eHealth, Inc.
Form 10-Q
August 07, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2009

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 ¨ NO ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨ Smaller reporting company ¨

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

The number of shares of the registrant s common stock, par value $0.001 per share, outstanding as of July 31, 2009 was 24,770,480 shares.

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PART I

FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

EHEALTH, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

	December 31, 2008	June 30, 2009 (unaudited)
Assets		
Current assets:		
Cash and cash equivalents	$ 94,136	$ 101,621
Marketable securities	56,499	58,176
Accounts receivable	2,005	2,111
Deferred income taxes	7,580	4,360
Prepaid expenses and other current assets	1,874	3,310
Total current assets	162,094	169,578
Property and equipment, net	4,567	3,972
Deferred income taxes	1,314	1,927
Other assets	780	930
Total assets	$ 168,755	$ 176,407
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	$ 2,190	$ 1,758
Accrued compensation and benefits	4,662	4,738
Accrued marketing expenses	3,162	3,972
Deferred revenue	427	478
Other current liabilities	2,707	1,624
Total current liabilities	13,148	12,570
Other non-current liabilities	628	1,248
Commitments and contingencies		
Stockholders equity:		
Preferred stock		
Common stock	25	25
Additional paid-in capital	173,095	178,216
Treasury stock, at cost	(639)	(5,232)
Deferred stock-based compensation	(22)	(7)
Accumulated deficit	(17,892)	(10,755)
Accumulated other comprehensive income	412	342

Total stockholders equity	154,979	162,589
Total liabilities and stockholders equity	$ 168,755	$ 176,407

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

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EHEALTH, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(In thousands, except per share amounts, unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2009	2008	2009
Revenue:				
Commission	$ 24,756	$ 29,939	$ 48,875	$ 58,143
Sponsorship, licensing and other	2,745	3,500	4,906	7,213
Total revenue	27,501	33,439	53,781	65,356
Operating costs and expenses:				
Cost of revenue-sharing	432	1,318	869	2,118
Marketing and advertising	9,482	12,945	19,131	26,365
Customer care and enrollment	3,308	3,627	6,933	7,449
Technology and content	3,504	3,828	6,983	7,413
General and administrative	4,379	4,851	8,744	9,552
Total operating costs and expenses	21,105	26,569	42,660	52,897
Income from operations	6,396	6,870	11,121	12,459
Interest and other income, net	941	258	2,150	657
Income before income taxes	7,337	7,128	13,271	13,116
Provision for income taxes	3,136	3,134	5,773	5,979
Net income	$ 4,201	$ 3,994	$ 7,498	$ 7,137
Comprehensive income:				
Net income	$ 4,201	$ 3,994	$ 7,498	$ 7,137
Change in unrealized gain on investments, net of taxes	(148)	47	(35)	(72)
Foreign currency translation adjustment, net of taxes	19	2	65	2
Total comprehensive income	$ 4,072	$ 4,043	$ 7,528	$ 7,067
Net income per share:				
Basic	$ 0.17	$ 0.16	$ 0.30	$ 0.29
Diluted	$ 0.16	$ 0.16	$ 0.29	$ 0.28
Weighted-average number of shares used in per share amounts:				
Basic	24,949	24,755	24,857	24,823
Diluted	26,065	25,656	26,029	25,701

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,	
	2008	**2009**
Operating activities		
Net income	$ 7,498	$ 7,137
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred income taxes	5,517	3,237
Depreciation and amortization	804	1,119
Amortization and accretion on marketable securities, net		401
Stock-based compensation expense	1,654	2,138
Excess tax benefits from stock-based compensation		(2,635)
Deferred rent	(35)	(50)
Loss on disposal of property and equipment	11	12
Changes in operating assets and liabilities:		
Accounts receivable	55	(106)
Prepaid expenses and other current assets	(278)	(596)
Other assets	32	291
Accounts payable	370	(433)
Accrued compensation and benefits	(881)	75
Accrued marketing expenses	320	810
Deferred revenue	(159)	51
Other current liabilities	(415)	1,561
Other non-current liabilities		21
Net cash provided by operating activities	14,493	13,033
Investing activities		
Purchases of property and equipment	(1,309)	(534)
Purchase of other assets		(1,280)
Purchases of marketable securities	(50,422)	(38,524)
Sales of marketable securities	8,067	1,006
Maturities of marketable securities	31,593	35,400
Net cash used in investing activities	(12,071)	(3,932)
Financing activities		
Net proceeds from exercise of common stock options	1,341	360
Excess tax benefits from stock-based compensation		2,635
Repurchases of common stock		(4,593)
Principal payments in connection with capital lease		(19)
Net cash provided by (used in) financing activities	1,341	(1,617)
Effect of exchange rate changes on cash and cash equivalents	43	1
Net increase in cash and cash equivalents	3,806	7,485

Cash and cash equivalents at beginning of period	81,395	94,136
Cash and cash equivalents at end of period	$ 85,201	$ 101,621

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

EHEALTH, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Note 1 Summary of Business and Significant Accounting Policies

Description of Business eHealth, Inc. (the Company, eHealth, we or us) offers Internet-based insurance agency services for individuals, families and small businesses in the United States, as well as technology licensing and Internet advertising services. Our services and technology enable individuals, families and small businesses to research, analyze, compare and purchase health insurance products from health insurance carriers across the nation. We are licensed to market and sell health insurance in all 50 states and the District of Columbia.

Basis of Presentation The accompanying condensed consolidated balance sheet as of June 30, 2009 and the condensed consolidated statements of income and comprehensive income for the three and six months ended June 30, 2008 and 2009 and the condensed consolidated statements of cash flows for the six months ended June 30, 2008 and 2009, respectively, are unaudited. The condensed consolidated balance sheet data as of December 31, 2008 was derived from the audited consolidated financial statements which are included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2008, which was filed with the Securities and Exchange Commission on March 13, 2009. The accompanying statements should be read in conjunction with the audited consolidated financial statements and related notes contained in our Annual Report on Form 10-K.

The accompanying condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles, or GAAP, for interim financial information. Accordingly, they do not include all of the financial information and footnotes required by GAAP for complete financial statements. The unaudited condensed consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements in our Annual Report on Form 10-K, and include all adjustments necessary for the fair presentation of eHealth s statement of financial position as of June 30, 2009, its results of operations for the three and six months ended June 30, 2008 and 2009 and its cash flows for the six months ended June 30, 2008 and 2009. All adjustments are of a normal recurring nature. The results for the three months ended June 30, 2009 are not necessarily indicative of the results to be expected for any subsequent quarter or for the fiscal year ending December 31, 2009.

Significant Customers Substantially all revenue for all periods presented was generated from customers located in the United States. The following carriers (including carriers owned by them) represented 10% or more of our total revenue for the three and six months ended June 30, 2008 and 2009 (unaudited):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2009	2008	2009
Aetna	13%	17%	13%	16%
Wellpoint	16%	15%	16%	15%
UnitedHealthcare	17%	14%	18%	14%

Revenue attributable to individual and family product offerings represented approximately 87% of our commission revenue in the three and six months ended June 30, 2008, and represented approximately 90% of our commission revenue in the three and six months ended June 30, 2009. We define individual and family product offerings as major medical individual and family health insurance plans, which does not include small business, short-term major medical, stand-alone dental, life and student health insurance product offerings.

Partnership with Health Benefits Direct Corporation During the three months ended March 31, 2009, we entered into customer transition and marketing agreements with Health Benefits Direct Corporation (HBDC). Pursuant to these agreements, HBDC agreed to transfer certain of its existing health insurance members to us as the new broker of record on the underlying policies and agreed to refer future health insurance prospects to us. We paid HBDC initial consideration of $1.3 million, which was recorded in both prepaid expenses and other current assets and other assets in the condensed consolidated balance sheets and is being amortized to cost of revenue-sharing expense in the condensed consolidated statements of income and comprehensive income as we recognize commission revenue related to the transferred members. In addition, we agreed to pay HBDC a percentage of the commission revenue we receive on the transferred policies, as well as a percentage of the

future commission revenue we receive on health insurance policies we sell to prospects HBDC refers to us. The ongoing revenue-sharing payments and amortization of the initial consideration are recognized as cost of revenue-sharing expense in the consolidated condensed statements of income and comprehensive income.

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EHEALTH, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

Recently Issued Accounting Standards In February 2008, the Financial Accounting Standards Board (FASB) issued Staff Position (FSP) FAS 157-2, *Effective Date of FASB Statement No. 157* (FSP 157-2), which delayed the effective date of Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements* (SFAS 157) for all non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), until the beginning of the first quarter of 2009. In the first quarter of 2009, we adopted SFAS 157 for non-financial assets and non-financial liabilities. The adoption of SFAS 157 for non-financial assets and non-financial liabilities that are not measured and recorded at fair value on a recurring basis did not have a significant impact on our consolidated financial position, results of operations or cash flows.

In October 2008, the FASB issued FSP FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active* (FSP 157-3). FSP 157-3 clarifies the application of SFAS 157 in an inactive market and illustrates how an entity would determine fair value when the market for a financial asset is not active. FSP 157-3 amends SFAS 157 to include an example that illustrates key considerations when applying the principles in SFAS 157 to financial assets when the market for these instruments is not active. FSP 157-3 was effective upon issuance. The implementation of FSP 157-3 did not have an impact on our consolidated financial position, results of operations or cash flows.

In April 2009, the FASB issued FSP FAS 157-4, *Determining Fair Value When Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* (FSP 157-4). FSP 157-4 provides guidance on how to determine the fair value of assets and liabilities when the volume and level of activity for the asset/liability has significantly decreased. FSP 157-4 also provides guidance on identifying circumstances that indicate a transaction is not orderly. In addition, FSP 157-4 requires disclosure in interim and annual periods of the inputs and valuation techniques used to measure fair value and a discussion of changes in valuation techniques. FSP 157-4 was effective for us beginning in the second quarter of 2009. The adoption of FSP 157-4 did not have a significant impact on our consolidated financial position, results of operations or cash flows.

In April 2009, the FASB issued FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairment* (FSP 115-2/124-2). FSP 115-2/124-2 amends the requirements for the recognition and measurement of other-than-temporary impairments for debt securities by modifying the pre-existing intent and ability indicator. Under FSP 115-2/124-2, an other-than-temporary impairment is triggered when there is an intent to sell the security, it is more likely than not that the security will be required to be sold before recovery, or the security is not expected to recover the entire amortized cost basis of the security. Additionally, FSP 115-2/124-2 changes the presentation of an other-than-temporary impairment in the income statement for those impairments involving credit losses. The credit loss component will be recognized in earnings and the remainder of the impairment will be recorded in other comprehensive income. FSP 115-2/124-2 was effective for us beginning in the second quarter of 2009. The implementation of FSP 115-2/124-2 at the beginning of the second quarter of 2009 did not have a significant impact on our consolidated financial position, results of operations or cash flows.

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events,* (SFAS 165) which establishes general accounting standards and disclosure for subsequent events. We adopted SFAS 165 during the second quarter of 2009. In accordance with SFAS 165, we have evaluated subsequent events through the date and time the financial statements were issued on August 7, 2009.

In June 2009, the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification and Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162* (SFAS 168). SFAS 168 establishes the FASB Standards Accounting Codification (Codification) as the source of authoritative U.S. GAAP recognized by the FASB to be applied to nongovernmental entities and rules and interpretive releases of the SEC as authoritative GAAP for SEC registrants. The Codification will supersede all the existing non-SEC accounting and reporting standards upon its effective date and subsequently, the FASB will not issue new standards in the form of Statements, FASB Staff Positions or Emerging Issues Task Force Abstracts. SFAS 168 also replaces FASB Statement No. 162, *The Hierarchy of Generally Accepted Accounting Principles* given that once in effect, the Codification will carry the same level of authority. FAS 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009, which will be our quarter ending September 30, 2009.

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EHEALTH, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

Note 2 Cash, Cash Equivalents and Marketable Securities

Cash and Cash Equivalents Cash equivalents are comprised of available-for-sale financial instruments with an original maturity of 90 days or less from the date of purchase. As of December 31, 2008 and June 30, 2009, our cash equivalents were invested in money market funds which consisted of 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. The cost, unrealized gains and losses, net of taxes, and estimated fair value of our cash equivalents consisted of the following as of December 31, 2008 and June 30, 2009 (in thousands):

	Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
June 30, 2009 (unaudited)				
Cash	$ 3,080	$	$	$ 3,080
Cash equivalents money market funds	98,541			98,541
Total cash and cash equivalents	$ 101,621	$	$	$ 101,621

	Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
December 31, 2008				
Cash	$ 4,659	$	$	$ 4,659
Cash equivalents money market funds	89,477			89,477
Total cash and cash equivalents	$ 94,136	$	$	$ 94,136

We did not realize any significant gains or losses on sales of cash equivalents during the three and six months ended June 30, 2008 and 2009.

Marketable Securities Marketable securities are comprised primarily of available-for-sale financial instruments with original maturities of more than 90 days from the date of purchase. Marketable securities that are available for use in current operations are classified as current assets in the accompanying consolidated balance sheets regardless of the remaining time to maturity. The cost, unrealized gains and losses, net of taxes, and estimated fair value of our marketable securities consisted of the following as of December 31, 2008 and June 30, 2009 (in thousands):

	Cost	Unrealized Gains	Unrealized Losses (1)	Estimated Fair Value
June 30, 2009 (unaudited)				
U.S. government-sponsored enterprise bonds	$ 36,212	$ 83	$ (1)	$ 36,293
U.S. government-sponsored enterprise discount notes	13,471	13		13,484
Corporate bonds	6,855	45		6,900
Commercial paper	1,499			1,499
Total marketable securities	$ 58,037	$ 141	$ (1)	$ 58,176

	Cost	Unrealized Gains	Unrealized Losses (1)	Estimated Fair Value
December 31, 2008				
U.S. government-sponsored enterprise bonds	$ 36,217	$ 293	$	$ 36,510
Corporate bonds	15,457	30	(136)	15,351
Commercial paper	2,141	4		2,145
U.S. government-sponsored enterprise discount notes	1,472	21		1,493
Certificates of deposit	1,000			1,000
Total marketable securities	$ 56,287	$ 348	$ (136)	$ 56,499

(1) No marketable security had been in a continuous unrealized loss position for more than twelve months as of December 31, 2008 or June 30, 2009.

We did not realize any significant gains or losses on sales of marketable securities during the three and six months ended June 30, 2008 and 2009.

EHEALTH, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

During the three and six months ended June 30, 2008 and 2009, we recorded immaterial amounts of unrealized gains and losses on our investments in marketable securities and, as of December 31, 2008 and June 30, 2009, we carried net unrealized gains on our marketable securities of $0.2 million and $0.1 million, respectively. Unrealized gains and losses are the result of the change in fair value of our investments in marketable securities, specifically corporate bonds, during the period and are excluded from earnings and reported as a component of stockholders equity in the consolidated balance sheets and in comprehensive income on the consolidated statements of income and comprehensive income until such time the marketable security is sold. Realized gains and losses on the sale of securities are determined by specific identification of each security s cost basis.

The contractual maturities of our marketable securities as of December 31, 2008 and June 30, 2009, were as follows (in thousands):

	As of December 31, 2008	As of June 30, 2009 (unaudited)
Due within 1 year	$ 46,798	$ 56,175
Due within 1 year to 2 years	9,701	2,001
Total marketable securities	$ 56,499	$ 58,176

Note 3 Fair Value Measurements

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

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

The following table presents information about our financial assets (cash equivalents and marketable securities) that are re-measured and reported at fair value on a recurring basis as of June 30, 2009, and indicates the fair value hierarchy of the valuation techniques we utilized to determine such fair value (in thousands, unaudited):

As of June 30, 2009	
	Total

	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	
Cash equivalents money market funds	$ 98,541	$	$ 98,541
Marketable securities:			
U.S. government-sponsored enterprise bonds		36,293	36,293
U.S. government-sponsored enterprise discount notes		13,484	13,484
Corporate bonds		6,900	6,900
Commercial paper		1,499	1,499
		58,176	58,176
Total cash equivalents and marketable securities	$ 98,541	$ 58,176	$ 156,717

We endeavor to utilize the best available information in measuring fair value. We used observable prices in active markets in determining the classification of our money market funds as Level 1. For our other cash equivalents and marketable securities classified as Level 2, we primarily relied on observable quotes in active markets; however if we concluded the market was non-active, we relied on independent market pricing data. We did not hold any financial assets as of June 30, 2009 whereby the fair value measurements were estimated using significant unobservable inputs (Level 3).

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EHEALTH, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

Note 4 Stockholder s Equity and Stock-Based Compensation

Stockholders Equity

Stock Plans Our 2006 Equity Incentive Plan (the 2006 Plan) became effective in October 2006. As of June 30, 2009, we had 3,195,092 shares of our common stock available for future grants under the 2006 Plan. On January 1 of each year, the number of shares available for future grant under the 2006 Plan will automatically increase by the lowest of (a) 1,500,000 shares, (b) 4% of the total number of shares of our common stock then outstanding or (c) a lower number determined by our board of directors or its compensation committee. As of January 1, 2009, shares reserved under the 2006 Plan automatically increased by 1,001,637 shares, which equaled 4% of the total number of shares of our common stock then outstanding.

We also maintain the 1998 Stock Plan and the 2005 Stock Plan, under which we previously granted options to purchase shares of our common stock and restricted common stock. The 1998 and 2005 Stock Plans were terminated with respect to the grant of additional awards upon the effective date of the registration statement related to our initial public offering in October 2006, although we will continue to issue new shares of common stock upon the exercise of stock options previously granted under the 1998 and 2005 Stock Plans.

The following table summarizes activity under all of our stock plans (Stock Plans) (in thousands, except per share amounts and weighted-average remaining contractual life data, unaudited):

	Shares Available for Grant	Number of Stock Options Outstanding	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (years)	Aggregate Intrinsic Value
Balance at December 31, 2008	2,714	2,725	$ 9.85		
Additional shares authorized (1)	1,002				
Options granted	(357)	357	$ 16.03		
Options exercised		(51)	$ 9.22		
Options cancelled	35	(35)	$ 22.77		
Restricted stock units and awards granted	(207)				
Restricted stock units and awards cancelled	9				
Plan shares expired	(1)				
Balance at June 30, 2009	3,195	2,996	$ 10.44	5.56	$ 24,934

(1) On January 1, 2009, the number of shares authorized for issuance under the 2006 Plan was automatically increased pursuant to the terms of the 2006 Plan by 1,001,637 shares.

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying stock options and the fair value of our common stock at June 30, 2009.

The fair value of stock options granted to employees for the three and six months ended June 30, 2008 and 2009 was estimated using the following weighted-average assumptions (unaudited):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2009	2008	2009
Expected term	5.0 years	4.6 years	4.7 years	4.6 years
Expected volatility	56.6%	60.0%	54.8%	60.0%
Expected dividend yield	0%	0%	0%	0%
Risk-free interest rate	2.62%	1.57%	3.13%	1.57%
Weighted-average fair value	$ 11.71	$ 8.15	$ 10.90	$ 8.02

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EHEALTH, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

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

	Number Outstanding	Weighted-Average Remaining Contractual Life (years)	Aggregate Intrinsic Value
Balance as of December 31, 2008	231		
Granted	207		
Vested	(47)		
Balance as of June 30, 2009	391	1.89	$ 6,908

The aggregate intrinsic value is calculated as the fair value at June 30, 2009 of the underlying common stock outstanding and vested and expected to vest as of June 30, 2009.

Stock Repurchase Program

On November 12, 2008, we announced that our board of directors authorized a stock repurchase program, pursuant to which up to 2,507,950 shares, representing ten percent of eHealth s outstanding common stock at the time, may be repurchased, for a total cost not to exceed $30 million, although the actual number of shares to be purchased and the timing of purchases will depend on market conditions. The repurchase program does not require us to acquire a specific number of shares and may be suspended or discontinued at any time. Share repurchases under this program will comply with Rule 10b-18 under the Securities Exchange Act of 1934, as amended, and may be made through a variety of methods. For accounting purposes, common stock repurchased under the program is recorded based upon the settlement date of the applicable trade. Although we did not repurchase shares of our common stock during the three months ended June 30, 2009, we expect to repurchase shares during the remainder of 2009. The stock repurchase activity under the share repurchase program during the six months ended June 30, 2009 is summarized as follows (in thousands, except share and per share amounts, unaudited):

Six Months Ended June 30, 2009	Total Number of Shares Purchased	Average Price Paid per Share	Amount of Repurchase
Cumulative balance at December 31, 2008	50,657	$ 12.61	$ 639
Repurchases of common stock	361,841	$ 12.70	4,594
Cumulative balance at June 30, 2009	412,498	$ 12.69	$ 5,233

As of June 30, 2009, the number of additional shares that may yet be purchased under the program was 2,095,452 and the approximate dollar amount of additional shares that may yet be purchased under the program was $24.8 million. For accounting purposes, common stock repurchased under the program is recorded based upon the settlement date of the applicable trade. Such repurchased shares are held in treasury and are presented as if retired, using the cost method.

As of June 30, 2009, all stock repurchases under the stock repurchase program were made on the open market. In addition to the 412,498 shares repurchased under our stock repurchase program as of June 30, 2009, we have in treasury 12,186 shares that were surrendered by employees to

satisfy tax withholdings due in connection with the vesting of certain restricted stock units. As of December 31, 2008 and June 30, 2009, we had a total of 54,454 shares and 424,684 shares, respectively, held in treasury.

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EHEALTH, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

Stock-Based Compensation

The following table summarizes stock-based compensation expense recorded during the three and six months ended June 30, 2008 and 2009 (in thousands, unaudited):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2009	2008	2009
Common stock options	$ 678	$ 725	$ 1,154	$ 1,364
Restricted stock units	292	465	451	759
Restricted common stock	25	7	49	15
Total stock-based compensation expense	$ 995	$ 1,197	$ 1,654	$ 2,138

The following table summarizes stock-based compensation expense by operating function included in the condensed consolidated statements of income for the three and six months ended June 30, 2008 and 2009 (in thousands, unaudited):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2009	2008	2009
Marketing and advertising	$ 186	$ 254	$ 333	$ 396
Customer care and enrollment	85	89	151	148
Technology and content	275	304	450	502
General and administrative	449	550	720	1,092
Total stock-based compensation expense	$ 995	$ 1,197	$ 1,654	$ 2,138

Note 5 Income Taxes

On September 23, 2008, the state of California approved its budget for fiscal year ending June 30, 2009, which contained changes to the California tax law which substantially limit our ability to utilize available state net operating loss and tax credit carry forwards to reduce our state income taxes payable. Under the new tax law, the utilization of net operating loss carry forwards is suspended for tax years 2008 and 2009; however, the expiration date of the net operating loss carry forwards is extended for an equivalent two-year period. Additionally, for tax years 2008 and 2009, taxpayers may only utilize available tax credit carry forwards to reduce their current tax liability up to 50% of their net tax amount before application of such credits. The new law does not affect the amount of net operating loss or tax credit carry forwards that we expect to ultimately use to offset future California taxes; however, it does limit the amount of net operating loss and tax credit carry forwards that we will be able to utilize to reduce our taxes payable during 2009, resulting in an increase in cash taxes payable to the state of California in 2009. While we do not expect this change in the California tax law to impact our effective tax rate, we expect that our cash outlay for federal and state taxes will increase for 2009 compared to 2008.

Under SFAS No. 123(R), *Share-Based Payment* (SFAS 123R), we consider stock option deduction benefits in excess of book compensation charges realized when we obtain an incremental benefit determined by the With and Without calculation method. Under the With and Without approach, excess tax benefits related to share-based payments are not deemed to be realized until after the utilization of all other tax benefits

available to us. For example, net operating loss and tax credit carry forwards from prior years are used to reduce taxes currently payable prior to deductions from stock option exercises for purposes of financial reporting, while for tax return purposes, current year stock compensation deductions are generally used before net operating loss carry forwards. Indirect effects of excess tax benefits, such as the effect on research and development tax credits, are not considered. In accordance with SFAS 123R, only realized excess tax benefits are reflected in the financial statements.

During the three and six months ended June 30, 2009, we recorded a provision for income taxes of $3.1 million and $6.0 million, respectively, representing effective tax rates of approximately 44% and 46%, respectively. During the three and six months ended June 30, 2008, we recorded a provision for income taxes of $3.1 million and $5.8 million, respectively, each representing an effective tax rate of approximately 43%. Our effective tax rate in the six months ended June 30, 2009 was higher than statutory federal and state tax rates due to approximately $0.2 million of tax shortfalls during the three months ended March 31, 2009 related to share-based payments recorded in accordance with SFAS 123R.

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EHEALTH, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

Our deferred tax assets were reduced due to the extent we were able to utilize net operating loss and tax credit carry forwards to reduce taxes currently payable. In addition, due to the restriction on our ability to utilize net operating loss carry forwards to reduce taxes currently payable in California as well as expected utilization of our remaining federal net operating losses during 2009, we utilized excess tax benefits related to share-based payments and other unrecognized tax benefits, which resulted in a $2.6 million increase in additional paid-in capital and a $0.6 million increase in other non-current liabilities, respectively, in the condensed consolidated balance sheet as of June 30, 2009. Additionally, the $2.6 million of realized excess tax benefits related to share-based payments is classified in the condensed consolidated statements of cash flows as both a financing cash inflow and an operating cash outflow.

Note 6 Net Income Per Share

Basic net income per share is computed by dividing net income by the weighted-average number of common shares outstanding for the fiscal period. Diluted net income per share is computed giving effect to all potential dilutive common stock, including options, restricted stock and restricted stock units. The dilutive effect of outstanding awards is reflected in diluted earnings per share by application of the treasury stock method.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	**2009**	**2008**	**2009**
Basic:				
Numerator:				
Net income allocated to common stock	$ 4,201	$ 3,994	$ 7,498	$ 7,137
Denominator:				
Weighted average number of common stock shares	24,949	24,755	24,857	24,823
Net income per share basic:	$ 0.17	$ 0.16	$ 0.30	$ 0.29
Diluted:				
Numerator:				
Net income allocated to common stock	$ 4,201	$ 3,994	$ 7,498	$ 7,137
Denominator:				
Weighted average number of common stock shares	24,949	24,755	24,857	24,823
Weighted average number of options	1,088	883	1,149	850
Weighted average number of restricted stock and restricted stock units	28	18	23	28
Total common stock shares used in per share calculation	26,065	25,656	26,029	25,701
Net income per share diluted:	$ 0.16	$ 0.16	$ 0.29	$ 0.28

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EHEALTH, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

For each of the three and six months ended June 30, 2008 and 2009, we had securities outstanding that could potentially dilute earnings per share, but the shares from the assumed conversion or exercise of these securities were excluded in the computation of diluted net income per share as their effect would have been anti-dilutive. The number of outstanding weighted average anti-dilutive shares that were excluded from the computation of diluted net income per share consisted of the following (in thousands, unaudited):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2009	2008	2009
Common stock options	742	1,144	591	1,063
Restricted stock units		142		86
Total	742	1,286	591	1,149

Note 7 Geographic Information

Substantially all revenue for all periods presented was generated from customers located in the United States. As of December 31, 2008 and June 30, 2009, our long-lived assets consisted primarily of property and equipment and indefinite-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, 2008	As of June 30, 2009 (unaudited)
United States	$ 4,703	$ 4,325
China	644	577
Total	$ 5,347	$ 4,902

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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 concerning impact of adoption of recently issued accounting standards; exploration of new marketing initiatives that increase per member acquisition costs; estimates relating to critical accounting policies and related impact on our financial statements; expectations regarding our future effective tax rate and factors affecting such rate, our utilization of certain tax benefits and the related impact on our financial statements and our cash outlay for taxes for 2009; our expectation that stock based compensation will increase; our expectation that total revenue will grow and factors affecting such growth; our expectation that our cost of revenue-sharing expense, marketing and advertising, customer care and enrollment, technology and content and general and administrative expenses will increase in absolute dollars and factors affecting such increases; increase in our cost of acquiring members and factors impacting such increase; our expectation that interest and other income, net will decrease in absolute dollars as well as a percentage of total revenue; future share repurchases under our repurchase program and the compliance of such program with applicable laws; the sufficiency of our cash, cash equivalents and marketable securities; future capital requirements; our intention to invest in a variety of instruments; our potential for collection issues with any of our carriers; expenditures related to the development of our business; our continuing to incur significant costs and expenses relating to our being a public company; factors on which our future growth will depend; growth of the individual and family health insurance market and factors affecting such growth; changes to our ecommerce platform and other initiatives and the potential impact of such changes; factors affecting the successful promotion of our brand and the difficulty and expense of branding initiatives; our plans to expand our operations and enter into relationships with marketing partners in China; factors that will impact the success of the business health savings account platform; expansion of aspects of our business to additional geographic regions; 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 2009, 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. Our ecommerce platform enables individuals, families and small businesses to research, analyze, compare and purchase health insurance products that best meet their needs. Our technology also enables us to communicate electronically with our insurance carrier partners and process consumers health insurance applications online. As a result, we simplify and streamline the complex and traditionally paper-intensive health insurance sales and purchasing process.

Since our incorporation in November 1997, 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 and successful member acquisition programs and establishing relationships with over 180 leading insurance carriers, enabling us to offer thousands of health insurance products online. Our first online transaction relating to the sale of a health insurance policy was completed during the fourth quarter of 1998.

We generate revenue primarily from commissions we receive from health insurance carriers whose policies are purchased through us by individuals, families and small businesses. We typically receive commission payments on a monthly basis for as long as a policy remains active. As a result, much of our revenue for a given financial reporting period relates to policies that we sold prior to the beginning of the period and is recurring in nature. Because health insurance pricing is set by the carrier and approved by state regulators, health insurance pricing is fixed. We, therefore, are not generally subject to negotiation or discounting of prices by health insurance carriers or our competitors.

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Sources of Revenue

Revenue

We generate most of our revenue from commissions paid to us by health insurance carriers whose health insurance policies we have sold. Commission revenue represented 90% and 89% of our total revenue for the three and six months ended June 30, 2009, respectively, and 90% and 91% of our total revenue for the three and six months ended June 30, 2008, respectively. The remainder of our revenue is primarily attributable to carrier sponsorship advertising on our website and licensing arrangements related to our technology. We also refer to the licensing arrangements as eCommerce On Demand, or eOD, arrangements. Our commission revenue has grown principally as a result of our penetration of the individual and family health insurance markets and corresponding growth in our membership. We estimate that as of June 30, 2009 we had approximately 707,100 members compared to an estimated 579,600 members at June 30, 2008. During the three months ended June 30, 2009, we had 103,400 members approved for individual and family products, representing 10% growth over the number of members that were approved in the three months ended June 30, 2008. We recently have experienced slower approved member growth, which we believe is primarily a result of more stringent underwriting by our health insurance carrier partners with respect to individual and family health insurance applications, a decline in the average number of individuals per submitted application that were approved for individual and family health insurance and a decrease in the number of submitted applications for small business and short-term health insurance products. We define a member as an individual covered by an insurance product for which we are entitled to receive compensation.

Our commission revenue generally represents a percentage of the insurance premium a member has paid to his or her insurance carrier and, to a lesser extent, commission override payments that insurance carriers pay us for achieving sales volume thresholds or other objectives. Commission rates vary by carrier and by the type of plan purchased by a member. Commission rates also can vary based upon the amount of time that the policy has been active, with commission rates for individual and family policies typically being higher in the first twelve months of the policy. After the first twelve months, commission rates generally decline significantly. As a result, if we do not add a sufficient number of members on new policies, our revenue growth may 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 us our commissions 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 revenue is recurring in nature and has grown in correlation with the growth we have experienced in our membership base.

We recognize commission revenue when our commission is reported to us by a health insurance carrier, net of an allowance for future forfeiture amounts payable to carriers due to policy cancellations. Commissions are reported to us by a cash payment and commission statement. We generally receive these communications simultaneously. In instances when we receive the cash payment and commission statement separately and in different accounting periods, we recognize revenue in the period that we receive the earliest communication, provided we receive the second communication corroborating the amount reported in the first communication within ten business days following the end of the accounting period. If the second corroborating communication is not received within ten business days following the end of the accounting period, we recognize revenue in the period the second communication is received. We use the data in the commission statement to identify the members for which we are receiving a commission payment and the amount received for each member, and to estimate our allowance for forfeitures. Commission override payments, which are recognized on the same basis as premium commissions, are 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 payments.

Revenue attributable to individual and family product offerings represented approximately 90% of our commission revenue in the three and six months ended June 30, 2009, and represented approximately 87% of our commission revenue in the three and six months ended June 30, 2008. We define individual and family product offerings as major medical individual and family health insurance plans, which does not include small business, short-term major medical, stand-alone dental, life and student health insurance product offerings.

In addition to the commission revenue we derive from the sale of health insurance products, we derive revenue from our online sponsorship advertising program and from licensing the use of our ecommerce technology. Our sponsorship advertising program 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 fee based on metrics such as submitted or approved health insurance applications. Our technology licensing business allows carriers to offer their own health insurance policies on their websites and agents to utilize our technology to power their online quoting, content and application submission processes. Typically, we are paid a one-time implementation fee, which we recognize on a straight-line basis over the estimated term of the customer relationship (generally the initial term of the agreement), commencing once the technology is available for use by the third party. In addition, we typically generate revenue based on performance criteria that are either measured based on data tracked by us, or based on data tracked by the third party. In instances where the performance

criteria data are tracked by us, we recognize revenue in the period of performance. In instances where the performance criteria data are tracked by the third party, we recognize revenue when the amounts earned are both fixed and determinable and collection is reasonably assured. Typically, this occurs through our receipt of a cash payment from the third party along with a detailed statement containing the data that is tracked by the third party.

Member Acquisition

An important factor in our revenue growth is the growth of our member base. Our marketing initiatives are an important component of our strategy to grow our member base and are focused on three primary member acquisition channels: direct, marketing partners and online advertising. Our marketing initiatives are designed to encourage consumers to complete an online application for health insurance on our ecommerce platform.

Direct. Our direct member acquisition channel consists of consumers who access our website addresses (*www.ehealth.com* and *www.ehealthinsurance.com*) either directly or through algorithmic natural search listings on Internet search engines and directories. For the three and six months ended June 30, 2009, applications submitted through us for individual and family health insurance from our direct channel constituted 43% and 42%, respectively, of all individual and family health insurance applications submitted on our website. For the three and six months ended June 30, 2008, applications submitted through us for individual and family health insurance from our direct channel constituted 40% and 39%, respectively, of all individual and family health insurance applications submitted on our website.

Marketing Partners. Our marketing partner member acquisition channel consists of consumers who access our website through a network of affiliate partners and financial services and other companies. Growth in our marketing partner channel depends upon our expanding marketing programs with existing partners and adding new partners to our network. For the three and six months ended June 30, 2009, applications submitted through us for individual and family health insurance products for which we paid fees to our marketing partners constituted approximately 33% and 34%, respectively, of all individual and family health insurance applications submitted on our website. For the three and six months ended June 30, 2008, applications submitted through us for individual and family health insurance products for which we paid fees to our marketing partners constituted approximately 32% and 33%, respectively, of all individual and family health insurance applications submitted on our website.

Online Advertising. Our online advertising channel consists of consumers who access our website through paid keyword search advertising from search engines such as Google, MSN and Yahoo!, as well as various Internet marketing programs such as banner advertising, non-direct email marketing and an integrated partnership with MSN. For the three and six months ended June 30, 2009, applications submitted through us for individual and family health insurance products from our online advertising channel constituted approximately 24% of all individual and family health insurance applications submitted on our website. For the three and six months ended June 30, 2008, applications submitted through us for individual and family health insurance products from our online advertising channel constituted approximately 28% of all individual and family health insurance applications submitted on our website. Although submitted applications for individual and family health insurance from all channels increased 17% in the three months ended June 30, 2009 compared to the three months ended June 30, 2008, our online advertising channel did not contribute to our submitted application growth, which we believe to have resulted from several factors, including a decline in contribution from secondary search engines and a decline in the conversion rate from all of our online advertising sources.

Operating Costs and Expenses

Cost of Revenue-Sharing

Cost of revenue-sharing consists primarily of payments made to Health Benefits Direct Corporation (HBDC) as a result of a revenue-sharing arrangement whereby we pay HBDC a percentage of the commission revenue we receive related to certain health insurance members that were transferred to us and payments made to marketing partners related to health insurance policies sold to members who were referred to our website by marketing partners with whom we have revenue-sharing arrangements. In order to enter into a revenue-sharing arrangement, these marketing partners must be licensed to sell health insurance in the state where the policy is sold. Costs related to revenue-sharing arrangements are expensed as the related revenue is recognized.

We entered into customer transition and marketing agreements with HBDC during the three months ended March 31, 2009. Pursuant to the agreements, HBDC agreed to transfer certain of its existing health insurance members to us as the new broker of record on the underlying policies and agreed to refer future health insurance prospects to us. We paid HBDC initial consideration of $1.3 million, which was recorded in both prepaid expenses and other current assets and other assets

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in the condensed consolidated balance sheets and is being amortized to cost of revenue-sharing expense in the condensed consolidated statements of income and comprehensive income as we recognize commission revenue related to the transferred members. In addition, we agreed to pay HBDC a percentage of the commission revenue we receive on the transferred policies, as well as a percentage of the future commission revenue we receive on health insurance policies we sell to prospects HBDC refers to us. The ongoing revenue-sharing payments and amortization of the initial consideration are recognized as cost of revenue-sharing expense in the consolidated condensed statements of income and comprehensive income. During the six months ended June 30, 2009, we became the broker of record on and recognized commission revenue from approximately 30,000 members, net of estimated cancellations, transferred from HBDC, of which the majority were members on individual and family major medical policies.

Marketing and Advertising

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

We compensate a significant number of our marketing partners by paying a one-time fee each time a consumer referral from a partner results in a submitted health insurance application on our ecommerce platform, regardless of whether the consumer s application is approved by the health insurance carrier. Many of our marketing partners have tiered volume-incentive arrangements in which the amount of the one-time fee increases as the volume of submitted applications we receive from such marketing partners increases over a particular period. We recognize these expenditures in the period when a marketing partner s referral results in the submission of a health insurance application on our website. The number of health insurance applications submitted through our ecommerce platform has generally increased in our first quarter compared to our fourth quarter and in our third quarter compared to our second quarter. Conversely, we have generally experienced a decline or flattening in submitted applications in our second quarter compared to our first quarter and in our fourth quarter compared to our third quarter. Since a significant portion of our marketing and advertising expenses are driven by the number of health insurance applications submitted on our website, those expenses are influenced by these patterns. In addition, because the total volume of submitted applications that we receive from our marketing partners is largely outside of our control, particularly during any short-term period, and because of our tiered volume-incentive marketing partner arrangements, we could incur expenses in excess of the amounts we had planned in periods of rapid growth in the volume of submitted applications from marketing partner referrals. Accordingly, an unanticipated increase in submitted applications resulting from marketing partner referrals could cause our net income to be lower than our expectation since the revenue to be derived from submitted applications that are approved by health insurance carriers will not be recognized until future periods.

Paid keyword search advertising on search engines represents the majority of expenses in our online advertising channel. We incur expenses associated with search engine advertising in the period in which the consumer clicks on the advertisement.

Our average cost of acquiring new members, measured as total marketing and advertising expenses for the quarter divided by the number of members included on applications for individual and family product offerings submitted during the quarter, was $73.45 in the three months ended June 30, 2009 compared to $60.39 in the three months ended June 30, 2008. This increase was primarily driven by increased expenses in our online advertising channel due to increased cost-per-click in paid keyword search advertising for keywords relevant to our business, a decline in the rate at which individuals coming to our ecommerce platform through the online advertising channel submitted individual and family health insurance applications and a decline in the average number of individuals applying for individual and family health insurance per submitted application. Our cost of acquisition depends significantly on the rate at which visitors to our website submit health insurance applications, particularly with respect to paid search advertising, as our paid search costs are incurred on the referral of a potential member rather than on the submission of a health insurance application. Other factors that may impact the average cost of acquiring new members include the mix of health insurance applications submitted through our three marketing channels, the mix of marketing partners referring consumers to our website, the overall trend in costs of online marketing, seasonality patterns, the amounts we pay marketing partners to refer consumers to our website, television and radio advertising expenditures, and an increase in compensation and benefits costs for marketing and advertising personnel. Additionally, we may explore new marketing initiatives that increase per member acquisition costs as part of our efforts to drive more consumers to our website or increase our brand awareness.

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Customer Care and Enrollment

Customer care and enrollment expenses primarily consist of compensation and benefits costs for personnel engaged in pre-sales assistance to applicants who call our customer care center and for enrollment personnel who assist applicants during the underwriting process.

Technology and Content

Technology and content expenses consist primarily of compensation and benefits costs for personnel associated with developing and enhancing our website technology as well as maintaining our website. A portion of our technology and content group is located at our wholly owned subsidiary in China, where technology development costs are generally lower than in the United States.

General and Administrative

General and administrative expenses include compensation and benefits costs for staff working in our executive, finance, corporate development, investor relations, government relations, legal, human resources, internal audit, facilities and internal information technology departments. These expenses also include fees paid for outside professional services, mainly for audit, tax, legal and information technology consulting.

Summary of Selected Metrics

The following table shows certain selected quarterly metrics as of June 30, 2008 and 2009 and for the three months ended June 30, 2008 and 2009 (unaudited):

Key Metrics:	**Three Months Ended June 30, 2008**	**Three Months Ended June 30, 2009**
Operating cash flows (1)	$ 8,647,000	$ 8,311,000
IFP submitted applications (2)	103,800	121,100
IFP approved members (3)	94,300	103,400
Total approved members (4)	132,600	135,800
Total revenue (5)	$ 27,501,000	$ 33,439,000
Total revenue per estimated member for the period (6)	$ 48.34	$ 48.21
	As of June 30, 2008	**As of June 30, 2009**
IFP estimated membership (7)	488,300	614,800
Total estimated membership (8)	579,600	707,100
	Three Months Ended June 30, 2008	**Three Months Ended June 30, 2009**
Marketing and advertising expenses (9)	$ 9,482,000	$ 12,945,000
Marketing and advertising expenses as a percentage of total revenue (10)	34%	39%

Other Metrics:

Source of IFP submitted applications (as a percentage of total IFP applications for the period):		
Direct (11)	40%	43%
Marketing partners (12)	32%	33%
Online advertising (13)	28%	24%
Total	100%	100%

Acquisition cost per individual on IFP submitted applications (14)	$	60.39	$	73.45

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Notes:

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

(2) IFP applications submitted on eHealth s website during the period. Applications are counted as submitted when the applicant completes the application, provides a method for payment and clicks the submit button on our website and submits the application to us. The applicant generally has additional actions to take before the application will be reviewed by the insurance carrier, such as providing additional information and providing an electronic signature. In addition, an applicant may submit more than one application. We include applications for IFP products for which we receive commissions as well as other forms of payment. We define our IFP offerings as major medical individual and family health insurance plans, which does not include small business, short-term major medical, stand-alone dental, life or student health insurance product offerings.

(3) New IFP members reported to eHealth as approved during the period. Some members that are approved by a carrier do not accept the approval and therefore do not become paying members. Does not include members transferred from Health Benefits Direct Corporation.

(4) New members for all products reported to eHealth as approved during the period. Some members that are approved by a carrier do not accept the approval and therefore do not become paying members. Does not include members transferred from Health Benefits Direct Corporation.

(5) Total revenue (from all sources) recognized during the period from the condensed consolidated statements of income.

(6) Calculated as total revenue recognized during the period (see note (5) above) divided by average estimated membership for the period (calculated as beginning and ending estimated membership for all products for the period, divided by two). Ending membership includes an estimated number of members transferred from Health Benefits Direct Corporation during 2009, net of estimated cancelations since their transfer, of approximately 30,000 members.

(7) Estimated number of members active on IFP insurance policies as of the date indicated. Amounts as of June 30, 2009 include the estimated number of members transferred from Health Benefits Direct Corporation during 2009, net of estimated cancelations since their transfer, of approximately 30,000 members.

(8) Estimated number of members active on all insurance policies as of the date indicated. Amounts as of June 30, 2009 include the estimated number of members transferred from Health Benefits Direct Corporation during 2009, net of estimated cancelations since their transfer, of approximately 30,000 members.

(9) Marketing and advertising expenses for the period from the condensed consolidated statements of income.

(10) Calculated as marketing and advertising expenses for the period (see note (9) above) divided by total revenue for the period (see note (5) above).

(11) Percentage of IFP submitted applications from applicants who came directly to the eHealth website through algorithmic search engine results or otherwise. See note (2) above for further information as to what constitutes a submitted application.

(12) Percentage of IFP submitted applications from applicants sourced through eHealth s network of marketing partners. See note (2) above for further information as to what constitutes a submitted application.

(13) Percentage of IFP submitted applications from applicants sourced through paid search and other online advertising activities. See note (2) above for further information as to what constitutes a submitted application.

(14) Calculated as marketing and advertising expenses for the period (see note (9) above) divided by the number of individuals on IFP applications submitted on eHealth s website during the period. This metric may not reflect the true acquisition cost.

Our insurance carrier partners bill and collect insurance premiums paid by our members. Carrier partners do not report to us the number of members that we have as of a given date. The majority of our members who terminate their policies do so by discontinuing their premium payments to the carrier and do not inform us of the cancellation. Also, some of our members pay their premiums less frequently than monthly. Given the number of months required to observe non-payment of commissions in order to confirm cancellations, we estimate the number of members who are active on insurance policies as of a specified date. We estimate the number of continuing members on non-small business insurance policies as of a specific date by taking the sum of (i) the number of members for whom we have received a commission payment for the month that is six months (or three months in the case of short-term, student and dental insurance) prior to the date of estimation (after reducing that number using historical experience for assumed member cancellations over, as applicable, the three-month or six-month period); and (ii) the number of approved members over the six-month period (or three months in the case of short-term, student and dental insurance) prior to the date of estimation (after reducing that number using historical experience for an assumed number of members who do not accept their approved policy and for estimated member cancellations through the date of the estimate). We estimate the number of small business group

members using the number of initial members at the time the group is approved, and we update this number for changes in membership if such changes are reported to us by the group or carrier in the period it is reported. However, groups generally notify the carrier directly of policy cancellations and increases or decreases in group size without informing us. Additionally, our carrier partners often do not communicate this information to us. We often are made aware of policy cancellations at the time of annual renewal and update our membership statistics accordingly in the period they are reported.

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

Critical Accounting Policies and Estimates

The discussion and analysis of our consolidated financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires us to make estimates, judgments and assumptions that affect the reported amount of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to the useful lives of long-lived assets including property and equipment, fair value of investments, fair value of intangible assets, allowances for commission forfeitures payable to carriers, income taxes, the assumptions used in determining stock-based compensation and our assessment whether internal use software and website development costs will result in additional functionality, among others. We based our estimates of the carrying value of certain assets and liabilities on historical experience and on various other assumptions that we believe to be reasonable. In many cases, we could reasonably have used different accounting policies and estimates. In some cases, changes in the accounting estimates are reasonably likely to occur from period to period. Accordingly, actual results may differ materially from these estimates.

We believe the following critical accounting policies affect our more significant judgments used in the preparation of our consolidated financial statements.

Revenue Recognition

We recognize commission revenue when our commission is reported to us by a health insurance carrier, net of an allowance for future forfeiture amounts payable to carriers due to policy cancellations. Commissions are reported to us by a cash payment and commission statement. We use the data in the commission statements to help identify the members for which we are receiving a commission payment and the amount received for each member, and to estimate our allowance for forfeitures payable to carriers. We are not obligated with respect to the insurance coverage sold through our ecommerce platform. As a result, we recognize the net amount of compensation earned as the agent in the transaction.

Our insurance carrier partners bill and collect insurance premiums that our members pay. We rely on health insurance carriers to report accurately and in a timely manner the amount of commissions earned by us, and we calculate our commission revenues, prepare our financial reports, projections and budgets, and direct our marketing and other operating efforts based on the reports we receive from them. Each month we analyze the reports we receive from our carriers by comparing such data to the database we maintain on our members. It is often difficult for us to independently determine whether or not carriers are reporting all commissions due to us, primarily because the majority of our members who terminate their policies do so by discontinuing their premium payments to the carrier instead of by informing us of the cancellation. Also, some of our members pay their premiums less frequently than monthly. This results in our having to identify underpayment or non-payment of commissions on a policy and follow up with a carrier to obtain an explanation and/or request correction of the amount of commissions paid to us. To date, we have not had disputes of any significance with carriers related to reported commissions. To the extent that carriers understate or fail to timely and accurately report or pay the amount of commissions due to us, we will not collect and recognize revenue to which we are entitled, which, if material in amount, would adversely affect our operating results and financial condition.

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 revenues for a particular quarter could be higher or lower than expectations due to the timing of the reporting of commission override revenue to us.

Certain commission amounts are subject to forfeiture in circumstances where a member has prepaid his or her premium for a future period of coverage and subsequently cancels his or her policy before the completion of that period. We estimate and record an allowance for these forfeitures based on historical cancellation experience using data provided on commission

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statements. The forfeitures are typically reported to us by health insurance carriers one to two months after the commission is reported and paid to us by the carrier. Our estimate of the allowance for forfeitures includes an estimate of both the reporting time lag and the forfeiture amount. Changes in our historical trends would result in changes to our estimated forfeitures in future periods. There were no changes in our average forfeiture rates or reporting time lag during the three and six months ended June 30, 2008 and 2009, which had a material impact on our allowance for forfeitures.

In addition to the commission revenue we derive from the sale of health insurance products, we derive revenue from our online sponsorship advertising program and from licensing the use of our ecommerce technology. Our sponsorship advertising program 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, which is recognized over the period that advertising is displayed, and often a performance fee based on metrics such as submitted health insurance applications. Our technology licensing business allows carriers the use of our ecommerce platform to offer their own health insurance policies on their websites and agents to utilize our technology to power their online quoting, content and application submission processes. Typically, we are paid a one-time implementation fee, which we recognize on a straight-line basis over the estimated term of the customer relationship (generally the initial term of the agreement), commencing once the technology is available for use by the third party, and a performance fee based on metrics such as submitted health insurance applications. The metrics used to calculate performance fees for both sponsorship advertising and technology licensing are based on performance criteria that are either measured based on data tracked by us, or based on data tracked by the third party. In instances where the performance criteria data is tracked by us, we recognize revenue in the period of performance. In instances where the performance criteria data is tracked by the third party, we recognize revenue when the amounts earned are both fixed and determinable and collection is reasonably assured. Typically, this occurs through our receipt of a cash payment from the third party along with a detailed statement containing the data that is tracked by the third party.

Deferred revenue consists of deferred technology licensing implementation fees as well as amounts collected from sponsorship or technology licensing customers in advance of our performing our service for such customers. We also defer amounts that have been reported to us related to transactions where our services are complete, but where we cannot currently estimate the allowance for future forfeitures related to those amounts.

Internal-Use Software and Website Development Costs

We account for internal-use software and website development costs in accordance with the guidance set forth in Statement of Position No. 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*, and EITF Issue No. 00 02, *Accounting for Web Site Development Costs*. We capitalize costs of materials, consultants and compensation and benefits costs of employees who devote time to the development of internal-use software; however, we usually expense as incurred website development costs for new features and functionalities because it is not probable that they will result in additional functionality until they are both developed and tested with confirmation that they are more effective than the current set of features and functionalities on our website. Our judgment is required in determining the point at which various projects enter the states at which costs may be capitalized, in assessing the ongoing value of the capitalized costs and in determining the estimated useful lives over which the costs are amortized, which is generally three years. To the extent that we change the manner in which we develop and test new features and functionalities related to our website, assess the ongoing value of capitalized assets or determine the estimated useful lives over which the costs are amortized, the amount of website development costs we capitalize and amortize in future periods would be impacted.

Stock-Based Compensation

We account for stock-based compensation expense pursuant to the provisions of SFAS 123R, *Share-Based Payment*, which requires that all share-based payments, including grants of employee stock options, be recognized as an expense in the accompanying condensed consolidated statements of income and comprehensive income based on their fair value over the vesting period, which is generally four years. The grant date fair value of our stock-based awards was determined using the Black-Scholes-Merton pricing model and a single option award approach. The weighted-average expected term for stock options granted was calculated using the simplified method in accordance with the provisions of Staff Accounting Bulletin No. 107, *Share-Based Payment,* as we did not have sufficient historical option exercise behavior on which to estimate expected terms. The simplified method defines the expected term as the average of the contractual term and the vesting period of the stock option. We have estimated the volatility used as an input to the model based on an analysis of our stock price since our initial public offering in October 2006, as well as an analysis of similar public companies for which we have data. We estimate our expected volatility using the weighted-average of: our implied volatility; our mean reversion volatility; and the mean reversion volatility of similar public companies for which we have data. We have used judgment in selecting these companies, as well as evaluating the available historical and implied volatility data for these companies. The assumptions used in calculating the fair value of stock-based payment awards represent management s best estimates, but

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

During the three and six months ended June 30, 2009, we recorded stock-based compensation expense totaling $1.2 million and $2.1 million, respectively, related to stock options, restricted stock awards and restricted stock units granted to employees. Future stock-based compensation expense is dependent upon the fair value of each option at the date each option is granted and the number of awards issued and outstanding during each period. We expect stock-based compensation expense will increase in the future as the number of equity awards issued and outstanding increases.

Accounting for Income Taxes

We account for income taxes using the liability method as required by SFAS No. 109 (SFAS 109), *Accounting for Income Taxes*. Under SFAS 109, deferred income taxes are determined based on the differences between the financial reporting and tax bases of assets and liabilities, using enacted statutory tax rates in effect for the year in which the differences are expected to reverse.

Since tax laws and financial accounting standards differ in their recognition and measurement of assets, liabilities, equity, revenues, expenses, gains and losses, differences arise between the amount of taxable income and pretax financial income for a year and between the tax bases of assets or liabilities and their reported amounts in our financial statements. Because we assume that the reported amounts of assets and liabilities will be recovered and settled, respectively, a difference between the tax basis of an asset or a liability and its reported amount in the balance sheet will result in a taxable or a deductible amount in some future years when the related liabilities are settled or the reported amounts of the assets are recovered, which gives rise to a deferred tax asset or liability. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income and to the extent we believe that recovery does not meet the more likely than not criteria, we must establish a valuation allowance. Management judgment is required in determining any valuation allowance recorded against our net deferred tax assets.

As part of the process of preparing our consolidated financial statements, we are required to estimate our income taxes. This process involves estimating our actual current tax expense together with assessing temporary differences that may result in deferred tax assets, as well as discrete tax items during the period, such as tax shortfalls related to share-based payments. During the three and six months ended June 30, 2009, we recorded a provision for income taxes of $3.1 million and $6.0 million, respectively, representing effective tax rates of approximately 44% and 46%, respectively. During the three and six months ended June 30, 2008, we recorded a provision for income taxes of $3.1 million and $5.8 million, respectively, representing an effective tax rate of approximately 43%. The increase in our effective tax rate in the six months ended June 30, 2009 was due to approximately $0.2 million of tax shortfalls during the three months ended March 31, 2009 related to share-based payments recorded in accordance with SFAS 123R.

On September 23, 2008, the state of California approved its budget for fiscal year ending June 30, 2009, which contained changes to the California tax law which substantially limit our ability to utilize available state net operating loss and tax credit carry forwards to reduce our state income taxes payable. Under the new tax law, the utilization of net operating loss carry forwards is suspended for tax years 2008 and 2009; however, the expiration date of the net operating loss carry forwards is extended for an equivalent two-year period. Additionally, for tax years 2008 and 2009, taxpayers may only utilize available tax credit carry forwards to reduce their current tax liability up to 50% of their net tax amount before application of such credits. The new law does not affect the amount of net operating loss or tax credit carry forwards that we expect to ultimately use to offset future California taxes; however, it does limit the amount of net operating loss and tax credit carry forwards that we will be able to utilize to reduce our taxes payable during the year ending December 31, 2009. While we do not expect this change in the California tax law to impact our effective tax rate, we expect that our cash outlay for federal and state taxes will increase for the year ending December 31, 2009 compared to 2008.

Under SFAS 123R, we consider stock option deduction benefits in excess of book compensation charges realized when we obtain an incremental benefit determined by the With and Without calculation method. Under the With and Without approach, excess tax benefits related to share-based payments are not deemed to be realized until after the utilization of all other tax benefits available to us. For example, net operating loss and tax credit carry forwards from prior years are used to reduce taxes currently payable prior to deductions from stock option exercises for purposes of financial reporting, while for tax return purposes, current year stock compensation deductions are generally used before net operating loss carry forwards. Indirect effects of excess tax benefits, such as the effect on research and development tax credits, are not considered. In accordance with SFAS 123R, only realized excess tax benefits are reflected in the financial statements.

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Due to the restriction on our ability to utilize net operating loss carry forwards to reduce taxes currently payable in California as well as the expected utilization of our remaining federal net operating losses during 2009, we utilized excess tax benefits related to share-based payments and other unrecognized tax benefits, which resulted in a $2.6 million increase in additional paid-in capital and a $0.6 million increase in other non-current liabilities, respectively, in the consolidated balance sheet as of June 30, 2009. Additionally, the $2.6 million of realized excess tax benefits related to share-based payments is classified in the condensed consolidated statements of cash flows as both a financing cash inflow and an operating cash outflow. We expect to continue utilizing excess tax benefits related to share-based payments and other unrecognized tax benefits in 2009, which will result in further increases to additional paid-in capital and other non-current liabilities.

Future changes in various factors, such as the amount of stock-based compensation we record during the period and the related tax benefit we realize upon the exercise of employee stock options, potential limitations on the use of our federal and state net operating loss credit carry forwards, pending or future tax law changes including rate changes and the tax benefit from or limitations on our ability to utilize research and development credits, changes in our valuation allowance and state and foreign taxes, would impact our estimates, and as a result, could affect our effective tax rate and the amount of income tax expense we record, and pay, in future periods.

Fair Value Measurements

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

SFAS 157 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and enhances disclosures about fair value measurements. Fair value is defined under SFAS 157 as the price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value under SFAS 157 must maximize the use of observable inputs and minimize the use of unobservable inputs. SFAS 157 classifies the inputs used to measure fair value into the following hierarchy:

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

We endeavor to utilize the best available information in measuring fair value of our assets, and as such, use market data or assumptions that we believe market participants would use in pricing an asset or liability. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. We have determined that our financial assets are classified as either Level 1 or Level 2 in the fair value hierarchy as of June 30, 2009.

In February 2008, the FASB issued FSP FAS 157-2, *Effective Date of FASB Statement No. 157* (FSP 157-2), which delayed the effective date of SFAS 157 for all non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), until the beginning of the first quarter of 2009. In the first quarter of 2009, we adopted SFAS 157 for non-financial assets and non-financial liabilities. The adoption of SFAS 157 for non-financial assets and non-financial liabilities that are not measured and recorded at fair value on a recurring basis did not have a significant impact on our consolidated financial position, results of operations or cash flows.

In October 2008, the FASB issued FSP FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active* (FSP 157-3). FSP 157-3 clarifies the application of SFAS 157 in an inactive market and illustrates how an entity would determine fair value when the market for a financial asset is not active. FSP 157-3 amends

SFAS 157 to include an example that illustrates key considerations when applying the principles in SFAS 157 to financial assets when the market for these instruments is not active. FSP 157-3 was effective upon issuance. The implementation of FSP 157-3 did not have an impact on our consolidated financial position, results of operations or cash flows.

In April 2009, the FASB issued FSP FAS 157-4, *Determining Fair Value When Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* (FSP 157-4). FSP 157-4 provides guidance on how to determine the fair value of assets and liabilities when the volume and level of activity for the asset/liability has significantly decreased. FSP 157-4 also provides guidance on identifying circumstances that indicate a transaction is not orderly. In addition, FSP 157-4 requires disclosure in interim and annual periods of the inputs and valuation techniques used to measure fair value and a discussion of changes in valuation techniques. FSP 157-4 was effective for us beginning in the second quarter of 2009. The adoption of FSP 157-4 did not have a significant impact on our consolidated financial position, results of operations or cash flows.

In April 2009, the FASB issued FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairment* (FSP 115-2/124-2). FSP 115-2/124-2 amends the requirements for the recognition and measurement of other-than-temporary impairments for debt securities by modifying the pre-existing intent and ability indicator. Under FSP 115-2/124-2, an other-than-temporary impairment is triggered when there is an intent to sell the security, it is more likely than not that the security will be required to be sold before recovery, or the security is not expected to recover the entire amortized cost basis of the security. Additionally, FSP 115-2/124-2 changes the presentation of an other-than-temporary impairment in the income statement for those impairments involving credit losses. The credit loss component will be recognized in earnings and the remainder of the impairment will be recorded in other comprehensive income. FSP 115-2/124-2 was effective for us beginning in the second quarter of 2009. The implementation of FSP 115-2/124-2 at the beginning of the second quarter of 2009 did not have a significant impact on our consolidated financial position, results of operations or cash flows.

During the three and six months ended June 30, 2008 and 2009, net unrealized gains and losses incurred on our marketable securities were not significant, and, as of December 31, 2008 and June 30, 2009, we carried net unrealized gains on our marketable securities of $0.2 million and $0.1 million, respectively, which are reported as a component of stockholders equity in the consolidated balance sheets and comprehensive income in the consolidated statements of income and comprehensive income. Unrealized gains and losses are the result of the change in fair value of our investments in marketable securities, primarily corporate bonds, at the beginning and end of the period. We did not realize any losses on our marketable securities during the three and six months ended June 30, 2008 and 2009.

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Results of Operations

The following table sets forth our operating results and the related percentage of total revenues for the three and six months ended June 30, 2008 and 2009 (dollars in thousands, unaudited):

	Three Months Ended June 30,				Six Months Ended June 30,			
	2008		2009		2008		2009	
Revenue:								
Commission	$ 24,756	90%	$ 29,939	90%	$ 48,875	91%	$ 58,143	89%
Sponsorship, licensing and other	2,745	10	3,500	10	4,906	9	7,213	11
Total revenue	27,501	100	33,439	100	53,781	100	65,356	100
Operating costs and expenses:								
Cost of revenue-sharing	432	2	1,318	4	869	2	2,118	3
Marketing and advertising	9,482	34	12,945	39	19,131	36	26,365	40
Customer care and enrollment	3,308	12	3,627	11	6,933	13	7,449	11
Technology and content	3,504	13	3,828	11	6,983	13	7,413	11
General and administrative	4,379	16	4,851	15	8,744	16	9,552	15
Total operating costs and expenses	21,105	77	26,569	79	42,660	79	52,897	81
Income from operations	6,396	23	6,870	21	11,121	21	12,459	19
Interest and other income, net	941	3	258	1	2,150	4	657	1
Income before income taxes	7,337	27	7,128	21	13,271	25	13,116	20
Provision for income taxes	3,136	11	3,134	9	5,773	11	5,979	9
Net income	$ 4,201	15%	$ 3,994	12%	$ 7,498	14%	$ 7,137	11%

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2009	2008	2009
Marketing and advertising	$ 186	$ 254	$ 333	$ 396
Customer care and enrollment	85	89	151	148
Technology and content	275	304	450	502
General and administrative	449	550	720	1,092
Total	$ 995	$ 1,197	$ 1,654	$ 2,138

Three and Six Months Ended June 30, 2008 and 2009

Revenue

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

	Three Months Ended June 30,		Change		Six Months Ended June 30,		Change	
	2008	2009	$	%	2008	2009	$	%
Commission	$ 24,756	$ 29,939	$ 5,183	21%	$ 48,875	$ 58,143	$ 9,268	19%
Percentage of total revenue	90%	90%			91%	89%		
Sponsorship, licensing and other	$ 2,745	$ 3,500	$ 755	28%	$ 4,906	$ 7,213	$ 2,307	47%
Percentage of total revenue	10%	10%			9%	11%		
Total revenue	$ 27,501	$ 33,439	$ 5,938	22%	$ 53,781	$ 65,356	$ 11,575	22%

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Three Months Ended June 30, 2009 and 2008 Commission revenue increased $5.2 million, or 21%, for the three months ended June 30, 2009 compared to the three months ended June 30, 2008, primarily due to an increase in our membership. Our estimated membership increased to approximately 707,100 at June 30, 2009 from the 579,600 members we reported at June 30, 2008. Estimated membership at June 30, 2009 includes approximately 30,000 members, net of estimated cancellations, transferred from Health Benefits Direct Corporation (HBDC) during 2009. Sponsorship, licensing and other revenue increased $0.8 million, or 28%, in the three months ended June 30, 2009 compared to three months ended June 30, 2008, primarily due to an increase of $0.3 million from licensing arrangements related to our technology and an increase of $0.3 million related to sales of carrier sponsorship advertising on our website.

Six Months Ended June 30, 2009 and 2008 Commission revenue increased $9.3 million, or 19%, in the six months ended June 30, 2009 compared to the six months ended June 30, 2008, primarily due to an increase in our membership. Sponsorship, licensing and other revenue increased $2.3 million, or 47%, in the six months ended June 30, 2009 compared to the six months ended June 30, 2008, primarily due to an increase of $1.1 million from licensing arrangements related to our technology and an increase of $1.0 million related to sales of carrier sponsorship advertising on our website. Sponsorship, licensing and other revenue for the six months ended June 30, 2008 included the recognition of $0.5 million of revenue relating to a one-time, non-recurring item.

Substantially all revenue for all periods presented was generated from customers located in the United States. The following carriers (including carriers owned by them) represented 10% or more of our total revenue for the three and six months ended June 30, 2008 and 2009 (unaudited):

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2008	**2009**	**2008**	**2009**
Aetna	13%	17%	13%	16%
Wellpoint	16%	15%	16%	15%
UnitedHealthcare	17%	14%	18%	14%

We expect total revenue to increase in absolute dollars in 2009 compared to 2008 as a result of continued growth in our membership as well as growth in our sponsorship and licensing businesses.

Operating Costs and Expenses

Cost of Revenue-Sharing

The following table presents our cost of revenue-sharing and the absolute dollar and percentage change from the comparable prior year quarter (dollars in thousands, unaudited):

	Three Months Ended June 30,		**Change**		**Six Months Ended June 30,**		**Change**	
	2008	**2009**	**$**	**%**	**2008**	**2009**	**$**	**%**
Cost of revenue-sharing	$ 432	$ 1,318	$ 886	205%	$ 869	$ 2,118	$ 1,249	144%
Percentage of total revenue	2%	4%			2%	3%		

Three Months Ended June 30, 2009 and 2008 Cost of revenue-sharing increased $0.9 million, or 205%, for the three months ended June 30, 2009 compared to the three months ended June 30, 2008, primarily as a result of our agreement with HBDC whereby we pay them a percentage of the commission revenue we receive related to certain health insurance members that were transferred to us. Additionally, cost of revenue-sharing increased as a result of an increase in the number of health insurance policies sold to members who were referred to our website by marketing partners with whom we have revenue-sharing arrangements. As a percentage of total revenue, cost of revenue-sharing increased to 4% for the three months ended June 30, 2009 from 2% for the three months ended June 30, 2008.

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Six Months Ended June 30, 2009 and 2008 Cost of revenue-sharing increased $1.2 million, or 144%, for the six months ended June 30, 2009 compared to the three months ended June 30, 2008, primarily as a result of our agreement with HBDC. Additionally, cost of revenue-sharing increased as a result of an increase in the number of health insurance policies sold to members who were referred to our website by marketing partners with whom we have revenue-sharing arrangements. As a percentage of total revenue, cost of revenue-sharing increased to 3% for the six months ended June 30, 2009 from 2% for the six months ended June 30, 2008.

We expect our cost of revenue-sharing to increase in absolute dollars in 2009 compared to 2008 as a result of the transfer of members from HBDC and as the number of members who are referred to our website by marketing partners with whom we have revenue-sharing arrangements increases.

Marketing and Advertising

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

	Three Months Ended June 30,		Change		Six Months Ended June 30,		Change	
	2008	2009	$	%	2008	2009	$	%
Marketing and advertising	$ 9,482	$ 12,945	$ 3,463	37%	$ 19,131	$ 26,365	$ 7,234	38%
Percentage of total revenue	34%	39%			36%	40%		

Three Months Ended June 30, 2009 and 2008 Marketing and advertising expenses increased $3.5 million, or 37%, for the three months ended June 30, 2009 compared to the three months ended June 30, 2008. This was primarily due to an increase in our online advertising expenses of $1.9 million resulting from an increase in paid keyword search advertising costs on Internet search engines, as the cost and number of click-throughs from the online advertising channel increased. Additionally, marketing partner expenses increased $0.7 million due to an increase in the growth in the number of applications submitted on our website through the marketing partner channel and compensation and benefits costs of marketing and advertising personnel increased $0.5 million. We also experienced a decline in the rate at which individuals coming to our ecommerce platform through the online advertising channel submitted health insurance applications, along with a decline in the average number of individuals applying for health insurance per application submitted through the online advertising channel. As a result, our acquisition cost per member, measured as total marketing and advertising expenses for the quarter divided by the number of members included on applications for individual and family product offerings submitted during the quarter, increased 22% to $73.45 in the three months ended June 30, 2009 from $60.39 in the three months ended June 30, 2008. As a percentage of total revenue, total marketing and advertising expenses increased to 39% in the three months ended June 30, 2009 from 34% in the three months ended June 30, 2008.

Six Months Ended June 30, 2009 and 2008 Marketing and advertising expenses increased $7.2 million, or 38%, for the six months ended June 30, 2009 compared to the six months ended June 30, 2008. This was primarily due to an increase in our online advertising expenses of $3.4 million resulting from an increase in paid keyword search advertising costs on Internet search engines, as the cost and number of click-throughs from the online advertising channel increased. Additionally, marketing partner expenses increased $1.9 million due to an increase in the cost per application and the growth in the number of applications submitted on our website through the marketing partner channel and compensation and benefits costs of marketing and advertising personnel increased $1.0 million. As a percentage of total revenue, total marketing and advertising expenses increased to 40% in the six months ended June 30, 2009 from 36% in the six months ended June 30, 2008.

We expect our marketing and advertising expenses to increase in absolute dollars in 2009 compared to 2008 as we increase our online marketing and advertising expenditures, including paid keyword search advertising. As a result, we expect the average cost of acquiring new members to be higher in 2009 than it was in 2008. Our cost of acquisition depends significantly on the rate at which visitors to our website submit health insurance applications, particularly with respect to paid search advertising, as our paid search costs are incurred on the referral of a potential member rather than on the submission of a health insurance application. Other factors that may impact the average cost of acquiring new members include the mix of health insurance applications submitted through our three marketing channels, the mix of marketing partners referring consumers to our website, the overall trend in costs of online marketing, seasonality patterns, the amounts we pay marketing partners to refer consumers to our website, television and radio advertising expenditures, and an increase in compensation and benefits costs for marketing and advertising personnel. We may also explore new marketing initiatives that increase per member acquisition costs as part of our efforts to drive more consumers to our website.

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Customer Care and Enrollment

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

	Three Months Ended June 30,		Change		Six Months Ended June 30,		Change	
	2008	2009	$	%	2008	2009	$	%
Customer care and enrollment	$ 3,308	$ 3,627	$ 319	10%	$ 6,933	$ 7,449	$ 516	7%
Percentage of total revenue	12%	11%			13%	11%		

Three Months Ended June 30, 2009 and 2008 Customer care and enrollment expenses increased $0.3 million, or 10%, for the three months ended June 30, 2009 compared to the three months ended June 30, 2008, primarily due to an increase in compensation and benefits costs associated with an increase in personnel servicing health insurance applications submitted through our website. As a percentage of total revenue, customer care and enrollment expenses decreased to 11% in the three months ended June 30, 2009 from 12% in the three months ended June 30, 2008 as a result of economies of scale achieved by our customer care and enrollment operations in the three months ended June 30, 2009.

Six Months Ended June 30, 2009 and 2008 Customer care and enrollment expenses increased $0.5 million, or 7%, for the six months ended June 30, 2009 compared to the six months ended June 30, 2008, primarily due to an increase in compensation and benefits costs associated with an increase in personnel servicing health insurance applications submitted through our website. As a percentage of total revenue, customer care and enrollment expenses decreased to 11% in the six months ended June 30, 2009 from 13% in the six months ended June 30, 2008 as a result of economies of scale achieved by our customer care and enrollment operations in the six months ended June 30, 2009.

We expect customer care and enrollment expenses to increase in absolute dollars in 2009 compared to 2008 as we hire additional personnel to service the growth in health insurance applications submitted through our website.

Technology and Content

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

	Three Months Ended June 30,		Change		Six Months Ended June 30,		Change	
	2008	2009	$	%	2008	2009	$	%
Technology and content	$ 3,504	$ 3,828	$ 324	9%	$ 6,983	$ 7,413	$ 430	6%
Percentage of total revenue	13%	11%			13%	11%		

Three Months Ended June 30, 2009 and 2008 Technology and content expenses increased $0.3 million, or 9%, for the three months ended June 30, 2009 compared to the three months ended June 30, 2008. This increase was primarily due to an increase in compensation and benefits costs associated with an increase in technology and content personnel and lease expense for additional data center space. As a percentage of total revenue, technology and content costs decreased to 11% in the three months ended June 30, 2009 from 13% in the three months ended June 30, 2008 as a result of economies of scale achieved by our technology and content operations in the three months ended June 30, 2009.

Six Months Ended June 30, 2009 and 2008 Technology and content expenses increased $0.4 million, or 6%, for the six months ended June 30, 2009 compared to the six months ended June 30, 2008. This increase was primarily due to an increase in compensation and benefits costs associated with an increase in technology and content personnel, lease expense for additional data center space and new maintenance agreements for hardware and software. As a percentage of total

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revenue, technology and content costs decreased to 11% in the six months ended June 30, 2009 from 13% in the six months ended June 30, 2008 as a result of economies of scale achieved by our technology and content operations in the six months ended June 30, 2009.

We expect technology and content expenses to increase in absolute dollars in 2009 compared to 2008 due to our continued focus on technology development, including the enhancement of our ecommerce platform.

General and Administrative

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

	Three Months Ended June 30,		Change		Six Months Ended June 30,		Change	
	2008	2009	$	%	2008	2009	$	%
General and administrative	$ 4,379	$ 4,851	$ 472	11%	$ 8,744	$ 9,552	$ 808	9%
Percentage of total revenue	16%	15%			16%	15%		

Three Months Ended June 30, 2009 and 2008 General and administrative expenses increased $0.5 million, or 11%, for the three months ended June 30, 2009 compared to the three months ended June 30, 2008, primarily due to an increase in compensation and benefits costs of $0.4 million primarily associated with an increase in our general and administrative personnel. As a percentage of total revenue, general and administrative expenses decreased to 15% in the three months ended June 30, 2009 from 16% in the three months ended June 30, 2008 as a result of economies of scale achieved by our general and administrative operations in the three months ended June 30, 2009.

Six Months Ended June 30, 2009 and 2008 General and administrative expenses increased $0.8 million, or 9%, for the six months ended June 30, 2009 compared to the six months ended June 30, 2008, primarily due to an increase in compensation and benefits costs of $0.6 million associated with an increase in our general and administrative personnel. Additionally, stock-based compensation expense increased $0.4 million due to additional equity grants to employees and directors. Partially offsetting these increases were decreases in recruiting costs and project consultant fees. As a percentage of total revenue, general and administrative expenses decreased to 15% in the six months ended June 30, 2009 from 16% in the six months ended June 30, 2008 as a result of economies of scale achieved by our general and administrative operations in the six months ended June 30, 2009.

We expect our general and administrative expenses to increase in absolute dollars in 2009 compared to 2008 due to the increased costs necessary to support the growth in our business.

Interest and Other Income, Net

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

	Three Months Ended June 30,		Change		Six Months Ended June 30,		Change	
	2008	2009	$	%	2008	2009	$	%
Interest and other income, net	$ 941	$ 258	$ (683)	(73)%	$ 2,150	$ 657	$ (1,493)	(69)%
Percentage of total revenue	3%	1%			4%	1%		

Interest and other income, net, primarily consists of interest income earned on our invested cash, cash equivalent and marketable securities balances, offset by administrative bank fees, investment management fees and interest expense on our capital lease obligations.

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Three and Six Months Ended June 30, 2009 and 2008 Interest and other income, net, decreased $0.7 million, or 73%, in the three months ended June 30, 2009 compared to the three months ended June 30, 2008, and decreased $1.5 million, or 69%, in the six months ended June 30, 2009 compared to the six months ended June 30, 2008, primarily due to a decline in the average yield earned on our invested cash, cash equivalents and marketable securities during the three and six months ended June 30, 2009 compared to the three and six months ended June 30, 2008. Interest income totaled $0.3 million and $0.7 million for the three and six months ended June 30, 2009, respectively, and totaled $1.0 million and $2.2 million for the three and six months ended June 30, 2008, respectively.

Cash, cash equivalents and marketable securities increased $9.2 million in the six months ended June 30, 2009 to $159.8 million at June 30, 2009 from $150.6 million at December 31, 2008. This increase resulted from $13.0 million of cash generated from operations, partially offset by $4.6 million used to repurchase 361,841 shares of our common stock and $1.3 million used for initial consideration paid to HBDC in connection with the transition of certain of its health insurance members to us. As a percentage of total revenue, interest and other income, net, decreased to 1% in the three months ended June 30, 2009 from 3% in the three months ended June 30, 2008, and decreased to 1% in the six months ended June 30, 2009 from 4% in the six months ended June 30, 2008.

We expect interest and other income, net, to decline in absolute dollars as well as a percentage of total revenue in 2009 compared to 2008 as a result of a decline in the average yield we earn on our invested cash, cash equivalents and marketable securities.

Provision for Income Taxes

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

	Three Months Ended June 30,		Change		Six Months Ended June 30,		Change	
	2008	2009	$	%	2008	2009	$	%
Provision for income taxes	$ 3,136	$ 3,134	$ (2)	(0)%	$ 5,773	$ 5,979	$ 206	4%
Percentage of total revenue	11%	9%			11%	9%		

Three and Six Months Ended June 30, 2009 and 2008 During the three and six months ended June 30, 2009, we recorded a provision for income taxes of $3.1 million and $6.0 million, respectively, representing effective tax rates of approximately 44% and 46%, respectively. During the three and six months ended June 30, 2008, we recorded a provision for income taxes of $3.1 million and $5.8 million, respectively, representing an effective tax rate of approximately 43%. The increase in our effective tax rate in the six months ended June 30, 2009 was due to approximately $0.2 million of tax shortfalls during the first quarter of 2009 related to share-based payments recorded in accordance with SFAS 123R.

New California tax legislation limits our ability to utilize net operating loss and tax credit carry forwards to reduce our state income taxes payable in 2009. As a result, we expect our cash outlay for taxes payable to the state of California to increase in 2009 compared to 2008. Our future effective income tax rate will depend on various factors, such as the amount of stock-based compensation we record during the year and the related tax benefit we realize upon the exercise of employee stock options, potential limitations on the use of our federal and state net operating loss credit carry forwards, the impact of pending or future tax law changes including rate changes and the tax benefit from or limitations on our ability to utilize research and development credits, state and foreign income taxes, as well as changes in our valuation allowance.

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Liquidity and Capital Resources

At June 30, 2009, our cash, cash equivalents and marketable securities totaled $159.8 million. Cash equivalents are comprised of financial instruments with an original maturity of 90 days or less from the date of purchase, primarily money market funds. Marketable securities are comprised primarily of available-for-sale financial instruments with original maturities of more than 90 days but less than two years from the date of purchase. Marketable securities that are available for use in current operations are classified as current assets in the accompanying consolidated balance sheets regardless of the remaining time to maturity.

On November 12, 2008, we announced that our board of directors authorized a stock repurchase program, pursuant to which up to 2,507,950 shares, representing ten percent of eHealth s outstanding common stock at the time, may be repurchased, for a total cost not to exceed $30 million, although the actual number of shares to be purchased and the timing of purchases will depend on market conditions. The repurchase program does not require us to acquire a specific number of shares and may be suspended or discontinued at any time. Share repurchases under this program will comply with Rule 10b-18 under the Securities Exchange Act of 1934, as amended, and may be made through a variety of methods. We have funded, and plan to continue to fund, the share repurchase program from available working capital. For accounting purposes, common stock repurchased under the program is recorded based upon the settlement date of the applicable trade. As of June 30, 2009, we had repurchased 412,498 under the program for a total cost of $5.2 million. Although we did not repurchase shares of our common stock during the three months ended June 30, 2009, we expect to repurchase shares during the remainder of 2009.

The following table presents a summary of our cash flows for the six months ended June 30, 2008 and 2009 (in thousands, unaudited):

	Six Months Ended June 30,	
	2008	2009
Net cash provided by operating activities	$ 14,493	$ 13,033
Net cash used in investing activities	$ (12,071)	$ (3,932)
Net cash provided by (used in) financing activities	$ 1,341	$ (1,617)

The cash flow statement for the six months ended June 30, 2008 includes a $5.5 million change in deferred taxes, primarily from the utilization of net operating loss carryforwards, all of which benefited operating cash flow. The cash flow statement for the six months ended June 30, 2009 includes a $5.9 million cash flow benefit from taxes, of which approximately $3.3 million of tax benefit, primarily from the utilization of net operating loss carryforwards, is included in cash flow from operations and $2.6 million of net operating loss carryforwards, from the utilization of excess tax benefits related to share-based payments, is included in cash flow from financing activities.

Operating Activities

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

Six Months Ended June 30, 2009 Our operating activities generated cash of $13.0 million during the six months ended June 30, 2009 and consisted of net income of $7.1 million adjusted by non-cash items of $4.2 million and cash provided by working capital and other activities of $1.7 million. Adjustments for non-cash items primarily consisted of $3.2 million of deferred income taxes, $2.1 million of stock-based compensation expense, $1.1 million of depreciation and amortization and $0.4 million of amortization and accretion on marketable securities, net, partially offset by $2.6 million of excess tax benefits from stock-based compensation. Cash provided by working capital and other activities primarily consisted of $1.6 million related to other current liabilities and an increase of $0.8 million in accrued marketing expenses, partially offset by an increase of $0.6 million in prepaid expenses and other current assets and a decrease of $0.4 million in accounts payable.

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Six Months Ended June 30, 2008 Our operating activities generated cash of $14.5 million during the six months ended June 30, 2008 and consisted of net income of $7.5 million adjusted by non-cash items of $8.0 million and cash used in working capital and other activities of $1.0 million. Adjustments for non-cash items primarily consisted of $5.5 million of deferred income taxes, $1.7 million of stock-based compensation expense and $0.8 million of depreciation and amortization. Cash used in working capital and other activities primarily consisted of a decrease of $0.9 million in accrued compensation and benefits primarily due to timing of payments for compensation and benefits and a decrease of $0.4 million in other current liabilities, partially offset by an increase of $0.4 million in accounts payable.

The timing of the recognition of our commission revenue depends upon the timing of our receipt of commission reports and associated commission payments from health insurance carriers. If we were to experience a delay in receiving a commission payment from a health insurance carrier at the end of a quarter, our operating cash flows for that quarter could be negatively impacted. Additionally, commission override payments are reported to us in a more irregular pattern than premium commissions. For example, a carrier may make a commission override payment to us on an annual basis, which would positively impact our cash flows in the quarter the payment is received. The majority of our annual commission override payments are typically received during the first quarter of the year.

Historically, we have experienced a reduction in operating cash flows during the first quarter of the year due to the payment of annual performance bonuses to employees. In addition, a significant portion of our marketing and advertising expenses are driven by the number of health insurance applications submitted on our ecommerce platform. Since our marketing and advertising costs are expensed as incurred and the revenue from approved applications is recognized as commissions are subsequently reported to us, our operating cash flows could be negatively impacted by a substantial increase in the volume of applications submitted during a quarter or positively impacted by a substantial decline in the volume of applications submitted during a quarter.

Investing Activities

Our investing activities primarily consist of purchases, sales and maturities of marketable securities and capital expenditures for property and equipment associated with computer hardware and software to enhance our website and to support our growth. Marketable securities generally consist of investment grade corporate and U.S. government-sponsored enterprise debt securities, commercial paper and certificates of deposit that have a maturity of more than 90 days but less than two years from the date of purchase and are available for use in current operations. These investments are carried at fair value with unrealized gains and losses, net of taxes, reported as a component of stockholders equity in the consolidated balance sheets and in comprehensive income on the consolidated statements of income and comprehensive income.

Six Months Ended June 30, 2009 Net cash used in investing activities of $3.9 million during the six months ended June 30, 2009 was primarily attributable to purchases of marketable securities of $38.5 million, consideration of $1.3 million paid to HBDC in connection with customer transition and marketing agreements with HBDC and capital expenditures of $0.5 million, partially offset by maturities and sales of marketable securities of $35.4 million and $1.0 million, respectively.

Six Months Ended June 30, 2008 Net cash used by investing activities of $12.1 million during the six months ended June 30, 2008 was primarily attributable to purchases of short-term marketable securities of $50.4 million and capital expenditures of $1.3 million, partially offset by maturities and sales of short-term marketable securities of $31.6 million and $8.1 million, respectively.

Financing Activities

Six Months Ended June 30, 2009 Net cash used in financing activities of $1.6 million during the six months ended June 30, 2009 was due to $4.6 million used to repurchase 361,841 shares of our common stock, partially offset by $2.6 million of non-cash excess tax benefits from stock-based compensation and $0.4 million of net proceeds received from the issuance of common stock pursuant to stock option exercises.

Six Months Ended June 30, 2008 Net cash provided by financing activities of $1.3 million during the six months ended June 30, 2008 was due to net proceeds received from the issuance of common stock pursuant to stock option exercises.

Future Needs

We believe that cash generated from operations and our current cash, cash equivalents and marketable securities will be sufficient to fund our operations for at least the next twelve months. Our future capital requirements will depend on many factors, including the number and price of common shares we repurchase under our stock

repurchase program and our level of investment in technology and advertising initiatives. We currently do not have any bank debt, line of credit facilities or other borrowing arrangements. To the extent that available funds are insufficient to fund our future activities, we may need to raise additional capital through public or private equity or debt financing to the extent such funding sources are available.

Contractual Obligations and Commitments

The following table presents a summary of our future minimum payments under non-cancellable operating lease agreements and certain contractual obligations and commitments as of June 30, 2009 (in thousands, unaudited):

Years Ending December 31,	Operating Lease Obligations	Capital Lease Obligations	Service and Licensing Obligations	Total Obligations
2009 (6 months)	$ 1,272	$ 28	$ 422	$ 1,722
2010	1,951	57	327	2,335
2011	1,368	57	159	1,584
2012	1,047	14		1,061
Total	$ 5,638	$ 156	$ 908	$ 6,702

Operating Lease Obligations

We lease certain of our office, operating facilities, equipment and furniture and fixtures under various operating leases, the latest of which expires in December 2012. Certain of these leases have free or escalating rent payment provisions. We recognize rent expense on our operating leases on a straight-line basis over the terms of the leases, although actual cash payment obligations under certain of these agreements fluctuate over the terms of the agreements.

The operating lease for our facility located in San Francisco, California expires in the second half of 2009.

Capital Lease Obligations

In December 2008, we entered into a capital lease agreement for office equipment which expires in April 2012.

Service and Licensing Obligations

We have entered into service and licensing agreements with third-party vendors to provide various services, including website development, website hosting, network access and software licensing. The terms of these services and licensing agreements are generally up to three years, the latest of which expires in June 2012. We record the related service and licensing expenses on a straight-line basis, although actual cash payment obligations under certain of these agreements fluctuate over the terms of the agreements.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements, investments in special purpose entities or undisclosed borrowings or debt. Additionally, we are not a party to any derivative contracts or synthetic leases.

Recent Accounting Pronouncements

See *Note 1 of Notes to Consolidated Financial Statements* for recently issued accounting standards that could have an effect on us.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Sensitivity

As of June 30, 2009, we had cash and cash equivalents of $101.6 million, which consisted primarily of cash and highly liquid money market instruments, commercial paper and U.S. government-sponsored enterprise debt securities with original maturities of 90 days or less from the date of purchase. We also had marketable securities of $58.2 million, which consisted primarily of U.S. government-sponsored enterprise and corporate debt securities and commercial paper with original maturities of more than 90 days but less than two years from the date of purchase and are available for use in current operations. Marketable securities that are available for use in current operations are classified as current assets in the accompanying consolidated balance sheets regardless of the remaining time to maturity.

The primary objective of our investment activities is to preserve principal. Some of the securities in which we invest may be subject to market risk. This means that a change in prevailing interest rates may cause the principal amount of the investment to fluctuate. To minimize this risk, we intend to maintain our portfolio of highly liquid cash equivalents and marketable securities in a variety of instruments, including money market funds, commercial paper, corporate and U.S. government-sponsored enterprise debt securities and certificates of deposit. We do not use financial instruments for trading or other speculative purposes, nor do we use leveraged financial instruments. Our investment policy limits investments to certain types of securities issued by institutions with investment-grade credit ratings and places restrictions on maturities and concentration by type and issue. The policy also prohibits investing in certain types of instruments including asset-backed securities, mortgage-backed securities, collateralized bond, debt and mortgage obligations, tax exempt securities, auction rate securities and derivatives. If overall interest rates had been 10% lower during the three months ended June 30, 2009, our interest income would have declined by less than $0.1 million during that period, assuming a consistent level in our cash, cash equivalents and marketable securities.

Foreign Currency Exchange Risk

To date, substantially all of our revenue has been derived from transactions denominated in United States Dollars. We have exposure to adverse changes in exchange rates associated with operating expenses of our foreign operations, which are denominated in Chinese Yuan Renminbi. Foreign currency fluctuations have not had a material impact historically on our results of operations; however, there can be no assurance that future fluctuations will not have material adverse effects on our results of operations. We have not engaged in any foreign currency hedging or other derivative transactions to date.

Credit Risk

Our financial instruments that are exposed to concentrations of credit risk principally consist of cash, cash equivalents, marketable securities and accounts receivable. We deposit our cash, cash equivalents and marketable securities in accounts with major banks and financial institutions and such deposits are in excess of federally insured limits. As of December 31, 2008 and June 30, 2009, our cash, cash equivalent and marketable securities balances were invested in securities issued by institutions in the following industries (in thousands):

Industry	**December 31, 2008**	**June 30, 2009 (unaudited)**
Cash	$ 4,659	$ 3,080
Money market funds (1)	89,477	98,541
Bonds, commercial paper and certificates of deposit:		
Government sector	38,003	49,778
Financial sector	12,176	4,608
Industrial sector	4,308	3,790
Utility sector	2,012	
Total cash, cash equivalents and marketable securities	$ 150,635	$ 159,797

(1) At December 31, 2008 and June 30, 2009, money market funds consisted of 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 June 30, 2009, we evaluated each of our unrealized losses, all of which are from U.S. government-sponsored enterprise bonds and discount notes, and determined them to be temporary in accordance with FASB FSP Nos. FAS 115-1 and FAS 124-1 (as amended), *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*. Factors we considered in determining whether unrealized losses were temporary included the length of time and extent to which each investment s fair value has been less than its cost basis, the financial condition and near-term prospects of the investee, and our intent and ability to retain the investment for a period of time sufficient to allow for any anticipated recovery in fair value.

During the three and six months ended June 30, 2008 and 2009, net unrealized gains and losses incurred on our marketable securities were not significant. Net unrealized gains and losses are the result of the change in fair value of our investments in marketable securities, primarily corporate bonds, during the period. We did not realize any losses on sales of marketable securities during the three and six months ended June 30, 2009 and 2008.

We do not require collateral or other security for our accounts receivable. As of June 30, 2009, two carriers represented $0.7 million, or 34%, of our total accounts receivable. We believe the potential for collection issues with any of our carriers is minimal. Accordingly, we have not recorded an allowance for uncollectible amounts at June 30, 2009.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Our Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended, as of the end of the period covered by this Quarterly Report on Form 10-Q.

Based on management s evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures are effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the three months ended June 30, 2009 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

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

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PART II

OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In the ordinary course of our business, we have received and may continue to receive inquiries from state regulators relating to various matters. We also have become, and may in the future become, involved in litigation in the ordinary course of our business.

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ITEM 1A. RISK FACTORS

In addition to other information in this Quarterly Report on Form 10-Q and in other filings we make with the Securities and Exchange Commission, the following risk factors should be carefully considered in evaluating our business as they may have a significant impact on our business, operating results and financial condition. If any of the following risks actually occurs, our business, financial condition, results of operations and future prospects could be materially and adversely affected. Because of the following factors, as well as other variables affecting our operating results, past financial performance should not be considered as a reliable indicator of future performance and investors should not use historical trends to anticipate results or trends in future periods.

Risks Related to Our Business

Our future operating results are likely to fluctuate and could fall short of expectations.

Our operating results are likely to fluctuate as a result of a variety of factors, including the factors described elsewhere in this Risk Factors section, many of which are outside of our control. As a result, comparing our operating results on a period-to-period basis may not be meaningful and you should not rely on our past results as an indication of our future performance. If our revenue or operating results fall below the expectations of investors or securities analysts, the price of our common stock could decline substantially.

Our business model is characterized primarily by recurring revenue based on commissions we receive from insurance carriers whose policies are purchased by our members. Although our services are complete upon the approval of a member s application, we receive commissions and record related revenue, typically on a monthly basis, until the health insurance policy is cancelled or we otherwise do not remain the agent on the policy. A significant component of our marketing and advertising expenses consists of payments owed to our marketing partners in connection with applications submitted on our ecommerce platform by potential members referred to us by our marketing partners. As a result of this timing difference between expense and associated revenue recognition, our operating results and cash flows may be adversely affected in periods where we experience a significant increase in new applicants. In addition, if we incur other unanticipated or one-time expenses in a particular quarter or if we lose a significant amount of our member base for any reason, we would likely be unable to offset these expenses by increasing sales within that quarter or to replace lost revenue in the quarter with revenue from new members. As a result, our quarterly results may suffer due to unanticipated expenses, one-time charges or significant member turnover.

Changes and developments in the structure of the health insurance system in the United States could harm our business.

Our business depends upon the private sector of the United States health insurance system, its relative role in financing healthcare delivery and health insurance carriers use and payment of commissions to agents and brokers to market individual and family health insurance products. Recently, there has been substantial national and state attention and debate regarding healthcare reform. President Obama and members of Congress have expressed their view that our healthcare system is in need of reform, and bills relating to healthcare reform are being debated in Congress. There are various proposals being discussed, including, among others, a mandate requiring individuals to be insured or face tax penalties, requirements relating to employer contribution to employee health coverage, prohibition against insurance companies using pre-existing health conditions as a reason to deny an application for health insurance, guaranteed renewability of health insurance plans, health insurance premium setting guidelines, requirements that insurance companies spend a certain amount of premiums on care, minimum benefits levels for health insurance plans, establishment of state and/or federal health insurance exchanges to facilitate access to health insurance, creation of government-sponsored health insurance plans and affordability credits to make health insurance more affordable for those below certain income levels. We cannot predict whether new federal legislation will be passed or what the final provisions of such legislation will be. As a result, the impact on our business is uncertain. Significant federal or state changes to the existing health insurance system, the individual and family health insurance market or in the manner in which health insurance is distributed in the United States, including some aspects of the proposals being debated, could increase competition, reduce or eliminate the need for health insurance agents or demand for private health insurance for individuals, families or small businesses or result in a reduction in the amount health insurance carriers pay for our services, any of which could materially harm our business, operating results and financial condition. For instance, the adoption of state or federal laws that promote or establish government-sponsored or partially government-sponsored healthcare, or promote government involvement in the health insurance system in other ways, could reduce or eliminate the number of individuals, families and small businesses seeking or permitted to purchase private health insurance or supplemental coverage, which would substantially reduce the demand for our service and

materially harm our business, operating results and financial condition. In addition, speculation regarding healthcare reform or potential changes in the regulatory environment in which we operate creates uncertainty that could lead to increased volatility and a reduction in our stock price.

Our rate of growth may decline.

We have in the past and may in the future continue to make significant expenditures related to the development of our business, including expenditures relating to marketing and website technology development. In addition, we will continue to incur significant legal, accounting and other expenses as a public company. Although we have experienced revenue growth in prior periods, this growth may not be sustainable, and we may not achieve sufficient revenue to maintain profitability. Our future revenue growth will depend in large part upon our ability to continue to attract new individuals, families and small businesses to purchase health insurance through our ecommerce platform and to maintain our relationship with existing members within historical levels. We have recently experienced a decline in our year-over-year growth rate for approved members. To the extent that the rate of growth of our net new members slows (after accounting for member turnover), our revenue growth is also likely to slow. The commission rates that we receive for individuals and families are typically higher in the first twelve months of a policy. After the first twelve months, they generally decline significantly. Accordingly, to the extent that the rate of growth of our net new members slows, our revenue growth would slow due to a decline in commissions we receive for members whose policies have been active for more than twelve months, in addition to the reduction in revenue growth that would occur solely as a result of a decline in our membership growth rate.

The commission rates we receive are impacted by a variety of factors, including the particular health insurance policies chosen by our members, the carriers offering those policies, the location of members and the laws and regulations in that jurisdiction and the amount of time policies have been active. Our commission rate per member could decrease as a result of either reductions in contractual commission rates or unfavorable changes in health insurance carrier override commission programs, each of which may be beyond our control and may occur on short notice. To the extent these factors cause our commission rate per member to decline, our rate of revenue growth may decline.

Current economic conditions and other factors beyond our control may negatively impact our business, operating results and financial condition.

Our revenue depends upon demand for health insurance in the individual, family and small business markets, which can be influenced by a variety of factors beyond our control. For instance, an increasing number of individuals are becoming self-employed or unemployed. In addition, as a result of substantial health insurance premium inflation in recent years, we believe that many employers are seeking to reduce the costs associated with providing health insurance to their employees, including offering fewer benefits to employees, reducing or eliminating dependent coverage, increasing employee health insurance premium contributions and eliminating health insurance benefits altogether. We also believe that demand in the individual and family health insurance market may increase as the employees of these employers look to other sources for their health insurance needs and as the number of self-employed and unemployed individuals increases. We have no control over the economic and other factors that influence these trends, and they may reverse, including as a result of healthcare reform legislation. If economic or other factors beyond our control negatively impact our business, our operating results and financial condition could be harmed.

We believe that we have been adversely impacted by recent economic conditions. We cannot be certain of the future impact that the current recession will have on our business. A softening of demand for products and services offered by us, whether caused by changes in customer preferences or a weakening of the U.S. economy, including as a result of recent disruptions in the global financial markets or a decrease in general consumer confidence, may result in decreased revenue or growth. Consumers may attempt to reduce expenses by cancelling existing health insurance purchased through us, determine not to purchase new health insurance through us, or purchase health insurance products with lower premiums for which we receive lower commissions. Legislative reaction to economic conditions may also negatively impact our operating results and financial condition. For example, the recently enacted American Recovery and Reinvestment Act includes a 65% federal subsidy for COBRA premiums for up to nine months for certain eligible workers. While the COBRA subsidy aspect of the law is scheduled to expire in December 2009, it may be extended. While it is not possible to determine the impact of the subsidy on our business, it may have caused, and may in the future cause, a decline in membership growth due to consumers electing COBRA coverage or our existing members cancelling existing policies for which we serve as the broker of record to take advantage of the subsidy. We experience a significant delay in learning about changes in our membership from health insurance carriers. Given this delay, we do not know to what extent the current economic environment has impacted our membership retention rates. To the extent the economy or other factors adversely impact our membership retention or the number or type of health insurance applications submitted through us and that are approved by health insurance carriers, our rate of growth will decline and our business and operating results will be harmed.

A continuing recessionary environment could also negatively impact the health insurance carriers whose products are offered on our ecommerce platform, and they may, among other things, determine to reduce their commission rates, increase premiums or reduce benefits, change their underwriting practices so that fewer health insurance applications are approved or decrease the amount they are willing to spend for marketing purposes, all of which would negatively impact our sale of health insurance as well as our sponsorship and technology licensing businesses.

In addition, interest rates recently have declined, and may continue to decline, as a result of the economic environment. We have experienced a significant reduction in the rate of return on our investments both as a result of the decline in interest rates and as a result of our implementation of more conservative investment policies. Economic conditions could materially and adversely impact our investments in the future, including loss of principal, despite our implementation of more conservative investment policies.

Our business may not grow if consumers are not informed about the availability and accessibility of affordable health insurance.

Numerous health insurance products are available to consumers in any given market. Most of these products vary by price, benefits and other policy features. Health insurance terminology and provisions are often confusing and difficult to understand. As a result, researching, selecting and purchasing health insurance can be a complex process. We believe that this complexity has contributed to a perception held by many consumers that individual health insurance is prohibitively expensive and difficult to obtain. We attempt to make the health insurance research and application process on our website understandable and user-friendly. We also attempt to use our website and other means to educate consumers about the accessibility and affordability of health insurance. If consumers are not informed about the availability and accessibility of affordable health insurance or our ecommerce platform is difficult to navigate, our business may not grow and our operating results and financial condition would be harmed.

If we are not successful in cost-effectively converting visitors to our website into members, our business and operating results would be harmed.

Our growth depends upon growth in our membership. The rate at which consumers visiting our ecommerce platform and seeking to purchase health insurance are converted into members is a significant factor in the growth of our membership. A number of factors have influenced, and could in the future influence, this conversion rate for any given period, some of which are outside of our control. These factors include:

- changes in consumer shopping behavior due to circumstances outside of our control, such as economic conditions;
- the quality of and changes to the consumer experience on our ecommerce platform and with our customer care center;
- the variety and affordability of the health insurance products that we offer;
- system failures or interruptions in the operation of our ecommerce platform or call center operations;
- changes in the mix of consumers who are referred to us through our direct, marketing partner and online advertising member acquisition channels;
- the number, type and identity of the health insurance carriers offering the health insurance products for which consumers have expressed interest, and the degree to which our technology is integrated with those carriers;
- health insurance carrier underwriting practices and guidelines applicable to applications submitted by consumers and the amount of time a carrier takes to make a decision on that application; and

competitive offerings.

Our conversion rates can be impacted by changes in the mix of consumers referred to us through our member acquisition channels. For example, our conversion rates have historically been lower with respect to consumers referred to us by Internet lead aggregators and relatively higher with respect to consumers coming to us through our direct member acquisition channel. In addition, we may make changes to our ecommerce platform or undertake other initiatives in an attempt to improve consumer experience or for other reasons. These changes have in the past, and may in the future, have the unintended consequence of adversely impacting our conversion rates. A decline in the percentage of consumers who submit health insurance applications on our ecommerce platform and are converted into members could cause an increase in our cost of acquiring members on a per member basis. To the extent the rate at which we convert consumers visiting our ecommerce platform into members does not continue to improve at our historical rate of improvement, our membership growth rate may decline, which could harm our business, operating results and financial condition.

We undertake initiatives in an attempt to improve the rate at which visitors to our ecommerce platform are converted into members. For instance, we previously developed our Electronic Processing Interchange (EPI) technology to simplify the health insurance enrollment process and better integrate our technology systems with those of health insurance carriers. The more our technology is integrated with our carrier partners, the more our application processing times, sales yields and processing costs improve. The third phase of our EPI technology, which we call eApproval, allows consumers to apply for health insurance online, electronically transmit signature and payment, receive an instant underwriting response and print membership material at the point of approval on our website. We initially launched our eApproval technology for use with individual and family health insurance with a carrier in California during the second quarter of 2008. The implementation of eApproval is dependent upon its adoption by health insurance carriers, and there can be no assurance that it will be implemented with any carrier in any specific timeframe or at all. In addition, there can be no assurance that any such implementation will impact our membership growth rate, improve sales yields or otherwise be effective. It is too early to determine the effectiveness of any technology or relationship that allows for expedited or instant underwriting, and the effectiveness of any such relationship or technology could be influenced by a number of factors, including sufficient carrier adoption of the technology and willingness to enter into the relationship, carrier allocation of resources, carrier commitment and ability to integrate their systems with ours and to provide expedited responses to insurance applications, system failures and process breakdowns, malfunctions, bugs or capacity constraints, the performance, reliability and availability of our ecommerce platform and underlying network infrastructure, ecommerce security risks, compliance with insurance and other laws and regulations and changes in laws and regulations. In addition, our implementation of eApproval may materially impact other aspects of our business. For example, shortened time periods between submission of a health insurance application and coverage may reduce demand for short term health insurance. In the event that we are not successful in integrating with our carrier partners to provide expedited underwriting, or if such integration is not effective in improving the rate at which we convert visitors into members, our membership growth rate may decline, which would harm our business, operating results and financial condition.

If we are unable to retain our members, our business and operating results would be harmed.

We receive revenue from commissions health insurance carriers pay to us for health insurance policies sold through our ecommerce platform. When one of these policies is cancelled, or if we otherwise do not remain the agent on the policy, we no longer receive the related commission revenue. Individuals, families and small businesses may choose to discontinue their health insurance policies for a variety of reasons. For example, individuals and families may replace a health insurance policy purchased through us with a health insurance policy provided by a new or existing employer or may determine that they cannot afford health insurance. In addition, our members may choose to transfer their policies to a different agent if, for example, they are not satisfied with our customer service or the health insurance products that we offer. Health insurance carriers may also terminate health insurance plans purchased and held by our members. If we are not successful in transferring members covered under a terminated plan to another policy that we offer, we will lose these members. Our cost in acquiring a new member is substantially greater than the cost involved in maintaining our relationship with an existing member. If we are not able to successfully retain existing members and limit member turnover, our revenue and operating margins could be adversely impacted and our business, operating results and financial condition would be harmed.

Our business may be harmed if we lose our relationships with health insurance carriers, become dependent upon a limited number of insurance carriers, fail to develop new carrier relationships, or if our carrier partners experience negative publicity.

We typically enter into contractual agency relationships with health insurance carriers that are non-exclusive and terminable on short notice by either party for any reason. Carriers may be unwilling to allow us to sell their existing or new health insurance products for a variety of reasons, including for competitive or regulatory reasons, as a result of a reluctance to distribute their products over the Internet or because they do not want to be associated with our brand. For example, one carrier terminated its relationship with us with respect to the policies it offers in a particular state because the carrier

determined to sell those policies through agents that exclusively offered that particular carrier s products. In the future, an increasing number of carriers may decide to rely on their own internal distribution channels, including traditional in-house agents and carrier websites, to sell their own products and, in turn, could limit or prohibit us from selling their products on our ecommerce platform. For instance, carriers may choose to exclude us from their most profitable or popular products or may determine not to distribute insurance products in the individual, family and small business markets altogether.

We may decide to terminate our relationship with a carrier for a number of reasons, including as a result of a reduction in a carrier s financial ratings, a carrier determining to pay lower commissions or a carrier demanding a sales process that we believe compromises or impairs the value of our service. The termination of our relationship with a carrier could reduce the variety of health insurance products we offer, which could harm our business. We also would lose a source of commissions for future sales and, if our relationship with a carrier is terminated as a result of our material breach of our agreement with the carrier or in a limited number of other cases, future commissions for past sales. Our business could also be harmed if in the future we fail to develop new carrier relationships and are unable to offer consumers a wide variety of health insurance products.

The health insurance industry in the United States has experienced a substantial amount of consolidation over the past several years, resulting in a decrease in the number of health insurance carriers. In the future, we may be forced to offer insurance policies from a reduced number of insurance carriers or to derive a greater portion of our revenue from a more concentrated number of carriers as our business and the health insurance industry evolve. We derived 13% and 17% of our total revenue in the three months ended June 30, 2008 and 2009, respectively, from Aetna. We derived 16% and 15% of our total revenue in the three months ended June 30, 2008 and 2009, respectively, from carriers owned by Wellpoint. We derived 17% and 14% of our total revenue in the three months ended June 30, 2008 and 2009, respectively, from carriers owned by UnitedHealthcare. Our agreements with these carriers, entered into in the ordinary course of business, are terminable on short notice by either party for any reason. Notwithstanding our separate agreements with various carriers directly or indirectly owned by the same entity, certain carriers have attempted and may continue to attempt to consolidate our relationship with them, which could increase the impact of carrier concentration on us, decrease the commission rates we receive and adversely affect our financial results. Should our dependence on fewer carrier relationships increase (whether as a result of the termination of carrier relationships, further carrier consolidation or otherwise), we may become more vulnerable to adverse changes in our relationships with carriers, particularly in states where we offer health insurance from a relatively smaller number of carriers or where a small number of carriers dominates the market, and our business, operating results and financial condition could be harmed.

From time to time, health insurance carriers may experience negative publicity as a result of consumer perception of, and reaction to, certain underwriting practices, news events or other matters. For example, health insurance carriers in California have experienced negative publicity relating to allegations of violations of California s post-claims underwriting regulations. Negative publicity experienced by our carrier partners may in turn adversely affect us, even if we are not involved, due to our business relationship with the carriers. If it does, our business, operating results and financial condition could be harmed.

Changes in the quality and affordability of the health insurance products that carriers offer on our ecommerce platform could harm our business and operating results.

The demand for health insurance marketed through our ecommerce platform is impacted by, among other things, the variety, quality and price of the health insurance products we offer. If health insurance carriers do not continue to provide us with a variety of high-quality, affordable health insurance products in the individual, family and small business markets, or if their offerings are limited as a result of consolidation in the health insurance industry, healthcare reform legislation or otherwise, our sales may decrease and our business, operating results and financial condition could be harmed.

Health insurance carriers could determine to reduce the commissions paid to us or to change their underwriting practices in ways that reduce the number of insurance policies sold through our ecommerce platform, which could harm our business and operating results.

Our commission rates, and the commission override payments we receive from health insurance carriers for achieving sales volume thresholds or other objectives, are either set by each carrier or negotiated between us and each carrier. Carriers have altered, and may in the future alter, the contractual relationships we have with them, either by renegotiation or unilateral action. If these contractual changes result in reduced commissions, our business may suffer and our operating results and financial condition could be harmed. In addition, carriers periodically change the criteria they use for determining whether they are willing to insure individuals as well as other underwriting practices. Beginning in the second half of 2007, we believe that carriers have been applying more stringent underwriting criteria and practices to applications

for health insurance and that the carriers underwriting criteria and practices became more stringent in the three months ended June 30, 2009. Changes such as these result in a decrease in the rate at which insurance policies submitted through our ecommerce platform are approved. Changes in carrier underwriting criteria or practices could negatively impact sales of insurance policies on our ecommerce platform and could harm our business, operating results and financial condition.

If we are not able to maintain and enhance our brand, our business and operating results will be harmed.

We believe that maintaining and enhancing our brand identity is critical to our relationships with existing members, marketing partners and health insurance carriers and to our ability to attract new members, marketing partners and carriers. We may from time to time test the use of television and radio advertisements as a means to enhance our brand. The promotion of our brand in these and other ways may require us to make substantial investments and we anticipate that, as our market becomes increasingly competitive, these branding initiatives may become increasingly difficult and expensive. Our brand promotion activities may not be successful or yield increased revenue, and to the extent that these activities yield increased revenue, the increased revenue may not offset the expenses we incur and our operating results could be harmed. If we do not successfully maintain and enhance our brand, our business may not grow and we could lose our relationships with health insurance carriers, marketing partners and/or members, which would harm our business, operating results and financial condition.

In addition, we have historically received media attention in connection with our public relations efforts. While we cannot be certain of the impact of media coverage on our business, if it were to be reduced, the number of consumers visiting our platform could decrease, and our cost of acquiring members could increase as a result of a reduction in the number of members coming from our direct member acquisition channel, both of which could harm our business, operating results and financial condition.

System failures or capacity constraints could harm our business and operating results.

Our revenue depends upon the number of health insurance applications consumers submit utilizing our ecommerce platform that are approved by health insurance carriers. As a result, the performance, reliability and availability of our ecommerce platform and underlying network infrastructure are critical to our financial results, our brand and our relationship with members, marketing partners and health insurance carriers. Although we regularly attempt to enhance our ecommerce platform and system infrastructure, system failures and interruptions may occur if we are unsuccessful in these efforts, if we are unable to accurately project the rate or timing of increases in our website traffic or for other reasons, some of which are completely outside our control. Although we have experienced only minor system failures and interruptions to date, we could experience significant failures and interruptions in the future, which would harm our business, operating results and financial condition.

We rely in part upon third-party vendors, including data center and bandwidth providers, to operate our ecommerce platform. We cannot predict whether additional network capacity will be available from these vendors as we need it, and our network or our suppliers networks might be unable to achieve or maintain a sufficiently high capacity of data transmission to allow us to process health insurance applications in a timely manner or effectively download data, especially if our website traffic increases. Any system failure that causes an interruption in or decreases the responsiveness of our services would impair our revenue-generating capabilities and harm our business and operating results and damage our reputation. In addition, any loss of data could result in loss of customers and subject us to potential liability. Our database and systems are vulnerable to damage or interruption from human error, earthquakes, fire, floods, power loss, telecommunications failures, physical or electronic break-ins, computer viruses, acts of terrorism, other attempts to harm our systems and similar events. In addition, our operations are vulnerable to earthquakes in the San Francisco Bay Area and elsewhere in Northern California. While we regularly back-up our system and store the system back-ups in secure third-party offsite locations with restricted access, there can be no assurance that such data recovery systems will operate as designed or prevent a loss of data. Additionally, if we were forced to rely on our system back-ups, we would experience significant delays in restoring the functionality of our website and could experience loss of data, which would harm our business and our operating results. Although we maintain insurance to cover a variety of risks, the scope and amount of our insurance coverage is not sufficient to cover our losses resulting from system failures or other disruptions to our online operations.

Consumers may access our customer care center for assistance in connection with submitting health insurance applications through our ecommerce platform. We depend upon third parties, including telephone service providers and third party software providers, to operate our customer care center. Any failure of the systems that we rely upon in the operation of our customer care center could negatively impact sales of insurance policies through our ecommerce platform or our relationship with consumers and members, which could harm our business, operating results and financial condition.

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If consumers or carriers opt for more traditional or alternative channels for the purchase and sale of health insurance, our business will be harmed.

Our success depends in part upon widespread consumer and health insurance carrier acceptance of the Internet as a marketplace for the purchase and sale of health insurance. Consumers and health insurance carriers may choose to depend more on traditional sources, such as individual agents, or alternative sources may develop, including as a result of healthcare reform legislation. Our future growth, if any, will depend in part upon:

- the growth of the Internet as a commerce medium generally, and as a market for consumer financial products and services specifically;
- consumers willingness to conduct their own health insurance research;
- our ability to make the process of purchasing health insurance online an attractive alternative to traditional means of purchasing health insurance;
- our ability to successfully and cost-effectively market our services as superior to traditional or alternative sources for health insurance to a sufficiently large number of consumers; and
- health insurance carriers willingness to use us and the Internet as a distribution channel for health insurance products.

If consumers and health insurance carriers determine that other sources for health insurance and health insurance applications are superior, our business will not grow and our operating results and financial condition would be harmed.

We depend upon Internet search engines to attract a significant portion of the consumers who visit our website, and if we are unable to effectively advertise on search engines on a cost-effective basis, our business and operating results would be harmed.

We derive a significant portion of our website traffic from consumers who search for health insurance through Internet search engines, such as Google, MSN and Yahoo!. A critical factor in attracting consumers to our website is whether we are prominently displayed in response to an Internet search relating to health insurance. Search engines typically provide two types of search results, algorithmic listings and paid advertisements. We rely on both algorithmic listings and paid advertisements to attract consumers to our website.

Algorithmic search result listings are determined and displayed in accordance with a set of formulas or algorithms developed by the particular Internet search engine. The algorithms determine the order of the listing of results in response to the consumer s Internet search. From time to time, search engines revise these algorithms. In some instances, these modifications have caused our website to be listed less prominently in algorithmic search results, which has resulted in decreased traffic to our website. Our website may also become listed less prominently in algorithmic search results for other reasons, such as search engine technical difficulties, search engine technical changes and changes we make to our website. In addition, search engines have deemed the practices of some companies to be inconsistent with search engine guidelines and decided not to list their website in search result listings at all. If we are listed less prominently in, or removed altogether from, search result listings for any reason, the traffic to our website likely would decline and we may not be able to replace this traffic, which in turn would harm our operating results. If we decide to attempt to replace this traffic, we may be required to increase our marketing expenditures, which would also increase our cost of member acquisition and harm our operating results.

We also purchase paid advertisements on search engines in order to attract consumers to our website. We typically pay a search engine for prominent placement of our name and website when particular health insurance-related terms are searched for on the search engine, regardless of the algorithmic search result listings. In some circumstances, the prominence of the placement of our name and website is determined by a combination of factors, including the amount we are willing to pay and algorithms designed to determine the relevance of our paid advertisement to a particular search term. As with algorithmic search result listings, search engines may revise the algorithms relevant to paid advertisements. These revisions may result in our having to pay increased amounts to maintain our paid advertisement placement in response to a particular search term. We could also have to pay increased amounts should the market share of major search engines continue to become more

concentrated with a single search engine. Additionally, we bid against our competitors and others for the display of these paid search engine advertisements. Many of our competitors, including many health insurance carriers, have greater resources with which to bid and better brand recognition than we do. We have experienced increased

competition from carriers and some of our marketing partners for both algorithmic search result listings and for paid Internet advertisements, which has increased our marketing and advertising expenses. If this competition increases significantly, or if the fees associated with paid search advertisements increase as a result of algorithm changes or other factors, our advertising expenses could rise significantly or we could reduce or discontinue our paid search advertisements, either of which could harm our business, operating results and financial condition. In addition, our cost of acquiring members is significantly dependent on the rate at which consumers who click on paid advertisements submit health insurance applications. A decline in this rate could cause our cost of acquisition to increase significantly, which could harm our operating results. For instance, in the three months ended June 30, 2009, we experienced no growth in the number of submitted applications in our online advertising channel over the three months ended June 30, 2008, which we believe to have resulted from several factors, including a decline in the rate at which consumers who clicked on paid advertisements submitted health insurance applications and decreased contribution from secondary search engines. To the extent our submitted application growth rate from the online advertising channel remains flat or declines further, our overall membership growth will be adversely impacted, which would harm our operating results and financial condition.

We rely significantly on marketing partners for the sale of health insurance on our ecommerce platform and our business and operating results would be harmed if we are unable to maintain effective relationships with our existing marketing partners or if we do not establish successful relationships with new marketing partners.

In addition to marketing through Internet search engines, we frequently enter into contractual marketing relationships with other online and offline businesses that promote us to their customers. These marketing partners include financial and online service companies, affiliate programs and online advertisers and content providers. We compensate many of our marketing partners for their referrals on a submitted health insurance application basis and, if they are licensed to sell health insurance, may share a percentage of the commission we earn from the health insurance carrier for each member referred by the marketing partner. Our agreements with many of our marketing partners are terminable on short notice.

Many factors influence the success of our relationship with our marketing partners, including:

- the continued positive market presence, reputation and growth of the marketing partner;
- the effectiveness of the marketing partner in marketing our website and services, including whether the marketing partner is successful in maintaining the prominence of its website in algorithmic search result listings and paid Internet advertisements;
- the interest of the marketing partner s customers in the health insurance products that we offer on our ecommerce platform;
- the contractual terms we negotiate with the marketing partner, including the marketing fees we agree to pay a marketing partner;
- the percentage of the marketing partner s customers that submit applications or purchase health insurance policies through our ecommerce platform;
- the ability of a marketing partner to maintain efficient and uninterrupted operation of its website; and
- our ability to work with the marketing partner to implement website changes, launch marketing campaigns and pursue other initiatives necessary to maintain positive consumer experiences and acceptable traffic volumes.

If we are unable to maintain successful relationships with our existing marketing partners or fail to establish successful relationships with new marketing partners, our business, operating results and financial condition will be harmed.

We face risks in the event that we pursue new strategies and opportunities in segments of the health insurance market in which we do not currently operate.

We evaluate and explore new strategies and opportunities in segments of the health insurance market in which we do not currently operate, such as Medicare, where we may be able to leverage our technology. We may not adopt these new strategies, and even if we do, we cannot predict whether demand for any new product or service that we offer will result in increased membership or revenue. In addition, modifying our ecommerce platform or creating a new platform for these opportunities may be time consuming and expensive, and our pursuit of them would expose us to laws, regulations and business practices with which we are unfamiliar. If we are unable to successfully introduce new products and adopt new strategies for the growth of our business, our business and financial condition may be harmed.

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We rely on health insurance carriers to accurately and regularly prepare commission reports, and if these reports are inaccurate or not sent to us in a timely manner, our business and operating results could be harmed. We also may not recognize trends in our membership as a result of a lack of information from health insurance carriers.

Health insurance carriers typically pay us a specified percentage of the premium amount collected by the carrier during the period that a member maintains coverage under a policy. We rely on carriers to timely and accurately report the amount of commissions earned by us, and we calculate our commission revenue, prepare our financial reports, projections and budgets and direct our marketing and other operating efforts based on the reports we receive from health insurance carriers. It is often difficult for us to independently determine whether or not carriers are reporting all commissions due to us, primarily because the majority of our members terminate their policies by discontinuing their premium payments to the carrier instead of by informing us of the cancellation. To the extent that health insurance carriers understate or fail to report the amount of commissions due to us in a timely manner or at all, we will not collect and recognize revenue to which we are entitled, which would harm our business, operating results and financial condition.

We also are dependent on our carrier partners and others for data related to our membership. For instance, with respect to health insurance products other than small business group health insurance, our carrier partners do not directly report member cancellations to us, resulting in the need for us to determine cancellations using payment data that carriers provide. We infer cancellations from this payment data by analyzing whether payments from members have ceased for a period of time, and we may not learn of a cancellation for several months, given that some of our members pay on a schedule less frequently than monthly (e.g., quarterly). With respect to our small business group membership, many groups notify the carrier directly with respect to increases or decreases in group size and policy cancellations. Our insurance carrier partners often do not communicate this information to us, and it often takes a significant amount of time for us to learn about small business group cancellations and changes in our membership within the group itself. We often are not made aware of policy cancellations until the time of the group s annual renewal.

After we have estimated membership for a period, we may receive information from health insurance carriers that would have impacted the estimate if we had received the information prior to the date of estimation. We may receive commission payments or other information that indicates that a member who was not included in our estimates for a prior period was in fact an active member at that time, or that a member who was included in our estimates was in fact not an active member of ours. We also reconcile information carriers provide to us and may determine that we were not historically paid commissions owed to us, which would cause us to have underestimated our membership. Additionally, carriers may require us to return commission payments paid in a prior period due to policy cancellations for members we previously estimated as being active. For these and other reasons, including if current trends in membership cancellation are inconsistent with past cancellation trends that we use to estimate our membership or if carriers subsequently report changes to the commission payments that they previously reported to us, our actual membership could be different from our estimates, perhaps materially. Total revenue per estimated member for the period would also change if our estimated membership changed. Our estimate regarding the average amount of time our members maintain their health insurance products also could be inaccurate as it is dependent upon the accuracy of our membership estimates.

Our operating results fluctuate depending upon health insurance carrier payment practices and the timing of our receipt of commission reports from health insurance carriers.

The timing of our revenue depends upon the timing of our receipt of commission reports and associated payments from health insurance carriers. Although carriers typically report and pay commissions to us on a monthly basis, there have been instances where their report of commissions and payment have been delayed, such as during holiday periods. Any delay could materially impact our financial results for a given quarter as we would not be able to recognize the related commission revenue in that quarter. In addition, much of our commission override revenue is not reported and paid to us in accordance with a scheduled pattern, and some is only reported and paid to us once per year. This could result in a large amount of commission revenue from a carrier being recorded in a given quarter that is not indicative of the amount of revenue we may receive from that carrier in subsequent quarters, causing fluctuations in our operating results. We could report revenue below the expectations of our investors or securities analysts in any particular period if a material report or payment from a health insurance carrier were delayed or not received within the time frame required for revenue recognition.

We may be unsuccessful in competing effectively against current and future competitors.

The market for selling health insurance products is intensely competitive and the sale of health insurance over the Internet is new and rapidly evolving. Consumers have the ability to use several sources other than our ecommerce platform to research and purchase health insurance. In addition, consumers can research health insurance using our ecommerce platform and purchase their health insurance through one of our competitors. We compete directly with health insurance

carriers, including many of the carriers that offer health insurance through our ecommerce platform. Many carriers market and sell their health insurance plans, including those that are offered on our ecommerce platform, directly to consumers using call centers, their own websites and other means.

We also compete with a large number of local insurance agents across the United States that sell health insurance products in their local communities. Some of these traditional insurance agents utilize the Internet in various ways to acquire their customers. For instance, some local agents use lead aggregator services that use websites, Internet search engines and other forms of online advertising to find consumers interested in purchasing health insurance and are compensated for referring those consumers to the traditional agent. We compete with lead aggregators for these consumers, and some lead aggregators have begun to use quoting and plan comparison tools similar to ours. In addition, a number of traditional agents operate websites that provide some form of online shopping experience for consumers interested in purchasing health insurance. Although some of these online agents only sell health insurance in a limited number of states and/or represent only a limited number of health insurance carriers, these agents could expand their service area and product offerings.

We may not be able to compete successfully against our current or future competitors. Some of our current and potential competitors have longer operating histories, larger customer bases, greater brand recognition and significantly greater financial, technical, marketing and other resources than we do. As compared to us, our current and future competitors may be able to:

- undertake more extensive marketing campaigns for their brands and services;
- devote more resources to website and systems development;
- negotiate more favorable commission rates and commission override payments; and
- make more attractive offers to potential employees, marketing partners and third-party service providers.

Competitive pressures may result in our experiencing increased marketing costs, decreased traffic to our website and loss of market share, or may otherwise harm our business, operating results and financial condition.

There are many risks associated with our operations in China.

A portion of our operations is conducted in China. Among other things, we use employees in China to maintain and update our ecommerce platform. This and other information is delivered to us through secured communications over the Internet. Our business would be harmed if this connection temporarily failed, and we were prevented from promptly updating our software or implementing other changes to our database and systems. Our operations in China also expose us to different and unfamiliar laws, rules and regulations, including different intellectual property laws, which are not as protective of our intellectual property as the laws in the United States, and different labor and tax laws. United States and Chinese trade laws may impose restrictions on the importation of programming or technology to or from the United States. These risks could cause us to incur increased expenses and could harm our ability to effectively and successfully manage our operations in China, which in turn could cause our business, operating results and financial condition to suffer. We plan to continue to expand our Chinese operations. These plans will require additional management attention and resources and may be unsuccessful, as we have limited experience with respect to operations in China.

In addition, our subsidiary in China has a subsidiary business insurance agency license in the Fujian province in China pursuant to which we are piloting the sale of health, accident and life insurance in the Fujian province. Our license is up for renewal at the end of 2011. We also have entered into a relationship with a local insurance agency outside the Fujian province in Shanghai, China, pursuant to which we offer the local insurance agency s insurance products in Shanghai on our website in our capacity as a technology service provider. We have recently entered into similar relationships with insurance companies to offer certain of those companies products throughout China. Additionally, we may enter into relationships with marketing partners to refer additional consumers to our website. We have no prior experience marketing or selling insurance in China or in adapting our business and ecommerce platform to Chinese markets and cultures, legal and regulatory regimes or business customs. For instance, the laws and regulations applicable to our marketing and selling insurance online and assisting others in those efforts in China are unclear, and our operations may be in violation of them. The consequences of violating insurance and other applicable laws and regulations in China are unclear, but they could result in the termination of our license and our ability to host insurance products on our

technology platform, payment of fines and damages and could harm our business as a whole. For various reasons, we may not expand in China, and even if we do, there can be no assurance that our ecommerce platform in China would ever generate a significant amount of revenue or otherwise be successful. Our success in establishing an insurance-related business in China is dependent upon many of the factors that influence the success of our business in the United States, including, but not limited to, our receiving regulatory approvals (including the renewal of our license), acceptance of the Internet and our ecommerce

platform as a marketplace for the purchase of insurance, our success in marketing our ecommerce platform and in retaining members who purchase insurance through that platform, our ability to enter into and maintain relationships with insurance carriers, commission rates, the affordability of the insurance products offered, insurance carrier business practices, the effectiveness with which we establish a brand identity, performance, reliability and availability of our ecommerce platform, competition, the regulatory and healthcare reimbursement environment and changes to the environment, our ability to attract qualified personnel and network security.

Our participation and success in the China market may be impacted by additional factors given that outside of Xiamen city, the insurance products offered on our website are offered directly by insurance carriers or through another insurance agent, including our dependence on insurance carriers or the insurance agent for the products on our website, the agent s relationship with insurance carriers and consumers, our relationship with the insurance carriers and agent, each of the agent s and the insurance carriers ability to maintain licenses and regulatory approvals, and the number, quality and attractiveness of the insurance products offered by the agent and the insurance carrier through our platform. While there is no certainty that we would be able to expand our presence in the insurance industry in China, we may attempt to do so. If we decide to do so, we may need to receive additional government licenses and approvals or enter into additional relationships and may face disadvantages in doing so as a result of our subsidiary in China being wholly foreign owned.

Our rate of growth may decline if we are unable to increase our revenue relating to sponsorship advertising.

We sell advertising space to health insurance carriers on our website through our sponsorship advertising program. Our sponsorship advertising program allows carriers to purchase advertising space in specific markets in a sponsorship area on our website. If we do not continue to grow our revenue from the sale of sponsorship advertising, or if our rate of growth declines, our business, operational results and financial condition may be harmed. Current economic conditions have adversely impacted the advertising industry in general. To the extent that they impact the amount health insurance carriers are willing to pay for advertising on our ecommerce platform, our sponsorship advertising program will be adversely impacted. The success of our sponsorship advertising program is dependent upon a number of other factors, including the effectiveness of the sponsorship advertising program as a cost-effective method for carriers to obtain additional members, consumer and health insurance carrier adoption of the Internet and our ecommerce platform as a medium for the purchase and sale of health insurance, our ability to attract consumers visiting our ecommerce platform and convert those consumers into members, the existence of a relationship between us and a diverse group of carriers that offer a number of health insurance plans in the markets in which we attempt to sell sponsorship advertising, the cost and other features of the health insurance product that is the subject of the sponsorship advertising, the impact the sponsorship advertising has on the sale of the health insurance product that is the subject of the advertising and the effectiveness of the carrier s other means of advertising. In addition, while our practice of selling sponsorship advertising is described on our ecommerce platform, it could cause consumers to perceive us as not objective, which could harm our brand and result in a decline in our health insurance sales. It also could adversely impact our relationship with health insurance carriers that do not purchase our sponsorship advertising. As a result, our business, operating results and financial condition could be harmed.

We may not be successful in licensing our ecommerce technology to health insurance carriers and other third parties.

We license the use of our ecommerce technology to health insurance carriers and agents. Carriers use our platform to offer their own health insurance policies on their websites, and agents use it to power their quoting and online content. If we do not continue to grow our revenue from the license of our technology, or if the rate of growth declines, our business, operating results and financial condition may be harmed. The business of licensing the use of our technology to others could facilitate carrier and other third party competition with us in the sale of health insurance over the Internet and is subject to a number of additional risks and uncertainties, including consumer and health insurance carrier adoption of our ecommerce platform as a medium for the purchase and sale of health insurance, our ability to establish relationships with new health insurance carriers, the reliability and performance of our ecommerce platform and the relative cost of developing competing technology. If we are not able to offer health insurance carriers and other third parties a reliable platform to cost-efficiently offer their products over the Internet, our technology licensing business will be unsuccessful.

Our HSA platform may not be successful.

We have developed a beta version of the business health savings account (HSA) platform to facilitate employer contributions to employee HSAs. We have entered into a relationship with a third party that helped to develop and assists in administering the HSA component of the platform, including its HSA bank account component. This third party has the relationship with one or more banks that may act as custodian of the HSAs established in connection with the platform. The success of the business HSA platform will depend upon a number of factors, including the attractiveness of the platform to

businesses and employees; our effectiveness in engaging partners, such as associations, banks and other financial services partners, to market the platform; our ability to otherwise successfully market the platform and make it understandable and easy to navigate; our ability to maintain an effective relationship with the third party that assists in administering the HSA component of the platform; our ability and this third party s ability to maintain a relationship with a bank that acts as custodian for the HSAs opened using the platform; our ability to enter into and maintain a relationship with a bank that will act as processor for the debit cards that relate to the HSAs opened using the platform; the ability of the third party and a bank to successfully manage and operate the HSA aspects of the platform; our ability and the ability of the third party and relevant bank to avoid process breakdowns, malfunctions, technical difficulties and bugs in the platform; the performance, reliability and availability of the platform and our success in training our customer care center representatives to adequately serve consumers desiring assistance with respect to HSAs. We are dependent upon third parties to operate the platform, and the platform s success depends in part on our ability to maintain effective relationships with those parties as well as their allocation of sufficient resources and commitment to develop the platform within certain timeframes.

The insurance, banking and other laws and regulations applicable to the platform are complicated and in some cases unclear. For example, it is possible that certain states could take the position that the platform or marketing individual insurance into businesses violates certain laws and regulations, including those relating to the sale of insurance to small businesses. The HSA platform also increases our potential exposure under laws and regulations relating to privacy and security as we have access to certain financial and confidential information of consumers using the platform. In light of legal and regulatory risks, we may determine not to launch the platform in certain states. Regardless, we could be subject to adverse legal and regulatory action in any state from departments of insurance and otherwise and may need to cease offering the platform in those states. If the business HSA platform is not successful, our business and operating results could be harmed and our rate of growth may decline.

We may not be able to adequately protect our intellectual property, which could harm our business and operating results.

We believe that our intellectual property is an essential asset of our business and that our technology infrastructure currently gives us a competitive advantage in the distribution of individual, family and small business health insurance. We rely on a combination of copyright, trademark and trade secret laws as well as confidentiality procedures and contractual provisions to establish and protect our intellectual property rights in the United States. Although we have pending patent applications in the United States, they may not result in issued patents. We have not filed for protection of our intellectual property in any foreign jurisdiction other than China. We have Chinese-registered computer software copyrights for an internally-developed software system and a project management tool and have filed certain trademark applications in China. We have not filed any patent applications in China. The efforts we have taken to protect our intellectual property may not be sufficient or effective, and our trademarks, copyrights and patents if issued, may be held invalid or unenforceable. Moreover, the law relating to intellectual property is not as developed in China, and our intellectual property rights may not be as respected in China as they are in the United States. Any United States or other patents issued to us may not be sufficiently broad to protect our proprietary technologies, and given the costs of obtaining patent protection, we may choose not to seek patent protection for certain of our proprietary technologies. We may not be effective in policing unauthorized use of our intellectual property, and even if we do detect violations, litigation may be necessary to enforce our intellectual property rights. Any enforcement efforts we undertake, including litigation, could be time-consuming and expensive, could divert our management s attention and may result in a court determining that our intellectual property rights are unenforceable. If we are not successful in cost-effectively protecting our intellectual property rights, our business, operating results and financial condition could be harmed.

We may in the future be subject to intellectual property rights claims, which are extremely costly to defend, could require us to pay significant damages and could limit our ability to use certain technologies in the future.

Companies in the Internet and technology industries own large numbers of patents, copyrights, trademarks and trade secrets and frequently enter into litigation based on allegations of infringement or other violations of intellectual property rights. We have received, and may in the future receive, notices that claim we have misappropriated or misused other parties intellectual property rights, and, to the extent we gain greater visibility, we face a higher risk of being the subject of intellectual property infringement claims. There may be third-party intellectual property rights, including issued or pending patents, that cover significant aspects of our technologies or business methods. Any intellectual property claim against us, with or without merit, could be time consuming, expensive to settle or litigate and could divert our management s attention and other resources. These claims also could subject us to significant liability for damages and could result in our having to stop using technology found to be in violation of a third party s rights. We might be required to seek a license for third-party intellectual property, which may not be available on reasonable terms or at all. Even if a license is available, we could be required to pay significant royalties, which would increase our operating expenses. We may also be required to develop

alternative non-infringing technology, which could require significant effort and expense. If we cannot license or develop technology for any infringing aspect of our business, we would be forced to limit our services and may be unable to compete effectively. Any of these results would harm our business, operating results and financial condition.

Any legal liability, regulatory penalties, or negative publicity for the information on our website or that we distribute will likely harm our business and operating results.

Our members rely upon information we provide on our website, through our customer care center or otherwise regarding the health insurance plans offered on our website, including information relating to insurance premiums, coverage, benefits, exclusions, limitations, availability, plan comparisons and insurance company ratings. A significant amount of both automated and manual effort is required to maintain the considerable amount of insurance plan information on our website. Separately, from time to time, we use the information provided on our website and otherwise collected by us to publish reports designed to educate consumers, facilitate public debate, and effectuate reform at the state and federal level relating to the accessibility and affordability of health insurance. If the information we provide on our website, through our customer care center or otherwise is not accurate or is construed as misleading, members, health insurance carriers and others could attempt to hold us liable for damages, and state regulators could attempt to subject us to penalties, revoke our license to transact health insurance business in a particular jurisdiction, and/or compromise the status of our licenses to transact health insurance business in other jurisdictions. In the ordinary course of operating our business, we have received complaints that the information we provided was not accurate or was misleading. Although in the past we have resolved these complaints without significant financial cost, we cannot guarantee that we will be able to do so in the future. In addition, these types of claims could be time-consuming and expensive to defend, could divert our management s attention and other resources, and could cause a loss of confidence in our services. As a result, whether or not we are able to successfully resolve these claims, they could harm our business, operating results and financial condition.

In the ordinary course of our business, we have received and may continue to receive inquiries from state regulators relating to various matters. We have become, and may in the future become, involved in litigation in the ordinary course of our business. If we are found to have violated laws or regulations in any state, we could be subject to various fines and penalties, including revocation of our license to sell insurance in that state (which could impact our licenses in other jurisdictions), and our business and financial results would be harmed. We would also be harmed to the extent that related publicity damages our reputation as a trusted source of objective information relating to health insurance and its affordability. It could also be costly to defend ourselves regardless of the outcome.

Our ability to attract and retain qualified personnel is critical to our success.

Our success is dependent upon the performance of our senior management and key personnel. Our management and employees can terminate their employment at any time, and the loss of the services of any of our executive officers or key employees could harm our business. For example, we are required to appoint a single writing agent with each insurance carrier with which we have a relationship in every state. Currently, a single part-time employee acts as writing agent with respect to some carriers with which we have a relationship; however, we are in the process of transferring the duties of writing agent for those carriers to an existing executive officer and appointing a back-up writing agent. If we lose the service of our appointed writing agent, the duties of writing agent will need to be transitioned to other company personnel. Due to our national reach and the large number of carrier partners whose policies are purchased by our members, this transition may be difficult and requires a significant period of time to complete, even if we have a back-up writing agent. If the transition is not successful or takes too long to complete, our agency relationship with particular insurance carriers may be terminated, our commission payments could be discontinued or delayed and, as a result, our business and operating results would be harmed. Our success is also dependent upon our ability to attract additional personnel for all areas of our organization. We may not be successful in attracting and retaining personnel on a timely basis, on competitive terms or at all. If we are unable to attract and retain the necessary personnel, our business would be harmed.

Most of our senior management and key employees have sold shares of our common stock in the open market, and some have sold a significant portion of their vested holdings. These employees may be more likely to leave us given that they have liquidated some or a substantial percentage of their holdings. Our senior management and key employees work for us on an at-will basis and our business could be harmed if we lose their services.

If we fail to manage future growth effectively, our business and operating results would be harmed.

We have expanded our operations significantly and anticipate that further expansion will be required in order for us to grow our business. Our growth has placed, and if our growth continues will continue to place, increasing and significant demands on our management, our operational and financial systems and infrastructure and our other resources. If we do not

effectively manage our growth, the quality of our services could suffer, which could harm our business, operating results and financial condition. In order to manage future growth, we will need to hire, integrate and retain highly skilled and motivated employees. We will also be required to continue to improve our existing systems for operational and financial management, including our reporting systems, procedures and controls. These improvements may require significant capital expenditures and will place increasing demands on our management. We may not be successful in managing or expanding our operations or in maintaining adequate financial and operating systems and controls. If we do not successfully implement improvements in these areas, our business, operating results and financial condition will be harmed.

Seasonality may cause fluctuations in our financial results.

The number of 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 submitted applications in our second quarter compared to our first quarter and in our fourth quarter compared to our third quarter. Since a significant portion of our marketing and advertising expenses are driven by the number of health insurance applications submitted on our ecommerce platform, those expenses are influenced by these patterns. The reasons for these seasonal patterns are not entirely clear. As the use of the Internet for the purchase and sale of health insurance becomes more widely accepted and our business matures, other seasonality trends may develop and the existing seasonality and consumer behavior that we experience may change. Any seasonality that we experience may cause fluctuations in our financial results.

Future acquisitions could disrupt our business and harm our financial condition and operating results.

We may decide to acquire businesses, products and technologies. Our ability as an organization to successfully make acquisitions is unproven. Acquisitions could require significant capital infusions and could involve many risks, including the following:

- an acquisition may negatively impact our results of operations because it may require us to incur charges and substantial debt or liabilities, may require the amortization, write down or impairment of amounts related to deferred compensation, goodwill and other intangible assets, or may cause adverse tax consequences, substantial depreciation or deferred compensation charges;

- an acquisition undertaken for strategic business purposes may negatively impact our results of operations;

- we may encounter difficulties in assimilating and integrating the business, technologies, products, personnel or operations of companies that we acquire, particularly if key personnel of the acquired company decide not to work for us;

- an acquisition may disrupt our ongoing business, divert resources, increase our expenses and distract our management;

- we may be required to implement or improve internal controls, procedures and policies appropriate for a public company at a business that prior to the acquisition lacked these controls, procedures and policies;

- the acquired businesses, products or technologies may not generate sufficient revenue to offset acquisition costs or to maintain our rate of growth;

- we may have to issue equity securities to complete an acquisition, which would dilute our stockholders ownership and could adversely affect the market price of our common stock; and

- acquisitions may involve the entry into geographic or business markets in which we have little or no prior experience.

We cannot assure you that we will be able to identify or consummate any future acquisition on favorable terms, or at all. If we do pursue an acquisition, it is possible that we may not realize the anticipated benefits from the acquisition or that the financial markets or investors will negatively view the acquisition. Even if we successfully complete an acquisition, it could harm our business, operating results and financial condition.

Issues arising from the implementation of our commission accounting system and an enterprise data management system could affect our operating results and ability to manage our business effectively.

We have completed implementation of our commission accounting system for the majority of our health insurance products. In addition, we are in the initial stages of implementing an enterprise data management system. Each of these systems is or will be important to our accounting, financial and operating functions, and the implementation of these

systems raises costs and risks associated with the conversion to new systems, including disruption to our normal accounting procedures and problems achieving accuracy in the conversion of electronic data. Failure to properly or adequately address these issues could result in increased costs and the diversion of management s attention and resources and could harm our operating results and ability to manage our business effectively.

If we fail to maintain proper and effective internal controls, our ability to produce accurate financial statements could be impaired, which could adversely affect our operating results, our ability to operate our business and our stock price.

We have a complex business organization. Ensuring that we have adequate internal financial and accounting controls and procedures in place to help ensure that we can produce accurate financial statements on a timely basis is a costly and time-consuming effort that needs to be re-evaluated frequently. During 2007, we completed the initial documentation of our internal controls and procedures in connection with Section 404 of the Sarbanes-Oxley Act of 2002. Our management, including our chief executive officer and chief financial officer, does not expect that our internal control over financial reporting will prevent all errors or all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system s objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. Over time, controls may become inadequate because changes in conditions or deterioration in the degree of compliance with policies or procedures may occur. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

As a result, we cannot assure that significant deficiencies or material weaknesses in our internal control over financial reporting will not be identified in the future. Any failure to maintain or implement required new or improved controls, or any difficulties we encounter in their implementation, could result in significant deficiencies or material weaknesses, cause us to fail to timely meet our periodic reporting obligations, or result in material misstatements in our financial statements. Any such failure could also adversely affect the results of periodic management evaluations and annual auditor attestation reports regarding disclosure controls and the effectiveness of our internal control over financial reporting required under Section 404 of the Sarbanes-Oxley Act of 2002 and the rules promulgated thereunder. The existence of a material weakness could result in errors in our financial statements that could result in a restatement of financial statements, cause us to fail to timely meet our reporting obligations and cause investors to lose confidence in our reported financial information, leading to a decline in our stock price and potential lawsuits against us.

Changes in our provision for income taxes or adverse outcomes resulting from examination of our income or other tax returns could adversely affect our results.

Our provision for income taxes is subject to volatility and could be adversely affected by earnings differing materially from our projections; by changes in the valuation of our deferred tax assets and liabilities; by expiration of or lapses in the research and development tax credit laws; by tax effects of share-based compensation; or by changes in tax laws, regulations, accounting principles, including accounting for uncertain tax positions, or interpretations thereof. For instance, on September 23, 2008, the state of California approved budget legislation which substantially limits the utilization of net operating losses and tax credits. The new law does not affect the amount of net operating losses and tax credits that we expect to ultimately use to offset future California taxes, but limits the amount we can utilize in 2008 and 2009, resulting in an increase in cash taxes in those years. Since the majority of our state taxes are in California, where our headquarters are located, we expect that our cash outlay for federal and state taxes will increase for the year ending December 31, 2009 compared to 2008, primarily as a result of this new law.

Significant judgment is required to determine the recognition and measurement attribute prescribed in Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), which we adopted on January 1, 2007. In addition, FIN 48 applies to all income tax positions, including the potential recovery of previously paid taxes, which if settled unfavorably could adversely impact our provision for income taxes or additional paid-in capital. In addition, we are subject to examinations of our income tax returns by the Internal Revenue Service and other tax authorities. We assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes. There may be exposure that the outcomes from these examinations will have an adverse effect on our operating results and financial condition.

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Any expansion of our business into foreign countries involves significant risks.

We currently do not sell health insurance or license our technology platform outside the United States other than in China. We may attempt to expand aspects of our business to additional geographic regions. We face significant challenges in connection with expanding our business into any foreign country, since we have no prior experience marketing or selling insurance in any foreign jurisdiction. Additionally, demand for private health insurance is not significant in many foreign countries as a result of government-sponsored healthcare systems. In addition to facing many of the same challenges we face domestically, we also would have to overcome other obstacles such as:

- legal, political or systemic restrictions on the ability of United States companies to market insurance or otherwise do business in foreign countries;
- varied, unfamiliar and unclear legal and regulatory restrictions;
- less extensive adoption of the Internet as a commerce medium or information source and increased restriction on the content of websites; and
- the adaptation of our website and distribution model to fit the particular foreign country.

As a result of these obstacles, we may find it impossible or prohibitively expensive to expand our services internationally or we may be unsuccessful should we attempt to do so, either of which could harm our business, operating results and financial condition.

Risks Related to Insurance Regulation

Regulation of the sale of health insurance is subject to change, and future regulations could harm our business and operating results.

The laws and regulations governing the offer, sale and purchase of health insurance are subject to change, and future changes may be adverse to our business. For example, once health insurance pricing is set by the carrier and approved by state regulators, it is fixed and not generally subject to negotiation or discounting by insurance companies or agents. Additionally, state regulations generally prohibit carriers, agents and brokers from providing financial incentives, such as rebates, to their members in connection with the sale of health insurance. As a result, we do not currently compete with carriers or other agents and brokers on the price of the health insurance products offered on our website. If these regulations change, we could be forced to reduce prices or provide rebates or other incentives for the health insurance products sold through our ecommerce platform, which would harm our business, operating results and financial condition.

Another example of a potentially adverse regulatory change relates to the adoption of guaranteed issue laws and regulations in the individual and family health insurance markets. These requirements, which are currently in effect in a limited number of states such as Massachusetts, New Jersey and New York, prohibit health insurance carriers from denying health insurance coverage to individuals based on their health status. It has been our experience that substantially fewer health insurance carriers offer plans in the individual and family health insurance market in states with guaranteed issue regulations in effect compared to others. Moreover, health insurance carriers that do offer individual and family plans may charge substantially increased premiums and/or pay reduced commissions to agents. We believe that limited choice and high premiums result in less demand for individual and family health insurance plans which, when coupled with reduced commissions to agents, results in substantially less revenue for us. Our business, operating results and financial condition would be harmed if the adoption of guaranteed issue laws or regulations becomes more widespread and results in less demand and/or reduced commissions.

In some states, guaranteed issue laws have or could be coupled with related measures that may impact our business. For example, a previous proposal in California included a combination of a number of items, including a guaranteed issue component, a mandate that requires all individuals to purchase or otherwise obtain health insurance and a requirement that health insurance carriers spend 85% or more of premium revenue on patient care. The impact of such reforms on our business is unclear. If they are implemented, they could materially harm our business, operating results and financial condition. In addition, speculation regarding healthcare reform or potential changes in the regulatory environment in which we operate creates uncertainty that could lead to increased volatility and a reduction in our stock price.

We are also subject to additional insurance regulatory risks, because we use the Internet as our distribution platform. In many cases, it is not clear how existing insurance laws and regulations apply to Internet-related health insurance advertisements and transactions. To the extent that new laws or regulations are adopted that conflict with the way we conduct our business, or to the extent that existing laws and regulations are interpreted adversely to us, our business, operating results and financial condition would be harmed.

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Compliance with the strict regulatory environment applicable to the health insurance industry and the specific products we sell is difficult and costly. If we fail to comply with the numerous laws and regulations that are applicable to our business, our business and operating results would be harmed.

The health insurance industry is heavily regulated by each state in the United States. For instance, state regulators require us to maintain a valid license in each state in which we transact health insurance business and further require that we adhere to sales, documentation and administration practices specific to that state. In addition, each employee who transacts health insurance business on our behalf must maintain a valid license in one or more states. Because we do business in all 50 states and the District of Columbia, compliance with health insurance-related laws, rules and regulations is difficult and imposes significant costs on our business. Each jurisdiction s insurance department typically has the power, among other things, to:

- grant and revoke licenses to transact insurance business;
- conduct inquiries into the insurance-related activities and conduct of agents and agencies;
- require and regulate disclosure in connection with the sale and solicitation of health insurance;
- authorize how, by which personnel and under what circumstances insurance premiums can be quoted and published and an insurance policy sold;
- approve which entities can be paid commissions from carriers;
- regulate the content of insurance-related advertisements, including web pages;
- approve policy forms, require specific benefits and benefit levels and regulate premium rates;
- impose fines and other penalties; and
- impose continuing education requirements.

Due to the complexity, periodic modification and differing interpretations of insurance laws and regulations, we may not have always been, and we may not always be, in compliance with them. New insurance laws and regulations also may not be compatible with the sale of health insurance over the Internet or with various aspects of our platform, including electronic signature or our EPI or eApproval technology as a whole. We would face increased legal and regulatory risks in this regard if we were to pursue opportunities to sell products in segments of the health insurance market in which we do not currently operate, such as Medicare or limited benefit products. Failure to comply with insurance laws and regulations or other laws and regulations applicable to or business could result in significant liability, additional department of insurance licensing requirements or the revocation of licenses in a particular jurisdiction, which could significantly increase our operating expenses, prevent us from transacting health insurance business in a particular jurisdiction and otherwise harm our business, operating results and financial condition. Moreover, an adverse regulatory action in one jurisdiction could result in penalties and adversely affect our license status or reputation in other jurisdictions due to the requirement that adverse regulatory actions in one jurisdiction be reported to other jurisdictions. Even if the allegations in any regulatory or other action against us are proven false, any surrounding negative publicity could harm consumer, marketing partner or health insurance carrier confidence in us, which could significantly damage our brand. Because some consumers, marketing partners and health insurance carriers may not be comfortable with the concept of purchasing health insurance using the Internet, any negative publicity may affect us more than it would others in the health insurance industry and would harm our business, operating results and financial condition. Changes in insurance laws and regulations may also require that we make significant modifications to our

existing technology or practices, which may be costly and time-consuming to implement and could also harm our business, operating results and financial condition.

In addition, we have received, and may in the future receive, inquiries from state insurance regulators regarding our marketing and business practices. We typically respond by explaining how we believe we are in compliance with relevant regulations or may modify our practices in connection with the inquiry. Any modification of our marketing or business practices in response to future regulatory inquiries could harm our business, operating results or financial condition.

Risks Related to the Internet and Electronic Commerce

Our business is subject to online commerce security risks and, if we are unable to safeguard the security and privacy of confidential data, our business will be harmed.

Our services involve the collection and storage of confidential information of consumers and the transmission of this information to their chosen health insurance carriers. For example, we collect names, addresses, Social Security and credit card numbers, and information regarding the medical history of consumers in connection with their applications for health

insurance. We cannot guarantee that we will be free of security breaches. We may be required to expend significant capital and other resources to protect against security breaches or to alleviate problems caused by security breaches. Despite our implementation of security measures, techniques used to obtain unauthorized access or to sabotage systems change frequently. As a result, we may be unable to anticipate these techniques or to implement adequate preventative measures. Any compromise or perceived compromise of our security could damage our reputation and our relationship with our members, marketing partners and health insurance carriers, could reduce demand for our services and could subject us to significant liability as well as regulatory action, which would harm our business, operating results and financial condition. In addition, in the event that data security laws are implemented, or our health insurance carrier or other partners determine to impose new requirements on us relating to data security, we may not be able to timely comply with such requirements or such requirements may not be compatible with our current processes. Changing our processes could be time consuming and expensive, and failure to timely implement required changes could result in our inability to sell health insurance products in a particular jurisdiction or for a particular health insurance carrier or subject us to liability for noncompliance, any of which would damage our business, operating results and financial condition.

Government regulation of the Internet could adversely affect our business.

The laws governing general commerce on the Internet remain unsettled and it may take years to fully determine whether and how existing laws such as those governing intellectual property, privacy and taxation apply to the Internet. In addition, the growth and development of the market for electronic commerce may prompt calls for more stringent consumer protection laws that may impose additional burdens on companies conducting business over the Internet. Any new laws or regulations or new interpretations of existing laws or regulations relating to the Internet could harm our business and we could be forced to incur substantial costs in order to comply with them, which would harm our business, operating results and financial condition.

Our business could be harmed if we are unable to correspond with our consumers or market the availability of our ecommerce platform by email.

We use email to market our services to potential members and as the primary means of communicating with our existing members. The laws and regulations governing the use of email for marketing purposes continue to evolve and the growth and development of the market for commerce over the Internet may lead to the adoption of additional legislation. If new laws or regulations are adopted, or existing laws and regulations are interpreted, to impose additional restrictions on our ability to send email to our members or potential members, we may not be able to communicate with them in a cost-effective manner. In addition to legal restrictions on the use of email, Internet service providers and others attempt to block the transmission of unsolicited email, commonly known as spam. If an Internet service provider or software program identifies email from us as spam, we can be placed on a restricted list that will block our email to members or potential members who maintain email accounts with these Internet service providers or who use these software programs. If we are unable to communicate by email with our members and potential members as a result of legislation, blockage or otherwise, our business, operating results and financial condition would be harmed.

Consumers depend upon third-party service providers to access our website, and our business and operating results could be harmed as a result of technical difficulties experienced by these service providers.

Consumers using our website depend upon Internet, online and other service providers for access to our website. Many of these service providers have experienced significant outages, delays and other difficulties in the past and could experience them in the future. Any significant interruption in access to our website or increase in our website s response time as a result of these difficulties could damage our relationship with insurance carriers, marketing partners and existing and potential members and could harm our business, operating results and financial condition.

Risks Related to the Ownership of Our Common Stock

The trading price of our common stock may be subject to significant fluctuations and volatility, and our stockholders may be unable to resell their shares at a profit.

The stock markets, in general, and the markets for high technology stocks in particular, have historically experienced high levels of volatility. The market for technology stocks has been extremely volatile and frequently reaches levels that bear no relationship to the past or present operating performance of those companies. These broad market fluctuations may adversely affect the trading price of our common stock. In addition, the trading price of our common stock has been subject to significant fluctuations and may continue to fluctuate or decline. Factors that could cause fluctuations in the trading price of our common stock include, but are not limited to, the following:

price and volume fluctuations in the overall stock market from time to time;

- significant volatility in the market price and trading volume of technology companies in general, and companies in our industry;
- actual or anticipated changes in our results of operations or fluctuations in our operating results;
- actual or anticipated changes in the expectations of investors or securities analysts, including changes in financial estimates or investment recommendations by securities analysts who follow our business and changes in perceptions relating to the economy;
- speculation in the press or investment community;
- technological advances or introduction of new products by us or our competitors;
- actual or anticipated developments in our competitors businesses or the competitive landscape generally;
- litigation involving us, our industry or both;
- actual or anticipated regulatory developments in the United States, foreign countries or both;
- major catastrophic events;
- announcements or developments relating to the economy;
- our sale of common stock or other securities in the future;
- the trading volume of our common stock, as well as sales of large blocks of our stock; or
- departures of key personnel.

These factors, as well as general economic and political conditions and the announcement of proposed and completed acquisitions or other significant transactions, or any difficulties associated with such transactions, by us or our strategic partners, customers or our current competitors, may materially adversely affect the market price of our common stock in the future. In the past, following periods of volatility in the market price of a company s securities, securities class action litigation has often been instituted against that company. Such litigation could result in substantial cost and a diversion of management s attention and resources. In addition, volatility, lack of positive performance in our stock price or changes to our overall compensation program, including our equity incentive program, may adversely affect our ability to retain key employees.

Certain provisions in our charter documents and Delaware law could discourage takeover attempts and lead to management entrenchment.

Our certificate of incorporation and bylaws contain provisions that could have the effect of delaying or preventing changes in control or changes in our management without the consent of our board of directors. These provisions include:

- a classified board of directors with three-year staggered terms, which may delay the ability of stockholders to change the membership of a majority of our board of directors;

- cumulative voting in the election of directors is prohibited, which limits the ability of minority stockholders to elect director candidates;

- the exclusive right of our board of directors to elect a director to fill a vacancy created by the expansion of the board of directors or the resignation, death or removal of a director, which prevents stockholders from being able to fill vacancies on our board of directors;

- the ability of our board of directors to determine to issue shares of preferred stock and to determine the price and other terms of those shares, including preferences and voting rights, without stockholder approval, which could be used to significantly dilute the ownership of a hostile acquiror;

- a prohibition on stockholder action by written consent, which forces stockholder action to be taken at an annual or special meeting of our stockholders;

- the requirement that a special meeting of stockholders may be called only by the chairman of the board of directors, the chief executive officer or the board of directors, which may delay the ability of our stockholders to force consideration of a proposal or to take action, including the removal of directors; and

- advance notice procedures that stockholders must comply with in order to nominate candidates to our board of directors or to propose matters to be acted upon at a stockholders meeting, which may discourage or deter a potential acquiror from conducting a solicitation of proxies to elect the acquiror s own slate of directors or otherwise attempting to obtain control of us.

We are also subject to certain anti-takeover provisions under Delaware law. Under Delaware law, a corporation may, in general, not engage in a business combination with any holder of 15% or more of its capital stock unless the holder has held the stock for three years or, among other things, the board of directors has approved the transaction.

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ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

At our Annual Meeting of Stockholders, held on June 9, 2009, our stockholders voted on the following proposals, all of which were adopted by the margins indicated below:

1. To elect three (3) Class III directors to serve for terms of three years and until their respective successors are duly elected and qualified, subject to earlier resignation or removal:

Name	Votes For	Votes Withheld
Gary L. Lauer	21,165,072	417,995
Steven M. Cakebread	21,527,173	55,894
Jack L. Oliver, III	21,072,812	510,255

2. To ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm for our fiscal year ending December 31, 2009:

For	21,335,398
Against	239,919
Abstain	7,750

3. To approve the eHealth, Inc. Performance Bonus Plan to permit the payment of cash bonuses that qualify as deductible performance-based compensation under Section 162(m) of the Internal Revenue Code of 1986, as amended:

For	21,110,795
Against	440,901
Abstain	31,371

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ITEM 6. EXHIBITS

(a) Exhibits

Except as so indicated in Exhibits 32.1 and 32.2, the following exhibits are filed as part of, or incorporated by reference into, this quarterly report.

Exhibit Number	Description of Exhibit
31.1	Certification of Gary L. Lauer, Chief Executive Officer of eHealth, Inc., pursuant to Exchange Act Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Stuart M. Huizinga, Chief Financial Officer of eHealth, Inc., pursuant to Exchange Act Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Gary L. Lauer, Chief Executive Officer of eHealth, Inc., pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Stuart M. Huizinga, Chief Financial Officer of eHealth, Inc., pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Filed herewith.

Furnished herewith.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized on the 7th day of August 2009.

/s/ Gary L. Lauer
Gary L. Lauer
Chief Executive Officer
(Duly Authorized Officer on Behalf of the Registrant)

/s/ Stuart M. Huizinga
Stuart M. Huizinga
Chief Financial Officer
(Principal Financial Officer)

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Filed herewith.
Furnished herewith.