VERTRUE INC
Form 10-Q
February 09, 2007

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 December 31, 2006

or

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from _______ to _______.

Commission File No. 0-21527

VERTRUE INCORPORATED
(Exact name of registrant as specified in its charter)

DELAWARE	06-1276882
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
20 Glover Avenue Norwalk, Connecticut	06850
(Address of principal executive offices)	(Zip Code)

(203) 324-7635
(Registrant's telephone number, including area code)

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer [ ] Accelerated filer [X] Non-accelerated filer [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [X]

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 9,697,000 shares of Common Stock, $0.01 par value as of February 2, 2007.

VERTRUE INCORPORATED
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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

VERTRUE INCORPORATED
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited)
(in thousands, except per share amounts)

	December 31, 2006	
Assets		
Current assets:		
Cash and cash equivalents	$ 57,969	$
Restricted cash	-	

Short-term investments	2,006
Accounts and notes receivable, net	33,057
Prepaid expenses	6,105
Deferred marketing costs	25,293
Other current assets	7,801
Total current assets	132,231
Fixed assets, net	36,741
Goodwill	260,326
Intangible assets, net	34,898
Other long-term assets	30,521
Total assets	$ 494,717
Liabilities and Shareholders' Equity (Deficit)	
Current liabilities:	
Current maturities of long-term obligations	$ 742
Accounts payable	37,513
Accrued liabilities	113,574
Deferred revenues	76,577
Deferred income taxes	12,268
Total current liabilities	240,674
Deferred income taxes	5,571
Long-term debt	238,075
Other long-term liabilities	9,472
Total liabilities	493,792
Commitments and contingencies (Note 6)	
Shareholders' equity (deficit):	
Preferred stock, $0.01 par value -- 1,000 shares authorized; no shares issued	-
Common stock, $0.01 par value -- 80,000 shares authorized; 20,269 shares issued (20,168 shares at June 30, 2006)	203
Capital in excess of par value	193,031
Retained earnings	83,753
Accumulated other comprehensive (loss) income	(342)
Treasury stock, 10,584 shares at cost (10,518 shares at June 30, 2006)	(275,720)
Total shareholders' equity (deficit)	925
Total liabilities and shareholders' equity (deficit)	$ 494,717

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

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VERTRUE INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)
(in thousands, except per share amounts)

	Three months ended December 31,		Six mo Dec
	2006	2005	2006
Revenues	$ 178,559	$ 160,130	$ 355,905
Expenses:			
Marketing	85,938	76,270	173,321
Operating	40,618	35,258	82,828
General and administrative	31,916	29,527	63,678
Amortization of intangible assets	2,121	2,197	4,160
Operating income	17,966	16,878	31,918
Interest income	1,432	699	2,928
Interest expense	(5,127)	(5,086)	(10,241
Other income (expense), net	300	(120)	495
Income before income taxes	14,571	12,371	25,100
Provision for income taxes	5,876	4,707	9,729
Net income	$ 8,695	$ 7,664	$ 15,371
Earnings per share:			
Basic	$ 0.90	$ 0.79	$ 1.59
Diluted	$ 0.74	$ 0.66	$ 1.33
Weighted average common shares used in earnings per share calculations:			
Basic	9,677	9,695	9,672
Diluted	12,694	12,776	12,706

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

VERTRUE INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)
(in thousands)

	Six months ended December 31,	
	2006	2005
Operating activities		

Net income	$ 15,371	$ 16,305
Adjustments to reconcile net income to net cash provided by operating activities:		
Change in deferred revenues	(8,901)	(10,611)
Change in deferred marketing costs	1,040	5,971
Depreciation and amortization	12,746	13,025
Stock-based compensation	2,378	2,250
Deferred and other income taxes	(781)	1,521
Excess tax benefit from stock-based compensation	(560)	(560)
Other	396	(243)
Changes in assets and liabilities:		
Restricted cash	2,699	(446)
Accounts and notes receivable	(15,043)	(6,319)
Prepaid expenses	3,238	(1,138)
Other assets	(2,476)	(942)
Accounts payable	(4,768)	(4,372)
Accrued and other liabilities	2,789	375
Net cash provided by operating activities	8,128	14,816
Investing activities		
Acquisition of fixed assets	(5,496)	(6,518)
Purchases of short-term investments	(11,016)	(50,325)
Proceeds from maturities of short-term investments	40,724	49,830
Acquisitions of businesses, net of cash acquired, and other	(9,766)	(14,942)
Net cash provided by (used in) investing activities	14,446	(21,955)
Financing activities		
Net proceeds from issuance of stock	2,103	2,729
Excess tax benefit from stock-based compensation	560	560
Treasury stock purchases	(2,762)	(5,995)
Debt issuance costs	(63)	-
Payments of long-term obligations	(231)	(392)
Net cash used in financing activities	(393)	(3,098)
Effect of exchange rate changes on cash and cash equivalents	(502)	457
Net increase (decrease) in cash and cash equivalents	21,679	(9,780)
Cash and cash equivalents at beginning of period	36,290	64,356
Cash and cash equivalents at end of period	$ 57,969	$ 54,576

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

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VERTRUE INCORPORATED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - NATURE OF BUSINESS
Vertrue Incorporated is a premier internet marketing services company. We operate a diverse group of marketing businesses that share a unified mission: to

provide every consumer with access to savings and services that improve their daily lives. Our members and customers have access to direct-to-consumer savings across our five vertical markets of healthcare, personal property, security/insurance, discounts, and personals, which are all offered online through a set of diverse marketing channels. Throughout this report, we refer to Vertrue Incorporated and its subsidiaries as the "Company", "we", "us", or "our".

NOTE 2 - BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and include the accounts of the Company, its wholly owned subsidiaries, and variable interest entities as required by Financial Accounting Standards Board ("FASB") Interpretation No. 46R, "Consolidation of Variable Interest Entities - an Interpretation of ARB No. 51." All significant intercompany accounts and transactions have been eliminated. Such statements do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair statement have been included. The year-end condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP. The preparation of these condensed consolidated financial statements in conformity with GAAP requires us to make estimates, judgments, and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Operating results for the three and six months ended December 31, 2006 are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2007. For further information, refer to the financial statements and footnotes thereto included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2006.

Certain prior year amounts have been reclassified to conform to the current year's presentation. Commencing in the second quarter of fiscal 2007, we began classifying our acquired website costs, which were previously included in fixed assets, net, in other long-term assets. Other long-term assets included $6.1 million and $2.9 million of acquired website costs, net at December 31, 2006 and June 30, 2006, respectively. This reclassification had no impact on results of operations or previously reported cash flows from operations or financing activities.

NOTE 3 - ACCOUNTS AND NOTES RECEIVABLE

Accounts and notes receivable, net at December 31, 2006 was $33.1 million and included $22.5 million of accounts receivable and $10.6 million of notes receivable. Accounts and notes receivable, net at December 31, 2005 was $21.0 million and included $14.0 million of accounts receivable and $7.0 million in notes receivable. As of December 31, 2006 and June 30, 2006, we recorded notes receivable of $14.8 million and $9.9 million, respectively, in other long-term assets.

We estimate an allowance for accounts and notes receivable based on an aging analysis, customer credit evaluations, collection history, and any specific, known troubled accounts. As of December 31, 2006 and June 30, 2006, we recorded $0.1 million of allowances for uncollectible accounts. As of December 31, 2006 and June 30, 2006, we recorded $7.4 million and $3.8 million, respectively, of allowances for uncollectible notes.

(continued)

NOTE 4 - GOODWILL AND OTHER INTANGIBLE ASSETS
The gross carrying value and accumulated amortization of goodwill and other intangible assets are as follows:

(Dollar amounts in thousands)	December 31, 2006 Gross Carrying Amount	December 31, 2006 Accumulated Amortization	June 30, Gross Carrying Amount	A A
Membership and client relationships	$ 41,315	$ 25,256	$ 40,215	$
Trade names	21,859	3,840	21,859	
Other	1,664	1,507	1,504	
Total amortizable intangible assets	$ 64,838	$ 30,603	$ 63,578	$
Amortizable intangible assets, net	$ 34,235		$ 37,135	

(Dollar amounts in thousands)	December 31, 2006	June 30, 2006
Goodwill	$ 260,326	$ 212,187
Intangible asset related to minimum pension liability	663	663

Future intangible amortization expense for the next five years is estimated to be as follows:

(Dollar amounts in thousands) Fiscal Year	
Remainder of 2007	$ 3,572
2008	4,808
2009	4,300
2010	3,170
2011	3,099

Changes in the carrying amount of goodwill by segment during the six months ended December 31, 2006 were as follows:

(Dollar amounts in thousands)	Marketing Services	Personals	Management Services	Total
Balance at beginning of period	$ 96,432	$ 81,508	$ 34,247	$ 212,1
Acquisition	-	2,864	-	2,8
Accrual of contingent purchase price payments	-	-	45,275	45,2
Balance at end of period	$ 96,432	$ 84,372	$ 79,522	$ 260,3

We acquired Mobile Lifestyles, Inc., an online provider of a variety of text alerts (i.e. daily horoscopes, jokes and relationship advice) and unlimited ringtones during the first quarter of fiscal 2007. In connection with this acquisition, we recorded goodwill of $2.9 million and intangible assets of $1.3 million. The net assets and results of operations of Mobile Lifestyles have been included in our Personals segment as of the date of the acquisition.

As of December 31, 2006, we recorded $45.3 million in accrued liabilities related to contingent payments, which were disclosed in previous quarterly filings, in connection with our My Choice Medical, Inc. acquisition, a business we acquired in fiscal 2005. This payment is expected to be paid during the fourth quarter of fiscal 2007.

NOTE 5 - ALLOWANCE FOR MEMBERSHIP CANCELLATIONS
Accrued liabilities reported in the accompanying unaudited condensed consolidated balance sheets as of December 31, 2006 and June 30, 2006 include an allowance for membership cancellations of $9.3 million.

NOTE 6 - COMMITMENTS AND CONTINGENCIES
We have an amended and restated senior secured credit facility dated as of March 17, 2006, which allows borrowings of up to $50.0 million. Borrowings under this senior secured credit facility accrue interest at the Eurodollar rate or Prime rate, plus an applicable margin. There were no borrowings outstanding under this senior secured credit facility as of December 31, 2006. This credit facility matures on March 31, 2009.

Contingent payments related to acquisitions of up to $51.7 million may be paid if certain performance targets, including increasing levels of revenues and earnings, are achieved. These contingent payments may be paid by the end of calendar 2007. Of the $51.7 million, we recorded $45.3 million during the second quarter of fiscal 2007 in accrued liabilities related to contingent payments from our My Choice Medical, Inc. acquisition. This payment is expected to be paid during the fourth quarter of fiscal 2007. Additional payments under the contingency arrangements will be considered additional purchase price.

As of December 31, 2006, we had outstanding purchase obligations of $5.5 million primarily related to marketing agreements and contracts for our software, equipment, and services. In addition, we had commitments of $54.3 million related to existing operating leases.

Legal proceedings
In our opinion, there are no significant legal proceedings to which we or any of our subsidiaries are a party or to which any of our properties are subject. We are involved in lawsuits and claims generally incidental to our business, including but not limited to various suits, including previously disclosed suits, brought against us by individual consumers seeking monetary and/or injunctive relief relating to the marketing of our programs. In addition, from time to time in the regular course of our business, we receive inquiries from various federal and/or state regulatory authorities.

NOTE 7 - INCOME TAX EXPENSE
Income tax expense as a percentage of pre-tax income was 40.3% and 38.0% for the three months ended December 31, 2006 and 2005, respectively, and 38.8% and 36.1% for the six months ended December 31, 2006 and 2005, respectively. The effective

tax rate was higher than the U.S. statutory rate for the three and six months ended December 31, 2006 and 2005, primarily due to non-deductible items and state income tax expense partially offset by the favorable impact of foreign operations

We are currently under examination by the Internal Revenue Service for the fiscal year ended June 30, 2005. No proposed adjustments or assessments have been issued.

In addition, we have open tax years in the U.S., Canada, and other jurisdictions. There are tax years that are not currently under examination by the applicable tax authorities but may be subject to examination in the future. The results of audits are inherently uncertain. We periodically evaluate the adequacy of our tax reserves, taking into account open tax return positions and tax law changes. We believe that out tax reserves are appropriate. However, the final determination of tax audits could have a material effect on our results of operations, financial position, and cash flow.

NOTE 8 - EARNINGS PER SHARE

The table below reconciles the numerators and denominators used in the computations of basic and diluted earnings per share:

	Three months ended December 31,	
(Amounts in thousands, except per share data)	2006	2005
Numerator:		
Income available to common shareholders used in basic earnings per share	$ 8,695	$ 7,664
Add back interest expense on convertible securities, net of tax	739	767
Income available to common shareholders after assumed conversion of dilutive securities	$ 9,434	$ 8,431
Denominator:		
Weighted average number of common shares outstanding - basic	9,677	9,695
Effect of dilutive securities:		
Convertible securities	2,230	2,230
Stock options	787	851
Weighted average number of common shares outstanding - diluted	12,694	12,776
Basic earnings per share	$ 0.90	$ 0.79
Diluted earnings per share	$ 0.74	$ 0.66

The diluted earnings per common share calculations exclude the effect of potentially dilutive shares when their effect is antidilutive. The following weighted average stock options and restricted stock awards were excluded from the diluted share calculation above:

	Three months ended December 31,	
(Shares in thousands)	2006	2005
Antidilutive stock options and restricted stock awards	511	581

NOTE 9 - COMPREHENSIVE INCOME
The components of comprehensive income are as follows:

	Three months ended December 31,		Six months ended December 31,	
(Dollar amounts in thousands)	2006	2005	2006	2005
Net income	$ 8,695	$ 7,664	$ 15,371	$ 16,305
Unrealized hedging (loss) gain	(21)	(404)	(31)	114
Currency translation adjustment	(456)	171	(525)	411
Comprehensive income	$ 8,218	$ 7,431	$ 14,815	$ 16,830

NOTE 10 - BUSINESS SEGMENTS
The operating business segments reported below are our reportable business segments for which separate financial information is available and for which operating results are evaluated regularly by our executive management in assessing performance and deciding how to allocate capital and other resources. We have three reportable business segments: Marketing Services, Personals, and Management Services. The Marketing Services business segment primarily provides discounted products and services to consumers and generates recurring, membership-based revenue. The Personals business segment provides web, phone, and mobile-based personals services and primarily generates transaction-based revenue. The Management Services business segment provides advertising and practice management services to healthcare professionals throughout the United States. The Corporate business unit includes unallocated general corporate expenses.

Management evaluates the operating results of each reportable business segment based on revenue and Adjusted EBITDA. The following is a summary of revenues, Adjusted EBITDA, capital expenditures, depreciation and amortization, and assets by business segment:

(Dollar amounts in thousands)	Three months ended December 31,		Six months ended December 31,	
Revenues	2006	2005	2006	2005
Marketing Services	$ 143,287	$ 134,479	$284,122	$266,327
Personals	23,873	18,664	46,538	37,233
Management Services	11,962	7,047	25,970	14,238
Intersegment	(563)	(60)	(725)	(140)
Total	$ 178,559	$ 160,130	$355,905	$317,658

	Three months ended December 31,		Six months ended December 31,	
	2006	2005	2006	2005
Adjusted EBITDA (1)				
Marketing Services	$ 26,282	$ 28,280	$ 43,738	$ 49,905
Personals	3,429	1,692	5,469	3,922
Management Services	538	395	2,751	983
Corporate	(7,874)	(6,377)	(15,750)	(12,456)
Total	$ 22,375	$ 23,990	$ 36,208	$ 42,354
Capital Expenditures (2)				
Marketing Services	$ 2,451	$ 4,435	$ 4,568	$ 5,980
Personals	459	229	668	482
Management Services	101	38	260	56
Corporate	-	-	-	-
Total	$ 3,011	$ 4,702	$ 5,496	$ 6,518
Depreciation and Amortization				
Marketing Services	$ 2,795	$ 3,078	$ 5,603	$ 6,348
Personals	2,446	2,396	4,902	4,751
Management Services	663	406	1,304	805
Corporate	181	282	342	556
Total	$ 6,085	$ 6,162	$ 12,151	$ 12,460

Assets	December 31, 2006	June 30, 2006
Marketing Services	$ 226,050	$ 214,083
Personals	132,278	124,571
Management Services	118,537	62,730
Corporate (3)	17,852	41,644
Total	$ 494,717	$ 443,028

VERTRUE INCORPORATED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(continued)

(1) Defined as net income excluding interest and other expense, net, provision for income taxes, depreciation and amortization and the changes in deferred revenue and deferred marketing costs. See reconciliations below.
(2) Management does not allocate capital expenditures to the Corporate business unit. Capital expenditures related to the Corporate business unit are included within the Marketing Services segment. However, the associated depreciation expense has been allocated for purposes of evaluating performance.
(3) Includes unallocated non-operating assets including short-term investments, debt issuance costs, and other.

The following tables reconcile Adjusted EBITDA to income before income taxes:

	Three months ended December 31, 2006				
(Dollar amounts in thousands)	Total	Marketing Services	Personals	Management Services	Corpo
Income before income taxes	$14,571				
Interest and other expense, net (1)	3,395				
Operating income (expense)	$ 17,966	$ 24,253	$ 1,726	$ 42	$ (8
Depreciation and amortization	6,085	2,795	2,446	663	
Change in deferred revenues	(1,102)	(631)	(304)	(167)	
Change in deferred marketing costs	(574)	(135)	(439)	-	
Adjusted EBITDA	$ 22,375	$ 26,282	$ 3,429	$ 538	$ (7

	Three months ended December 31, 2005				
	Total	Marketing Services	Personals	Management Services	Corpo
Income before income taxes	$ 12,371				
Interest and other expense, net (1)	4,507				
Operating income (expense)	$ 16,878	$ 24,071	$ (684)	$ 150	$ (6
Depreciation and amortization	6,162	3,078	2,396	406	
Change in deferred revenues	(1,031)	(850)	(20)	(161)	
Change in deferred marketing costs	1,981	1,981	-	-	
Adjusted EBITDA	$ 23,990	$ 28,280	$ 1,692	$ 395	$ (6

VERTRUE INCORPORATED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(continued)

(Dollar amounts in thousands)	Six months ended December 31, 2006 Total	Marketing Services	Personals	Management Services	Corpo
Income before income taxes	$ 25,100				
Interest and other expense, net (1)	6,818				
Operating income (expense)	$ 31,918	$ 44,651	$ 1,346	$ 2,013	$ (16
Depreciation and amortization	12,151	5,603	4,902	1,304	
Change in deferred revenues	(8,901)	(7,995)	(340)	(566)	
Change in deferred marketing costs	1,040	1,479	(439)	-	
Adjusted EBITDA	$ 36,208	$ 43,738	$ 5,469	$ 2,751	$ (15

	Six months ended December 31, 2005 Total	Marketing Services	Personals	Management Services	Corpo
Income before income taxes	$ 25,529				
Interest and other expense, net (1)	9,005				
Operating income (expense)	$ 34,534	$ 47,770	$ (744)	$ 520	$ (13
Depreciation and amortization	12,460	6,348	4,751	805	
Change in deferred revenues	(10,611)	(10,184)	(85)	(342)	
Change in deferred marketing costs	5,971	5,971	-	-	
Adjusted EBITDA	$ 42,354	$ 49,905	$ 3,922	$ 983	$ (12

(1) Management does not allocate interest and other expense, net to the individual segments.

NOTE 11 - GUARANTOR FINANCIAL INFORMATION

In April 2004, we issued $150.0 million aggregate principal amount of 9.25% Senior Notes due 2014. The Senior Notes are unsecured obligations and rank pari passu in right of payment to all our existing and future senior unsecured indebtedness and senior in right of payment to all of our existing and future subordinated indebtedness that expressly provides for its subordination to the Senior Notes. Effective April 28, 2006, the Senior Notes are fully and unconditionally guaranteed by substantially all of our subsidiaries that guarantee our Credit Facility (as defined in the Indenture governing the Senior Notes). All prior periods have been restated to conform to this presentation.

The following condensed consolidating financial information presents the balance sheets as of December 31, 2006 and June 30, 2006, statements of operations for the three and six months ended December 31, 2006 and 2005, and statements of cash flows for the six months ended December 31, 2006 and 2005. The information includes the elimination entries necessary to consolidate the Company ("Parent") with the guarantor entities.

Investments in subsidiaries are accounted for by the Parent using the equity method of accounting. The principal elimination entries eliminate investments in subsidiaries and intercompany balances and transactions.

VERTRUE INCORPORATED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(continued)

Condensed Consolidating Balance Sheets at December 31, 2006

(Dollar amounts in thousands)	Parent	Guarantor Subsidiaries	Eliminations	
Assets				
Current assets	$ 55,417	$ 122,453	$ (45,639)	$
Fixed assets, net	21,468	15,273	-	
Goodwill	-	260,326	-	
Intangible assets, net	663	34,235	-	
Other long-term assets	9,405	21,116	-	
Investment in subsidiaries	364,965	-	(364,965)	
Total assets	$ 451,918	$ 453,403	$(410,604)	$
Liabilities and Shareholders' Equity (Deficit)				
Current liabilities	$ 206,115	$ 80,198	$ (45,639)	$
Deferred income taxes	(1,579)	7,150	-	
Long-term debt	238,075	-	-	
Other long-term liabilities	8,382	1,090	-	
Total liabilities	450,993	88,438	(45,639)	
Shareholders' equity (deficit):				
Preferred stock	-	-		
Common stock	203	3	(3)	
Capital in excess of par value	193,031	324,033	(324,033)	
Retained earnings	83,753	41,178	(41,178)	
Accumulated other comprehensive (loss) income	(342)	(249)	249	
Treasury stock	(275,720)	-	-	
Total shareholders' equity (deficit)	925	364,965	(364,965)	
Total liabilities and shareholders' equity (deficit)	$ 451,918	$ 453,403	$(410,604)	$

VERTRUE INCORPORATED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(continued)

Condensed Consolidating Balance Sheets at June 30, 2006

(Dollar amounts in thousands)	Parent	Guarantor Subsidiaries	Eliminations	T
Assets				
Current assets	$ 37,724	$115,844	$ (21,545)	$
Fixed assets, net	22,403	15,255	-	
Goodwill	-	212,187	-	
Intangible assets, net	675	37,123	-	
Other long-term assets	10,334	13,028	-	
Investment in subsidiaries	308,919	-	(308,919)	
Total assets	$ 380,055	$393,437	$(330,464)	$
Liabilities and Shareholders' (Deficit) Equity				
Current liabilities	$ 149,958	$ 75,891	$ (21,545)	$
Deferred income taxes	(318)	7,238	-	
Long-term debt	237,984	-	-	
Other long-term liabilities	8,600	1,389	-	
Total liabilities	396,224	84,518	(21,545)	
Shareholders' (deficit) equity:				
Common stock	202	9	(9)	
Capital in excess of par value	187,991	278,751	(278,751)	
Retained earnings	68,382	29,890	(29,890)	
Accumulated other comprehensive income	214	269	(269)	
Treasury stock	(272,958)	-	-	(
Total shareholders' (deficit) equity	(16,169)	308,919	(308,919)	
Total liabilities and shareholders' (deficit) equity	$ 380,055	$393,437	$(330,464)	$

VERTRUE INCORPORATED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(continued)

Condensed Consolidating Statements of Operations for the Three Months Ended December 31, 2006

(Dollar amounts in thousands)	Parent	Guarantor Subsidiaries	Eliminations	Total
Revenues	$ 100,281	$ 82,423	$ (4,145)	$ 178,559
Expenses:				
Marketing	53,428	36,652	(4,142)	85,938
Operating	16,827	23,794	(3)	40,618

	Parent	Guarantor Subsidiaries	Eliminations	Total
General and administrative	19,303	12,613	-	31,916
Amortization of intangible assets	4	2,117	-	2,121
Operating income	10,719	7,247	-	17,966
Equity in income of subsidiaries	5,515	-	(5,515)	-
Interest (expense) income, net	(5,045)	1,350	-	(3,695)
Other (expense) income, net	(35)	335	-	300
Income before income taxes	11,154	8,932	(5,515)	14,571
Provision for income taxes	2,459	3,417	-	5,876
Net income	$ 8,695	$ 5,515	$ (5,515)	$ 8,695

Condensed Consolidating Statements of Operations For the Three Months Ended December 31, 2005

(Dollar amounts in thousands)	Parent	Guarantor Subsidiaries	Eliminations	Total
Revenues	$ 96,964	$ 67,700	$ (4,534)	$ 160,130
Expenses:				
Marketing	52,545	27,869	(4,144)	76,270
Operating	16,780	18,868	(390)	35,258
General and administrative	17,489	12,038	-	29,527
Amortization of intangible assets	9	2,188	-	2,197
Operating income	10,141	6,737	-	16,878
Equity in income of subsidiaries	4,413	-	(4,413)	-
Interest (expense) income, net	(4,787)	400	-	(4,387)
Other expense, net	(14)	(106)	-	(120)
Income before income taxes	9,753	7,031	(4,413)	12,371
Provision for income taxes	2,089	2,618	-	4,707
Net income	$ 7,664	$ 4,413	$ (4,413)	$ 7,664

Condensed Consolidating Statements of Operations for the Six Months Ended December 31, 2006

(Dollar amounts in thousands)	Parent	Guarantor Subsidiaries	Eliminations	Total
Revenues	$ 200,665	$ 164,575	$ (9,335)	$ 355,905
Expenses:				
Marketing	108,797	73,851	(9,327)	173,321
Operating	36,034	46,802	(8)	82,828
General and administrative	38,635	25,043	-	63,678
Amortization of intangible assets	13	4,147	-	4,160

Operating income	17,186	14,732	-	31,918
Equity in income of subsidiaries	11,288	-	(11,288)	-
Interest (expense) income, net	(10,055)	2,742	-	(7,313)
Other (expense) income, net	(35)	530	-	495
Income before income taxes	18,384	18,004	(11,288)	25,100
Provision for income taxes	3,013	6,716	-	9,729
Net income	$ 15,371	$ 11,288	$ (11,288)	$ 15,371

Condensed Consolidating Statements of Operations for the Six Months Ended December 31, 2005

(Dollar amounts in thousands)	Parent	Guarantor Subsidiaries	Eliminations	Total
Revenues	$193,773	$ 133,599	$ (9,714)	$ 317,658
Expenses:				
Marketing	103,781	55,466	(9,078)	150,169
Operating	34,055	36,922	(636)	70,341
General and administrative	34,283	23,698	-	57,981
Amortization of intangible assets	85	4,548	-	4,633
Operating income	21,569	12,965	-	34,534
Equity in income of subsidiaries	8,547	-	(8,547)	-
Interest (expense) income, net	(9,503)	662	-	(8,841)
Other income (expense), net	10	(174)	-	(164)
Income before income taxes	20,623	13,453	(8,547)	25,529
Provision for income taxes	4,318	4,906	-	9,224
Net income	$ 16,305	$ 8,547	$ (8,547)	$ 16,305

VERTRUE INCORPORATED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(continued)

Condensed Consolidating Statements of Cash Flows for the Six Months Ended December 31, 2006

(Dollar amounts in thousands)	Parent	Guarantor Subsidiaries	Eli
Net cash provided by(used in) operating activities	$ 2,288	17,128	$(1
Investing activities			
Acquisition of fixed assets	(3,064)	(2,432)	
Purchases of short-term investments	(11,005)	(11)	
Proceeds from maturities of short-term investments	40,724	-	
Acquisitions of businesses, net of cash acquired, and other	(431)	(9,335)	
Investment in subsidiaries	(11,288)	-	1

Net cash provided by (used in) investing activities	14,936	(11,778)	1
Financing activities			
Net proceeds from issuance of stock	2,103	-	
Excess tax benefit from stock-based compensation	560	-	
Treasury stock purchases	(2,762)	-	
Debt issuance costs	(63)	-	
Payments of long-term obligations	(157)	(74)	
Net cash used in financing activities	(319)	(74)	
Effect of exchange rate changes on cash and cash equivalents	-	(502)	
Net increase in cash and cash equivalents	16,905	4,774	
Cash and cash equivalents at beginning of period	6,908	29,382	
Cash and cash equivalents at end of period	$ 23,813	$ 34,156	$

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VERTRUE INCORPORATED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(continued)

Condensed Consolidating Statements of Cash Flows for the Six Months Ended December 31, 2005

(Dollar amounts in thousands)	Parent	Guarantor Subsidiaries	Elimina
Net cash provided by (used in) operating activities	$ 15,537	$ 7,826	$ (
Investing activities			
Acquisition of fixed assets	(3,538)	(2,980)	
Purchases of short-term investments	(50,325)	-	
Proceeds from maturities of short-term investments	49,452	378	
Acquisitions of businesses, net of cash acquired, and other	(14,717)	(225)	
Investment in subsidiaries	(8,547)	-	
Net cash used in investing activities	(27,675)	(2,827)	
Financing activities			
Net proceeds from issuance of stock	2,729	-	
Excess tax benefit from stock-based compensation	560	-	
Treasury stock purchases	(5,995)	-	
Payments of long-term obligations	(195)	(197)	
Net cash used in financing activities	(2,901)	(197)	
Effect of exchange rate changes on cash and cash equivalents	-	457	
Net (decrease) increase in cash and cash equivalents	(15,039)	5,259	
Cash and cash equivalents at beginning of period	24,366	39,990	

Cash and cash equivalents at end of period	$ 9,327	$ 45,249	$

VERTRUE INCORPORATED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(continued)

NOTE 12 - NEW ACCOUNTING PRONOUNCEMENTS
In September 2006, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans--an amendment of FASB Statements No. 87, 88, 106, and 132(R)" ("SFAS 158"). SFAS 158 requires an employer to recognize the over-funded or under-funded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. SFAS 158 also requires the measurement of defined benefit plan assets and obligations as of the date of the employer's fiscal year-end (with limited exceptions). Under SFAS 158, we are required to recognize the funded status of our defined benefit postretirement plan and to provide the required disclosures as of the end of our fiscal 2007 year-end. We do not expect the adoption of SFAS 158 to have a material effect on our consolidated financial statements.

Also in September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measurements. SFAS 157 emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and states that a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. SFAS 157 will become effective for us beginning in fiscal 2009. We are currently evaluating the impact that SFAS 157 will have on our consolidated financial statements.

Also in September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" ("SAB 108"). SAB 108 requires entities to quantify misstatements using both balance sheet and income statement approaches in evaluating whether or not a misstatement is material. We are required to apply the provisions of SAB 108 in connection with the preparation of our annual financial statements for our fiscal year ended June 30, 2007. We do not expect the adoption of SAB 108 to have a material effect on our consolidated financial statements.

In July 2006, the FASB issued Financial Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109" ("FIN 48"). This interpretation clarifies the accounting for uncertainty in tax positions and requires an entity to recognize in its financial statements the impact of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position. The provisions of FIN 48 are effective beginning in our first quarter of fiscal 2008. We are currently evaluating the impact of FIN 48 on our consolidated financial statements.

VERTRUE INCORPORATED
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

Vertrue Incorporated is a premier internet marketing services company. We operate a diverse group of marketing businesses that share a unified mission: to provide every consumer with access to savings and services that improve their daily lives. Our members and customers have access to direct-to-consumer savings across our five vertical markets of healthcare, personal property, security/insurance, discounts, and personals, which are all offered online through a set of diverse marketing channels. Throughout this report, we refer to Vertrue Incorporated and its subsidiaries as the "Company", "we", "us", or "our". We have three reportable business segments: Marketing Services, Personals, and Management Services.

The Marketing Services business segment primarily provides discounted products and services to consumers and generates recurring, membership-based revenue. The Marketing Services segment offers consumers a variety of products and services from selected vendors and service providers on a monthly or annual subscription basis or on a fee for service basis. Revenues are derived principally from recurring fees which are billed to the member on either a monthly or annual basis. In the case of annually billed membership fees, we receive full payment at or near the beginning of the membership period, but recognize the revenues as the member's refund privilege expires. Membership fees that are billed monthly are recognized when earned. Revenues derived from one-time fees are recognized when the service is performed.

The Personals business segment provides web, phone, and mobile-based personals services and primarily generates transaction-based revenue. The Personals segment primarily employs a transactional business model in which users buy non-refundable credits up front and spend those credits only when they want to interact with other customers. Personals revenues are recognized when the services are used. During the first quarter of fiscal 2007, we acquired Mobile Lifestyles, Inc., an online provider of a variety of text alerts (i.e. daily horoscopes, jokes and relationship advice) and unlimited ringtones. The net assets and results of operations of Mobile Lifestyles have been included in our Personals segment as of the date of the acquisition.

The Management Services business segment provides advertising and practice management services to healthcare professionals throughout the United States. Our consultants assist consumers with locating nearby board certified physicians, schedule initial consultations, offer discounted fee schedules, and provide financing, if needed. Management Services revenues are recognized when the medical procedures performed by the healthcare professionals are complete.

The following discussion should be read in conjunction with Item 7, "Management's Discussion & Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the year ended June 30, 2006, which describes, among other things, our critical accounting policies.

Adjusted EBITDA and EBITDA are used by our management to evaluate the performance of our business. Management evaluates the operating results of each reportable business segment based on Adjusted EBITDA. A discussion of Adjusted EBITDA can be found in "Liquidity and Capital Resources" in this report. A description and reconciliation of net income to EBITDA and Adjusted EBITDA are disclosed in "Reconciliation of Non-GAAP Measures" in this report.

VERTRUE INCORPORATED
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(continued)

DISCUSSION OF RESULTS OF OPERATIONS

(Dollar amounts in millions)	Three months ended December 31, 2006	Three months ended December 31, 2005	Increase/ (Decrease)	Six months ended December 31, 2006	Six months ended December 31, 2005	(
Revenues	$178.6	$160.1	12%	$355.9	$317.6	
Marketing expenses	85.9	76.3	13%	173.3	150.2	
Operating expenses	40.6	35.2	15%	82.8	70.3	
General and administrative expenses	31.9	29.5	8%	63.7	58.0	
Amortization of intangible assets	2.2	2.2	0%	4.2	4.6	
Operating income	18.0	16.9	7%	31.9	34.5	
Interest income	1.4	0.7	100%	2.9	1.3	
Interest expense	(5.1)	(5.1)	0%	(10.2)	(10.2)	
Other income (expense), net	0.3	(0.1)	400%	0.5	(0.1)	
Income before income taxes	14.6	12.4	18%	25.1	25.5	
Provision for income taxes	5.9	4.7	26%	9.7	9.2	
Net income	$ 8.7	$ 7.7	13%	$ 15.4	$ 16.3	
EBITDA	$ 24.1	$ 23.0	5%	$ 44.1	$ 47.0	

Percentage of revenues:	Three months ended December 31, 2006	Three months ended December 31, 2005	Six months ended December 31, 2006	Six months ended December 31, 2005
Marketing expenses	48%	48%	49%	47%
Operating expenses	23%	22%	23%	22%
General and administrative expenses	18%	18%	18%	18%
Operating income	10%	11%	9%	11%
EBITDA	13%	14%	12%	15%
Effective tax rate	40.3%	38.0%	38.8%	36.1%

Revenues
The table below shows revenue by payment plan and by reportable segment:

Three months ended	Six months ended

(Dollar amounts in millions)	December 31, 2006	December 31, 2005	Increase/ (Decrease)	December 31, 2006	December 31, 2005	Increase/ (Decrease)
Monthly payment plans	$107.4	$ 86.7	24%	$ 210.5	$169.8	24%
Annual payment plans	25.7	37.9	(32%)	55.1	78.6	(30%)
Other	9.6	9.9	(3%)	17.8	17.9	0%
Total Marketing Services	142.7	134.5	6%	283.4	266.3	6%
Personals	23.9	18.6	28%	46.5	37.1	25%
Management Services	12.0	7.0	71%	26.0	14.2	83%
Total	$178.6	$160.1	12%	$ 355.9	$317.6	12%

For the Three Months Ended December 31, 2006 and 2005
Revenues increased $18.5 million in the second quarter of fiscal 2007 compared with the second quarter of fiscal 2006. Net active retail members and customers increased 5% to 6.7 million at December 31, 2006 from 6.4 million at December 31, 2005.

Marketing Services revenues increased $8.2 million primarily due to a $20.7 million increase in revenues from members enrolled in monthly payment plans partially offset by a $12.2 million decrease in revenue from members enrolled in annual payment plans. Revenues from monthly payment plans increased primarily due to higher average monthly members billed, which grew 14% to 3.1 million, and higher average monthly member price point, which grew 9% to $11.88 for the

second quarter of fiscal 2007 compared with the prior year quarter.* Revenues from members enrolled in annual payment plans continue to decrease due to the attrition of the annual renewal base and the continued shift to enrolling new members in monthly payment programs.

Personals revenues increased $5.3 million, or 28%, primarily due to the acquisition of Mobile Lifestyles during the first quarter of fiscal 2007. Of the 28% increase in Personals revenues, 24% was due to this acquisition and the remaining 4% was due to the growing mobile dating business, which was partially offset by a decrease in revenues from our interactive voice response, or IVR, and web-based businesses.

Management Services revenues increased $5.0 million primarily due to an increase in the number of procedures completed, as well as an increase in the mix of higher priced procedures. These increases were due to the increase in financed transactions.

For the Six Months Ended December 31, 2006 and 2005
Revenues increased $38.3 million in the first six months of fiscal 2007 compared with the prior year period.

Marketing Services revenues increased $17.1 million primarily due to a $40.7 million increase in revenues from members enrolled in monthly payment plans partially offset by $23.5 million decrease in revenue from members enrolled in annual payment plans. Revenues from monthly payment plans increased primarily due to higher average monthly members billed, which grew 14% to 6.0 million, and higher average monthly member price point, which grew 9% to $11.82 for the first six months of fiscal 2007. Revenues from members enrolled in annual payment plans continue to decrease due to the attrition of the annual renewal base and the continued shift to enrolling new members in monthly payment programs.

Personals revenues increased $9.4 million, or 25%, primarily due to the acquisition of Mobile Lifestyles. Of the 25% increase in Personals revenues, 22% was due to this acquisition and the remaining 3% was due to the growing mobile dating business, which was partially offset by a decrease in revenues from our IVR and web-based businesses.

Management Services revenues increased $11.8 million primarily due to an increase in the number of procedures completed and an increase in the mix of higher priced procedures. These increases were due to the increase in financed transactions.

Operating Income and EBITDA
The table below shows operating income and EBITDA by reportable segment and our corporate unit that includes unallocated general corporate expenses for the second quarter of fiscal 2007 and 2006:

	Operating Income			EBITDA		
	Three months ended December 31,			Three months ended December 31,		
(Dollar amounts in millions)	2006	2005	Increase/ (Decrease)	2006	2005	Increase/ (Decrease)
Marketing Services	$24.3	$24.1	1%	$27.1	$27.1	0%
Personals	1.8	(0.7)	357%	4.1	1.7	141%
Management Services	-	0.2	(100%)	0.7	0.6	17%
Corporate	(8.1)	(6.7)	(21%)	(7.8)	(6.4)	(22%)
Total Operating Income	$18.0	$16.9	7%	$24.1	$23.0	5%

For the Three Months Ended December 31, 2006 and 2005
Operating income increased $1.1 million and, as a percentage of revenues, was 10% during the second quarter of fiscal 2007 compared to 11% in the prior year quarter. EBITDA increased $1.1 million in the second quarter of fiscal 2007 from the prior year quarter and, as a percentage of revenues, EBITDA was 13% this year versus 14% prior year quarter.

Marketing Services operating income increased $0.2 million and, as a percentage of revenues, decreased to 17% from 18% in the prior year quarter. Marketing Services EBITDA remained flat at $27.1 million and, as a percentage of revenues, decreased to 19% from 20% in the prior year quarter. The decreases as a percentage of revenues were primarily due to an increase in marketing expenses,

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*During the first quarter of fiscal 2007, we changed the methodologies for calculating average monthly member price point and average monthly members billed. Prior periods have been restated to conform to this presentation.

which grew $5.9 million and as a percentage of revenues were 50% for the second quarter of fiscal 2007 compared to 49% last year. Marketing expenses as a percentage of revenues increased due to an increase in the level of marketing and an increase in the monthly acquisition costs per new billed member. The monthly acquisition cost per new billed member increased 21% to $43.91 from $36.42 in the prior year quarter. Monthly member acquisition costs represent the cost to acquire a new monthly member who has successfully been billed and is not expected to cancel during the reported period. We expect the increase in the monthly acquisition cost per new billed member to be more than recovered by the monthly new member price point which increased $1.75 to $17.38 per month during the second quarter of fiscal 2007. In addition, we expect the increase in marketing expenses this period to translate into expected revenue growth during the remainder of fiscal 2007. Operating and general and administrative expenses remained flat as a percentage of revenues.

Personals operating income increased $2.5 million and, as a percentage of revenues, increased to 8% from (4%) in the prior year quarter. Personals EBITDA increased $2.4 million and, as a percentage of revenues, increased to 17% from 9% in the prior year quarter. The increases in operating income and EBITDA were primarily due to the marketing margin contributed by the Mobile Lifestyle acquisition and lower operating expenses, which as a percentage of revenues, decreased to 17% this quarter from 26% last year. The decrease in operating expenses as a percentage of revenues was primarily due to tight expense control and cost savings realized from our transition to voice over internet platform, or VOIP.

Management Services operating income decreased $0.2 million, and as a percentage of revenue, decreased to 0% from 3% in the prior year quarter. Management Services EBITDA increased $0.1 million and as a percentage of revenue, decreased to 6% from 9% in the prior year quarter. These decreases are primarily due to higher operating expenses, which increased $4.4 million and as a percentage of revenues, increased to 67% from 53% in the prior year quarter. Operating expenses increased due to higher doctor and loan costs associated with the increased number of procedures completed.

Corporate operating loss increased $1.4 million and EBITDA decreased $1.4 million primarily due to higher legal and employee related expenses.

For the Six Months Ended December 31, 2006 and 2005

The table below shows operating income and EBITDA by reportable segment and our corporate unit that includes unallocated general corporate expenses for the first six months of fiscal 2007 and 2006:

	Operating Income			EBITDA		
	Six months ended December 31,			Six months ended December 31,		
(Dollar amounts in millions)	2006	2005	Increase/ (Decrease)	2006	2005	Increase/ (Decrease)
Marketing Services	$44.7	$47.8	(6%)	$50.3	$54.1	(7%)
Personals	1.3	(0.8)	263%	6.2	4.0	55%
Management Services	2.0	0.5	300%	3.3	1.3	154%
Corporate	(16.1)	(13.0)	(24%)	(15.7)	(12.4)	(27%)

Total Operating Income	$31.9	$34.5	(8%)	$44.1	$47.0	(6%)

Operating income decreased $2.6 million and, as a percentage of revenues, was 9% during the first six months of fiscal 2007 compared to 11% in the prior year period. EBITDA decreased $2.9 million in the first six months of fiscal 2007 from the prior year period and, as a percentage of revenues, EBITDA was 12% this year versus 15% last year.

Marketing Services operating income decreased $3.1 million and, as a percentage of revenues, decreased to 16% from 18% in the prior year period. Marketing Services EBITDA decreased $3.8 million and, as a percentage of revenues, decreased to 18% from 20% in the prior year period. These decreases were primarily due to an increase in marketing expenses, which grew $13.9 million, and as a percentage of revenues were 51% this year compared to 49% last year, and were in line with our expected revenue growth. Marketing expenses as a percentage of revenues increased due to an increase in the level of marketing and an increase in the monthly acquisition costs per new billed member. The monthly acquisition cost per new billed member increased 22% to $44.36 from $36.35 in the prior year period. We expect the increase in the monthly acquisition cost per new billed member to be more than recovered by the monthly new member price point which increased $2.10 to $17.22 per month during the first six months of fiscal 2007. In addition, we expect the increase in

marketing expenses this period to translate into expected revenue growth during the remainder of fiscal 2007. Operating and general and administrative expenses remained flat as a percentage of revenues.

Personals operating income increased $2.1 million and, as a percentage of revenues, increased to 3% from (2%) in the prior year period. Personals EBITDA increased $2.2 million and, as a percentage of revenues, increased to 13% from 11% in the prior year period. The increases in operating income and higher EBITDA were primarily due to the marketing margin contributed by the Mobile Lifestyle acquisition, as well as lower operating expenses, which as a percentage of revenues, decreased to 18% this quarter from 26% last year. The decrease in operating expenses as a percentage of revenues was primarily due tight expense control and cost savings realized from our transition to VOIP.

Management Services operating income increased $1.5 million, and as a percentage of revenue, increased to 8% from 4% in the prior year period. Management Services EBITDA increased $2.0 million and as a percentage of revenue, increased to 13% from 9% in the prior year period. These increases are primarily due to higher revenues and were partially offset by increases in operating expenses, which increased $9.0 million and, as a percentage of revenues, increased to 64% from 54% in the prior year period. The increase in operating expenses as a percentage of revenues was due to higher doctor and loan costs associated with the increased number of procedures completed.

Corporate operating loss increased $3.1 million and EBITDA decreased $3.3 million primarily due to higher legal and employee related expenses.

Interest Income
Interest income increased $0.7 million and $1.6 million for the second quarter and first six months of fiscal 2007, respectively, as compared to the prior year periods primarily due to the increase in financed transactions for the Management Services segment partially offset by a decrease in interest earned on our short-term investments.

Provision for Income Taxes
The provision for income taxes increased $1.2 million, or 26%, in the second quarter of fiscal 2007 compared to the prior year quarter because of higher income before income taxes and was based on an effective tax rate of 40.3% versus 38.0% in the prior year quarter. The increase in the effective tax rate for the quarter is primarily due to an increase in non-deductible items and a decrease in the favorable impact of foreign operations. The provision for income taxes increased $0.5 million, or 5%, in the first six months of fiscal 2007 compared to the prior year period because of an increase in non-deductible items and a decrease in the favorable impact of foreign operations, which gave rise to an effective tax rate of 38.8% in the first six months of fiscal 2007 versus 36.1% in the prior year period.

LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2006, we had cash, cash equivalents, and short-term investments of $60.0 million in addition to our unused $50.0 million line of credit under our senior secured credit facility. We believe that existing cash, short-term investment balances, and funds available under our senior secured credit facility together with cash generated from operations will be sufficient to meet our funding requirements for the foreseeable future.

We believe it is useful to analyze the components of net cash provided by operating activities as follows: revenue before deferral, marketing costs before deferral, Adjusted EBITDA, and changes in assets and liabilities. A discussion of these components follows below. For definitions and reconciliations of revenue before deferral, marketing costs before deferral, and Adjusted EBITDA, refer to the discussion in "Reconciliation of Non-GAAP Measures" in this report.

Net cash flow provided by operating activities is an important measure used to understand our liquidity. Net cash provided by operating activities decreased to $8.1 million in the six months ended December 31, 2006 from $14.8 million in the six months ended December 31, 2005. The $6.7 million decrease in operating cash flow was primarily due to a $6.2 million decrease in Adjusted EBITDA and $1.0 million related to the impact of changes in assets and liabilities.

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VERTRUE INCORPORATED
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(continued)

(Dollar amounts in millions)	Six months ended December 31, 2006	2005	Increase/ (Decrease)
Marketing Services	$ 43.7	$ 49.9	(12%)
Personals	5.5	3.9	41%
Management Services	2.7	1.0	170%
Corporate	(15.7)	(12.4)	(27%)
Total Adjusted EBITDA	$ 36.2	$ 42.4	(15%)

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Marketing Services Adjusted EBITDA decreased $6.2 million and as a percentage of revenue before deferral, decreased to 16% from 19% in the prior year period. These decreases were due to an increase in the level of marketing and an increase in the monthly acquisition costs per new billed member, as discussed above.

Personals Adjusted EBITDA increased $1.6 million and as a percentage of revenue before deferral, increased to 12% from 11% in the prior year period. These increases were primarily due to the marketing margin contributed by the acquisition of Mobile Lifestyles, as well as lower operating expenses.

Management Services Adjusted EBITDA increased $1.7 million and as a percentage of revenue before deferral, increased to 11% from 7% in the prior year period primarily due to higher revenues before deferral partially offset by increases in operating expenses. The increase in operating expenses was due to higher doctor and loan costs associated with the increased number of procedures completed.

Corporate Adjusted EBITDA decreased $3.3 million primarily due to higher legal and employee related expenses.

In the first six months of fiscal 2007, cash used from changes in assets and liabilities was $13.6 million compared to $12.8 million in the prior year period. The increase in the cash used from changes in assets and liabilities was primarily due to increased notes receivable partially offset by the timing of prepaid expenses, the release of restricted cash, and the timing of accrued liabilities. The increase in notes receivable is related to the increase in procedures completed that are being financed in the Management Services segment.

In the first six months of fiscal 2007, capital expenditures decreased to $5.5 million from $6.5 million in the prior year period. Free cash flow, defined as operating cash flow less capital expenditures, decreased to $2.6 million in the first six months of fiscal 2007 compared with $8.3 million in the prior year period. The decrease in free cash flow was primarily due to the decreased Adjusted EBITDA and the increase in cash used from changes in assets and liabilities discussed above.

In the first six months of fiscal 2007, net cash provided by investing activities increased $36.4 million from the prior year period. Net cash provided by investing activities in the first six months of fiscal 2007 reflected $29.7 million of net proceeds from maturities of short-term investments partially offset by $9.8 million used in connection with our recent acquisition and other investments activity. Net cash used in investing activities in the first six months of fiscal 2006 reflected $14.9 million used in connection with business acquisitions.

In the first six months of fiscal 2007, net cash used in financing activities decreased $2.7 million from the prior year period. Net cash used in financing activities in the first six months fiscal 2007 reflected the use of $2.8 million to repurchase our common stock, which was partially offset by $2.1 million of proceeds from the exercise of stock options and $0.6 million of excess tax benefit from stock-based compensation. Net cash provided by financing activities in the first six months of fiscal 2006 reflected the use of $6.0 million to repurchase our common stock, which was partially offset by proceeds from the exercise of stock options of $2.7 million and $0.6 million of excess tax benefits from stock-based compensation.

Credit Facility

We have an amended and restated senior secured credit facility dated as of March 17, 2006, which allows borrowings of up to $50.0 million. Borrowings under this senior secured credit facility accrue interest at the Eurodollar rate or the Prime rate, plus an applicable margin. As of December 31, 2006, the base interest rate for borrowings under this credit facility was 8.5%. There were no borrowings outstanding under this credit facility as of December 31, 2006. The senior secured credit facility has certain financial covenants, including a maximum debt coverage ratio, potential restrictions on borrowings, and potential

restrictions on additional stock repurchases. As of December 31, 2006, we were in compliance with all such debt covenants. The senior secured credit facility matures on March 31, 2009.

Stock Repurchase Program

In the first six months of fiscal 2007, we purchased 66,000 shares of our common stock for $2.8 million at an average price of $41.82 per share, compared to 164,800 shares for $6.0 million at an average price of $36.38 per share in the prior year period. We used existing cash and cash from operations and stock issuances to repurchase these shares. In July 2006, our Board of Directors authorized the additional repurchase of up to a 1.0 million shares of our common stock. As of December 31, 2006, we had approximately 1.3 million shares available for repurchase under our stock repurchase program.

Other

We expect to incur capital expenditures of $9.9 million in fiscal 2007. Contingent payments related to acquisitions of up to $51.7 million may be paid if certain performance targets, including increasing levels of revenues and earnings, are achieved. These contingent payments may be paid by the end of calendar 2007. Of the $51.7 million, we recorded $45.3 million during the second quarter of fiscal 2007 in accrued liabilities related to contingent payments from our My Choice Medical, Inc. acquisition, which were disclosed in previous quarterly filings. This payment is expected to be paid during the fourth quarter of fiscal 2007. In addition, we acquired an online marketing company during the third quarter of fiscal 2007 for approximately $3.7 million in order to further our internet strategy.

RECONCILIATION OF NON-GAAP MEASURES

We believe that revenues before deferral and marketing costs before deferral are important measures of liquidity and are significant factors in understanding our operating cash flow trends. These measures are not a substitute for or superior to revenues and marketing expenses determined in accordance with generally accepted accounting principles ("GAAP"). These non-GAAP measures are used by management and our investors to understand the liquidity trends of our marketing margins related to current period operations which are reflected within the operating cash flow section of the cash flow statement. GAAP revenues and marketing expenses are important measures used to understand the marketing margins earned during the period in the income statement. However, in order to understand our operating cash flow, it is important to understand the primary current period drivers of that cash flow. Two of the primary indicators of operating liquidity for the period are revenues before deferral and marketing costs before deferral. Revenues before deferral are revenues before the application of the Staff Accounting Bulletin 104, "Revenue Recognition" ("SAB 104") and represent the revenues billed during the current reporting period less an allowance for membership cancellations. That is, revenues before deferral for a reporting period include membership fees received in the current reporting period that will be recorded as GAAP revenues in future reporting periods and exclude membership fees received in prior reporting periods that are recorded as GAAP revenues in the current reporting period. Marketing costs before deferral are marketing costs before the application of SAB 104 and the American Institute of Certified Public Accountants Statement of Position 93-7, "Reporting on Advertising Costs," and represent marketing costs paid or accrued during the current reporting period. Marketing costs before deferral for a reporting period include costs paid or accrued in the current reporting period that will be recorded as GAAP marketing expenses in future reporting periods and exclude marketing expenses paid or accrued in prior reporting periods that are recorded as GAAP marketing expenses in the current reporting period. Neither revenues before deferral nor marketing costs before deferral exclude charges or liabilities that will require future cash settlement.

Revenues before deferral are calculated as follows:

	Six months ended December 31,	
(Dollar amounts in millions)	2006	2005
Revenues	$355.9	$317.6
Change in deferred revenues	(8.9)	(10.6)
Revenues before deferral	$347.0	$307.0

Marketing costs before deferral are calculated as follows:

	Six months ended December 31,	
(Dollar amounts in millions)	2006	2005
Marketing expenses	$173.3	$150.2
Change in deferred marketing costs	(1.0)	(6.0)
Marketing costs before deferral	$172.3	$144.2

EBITDA is calculated as net income excluding interest and other expense, taxes, depreciation, and amortization. Adjusted EBITDA is calculated as EBITDA before the deferral of revenues and the deferral of marketing costs.

We use EBITDA and Adjusted EBITDA to evaluate the overall performance of our business and to measure that performance compared with internal budgets. Additionally, we use Adjusted EBITDA as our primary measure to allocate capital and other resources to our operating segments and assess the operating performance of those segments (See Note 10 to the condensed consolidated financial statements in Item 1 of this report). Adjusted EBITDA is also one of the measures used to determine compensation under our management incentive plans.

Adjusted EBITDA is useful to our investors and us because it provides insight into the current period cash operating results. Adjusted EBITDA is reconciled to net cash provided by operating activities because we believe that it is the most directly comparable GAAP liquidity measure. We also use Adjusted EBITDA as the primary performance measure of the business both on an overall company basis as well as for our operating segments. Adjusted EBITDA is reconciled to net income because we believe it is the most directly comparable GAAP performance measure.

EBITDA is useful to our investors and us because it eliminates the effects of interest and other expense, income taxes, non-cash depreciation of tangible assets, and non-cash amortization of intangible assets. EBITDA is calculated using as reported revenues and marketing expenses. EBITDA is reconciled to net income because we believe that it is the most directly comparable GAAP measure.

The usefulness of Adjusted EBITDA and EBITDA is limited as compared to net cash provided by operating activities or net income since Adjusted EBITDA and EBITDA do not reflect the periodic amortization of certain capitalized tangible and intangible assets used in generating revenues in our businesses, since they do not reflect net income earned for GAAP reporting purposes, and since they exclude the effects of interest and taxes. Additionally, Adjusted EBITDA and EBITDA exclude the impact of working capital changes.

Adjusted EBITDA and EBITDA should not be considered a substitute for or superior to, operating income, net income, net cash from operating activities, or other measures of financial performance and liquidity determined in accordance with GAAP.

The following table reconciles net cash provided by operating activities to Adjusted EBITDA:

(Dollar amounts in millions)	Six months ended December 31, 2006	2005
Net cash provided by operating activities	$8.1	$14.8
Changes in assets and liabilities (use of cash)	13.6	12.9
Interest and other expense, net (to be paid in cash)	6.2	8.5
Taxes	11.1	8.3
Stock compensation expense	(2.4)	(2.3)
Other	(0.4)	0.2
Adjusted EBITDA	$36.2	$42.4

The following tables reconcile net income to EBITDA and Adjusted EBITDA:

(Dollar amounts in millions)	Three months ended December 31, 2006 Total	Marketing Services	Personals	Management Services	Corporate
Net income	$ 8.7				

	Total	Marketing Services	Personals	Management Services	Corporate
Interest and other expense, net (1)	3.4				
Provision for income taxes (1)	5.9				
Operating income (expense)	$ 18.0	$ 24.3	$ 1.8	$ -	$ (8.1)
Depreciation and amortization	6.1	2.8	2.3	0.7	0.3
EBITDA	$ 24.1	$ 27.1	$ 4.1	$ 0.7	$ (7.8)

Three months ended December 31, 2005

	Total	Marketing Services	Personals	Management Services	Corporate
Net income	$ 7.7				
Interest and other expense, net (1)	4.5				
Provision for income taxes (1)	4.7				
Operating income (expense)	$ 16.9	$ 24.1	$ (0.7)	$ 0.2	$ (6.7)
Depreciation and amortization	6.1	3.0	2.4	0.4	0.3
EBITDA	$ 23.0	$ 27.1	$ 1.7	$ 0.6	$ (6.4)

Six months ended December 31, 2006

	Total	Marketing Services	Personals	Management Services	Corporate
Net income	$ 15.4				
Interest and other expense, net (1)	6.8				
Provision for income taxes (1)	9.7				
Operating income (expense)	$ 31.9	$ 44.7	$ 1.3	$ 2.0	$ (16.1)
Depreciation and amortization	12.2	5.6	4.9	1.3	0.4
EBITDA	44.1	50.3	6.2	3.3	(15.7)
Change in deferred revenues	(8.9)	(8.0)	(0.3)	(0.6)	-
Change in deferred marketing costs	1.0	1.4	(0.4)	-	-
Adjusted EBITDA	$ 36.2	$ 43.7	$ 5.5	$ 2.7	$ (15.7)

Six months ended December 31, 2005

	Total	Marketing Services	Personals	Management Services	Corporate
Net income	$ 16.3				
Interest and other expense, net (1)	9.0				
Provision for income taxes (1)	9.2				
Operating income (expense)	$ 34.5	$ 47.8	$ (0.8)	$ 0.5	$ (13.0)
Depreciation and amortization	12.5	6.3	4.8	0.8	0.6
EBITDA	47.0	54.1	4.0	1.3	(12.4)
Change in deferred revenues	(10.6)	(10.2)	(0.1)	(0.3)	-
Change in deferred marketing costs	6.0	6.0	-	-	-
Adjusted EBITDA	$ 42.4	$ 49.9	$ 3.9	$ 1.0	$ (12.4)

(1) Management does not allocate interest and other expense, net nor does it allocate provision f
income taxes to the individual segments.

VERTRUE INCORPORATED
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS
(continued)

Free cash flow represents net cash provided by operating activities less capital expenditures. Free cash flow is important because it represents the cash that is available to us to pursue opportunities that enhance shareholder value, such as make acquisitions, reduce debt, repurchase stock, and develop new products. The following table reconciles operating cash flow to free cash flow:

	Six months ended December 31,	
(Dollar amounts in millions)	2006	2005
Net cash provided by operating activities	$8.1	$14.8
Capital expenditures	(5.5)	(6.5)
Free cash flow	$2.6	$8.3

COMMITMENTS

Future minimum payments of contractual obligations as of December 31, 2006 are as follows:

	Payments Due by Period				
(Dollar amounts in millions)	Total	Less than 1 year	1 - 3 years	3 - 5 years	After year
Operating leases	$ 54.3	$ 9.2	$ 17.9	$ 11.9	$
Capital leases	1.0	0.8	0.2	-	
Long-term debt	240.0	-	-	90.0	1
Purchase obligations	5.4	5.4	-	-	
Other:					
Contingent payments	51.7	51.7	-	-	
Interest payments on long-term debt	123.9	18.8	37.7	32.7	
Other (1)	6.7	1.0	-	0.4	
Total payments due	$ 483.0	$ 86.9	$ 55.8	$ 135.0	$ 2

(1) Includes pension obligations and other current obligations.

CRITICAL ACCOUNTING POLICIES

There were no material changes in our critical accounting policies during the first six months of fiscal 2007. For further information on our critical accounting policies, please refer to the discussion contained in the management's discussion and analysis section of our Annual Report on Form 10-K for the fiscal year ended June 30, 2006.

NEW ACCOUNTING PRONOUNCEMENTS

See Note 12 to the condensed consolidated financial statements in Item 1 of this report for a description of the effect of recently issued accounting pronouncements.

FORWARD LOOKING STATEMENTS

This report on Form 10-Q contains forward looking statements that are based on current expectations, estimates, forecasts, and projections about the industry in which we operate and our management's beliefs and assumptions. These forward looking statements include statements that do not relate solely to historical or current facts and can be identified by the use of words such as "believe," "expect," "estimate," "project," "continue," or "anticipate." These forward looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, are intended to qualify for the safe harbor provisions from liability provided by the Private Securities Litigation Reform Act of 1995.

Forward looking statements are not guarantees of future performance and are based on many assumptions and estimates that are inherently subject to significant risks and uncertainties, many of which are beyond our control, cannot be foreseen and reflect future business decisions that may change. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward looking statements. Factors that could cause these differences include, but are not limited to, those set forth under Item 1A of our Annual Report on Form 10-K for the fiscal year ended June 30, 2006.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to potential loss from exposure to market risks represented principally by changes in interest rates and foreign exchange rates. There were no material changes in our market risk during the first six months of fiscal 2007. For additional information, please refer to Item 7A of our Annual Report on Form 10-K for the fiscal year ended June 30, 2006.

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures
Our Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined under Rules 13a-15(e) and 15d-15(e) of the Securities and Exchange Act of 1934) as of the end of the period covered by this report and have concluded that the Company's disclosure controls and procedures were effective at the reasonable assurance level. The Company's disclosure controls and procedures are designed to ensure that material information relating to the Company and its consolidated subsidiaries that is required to be disclosed in

its reports under the Exchange Act is accumulated, communicated to the Chief Executive Officer and Chief Financial Officer and disclosed appropriately and timely in its reports under the Exchange Act.

Because a cost-effective 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, misstatements due to error or fraud may occur and not be detected. In addition, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

Changes in internal control over financial reporting
During the second quarter of fiscal 2007, there were no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

VERTRUE INCORPORATED
PART II. OTHER INFORMATION

Item 1. Legal Proceedings

In our opinion, there are no significant legal proceedings to which we or any of our subsidiaries are a party or to which any of our properties are subject. We are involved in lawsuits and claims generally incidental to our business, including but not limited to various suits, including previously disclosed suits, brought against us by individual consumers seeking monetary and/or injunctive relief relating to the marketing of our programs. In addition, from time to time in the regular course of our business, we receive inquiries from various federal and/or state regulatory authorities.

Item 1A. Risk Factors

Information regarding risk factors is included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2006. There were no material changes in our risk factors during the first six months of fiscal 2007.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table summarizes the shares of the Company's equity securities purchased by or on behalf of the Company:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Maxim Numbe Shares th Yet Purcha Under t or Pro
October 1, 2006 to October 31, 2006	3,400	$39.92	3,400	1,
November 1, 2006 to November 30, 2006	-	-	-	1,
December 1, 2006 to December 31, 2006	-	-	-	1,

Total	3,400	$39.92	3,400	1,

(1) In July 2006, our Board of Directors authorized an additional 1,000,000 shares, no expiration date, to be purchased under our stock repurchase program originally authorized during fiscal 1997. There are 261,000 shares remaining authorized under the Board of Directors approval from October 2004.

Item 4. Submission of Matters to a Vote of Security Holders

We held our 2006 Annual Meeting of Stockholders on November 17, 2006. At that meeting, our stockholders elected all of the nominees for director and approved all other proposals submitted to our stockholders for approval at the meeting, each as described in our Proxy Statement and Notice of 2006 Annual Meeting of Stockholders dated October 12, 2006. The results of the voting of the stockholders with respect to these matters are provided below.

I. Election of directors.

	For	Withheld
Alec L Ellison	8,742,428	106,320
Joseph A. Heid	8,740,009	108,739
Gary A. Johnson	8,770,058	78,690
Robert Kamerschen	8,598,746	250,002
Michael T. McClorey	8,691,089	157,659
Edward M. Stern	8,740,009	108,739
Marc S. Tesler	8,722,908	125,840

II. Approval of the amendment to our Certificate of Incorporation to increase our authorized shares.

For	Withheld	Abstain	Broker Non-Votes
8,284,903	562,261	1,892	-

III. Approval of the adoption of the Management Incentive Plan.

For	Withheld	Abstain	Broker Non-Votes
8,658,392	108,210	82,454	-

IV. Approval of the adoption of the 2006 Restricted Stock Plan for Non-Employee Directors.

For	Withheld	Abstain	Broker Non-Votes
5,020,701	2,000,602	61,331	1,766,422

V. Ratification of the selection of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the fiscal year ending June 30, 2007.

For	Against	Abstain
8,774,560	72,222	2,274

Item 6. Exhibits

31.1 Rule 13a-14(a) CEO Certification.
31.2 Rule 13a-14(a) CFO Certification.
32.1 CEO Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2 CFO Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

VERTRUE INCORPORATED
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.

VERTRUE INCORPORATED
(Registrant)

Date: February 9, 2007 By: /s/ Gary A. Johnson

Gary A. Johnson, President, Chief Executive Officer and Director

Date: February 9, 2007 By: /s/ James B. Duffy

James B. Duffy, Executive Vice President, Chief Operating Officer, and Chief Financial Officer (Principal Financial and Accounting Officer)