

eHealth, Inc.  
Form 10-Q  
August 07, 2015

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-Q

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

For the quarterly period ended June 30, 2015

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

001-33071  
(Commission File Number)

\_\_\_\_\_  
EHEALTH, INC.  
(Exact name of registrant as specified in its charter)

\_\_\_\_\_  
Delaware  
(State or other jurisdiction of  
incorporation or organization)  
440 EAST MIDDLEFIELD ROAD  
MOUNTAIN VIEW, CALIFORNIA 94043  
(Address of principal executive offices)

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

(650) 584-2700  
(Registrant's telephone number, including area code)

Not Applicable  
(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant 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 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

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company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

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The number of shares of the registrant's common stock, par value \$0.001 per share, outstanding as of July 31, 2015 was 18,080,207 shares.

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FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

EHEALTH, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(In thousands)

	December 31, 2014 (Note 1)	June 30, 2015 (unaudited)
Assets		
Current assets:		
Cash and cash equivalents	\$51,415	\$51,812
Accounts receivable	8,200	10,169
Deferred income taxes	386	386
Prepaid expenses and other current assets	6,474	6,392
Total current assets	66,475	68,759
Property and equipment, net	9,640	8,510
Other assets	5,679	4,122
Intangible assets, net	10,774	10,140
Goodwill	14,096	14,096
Total assets	\$106,664	\$105,627
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$5,961	\$2,066
Accrued compensation and benefits	8,204	8,365
Accrued marketing expenses	8,707	1,711
Deferred revenue	869	602
Accrued restructuring charges	—	289
Other current liabilities	2,996	4,647
Total current liabilities	26,737	17,680
Non-current liabilities	6,449	6,608
Stockholders' equity:		
Common stock	29	29
Additional paid-in capital	259,007	263,195
Treasury stock, at cost	(199,998)	(199,998)
Retained earnings	14,261	17,929
Accumulated other comprehensive income	179	184
Total stockholders' equity	73,478	81,339
Total liabilities and stockholders' equity	\$106,664	\$105,627

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 June 30,		Six Months Ended June 30,	
	2014	2015	2014	2015
Revenue				
Commission	\$38,526	\$37,396	\$84,103	\$95,215
Other	4,068	2,498	9,431	5,967
Total revenue	42,594	39,894	93,534	101,182
Operating costs and expenses:				
Cost of revenue	892	670	3,005	3,084
Marketing and advertising	9,609	9,285	32,718	34,736
Customer care and enrollment	8,984	7,658	18,697	19,519
Technology and content	9,550	8,591	20,017	19,364
General and administrative	6,857	7,516	15,151	15,489
Restructuring charges	—	58	—	4,541
Amortization of intangible assets	354	288	708	633
Total operating costs and expenses	36,246	34,066	90,296	97,366
Income from operations	6,348	5,828	3,238	3,816
Other expense, net	(29	) (9	) (68	) (23
Income before provision for income taxes	6,319	5,819	3,170	3,793
Provision for income taxes	3,296	69	1,700	125
Net income	\$3,023	\$5,750	\$1,470	\$3,668
Net income per share:				
Basic	\$0.16	\$0.32	\$0.08	\$0.20
Diluted	\$0.15	\$0.32	\$0.07	\$0.20
Weighted-average number of shares used in per share amounts:				
Basic	18,978	17,967	18,914	17,906
Diluted	19,775	18,035	19,821	17,998
Comprehensive income:				
Net income	\$3,023	\$5,750	\$1,470	\$3,668
Foreign currency translation adjustment	1	4	17	5
Comprehensive income	\$3,024	\$5,754	\$1,487	\$3,673

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,		
	2014	2015	
Operating activities			
Net income	\$ 1,470	\$ 3,668	
Adjustments to reconcile net income to net cash used in operating activities:			
Deferred income taxes	(2,035	) —	
Depreciation and amortization	2,061	2,108	
Amortization of internally-developed software	209	318	
Amortization of book-of-business consideration	1,805	1,991	
Amortization of intangible assets	708	633	
Stock-based compensation expense	4,295	3,858	
Deferred rent	34	28	
Changes in operating assets and liabilities:			
Accounts receivable	(2,277	) (1,955	)
Prepaid expenses and other assets	(1,282	) (243	)
Accounts payable	(227	) (3,895	)
Accrued compensation and benefits	(3,051	) 159	)
Accrued marketing expenses	(6,086	) (6,996	)
Deferred revenue	(603	) (432	)
Accrued restructuring charges	—	569	)
Other liabilities	(123	) 1,736	)
Net cash provided by (used in) operating activities	(5,102	) 1,547	)
Investing activities			
Purchases of property and equipment and other assets	(2,340	) (1,432	)
Purchase of intangible assets	(4,500	) —	)
Net cash used in investing activities	(6,840	) (1,432	)
Financing activities			
Net proceeds from exercise of common stock options	3,244	1,049	)
Cash used to net-share settle equity awards	(3,355	) (736	)
Excess tax benefits from stock-based compensation	3,663	—	)
Repurchase of common stock	(28,256	) —	)
Principal payments in connection with capital leases	(40	) (40	)
Net cash provided by (used in) financing activities	(24,744	) 273	)
Effect of exchange rate changes on cash and cash equivalents	13	9	)
Net increase (decrease) in cash and cash equivalents	(36,673	) 397	)
Cash and cash equivalents at beginning of period	107,055	51,415	)
Cash and cash equivalents at end of period	\$ 70,382	\$ 51,812	)

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

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EHEALTH, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Note 1 - Summary of Business and Significant Accounting Policies

Description of Business—eHealth, Inc. (the “Company,” “eHealth,” “we” or “us”) is the leading private online source of health insurance for individuals, families and small businesses in the United States. Through our website addresses (www.eHealth.com, www.eHealthInsurance.com, www.eHealthMedicare.com, www.Medicare.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 June 30, 2015, the condensed consolidated statements of comprehensive income for the three and six months ended June 30, 2014 and 2015 and the condensed consolidated statements of cash flows for the six months ended June 30, 2014 and 2015, respectively, are unaudited. The condensed consolidated balance sheet data as of December 31, 2014 was derived from the audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2014, which was filed with the Securities and Exchange Commission on March 16, 2015. 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, 2014, and include all adjustments necessary for the fair presentation of eHealth’s financial position as of June 30, 2015, its results of operations for the three and six months ended June 30, 2014 and 2015 and its cash flows for the six months ended June 30, 2014 and 2015. All adjustments are of a normal recurring nature. The results for the three and six months ended June 30, 2015 are not necessarily indicative of the results to be expected for any subsequent period or for the fiscal year ending December 31, 2015.

Seasonality—The majority of our individual and family plans are sold in the open enrollment period as defined under the federal Patient Protection and Affordable Care Act and related amendments in the Health Care and Education Reconciliation Act. For example, in the second quarter of 2015, the number of individual and family applications submitted on our website decreased compared to periods inside the second open enrollment period that began on November 15, 2014 and ended on February 15, 2015.

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. Additionally, substantially all Medicare Advantage and Medicare Part D prescription drug policies renew on January 1 of each year, resulting in our recognizing substantially all renewal



Medicare Advantage and Medicare Part D prescription drug plan commission revenue in our first quarter. Accordingly, Medicare plan-related commission revenue is highest in our first quarter, with Medicare plan-related commission revenue being higher in our fourth quarter compared to our second and third quarters.

Since a significant portion of our marketing and advertising expenses consists of expenses incurred as a result of payments owed to our marketing partners in connection with health insurance applications submitted on our ecommerce platform and other forms of marketing, such as direct mail, email marketing, television, radio and retargeting campaigns, those expenses are influenced by seasonal submitted application patterns. As a result of the second open enrollment period for individual and family health insurance that began on November 15, 2014 and ended on February 15, 2015, marketing and advertising expenses increased during the fourth quarter of 2014 and first quarter of 2015, consistent with the increases in individual and family submitted applications, compared to periods outside the open enrollment period. During the second quarter of 2015, marketing and advertising expenses decreased, consistent with the decrease in submitted applications, compared to periods during the open enrollment period. In addition, due to the initial open enrollment period for individual and family health insurance that began in October 2013 and ended on March 31, 2014, marketing and advertising expenses

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EHEALTH, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

increased significantly in the fourth quarter of 2013 and first quarter of 2014, relative to historical levels, and decreased significantly during the second and third quarters of 2014, consistent with the respective increases and decreases in submitted applications.

In the second quarter of 2015, we recorded net income in part due to significantly lower marketing and advertising expenses associated with the decrease in the number of individual and family health insurance applications submitted outside of the open enrollment period and lower customer care and enrollment expenses associated with fewer sales and enrollment personnel required to handle the lower volume of submitted applications outside of the open enrollment period. In the second quarter of 2015, net income also benefitted from increased revenue resulting from members who submitted applications during the second open enrollment period, which ended on February 15, 2015. In addition, our customer care and enrollment and technology and content expenses decreased in the second quarter of 2015, as a result of an organizational restructuring and cost reduction plan we implemented in the first quarter of 2015, which also contributed to net income during the second quarter of 2015. Conversely, in the first quarter of 2015 and the first and fourth quarters of 2014, we incurred a net loss due in part to our higher marketing and advertising expenses associated with the individual and family health insurance applications submitted during the open enrollment periods for individual and family health insurance and Medicare-related health insurance applications submitted during the Medicare annual enrollment periods without a commensurate level of additional revenue resulting from those applicants during the enrollment periods.

**Recent Accounting Pronouncements**—In February 2015, the Financial Accounting Standard Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2015-02 (ASU 2015-02) “Consolidation (Topic 810): Amendments to the Consolidation Analysis.” ASU 2015-02 changes the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. It is effective for annual reporting periods, and interim periods within those years, beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. We are currently in the process of evaluating the impact of the adoption of ASU 2015-02 on our consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-05, “Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement.” ASU 2015-05 provides guidance to clarify the customer’s accounting for fees paid in a cloud computing arrangement. It is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. We are currently in the process of evaluating the impact of the adoption of ASU 2015-05 on our consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers.” ASU 2014-09 supersedes the revenue recognition requirements in “Revenue Recognition (Topic 605)”, and requires an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. On July 9, 2015, the FASB agreed to delay the effective date by one year. In accordance with the agreed upon delay, the new standard is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period and can be adopted using either a full retrospective or modified retrospective approach. Early adoption is not permitted. We are currently in the process of evaluating the impact of the adoption of ASU 2014-09 on our consolidated financial statements.

Note 2 – Balance Sheet Accounts

Cash and Cash Equivalents—As of December 31, 2014 and June 30, 2015, 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, 2014 and June 30, 2015, 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, 2014 and 2015.

As of December 31, 2014 and June 30, 2015, our cash and cash equivalent balances were invested as follows (in thousands):

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EHEALTH, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

	December 31, 2014	June 30, 2015
Cash	\$15,793	\$17,189
Money market funds	35,622	34,623
Total cash and cash equivalents	\$51,415	\$51,812

Our money market funds reflect unadjusted quoted prices in active markets for identical assets and are classified as Level 1 as of December 31, 2014 and June 30, 2015.

Accounts Receivable—As of December 31, 2014 and June 30, 2015, our accounts receivable consisted of the following (in thousands):

	December 31, 2014	June 30, 2015
Medicare renewal commission receivable	\$355	\$8,566
Accounts receivable - from other revenues	2,462	1,304
Other commissions receivable	5,383	299
Total accounts receivable	\$8,200	\$10,169

As a result of a regulation issued by CMS, which changed the definition of a plan year from being 12-months from the effective date of a policy to January 1 through December 31 of each year, all Medicare Advantage and Medicare Part D prescription drug policies will renew on January 1 of each year, resulting in our recording of substantially all Medicare Advantage and Medicare Part D prescription drug plan renewal commission revenue in the first quarter of each year. We fully implemented this new rule in our first quarter ended March 31, 2015. We recognize a full year of renewal commission revenue at the time a policy is renewed, however, renewal commissions for Medicare Advantage products are paid monthly. As a result, the majority of renewal commissions for that product is collected in quarters subsequent to the first quarter.

## Note 3 – Stockholders' Equity

Stock Plans—The following table summarizes activity under our 2014 Equity Incentive Plan, 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, 2014	4,164	
Restricted stock units granted	(692	)
Options granted	(34	)
Restricted stock units cancelled (1)	85	
Options cancelled (2)	13	
Shares available for grant June 30, 2015	3,536	

Restricted stock units cancelled does not include 62,000 restricted stock units cancelled under the 2006 Equity (1) Incentive Plan, as our 2006 Equity Incentive Plan has been terminated with respect to our making additional awards under the Plan.

(2) Options cancelled does not include 211,000 stock options cancelled under the 2006 Equity Incentive Plan, as our 2006 Equity Incentive Plan has been terminated with respect to our making additional awards under the Plan.

We maintain our 2006 Equity Incentive Plan, 2005 Stock Plan and 1998 Stock Plan, under which we previously granted options to purchase shares of our common stock and restricted stock units. The 2006 Equity Incentive Plan was terminated with respect to the grant of additional awards on June 12, 2014, upon adoption of our 2014 Equity Incentive Plan. The 2005 Stock Plan and 1998 Stock Plan were terminated with respect to the grant of additional awards upon the effectiveness of the 2006 Equity Incentive Plan. We will continue to issue new shares of common stock upon vesting of restricted stock units and the exercise of stock options previously granted under the 2006 Equity Incentive Plan, 2005 Stock Plan and 1998 Stock 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):

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EHEALTH, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

	Number of Stock Options	Weighted Average Exercise Price	Weighted-Average Remaining Contractual Life (years)	Aggregate Intrinsic Value (1)
Balance outstanding at December 31, 2014	1,724	\$ 18.50	3.31	\$12,884
Granted	34	\$ 11.37		
Exercised	(114 )	\$ 9.20		\$ 382
Cancelled	(224 )	\$ 21.79		
Balance outstanding at June 30, 2015	1,420	\$ 18.56	3.06	\$ 222
Vested and expected to vest at June 30, 2015	1,397	\$ 18.51	3.03	\$ 217
Exercisable at June 30, 2015	1,108	\$ 17.86	2.63	\$ 179

(1) The aggregate intrinsic value is calculated as the difference between eHealth's closing stock price as of December 31, 2014 and June 30, 2015 and the exercise price of in-the-money options as of those dates.

The total fair value of stock options vested during the three and six months ended June 30, 2014 was \$0.5 million and \$1.2 million, respectively. The total fair value of stock options vested during the three and six months ended June 30, 2015 was \$0.4 million and \$0.9 million, respectively.

The following table summarizes restricted stock unit activity, including performance-based and market-based restricted stock unit activity, under the Stock Plans (in thousands, except per share amounts and weighted average remaining contractual life data):

	Number of Restricted Stock Units (1)	Weighted-Average Grant Date Fair Value	Weighted-Average Remaining Contractual Life (years)	Aggregate Intrinsic Value (2)
Balance outstanding as of December 31, 2014	873	\$ 30.86	2.52	\$ 21,753
Granted	692	\$ 10.59		
Vested	(195 )	\$ 24.02		
Cancelled	(147 )	\$ 26.53		
Balance outstanding as of June 30, 2015	1,223	\$ 21.00	2.92	\$ 15,522

(1) Includes certain restricted stock units with both service and performance-based or market-based vesting criteria granted to our executive officers.

The aggregate intrinsic value is calculated as eHealth's closing stock price as of December 31, 2014 and June 30, (2)2015 multiplied by the number of restricted stock units outstanding as of December 31, 2014 and June 30, 2015, respectively.

The fair value of the restricted stock units is based on eHealth's stock price on the date of grant, and compensation expense related to these awards is recognized on a straight-line basis over the vesting period. The fair value of performance-based restricted stock units is based on eHealth's stock price on the date of grant, and compensation

expense related to these awards is recognized on an accelerated basis over the vesting period. The amount of expense recorded for performance-based restricted stock units is based on expected attainment of performance criteria. The total fair value of restricted stock units vested during the three and six months ended June 30, 2014 was \$1.4 million and \$9.8 million, respectively. The total fair value of restricted stock units vested during the three and six months ended June 30, 2015 was \$0.9 million and \$2.1 million, respectively.

Stock Repurchase Programs—We had no stock repurchase activity during the three and six months ended June 30, 2015. In addition to the shares repurchased under our past repurchase programs as of June 30, 2015, we have in treasury 348,475 shares that were previously surrendered by employees to satisfy tax withholdings due in connection with the vesting of certain restricted stock

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EHEALTH, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

units. As of December 31, 2014 and June 30, 2015, we had a total of 10,945,607 shares and 11,012,363 shares, respectively, held in treasury.

Stock-Based Compensation—The fair value of stock options granted to employees for the three and six months ended June 30, 2014 and 2015 was estimated using the following weighted average assumptions:

	Three Months Ended June 30,		Six Months Ended June 30,		
	2014	2015	2014	2015	
Expected term	4.2 years	4.3 years	4.2 years	4.3 years	
Expected volatility	45.9	% 63.6	% 45.9	% 63.6	%
Expected dividend yield	—	% —	% —	% —	%
Risk-free interest rate	1.42	% 1.15	% 1.42	% 1.15	%
Weighted-average fair value	\$17.01	\$5.70	\$17.01	\$5.70	

In March 2015, we granted market-based stock unit awards to certain members of senior management. Each market-based stock unit award represents a contingent right to receive certain shares of the Company's common stock upon the attainment of certain stock prices over a four-year performance period. Once a stock price threshold is achieved, the portion of the award related to that threshold will vest on the one-year anniversary of the date of achievement, subject to the employee's continued service through each vesting date. Compensation expense related to these awards is recognized on an accelerated basis over the requisite service period. The weighted-average fair value of the market-based stock unit awards was determined using the Monte Carlo simulation model incorporating the following weighted average assumptions:

Expected term	2.59	
Expected volatility	64.7	%
Expected dividend yield	—	%
Risk-free interest rate	1.13	%
Weighted-average fair value	\$6.69	

There were no market-based stock unit awards granted during the three months ended June 30, 2015 and the three and six months ended June 30, 2014.

The following table summarizes stock-based compensation expense recorded during the three and six months ended June 30, 2014 and 2015 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2015	2014	2015
Stock options	\$564	\$371	\$1,206	\$833
Restricted stock units	1,286	1,456	3,089	3,025
Total stock-based compensation expense	\$1,850	\$1,827	\$4,295	\$3,858

The following table summarizes stock-based compensation expense by operating function for the three and six months ended June 30, 2014 and 2015 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2015	2014	2015
Marketing and advertising	\$579	\$446	\$1,236	\$1,037
Customer care and enrollment	71	139	167	256
Technology and content	429	511	991	946



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General and administrative	771	731	1,901	1,506
Restructuring charges	—	—	—	113
Total stock-based compensation expense	\$1,850	\$1,827	\$4,295	\$3,858

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EHEALTH, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

## Note 4 – Income Taxes

The following table summarizes our provision for income taxes and our effective tax rates for the three and six months ended June 30, 2014 and 2015 (in thousands, except effective tax rate):

	Three Months Ended June 30,		Six Months Ended June 30,		
	2014	2015	2014	2015	
Income before provision for income taxes	\$6,319	\$5,819	\$3,170	\$3,793	
Provision for income taxes	\$3,296	\$69	\$1,700	\$125	
Effective tax rate	52.2	% 1.2	% 53.6	% 3.3	%

Our effective tax rate in the three and six months ended June 30, 2014 was higher than statutory federal and state tax rates due primarily to non-deductible lobbying expenses. Our effective tax rate in the three and six months ended June 30, 2015 was lower than statutory federal and state tax rates due primarily to the change in valuation allowance, partially offset by certain discrete items.

During the three and six months ended June 30, 2014, excess federal and state tax benefits related to share-based payments resulted in increases of \$0.4 million and \$3.7 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. During the three and six months ended June 30, 2015, no excess federal and state tax benefits related to share-based payments were recognized.

## 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. 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 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.

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EHEALTH, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

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,	
	2014	2015	2014	2015
Basic:				
Numerator:				
Net income allocated to common stock	\$3,023	\$5,750	\$1,470	\$3,668
Denominator:				
Weighted average number of common stock shares outstanding	18,978	17,967	18,914	17,906
Net income per share—basic:	\$0.16	\$0.32	\$0.08	\$0.20
Diluted:				
Numerator:				
Net income allocated to common stock	\$3,023	\$5,750	\$1,470	\$3,668
Denominator:				
Weighted average number of common stock shares outstanding	18,978	17,967	18,914	17,906
Weighted average number of options	623	20	702	22
Weighted average number of restricted stock units	174	48	205	70
Total common stock shares used in diluted per share calculation (1)	19,775	18,035	19,821	17,998
Net income per share—diluted:	\$0.15	\$0.32	\$0.07	\$0.20

(1) Total common stock shares used in diluted per share calculation excludes market-based stock unit awards for which the related contingency had not been met as of June 30, 2015.

For each of the three- and six-month periods ended June 30, 2014 and 2015, 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 for the periods presented. 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,	
	2014	2015	2014	2015
Common stock options	130	1,450	27	1,507
Restricted stock units	65	492	—	447
Total	195	1,942	27	1,954

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EHEALTH, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

## Note 6 – Geographic Information and Significant Customers

Geographic Information—As of December 31, 2014 and June 30, 2015, 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, 2014	As of June 30, 2015
United States	\$39,752	\$36,446
China	437	422
Total	\$40,189	\$36,868

Significant Customers—Substantially all revenue for the three and six months ended June 30, 2014 and 2015 was generated from customers located in the United States. Carriers representing 10% or more of our total revenue in the three and six months ended June 30, 2014 and 2015 are presented in the table below:

	Three Months Ended June 30,		Six Months Ended June 30,		
	2014	2015	2014	2015	
Humana	21	% 13	% 24	% 26	%
Anthem (1)	11	% 11	% 11	% 9	%
UnitedHealthcare (2)	9	% 11	% 10	% 10	%
Aetna (3)	10	% 8	% 10	% 9	%

(1)Anthem also includes other carriers owned by Anthem.

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

(3)Aetna also includes other carriers owned by Aetna.

Commission revenue attributable to major medical individual and family health insurance plans was approximately 68% and 64% of our commission revenue in the three and six months ended June 30, 2014, respectively. Commission revenue attributable to major medical individual and family health insurance plans was approximately 65% and 49% of our commission revenue in the three and six months ended June 30, 2015, respectively. We define our individual and family plan offerings as major medical individual and family health insurance plans, which do not include small business, Medicare-related health insurance plan offerings and other ancillary products such as short-term, stand-alone dental, life, vision, and accident insurance plan offerings.

As of December 31, 2014, three customers represented 30%, 17% and 14%, respectively, of our \$8.2 million outstanding accounts receivable balance. As of June 30, 2015, one customer represented 58% of our \$10.2 million outstanding accounts receivable balance. No other customers represented 10% or more of our total accounts receivable at December 31, 2014 and June 30, 2015. We believe the potential for collection issues with any of our customers is minimal as of June 30, 2015. Accordingly, our estimate for uncollectible amounts at June 30, 2015 was not material.

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EHEALTH, INC.

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## Note 7 – Restructuring Charges

In March 2015, we implemented an organizational restructuring and cost reduction plan designed to rebalance our resources and help reduce our cost structure as a result of lower than expected individual and family health insurance plan membership and revenue. As part of the plan, we eliminated approximately 160 full-time positions in the United States, representing approximately 15% of our workforce primarily in our technology and content and customer care and enrollment groups, and to a lesser extent, in our marketing and advertising and general and administrative groups. We incurred pre-tax restructuring charges of approximately \$3.9 million for employee termination benefits and related costs as well as \$0.6 million in other pre-tax restructuring charges, primarily consisting of facility exit costs. The majority of the restructuring charges were recorded in the first quarter of 2015, when the activities comprising the plan were approved and substantially completed. In March 2015, as part of our restructuring activities, we also eliminated certain positions in our China operation.

The following table summarizes the total cash and non-cash restructuring charges recorded during the three and six months ended June 30, 2015 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2015	2014	2015
Employee termination costs	\$—	\$57	\$—	\$3,791
Non-cash employee termination costs - stock-based compensation	—	—	—	113
Facility and other termination costs	—	1	—	637
Total restructuring charges	\$—	\$58		