price as of December 31, 2012 and March 31, 2013 multiplied by the number of restricted stock units outstanding as of December 31, 2012 and March 31, 2013, respectively.

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 total grant date fair value of restricted stock units vested during the three months ended March 31, 2012 and 2013 was $2.6 million and $2.0 million, respectively.

Stock Repurchase Programs—On September 10, 2012, we announced that our board of directors approved a stock repurchase program authorizing us to purchase up to $30 million of our common stock and on March 6, 2013, we announced that our board of directors increased the approved repurchase amount under this program to $60 million. Purchases under this program may be made in the 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 the purchases and the exact number of shares to be purchased will depend upon market conditions. The program does not require us to acquire a specific number of shares, and the 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 is recorded based upon the settlement date of the applicable trade. Such repurchased shares are held in treasury and are presented using the cost method.

Stock repurchase activity under our stock repurchase programs during the three months ended March 31, 2013 is summarized as follows (dollars in thousands, except share and per share amounts):

	Total Number of Shares Repurchased	Average Price Paid per Share (2)	Amount of Repurchase
Cumulative balance at December 31, 2012 (1)	6,397,803	$ 14.22	$ 90,991
Repurchases of common stock	1,633,970	$ 17.75	29,007
Cumulative balance at March 31, 2013 (1)	8,031,773	$ 14.94	$ 119,998

(1) Cumulative balances at December 31, 2012 and March 31, 2013 consist of shares repurchased in connection with our stock repurchase program announced on September 10, 2012, as well as previous stock repurchase plans announced in 2011, 2010 and 2008.

(2) Average price paid per share includes commissions.

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EHEALTH, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED

In addition to the shares repurchased under our repurchase programs as of March 31, 2013, we have in treasury 205,470 shares that were previously surrendered by employees to satisfy tax withholdings due in connection with the vesting of certain restricted stock units. As of December 31, 2012 and March 31, 2013, we had a total of 6,556,303 million shares and 8,237,243 million shares, respectively, held in treasury.

Stock-Based Compensation—The fair value of stock options granted to employees for the three months ended March 31, 2012 was estimated using the following weighted average assumptions:

	Three Months Ended March 31, 2012
Expected term	4.6 years
Expected volatility	49.6%
Expected dividend yield	0%
Risk-free interest rate	1.79%
Weighted-average fair value	$ 5.30

There were no stock options granted to employees during the three months ended March 31, 2013.

The following table summarizes stock-based compensation expense recorded during the three months ended March 31, 2012 and 2013 (in thousands):

	Three Months Ended March 31,	
	2012	2013
Common stock options	$ 691	$ 792
Restricted stock units	934	842
Total stock-based compensation expense	$ 1,625	$ 1,634

The following table summarizes stock-based compensation expense by operating function for the three months ended March 31, 2012 and 2013 (in thousands):

	Three Months Ended March 31,	
	2012	2013
Marketing and advertising	$ 240	$ 459
Customer care and enrollment	79	88
Technology and content	333	319
General and administrative	973	768
Total stock-based compensation expense	$ 1,625	$ 1,634

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EHEALTH, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED

Note 4 – Income Taxes

The following table summarizes our provision for income taxes and our effective tax rates for the three months ended March 31, 2012 and 2013 (in thousands, except effective tax rate):

	Three Months Ended March 31,	
	2012	2013
Income before provision for income taxes	$ 3,930	$ 3,916
Provision for income taxes	$ 1,805	$ 1,555
Effective tax rate	45.9%	39.7%

Our effective tax rate in the three months ended March 31, 2012 was higher than statutory federal and state tax rates due primarily to non-deductible lobbying expenses and tax shortfalls related to share-based payments. Our effective tax rate in the three months ended March 31, 2013 was higher than statutory federal and state tax rates due primarily to non-deductible lobbying expenses, partially offset by a tax benefit resulting from the recent extension of the federal research tax credit through December 31, 2013.

During the three months ended March 31, 2012 and 2013, we utilized excess federal and state tax benefits related to share-based payments, which resulted in increases of $0.6 million and $3.5 million, respectively, in Additional Paid-In Capital in the condensed consolidated balance sheets. These amounts are also classified in the condensed consolidated

statements of cash flows as both a reduction to operating cash flows and as a financing cash inflow.

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EHEALTH, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED

Note 5 – 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 equivalent shares, including options, restricted stock and restricted stock units. The dilutive effect of outstanding awards is reflected in diluted net income 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 March 31,	
	2012	2013
Basic:		
Numerator:		
Net income allocated to common stock	$ 2,125	$ 2,361

Denominator:		
Weighted average number of common stock shares	19,996	20,870
Weighted average number of common stock shares repurchased	(460)	(299)
Net weighted average number of common stock shares outstanding	19,536	20,571
Net income per share—basic:	$ 0.11	$ 0.11
Diluted:		
Numerator:		
Net income allocated to common stock	$ 2,125	$ 2,361
Denominator:		
Net weighted average number of common stock shares outstanding	19,536	20,571
Weighted average number of options	759	461
Weighted average number of restricted stock units	154	134
Total common stock equivalent shares used in per share calculation	20,449	21,166
Net income per share—diluted:	$ 0.10	$ 0.11

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EHEALTH, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED

For each of the three months ended March 31, 2012 and 2013, we had securities outstanding that could potentially dilute net income per share, but the shares from the assumed 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 March 31,	
	2012	2013
Common stock options	1,323	894

Note 6 – Geographic Information and Significant Customers

Geographic Information—As of December 31, 2012 and March 31, 2013, 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, 2012	As of March 31, 2013
United States	$ 37,037	$ 35,957

China	278	245
Total	$ 37,315	$ 36,202

Significant Customers—Substantially all revenue for the three months ended March 31, 2012 and 2013 was generated from customers located in the United States. Carriers representing 10% or more of our total revenue in the three months ended March 31, 2012 and 2013 are presented in the table below:

	Three Months Ended March 31,	
	2012	2013
Humana	16%	23%
WellPoint (1)	12%	12%
UnitedHealthcare (2)	13%	11%

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

Commission revenue attributable to major medical individual and family health insurance plans was approximately 77% and 67% of our commission revenue in the three months ended March 31, 2012 and 2013, respectively. We define our individual and family plan offerings as major medical individual and family health insurance plans, which do not include Medicare-related health insurance plan offerings or other ancillary products such as small business, short-term, stand-alone dental, life and student insurance plan offerings.

As of December 31, 2012, four customers represented 25%, 22%, 14% and 11%, respectively, for a combined total of 72% of our $4.5 million outstanding accounts receivable balance. As of March 31, 2013, one customer represented 76% of

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EHEALTH, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED

our $7.4 million outstanding accounts receivable balance. No other customers represented 10% or more of our total accounts receivable at December 31, 2012 and March 31, 2013. We believe the potential for collection issues with any of our customers is minimal as of March 31, 2013. Accordingly, our estimate for uncollectible amounts at March 31, 2013 was not material.

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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 expectations relating to revenue (including lead referral revenue, advertising revenue and other revenue), sources of revenue, cost of revenue, the collectability of our accounts receivable and our estimate of accounts receivable as of March 31, 2013, profitability, cost of revenue, seasonality, marketing and advertising expenses, customer care and enrollment employees and expenses, technology and content expenses, general and administrative expenses, tax rates and cash outlay for taxes; our future commission rate structure; our overall individual and family health insurance commission rate structure, the timing of our recognition of a majority of our first year Medicare Advantage and Medicare Part D prescription drug plan commission revenue, an increase in our commission revenue in absolute dollars in 2013 relative to 2012, the amount of fees we pay to marketing partners for consumer referrals that result in submitted health insurance applications, seasonal and absolute increases in our customer care and enrollment costs, increases in technology and content expenses, increases in general and administrative expenses, the impact of a tax benefit on our operating cash flow, our estimate of the number of continuing members on all policies, our significant accounting policies, the compliance with our stock repurchase plan under Rule 10b-18 of the Exchange Act, the sufficiency of our cash generated from operations and our current cash and cash equivalents, the comparability of member retention rates and the commissions that health insurance carriers pay in connection our sale of individual and family health insurance; the advantages of a long-standing provision of each state’s law relating to health insurance premiums; our intention to perform services for substantially all Medicare leads as a health insurance agent; the seasonality of our business; the timing and amount of our future lease obligations; the impact of health care reform laws on the health insurance industry and on our business; our plans and expectations relating to our Medicare business and factors impacting its success; impact of medical loss ratio regulations and commission rate changes; our expectations and projections relating to membership and commission rates; the timing and source of our Medicare-related revenue; estimates relating to critical accounting policies and related impact on our financial statements; the sufficiency of our cash and cash equivalents; future capital requirements; our projections relating to future revenue growth and earnings per share; our future competitors; expansion into new business areas and additional geographic regions; our need for additional regulatory licenses and approvals; 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 2013, 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, Medicare-related, small business and ancillary 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, obtaining necessary regulatory approvals of our websites and establishing relationships and appointments with over 200 leading insurance carriers, enabling us to offer thousands of health insurance plans online. Our ecommerce platforms 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 health insurance policies are purchased through our ecommerce platform. Commission revenue represented 85% and 89% of total revenue in

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the three months ended March 31, 2012 and 2013, respectively. The commission payments we receive for individual and family, small business and ancillary health insurance policies are typically a percentage of the premium on the health insurance policy that we sold and are typically made to us on a monthly basis for as long as the policy remains active with us.

We actively market the availability of Medicare-related health insurance plans through our online Medicare plan platforms www.eHealthMedicare.com and www.PlanPrescriber.com. 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. Commission payments we receive for Medicare Advantage and Medicare Part D prescription drug plans sold by us are typically fixed and are earned over a period of up to six years, or longer depending on the carrier arrangement, and are paid to us either monthly or annually. Medicare commissions we receive are included in commission revenue.

As a result of our commission structure, much of our revenue for a given financial reporting period relates to health insurance plans 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 regulators, is not subject to negotiation or discounting by health insurance carriers or our competitors.

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 and the regulations implementing them include a mandate requiring individuals to be insured or face tax penalties; a mandate that certain employers offer and contribute to 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; requirements for minimum individual and small business health insurance benefit levels, including prohibitions on lifetime coverage limits and limitations on annual coverage limits; 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; establishment of state and/or federal health insurance exchanges to facilitate access to, and the purchase of, health insurance; open enrollment periods for the purchase of individual health insurance during specified times of the year; Medicaid expansion so that a greater number of individuals will be insured under Medicaid programs; and subsidies and cost-sharing credits to make health insurance more affordable for those below certain income levels if they are eligible and purchase individual or small group health insurance through the state or federal health insurance exchange.

While many aspects of health care reform do not become effective until 2014, health insurance carriers have been required to maintain medical loss ratios of eighty percent in their individual and family health insurance business since the beginning of 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. The implementation of an eighty-five percent medical loss ratio requirement for Medicare Advantage plans is scheduled to be implemented in 2014, and it is unclear what impact that implementation will have on our commission rates, if any.

While aspects of health care reform may positively impact our business, the aggregate future impact of the implementation of health care reform on our business and financial results is uncertain. For instance, it is unclear how

our existing members will react to health care reform and whether they will seek or be forced to purchase new health insurance products once health insurance carriers implement new health insurance plans or change existing plans in response to health care reform requirements. Our ability to continue to act as a health insurance agent for our members who switch to a new health insurance product will be dependent upon a number of factors, including their individual financial circumstances, their existing health insurance plans, the price of health insurance and our ability to expand our offering to include subsidy-eligible health insurance plans. In order to be eligible for a subsidy, qualified individuals must purchase subsidy qualifying health plans through a government-run health insurance exchange. These qualified health plans are required to be purchased during an initial open enrollment period beginning in October 2013 and running through March 2014. While a large number of consumers may enter the market for individual health insurance in response to health care reform given the requirement that individuals purchase health insurance or face a tax penalty, it is unclear whether the tax penalty will have this intended effect, particularly if health insurance carriers significantly increase the cost of health insurance in response to health care reform. Moreover, we will face new competition in the form of government-run health insurance exchanges and our ability to act as a health insurance agent to health care reform subsidy-eligible individuals is dependent upon permission from state health insurance exchanges and upon health insurance companies to allow us to sell subsidy-eligible health insurance plans and to pay us commissions in connection with their sale. Our ability to meet these and other significant requirements in a

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short time frame could present challenges for us. The implementation of open enrollment periods for the purchase of individual health insurance also presents challenges to our ability to enroll a significant number of individuals into health insurance over a limited period of time. The impact of health care reform on our health insurance carrier partners and their reaction is also unclear. For instance, health insurance carriers have the ability to unilaterally change their relationship with us, including the commission rates we receive for acting as a health insurance agent and may reduce the amount they pay us, alter the manner and geographic areas in which they permit us to sell their products and change our relationship with them in any number of ways. Given the disruption that the implementation of health care reform may have on the health insurance market, health care reform could in the aggregate have a material adverse effect on our business and results of operations.

We derive revenue from our online sponsorship and 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 also offer Medicare advertising services, which allow Medicare plan carriers to purchase advertising on a separate website developed, hosted and maintained by us. In these instances, we are typically paid a fixed, up-front fee, which we recognize as revenue over the service period.

We derive revenue from licensing the use of our health insurance ecommerce technology and typically receive a fixed, up-front fee or performance-based fees, or a combination of both. Our technology platform enables health insurance carriers and agents to market and distribute health insurance plans online. We also have licensed our ecommerce technology for use by government agencies.

We also derive revenue from referral fees paid to us based on leads generated by our online platforms that are delivered and sold to third parties. In early 2012 we began directly servicing most of the Medicare leads we generated as a health insurance agent, while significantly reducing the number of Medicare leads we sold to third parties. 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, rather than one-time referral fees we receive for the sale of Medicare leads.

Sources of Revenue

Commission Revenue

We generate revenue primarily from commissions we receive from health insurance carriers whose health insurance policies are purchased through us. Commissions for individual and family, small business and ancillary health insurance policies sold by us generally represent 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 can vary based upon the amount of time that the policy has been active, with commission rates for individual and family plans 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 on these policies monthly, after they receive the premium payment from the member. 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.

Major medical individual and family health insurance plans do not include small business or Medicare-related health insurance plan offerings and do not include other ancillary products such as stand-alone dental, life, vision and short-term insurance plan offerings. Our individual and family health insurance plan commission revenue was adversely impacted in 2011 and 2012 due to the reduction in the commission rates that we are paid on new policies sold subsequent to the implementation of the medical loss ratio requirements beginning in 2011 as a result of health care reform legislation. Commission rate changes due to the implementation of the medical loss ratio requirements applied prospectively to applicable commissions earned on or after January 1, 2011 and the majority of the changes applied only to commissions earned on new individual and family plan members approved in 2011 and thereafter. We define a member as an individual covered by an insurance plan, including individual and family, Medicare-related, small business and ancillary plans, for which we are entitled to receive compensation. For the majority of individual and family plan 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 result, the adverse impact to our overall individual and family health insurance commission rate structure is being phased in as the number of members approved after the commission rate changes becomes a greater proportion of our

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individual and family plan membership. Although we believe our overall individual and family health insurance commission rate structure is currently stabilizing, our actual future individual and family commission rate structure will depend on the total number of our individual and family plan members, the mix between individual and family plan members approved prior to the commission rate changes and those approved after the changes, any future changes to commission rates and the mix of new approved members by state, health insurance carrier and type of health plan, among other factors. Additionally, other programs that health insurance carriers have supported, such as commission overrides and our sponsorship and advertising programs, have also been reduced as carriers look to reduce costs to comply with the new medical loss ratio requirements.

We generally recognize individual and family, small business and ancillary health insurance plan revenue when commissions are reported to us by a health insurance carrier, net of an estimate 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 shortly after the end of the accounting period. If the second corroborating communication is not received shortly after 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 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.

Under the federal Patient Protection and Affordable Care Act and related amendments in the Health Care and Education Reconciliation Act, subsidy-eligible health insurance plans are required to be purchased by individuals, families and small businesses during an initial open enrollment period beginning in October 2013 and running through March 2014 in order for the individual, family or small business to receive subsidies from the government. Subsidy-eligible individuals, families and small businesses can thereafter change their qualified health plan only during an annual enrollment period scheduled to occur from October 15 through December 7 of each year thereafter, subject to states extending the period and exceptions for special enrollment periods for certain qualifying events. To the extent states allow us to market subsidy-eligible health plans and to the extent states or health insurance carriers adopt open enrollment periods for the sale of individual and family and small business health insurance in general, we will experience additional seasonality in both our sales volumes and expenses as a result of the enrollment period. Additionally, if states or health insurance carriers adopt open enrollment periods for the sale of health insurance that is not subsidy-eligible, we may experience additional seasonality.

We actively market the availability of Medicare-related insurance plans through our online Medicare plan platforms, including (www.eHealthMedicare.com and www.PlanPrescriber.com). These platforms enable consumers to research and compare Medicare-related insurance plans, including Medicare Advantage, Medicare Supplement and Medicare Part D prescription drug plans. We offer online application and telephonic enrollment capabilities for certain Medicare plans. To the extent that we assist in the sale of Medicare-related insurance plans as a health insurance agent, through either online applications or telephonically, we generate revenue from commissions we receive from health insurance

carriers. The commission payments we receive for Medicare Supplement plans are typically a percentage of the premium on the policy that we sold and are paid to us on a monthly basis for as long as a policy remains active with us. For both Medicare Advantage and Medicare Part D prescription drug plans, we receive a fixed, annual commission from insurance carriers after the policy is approved by the carrier and either a fixed, monthly commission beginning with and subsequent to the second policy year for a Medicare Advantage policy or a fixed, annual commission beginning with and subsequent to the second policy year for a Medicare Part D prescription drug policy. Additionally, these commission rates may be higher in the first twelve months of a policy if the policy is the first Medicare-related policy issued to the member. We may earn commission revenue for both Medicare Advantage and Medicare Part D prescription drug plans typically for a period of up to six years, or longer depending on the carrier arrangement, provided that the policy remains active with us.

We recognize commission revenue for both Medicare Advantage and Medicare Part D prescription drug plans for the entire policy year once the annual or first monthly commission amount for the policy year is reported to us by the carrier, net of an estimate for future forfeiture amounts due to policy cancellations. For commissions paid to us on a monthly basis, we record a receivable for the commission amounts to be received over the remainder of the policy year, net of an estimate for commission amounts not expected to be collected due to policy cancellations, which is included in Accounts Receivable in the accompanying condensed consolidated balance sheets. We continue to receive the commission payments from the relevant insurance carrier until the earlier of our being notified that the health insurance policy has been cancelled, our no

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longer remaining the agent on the policy, or our commission term with the carrier expires, typically up to six years from the effective date of the policy, or longer depending on the carrier arrangement. We determine that there is persuasive evidence of an arrangement when we have a commission agreement with a health insurance carrier. Our services are complete when a carrier has approved an application in the initial year and when a member has renewed in a renewal year. The seller's price is fixed or determinable and collectability is reasonably assured when a carrier has approved an application and the carrier reports to us the annual or first monthly renewal commission amount for each policy year.

We expect to recognize a majority of our first year Medicare Advantage and Medicare Part D prescription drug plan commission revenue in the fourth quarter of each year as a result of the Medicare annual enrollment period, which occurs in the fourth quarter of each year. Additionally, we recognize a majority of our renewal Medicare Advantage and Medicare Part D prescription drug plan commission revenue in the first quarter of each year as the majority of policies sold during the annual enrollment period typically renew on January 1/TD>

Total fees	
$824,100	$469,143

(1) Audit fees consist of amounts billed for professional services rendered for the integrated audit of our consolidated financial statements, including compliance with Section 404 of the Sarbanes-Oxley Act of 2002, review of the interim condensed consolidated financial statements included in quarterly reports, the statutory audits of our foreign locations and audits of financial statements for a significant acquisition.

(2) Audit-related fees consist of amounts billed arising from translation of statutory statements for our Denmark location.

(3)

Tax fees consist of amounts billed arising from services rendered for tax compliance for our Singapore, Cyprus, and United Kingdom locations. Our Cyprus and United Kingdom locations were acquired as part of Headland Media Limited (now known as KVH Media Group) in 2013.

We did not engage KPMG LLP to provide any other services during or with respect to 2013 or 2012.

Pre-approval policies and procedures

Our Audit Committee approves each engagement for audit or non-audit services before we engage KPMG LLP to provide those services.

Our Audit Committee has not established any pre-approval policies or procedures that would allow our management to engage KPMG LLP to provide any specified services with only an obligation to notify the Audit Committee of the engagement for those services.

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STOCKHOLDER PROPOSALS

Stockholder proposals for inclusion in our proxy materials relating to our 2015 annual meeting of stockholders must be received by us at our executive offices no later than December 31, 2014 or, if the date of that meeting is more than 30 calendar days before or after June 11, 2014, a reasonable time before we begin to print and mail our proxy materials with respect to that meeting.

In addition, our by-laws provide that a stockholder desiring to bring business before any meeting of stockholders or to nominate any person for election to the Board of Directors must give timely written notice to our secretary in accordance with the procedural requirements set forth in our by-laws. In the case of a regularly scheduled annual meeting, written notice must be delivered to or mailed and received at our principal executive offices not less than 60 days before the scheduled annual meeting, must describe the business to be brought before the meeting and must provide specific information about the stockholder, other supporters of the proposal, their stock ownership and their interest in the proposed business. For example, if we were to hold our 2015 annual meeting on May 6, 2015, in order to bring an item of business before the 2015 annual meeting in accordance with our by-laws, a stockholder would be required to have delivered the requisite notice of that item of business to us not later than March 7, 2015. If we hold our 2015 annual meeting before May 6, 2015, and if we give less than 70 days notice or prior public disclosure of the date of that meeting, then the stockholder s notice must be delivered to or mailed and received at our principal executive offices not later than the close of business on the tenth day after the earlier of (1) the day on which we mailed notice of the date of the meeting and (2) the day on which we publicly disclosed the date of the meeting.

AVAILABLE INFORMATION

Stockholders of record on April 22, 2014 will receive a proxy statement and our annual report to stockholders, which contains detailed financial information about us. The annual report is not incorporated herein and is not deemed a part of this proxy statement.

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Electronic Voting Instructions

Available 24 hours a day, 7 days a week!

Instead of mailing your proxy, you may choose one of the voting methods outlined below to vote your proxy.

VALIDATION DETAILS ARE LOCATED BELOW IN THE TITLE BAR.

Proxies submitted by the Internet or telephone must be received by 1:00 a.m., Central Time, on June 11, 2014.

Vote by Internet

Go to **www.investorvote.com/KVHI**

Or scan the QR code with your smartphone

Follow the steps outlined on the secure website

Vote by telephone

Call toll free 1-800-652-VOTE (8683) within the USA, US territories & Canada on a touch tone telephone

Follow the instructions provided by the recorded message

Using a **black ink** pen, mark your votes with an **X** as shown in this example. Please do not write outside the designated areas. **X**

Annual Meeting Proxy Card

IF YOU HAVE NOT VOTED VIA THE INTERNET OR TELEPHONE, FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE.

A Proposals The Board of Directors recommends a vote FOR all the nominees listed and FOR Proposal 2.

1. Election of Class III Directors to a three-year term:

	For	Withhold	Abstain
01 - Robert W.B. Kits van Heyningen	••	••	••
02 - Bruce J. Ryan	••	••	••

	For	Against	Abstain
2. Approval of a non-binding say on pay vote regarding the compensation of our named executive officers.	••	••	••

B Non-Voting Items

Change of Address Please print new address below.

Comments Please print your comments below.

C Authorized Signatures This section must be completed for your vote to be counted. Date and Sign Below

Please sign exactly as your name(s) appear(s) on the books of KVH Industries, Inc. Joint owners should each sign personally. Trustees and other fiduciaries should indicate the capacity in which they sign, and where more than one name appears, a majority must sign. If a corporation, this signature should be that of an authorized officer who should state his or her title.

Date (mm/dd/yyyy) Please print date below.

Signature 1 Please keep signature within the box.

Signature 2 Please keep signature within the box.

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Dear Stockholder,

Please take note of the important information enclosed with this proxy card.

Your vote counts, and you are strongly encouraged to exercise your right to vote your shares.

Please mark the boxes on this proxy card to indicate how you would like your shares to be voted. Then sign the card, detach it and return it in the enclosed postage-paid envelope. Alternatively, you can vote by Internet or telephone using the instructions on the back of this card.

Your vote must be received prior to the Annual Meeting of Stockholders to be held on June 11, 2014.

Thank you in advance for your prompt consideration of these matters.

Sincerely,

KVH Industries, Inc.

Important Notice Regarding the Availability of Proxy Materials

for the Annual Meeting of Stockholders to be Held on June 11, 2014

The proxy statement for the 2014 annual meeting of stockholders of KVH Industries, Inc. and the related 2013 annual report to stockholders are available on the Internet at www.kvh.com/annual. You can read, print, download and search these materials at that website. The website does not use cookies or other tracking devices to identify visitors. You can obtain directions to be able to attend the meeting and vote in person at www.kvh.com/annual.

IF YOU HAVE NOT VOTED VIA THE INTERNET OR TELEPHONE, FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE.

Proxy KVH Industries, Inc.

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS OF KVH INDUSTRIES, INC.

A STOCKHOLDER WISHING TO VOTE IN ACCORDANCE WITH THE RECOMMENDATIONS OF THE BOARD OF DIRECTORS NEED ONLY SIGN AND DATE THIS PROXY AND RETURN IT IN THE ENCLOSED ENVELOPE.

Proxy for Annual Meeting of Stockholders

to be held on June 11, 2014

The undersigned, revoking all prior proxies, hereby appoints Felise Feingold proxy and attorney-in-fact, with full power of substitution, to vote all shares of Common Stock of KVH Industries, Inc., which the undersigned is entitled to vote at the Annual Meeting of Stockholders to be held at the offices of KVH Industries, Inc., 50 Enterprise Center, Middletown, RI 02842, on June 11, 2014, at 11:00 a.m., Eastern time, and at any adjournments or postponements thereof, upon matters set forth in the Notice of Annual Meeting and Proxy Statement dated April 30, 2014, a copy of which has been received by the undersigned, and in their discretion upon any business that may properly come before the meeting or any adjournments or postponements thereof. Attendance of the undersigned at the meeting or any adjourned or postponed session thereof will not be deemed to revoke this proxy unless the undersigned shall affirmatively indicate the intention of the undersigned to vote the shares represented hereby in person prior to the exercise of this proxy.

The shares represented by this proxy will be voted as directed. If no voting direction is given on a proposal, the shares represented by this proxy will be voted as recommended by the Board of Directors.

PLEASE VOTE, DATE AND SIGN ON REVERSE AND RETURN PROMPTLY IN THE ENCLOSED ENVELOPE.