eHealth, Inc.
Form 10-Q
November 20, 2006
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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 September 30, 2006

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 ¨ NO x

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 ¨ Non-accelerated filer x

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 October 31, 2006 was 21,744,912 shares.

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EHEALTH, INC. FORM 10-Q

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PART I

FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

EHEALTH, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share information)

	December 31, 2005	September 30, 2006 (unaudited)	Pro Forma Stockholders Equity at September 30, 2006 (unaudited)
Assets			
Current assets:			
Cash and cash equivalents	$ 9,415	$ 12,641	
Accounts receivable	128	801	
Prepaid expenses and other current assets	908	1,197	
Total current assets	10,451	14,639	
Restricted investments	153	156	
Property and equipment, net	2,761	3,842	
Deferred initial public offering costs	1,391	3,875	
Other non-current assets	409	438	
Total assets	$ 15,165	$ 22,950	
Liabilities, convertible preferred stock and stockholders equity (deficit)			
Current liabilities:			
Accounts payable	$ 1,077	$ 1,186	
Accrued compensation and benefits	3,009	2,813	
Accrued marketing expenses	1,027	1,728	
Deferred revenue	523	59	
Other current liabilities	1,179	2,598	
Total current liabilities	6,815	8,384	
Other non-current liabilities	212	245	
Commitments and contingencies			
Convertible preferred stock	86,319	86,319	$
Stockholders equity (deficit):			
Common stock	5	5	16
Class A nonvoting common stock			
Additional paid-in capital	1,983	2,689	88,997
Deferred stock-based compensation	(62)	(33)	(33)
Accumulated deficit	(80,132)	(74,700)	(74,700)
Accumulated other comprehensive income	25	41	41

Total stockholders equity (deficit)	(78,181)	(71,998)	$	14,321
Total liabilities, convertible preferred stock and stockholders equity (deficit)	$ 15,165	$ 22,950		

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

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EHEALTH, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

(In thousands, except per share amounts, unaudited)

	Three Months Ended September 30, 2005	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2005	Nine Months Ended September 30, 2006
Revenue:				
Commission	$ 10,726	$ 15,867	$ 29,766	$ 42,423
License and other	118	795	279	1,471
Total revenue	10,844	16,662	30,045	43,894
Operating costs and expenses:				
Cost of revenue-sharing	163	411	441	894
Marketing and advertising (*)	4,967	5,798	12,978	15,804
Customer care and enrollment (*)	2,229	2,740	6,401	8,044
Technology and content (*)	2,091	2,668	5,916	7,321
General and administrative (*)	1,871	2,370	5,088	6,602
Total operating costs and expenses	11,321	13,987	30,824	38,665
Income (loss) from operations	(477)	2,675	(779)	5,229
Other income, net	49	145	142	357
Income (loss) before provision for income taxes	(428)	2,820	(637)	5,586
Provision for income taxes		82		154
Net income (loss)	$ (428)	$ 2,738	$ (637)	$ 5,432
Comprehensive income (loss):				
Net income (loss)	$ (428)	$ 2,738	$ (637)	$ 5,432
Foreign currency translation adjustment	22	11	22	16
Total comprehensive income (loss)	$ (406)	$ 2,749	$ (615)	$ 5,448
Net income (loss) per share:				
Basic common stock	$ (0.09)	$ 0.54	$ (0.14)	$ 1.10
Basic Class A nonvoting common stock		$ 0.54		$ 1.10
Diluted common stock	$ (0.09)	$ 0.14	$ (0.14)	$ 0.28
Diluted Class A nonvoting common stock		$ 0.14		$ 0.28
Pro forma basic	$ (0.03)	$ 0.17	$ (0.04)	$ 0.34
Pro forma diluted	$ (0.03)	$ 0.14	$ (0.04)	$ 0.28
Net income (loss):				
Allocated to common stock	$ (428)	$ 2,705	$ (637)	$ 5,376
Allocated to Class A nonvoting common stock		33		56
Net income (loss)	$ (428)	$ 2,738	$ (637)	$ 5,432
Weighted-average number of shares used in per share amounts:				
Basic common stock	4,669	4,974	4,620	4,903

Basic Class A nonvoting common stock		61		51
Diluted common stock	4,669	19,334	4,620	19,158
Diluted Class A nonvoting common stock		61		51
Pro forma basic	15,625	15,937	15,576	15,865
Pro forma diluted	15,625	19,371	15,576	19,192

(*) Includes stock-based compensation as follows:

Marketing and advertising	$ 3	$ 21	$ 95	$ 32
Customer care and enrollment	1	13	4	27
Technology and content	18	60	44	148
General and administrative	8	50	18	89
Total	$ 30	$ 144	$ 161	$ 296

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

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EHEALTH, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands, unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	**2006**	**2005**	**2006**
Operating activities				
Net income (loss)	$ (428)	$ 2,738	$ (637)	$ 5,432
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Depreciation and amortization	305	422	877	1,116
Stock-based compensation expense	30	144	161	296
Deferred rent	(3)	46	171	40
Changes in operating assets and liabilities:				
Accounts receivable	(45)	(496)	(40)	(673)
Prepaid expenses and other current assets	43	90	(81)	(224)
Other assets	(1)	(27)	15	(29)
Accounts payable	(17)	291	(52)	198
Accrued compensation and benefits	174	170	3	(192)
Accrued marketing expenses	540	124	698	701
Deferred revenue	37	(747)	218	(464)
Other current liabilities	(136)	47	179	292
Net cash provided by operating activities	499	2,802	1,512	6,493
Investing activities				
Purchases of property and equipment	(467)	(1,321)	(1,078)	(1,738)
Changes in restricted cash			101	
Changes in restricted investments	(1)	(1)	(2)	(3)
Net cash used in investing activities	(468)	(1,322)	(979)	(1,741)
Financing activities				
Net proceeds from exercise of common stock options	281	61	337	439
Costs incurred in connection with initial public offering	(335)	(538)	(366)	(1,909)
Principal payments in connection with capital leases	(6)	(68)	(17)	(72)
Net cash used in financing activities	(60)	(545)	(46)	(1,542)
Effect of exchange rate changes on cash and cash equivalents	17	13	17	16
Net increase (decrease) in cash and cash equivalents	(12)	948	504	3,226
Cash and cash equivalents at beginning of period	9,223	11,693	8,707	9,415
Cash and cash equivalents at end of period	$ 9,211	$ 12,641	$ 9,211	$ 12,641

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

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EHEALTH, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Summary of Business and Basis of Presentation

eHealth, Inc. and subsidiaries (the Company, we or us), offer Internet-based insurance agency services for individuals, families and small businesses in the United States. Our services 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.

Initial Public Offering In October 2006, we completed an initial public offering (IPO) of our common stock in which we issued and sold 5,750,000 shares of our common stock, including 750,000 shares sold by us pursuant to the underwriters full exercise of their over-allotment option, at an issuance price to the public of $14.00 per share. As a result of our IPO, we raised a total of $80.5 million in gross proceeds, or approximately $74.8 million in net proceeds after deducting underwriting discounts and commissions of $5.7 million and before deducting estimated offering expenses. Upon the closing of our IPO, all outstanding shares of convertible preferred stock and Class A nonvoting common stock automatically converted into 10,955,744 and 36,603 shares of common stock, respectively. Immediately following the completion of our IPO, we had approximately 21.7 million shares of common stock outstanding. The condensed consolidated financial statements, including share and per share amounts, do not include the effects of the offering as it was completed subsequent to September 30, 2006.

Deferred Initial Public Offering Costs Deferred IPO costs totaled $1.4 million and $3.9 million at December 31, 2005 and September 30, 2006, respectively, and consisted of capitalized expenses that were specific incremental costs associated with our IPO. Upon completion of our IPO in October 2006, these costs were offset against the gross proceeds received in our IPO.

Reverse Stock Split We effected a 1-for-2 reverse stock split of our outstanding common stock, convertible preferred stock and Class A nonvoting common stock on September 25, 2006. All share and per share amounts contained in the condensed consolidated financial statements have been retroactively adjusted to reflect the reverse stock split.

Principles of Consolidation The condensed consolidated financial statements include the accounts of eHealth, Inc. and our wholly-owned subsidiaries, eHealthInsurance Services, Inc., eHealth China, Inc. and eHealth China (Xiamen) Technology Co., Ltd. All intercompany accounts and transactions have been eliminated in consolidation.

Unaudited Interim Financial Information The accompanying unaudited condensed consolidated balance sheet as of September 30, 2006 and the condensed consolidated statements of operations and comprehensive income (loss) and the condensed consolidated statements of cash flows for the three and nine months ended September 30, 2005 and 2006 have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the financial information and footnotes required by U.S. GAAP for complete annual financial statements. In our opinion, these unaudited interim consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements included in our final Prospectus dated October 12, 2006 related to our IPO (the Prospectus) as filed with the Securities and Exchange Commission, and include all adjustments, which include only normal recurring adjustments, necessary for the fair presentation of our financial position at September 30, 2006 and results of operations and cash flows for the three and nine months ended September 30, 2005 and 2006. The results for the three and nine months ended September 30, 2006 are not necessarily indicative of the results to be expected for the year ending December 31, 2006 or for any other interim period or future year. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto contained in our Prospectus. The information as of December 31, 2005 is derived from such financial statements.

Use of Estimates The preparation of condensed consolidated financial statements and related disclosures in conformity with U.S. GAAP requires management to make estimates, judgments and assumptions that affect the amounts reported and disclosed in the consolidated financial statements and accompanying notes. 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, the value of our common stock for the purpose of determining stock-based compensation, and income taxes, among others. We base our estimates of the carrying value of certain assets and liabilities on historical experience and on various other assumptions that we believe to be reasonable. Actual results may differ from these estimates.

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EHEALTH, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Cash and Cash Equivalents We consider all highly liquid investments with an original maturity of three months or less from the date of purchase to be cash equivalents.

Concentration of Credit Risk and Significant Customers Our financial instruments that are exposed to concentrations of credit risk principally consist of cash and cash equivalents and accounts receivable. We deposit our cash and cash equivalents in accounts with major banks and financial institutions and, at times, such investments may be in excess of federally insured limits. We do not require collateral or other security for our accounts receivable. One customer represented 36%, or $289,000, of our total accounts receivable, net of allowances, as of September 30, 2006. The customer paid this balance in full during October 2006.

All revenue for all periods presented was generated from customers located solely in the United States. Revenue under separate agreements with individual unaffiliated carriers in excess of 10% of total revenue was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2006	2005	2006
Carrier A	17%	15%	18%	16%
Carrier B	14%	11%	15%	13%

Revenue Recognition We recognize revenue for our services using the criteria set forth in Staff Accounting Bulletin (SAB) No. 104 (SAB 104), *Revenue Recognition*. SAB 104 states that revenue is recognized when each of the following four criteria is met: persuasive evidence of an arrangement exists; delivery has occurred or services have been rendered; the seller s price to the buyer is fixed or determinable; and collectibility is reasonably assured.

Our revenue is primarily comprised of compensation paid to us by health insurance carriers related to insurance policies that have been purchased by a member who used our service. We define a member as an individual currently covered by an insurance product for which we are entitled to receive compensation. Our compensation generally represents a percentage of the premium amount collected by the carrier during the period that a member maintains coverage under a policy (commissions) and, to a lesser extent, override commissions that health insurance carriers pay us for achieving certain objectives. Premium-based commissions are reported to us after the premiums are collected by the carrier, generally on a monthly basis. We determine that there is persuasive evidence of an arrangement when we have a commission agreement with a health insurance carrier and a carrier reports to us that it has approved an application submitted through our ecommerce platform. Our services are complete when a carrier has approved an application. Commissions are deemed fixed or determinable and collectibility is reasonably assured when commission amounts have been reported to us by a carrier. We recognize commission override revenue when reported to us by a carrier based on the actual attainment of predetermined target sales levels or other objectives as determined by the carrier.

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 rare 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. If the second corroborating communication is not received within ten business days, 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.

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 record an allowance for these forfeitures based on historical cancellation experience using data provided on commission statements. The allowance for forfeitures totaled $236,000 and $329,000 at December 31, 2005 and September 30, 2006, respectively, and is included in other current liabilities in the accompanying condensed consolidated balance sheets.

We also evaluate the criteria outlined in Emerging Issues Task Force (EITF) Issue No. 99-19, *Reporting Revenue Gross as a Principal Versus Net as an Agent*, in determining whether it is appropriate to record the gross amount of the insurance premiums from our transactions or the net amount earned as commissions. 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.

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EHEALTH, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Deferred Revenue Deferred revenue consists of 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, or amounts collected from sponsorship or technology licensing customers in advance of our performing our service for such customers. Deferred revenue at December 31, 2005 and September 30, 2006 was $523,000 and $59,000, respectively.

Included in deferred revenue at December 31, 2005 and June 30, 2006 were commission amounts reported and paid to us by a carrier that, effective January 2005, changed its basis for calculating and reporting commission amounts from a percentage of the premium it collected to a percentage of the premium it billed. Since this was the first carrier to calculate and report commission amounts on this basis, we initially did not have sufficient historical forfeiture experience to estimate and record an appropriate allowance for forfeitures as commission amounts were reported to us by the carrier. Accordingly, we deferred all commission amounts reported to us by the carrier in 2005 and during the first six months of 2006.

During the three months ended September 30, 2006, we determined that we had sufficient experience to estimate an allowance for forfeitures for this health insurance carrier. Accordingly, all amounts previously deferred for this carrier, which totaled $720,000 at June 30, 2006, were recognized as commission revenue during the three months ended September 30, 2006.

Segments We operate in one business segment. See *Note 8* for additional information regarding our segment.

Comprehensive Income (Loss) In accordance with the Financial Accounting Standards Board s (FASB) Statement of Financial Accounting Standards (SFAS) No. 130, *Reporting Comprehensive Income,* all components of comprehensive income (loss), including net income (loss), are reported in our consolidated financial statements in the period in which they are recognized. Comprehensive income (loss) is defined as the change in equity during a period from transactions and other events and circumstances from non-owner sources (primarily foreign currency translation gains and losses). Our only element of other comprehensive income is attributable to foreign currency translation adjustments with our wholly-owned subsidiary in China. Statements of comprehensive income (loss) have been included within the accompanying condensed consolidated statements of operations and comprehensive income (loss).

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. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized. We recorded a provision for income taxes for the three and nine months ended September 30, 2006 attributable to federal and state alternative minimum taxes currently payable due to limits on the amount of net operating losses that may be applied against income earned during the period under current tax regulations. For the three and nine months ended September 30, 2005, we recorded no income tax expense due to our loss before provision for income taxes in those periods.

Recent Accounting Pronouncement In July 2006, FASB issued Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109*. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with SFAS 109. It prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods and disclosures. It will be effective for fiscal years beginning after December 15, 2006. Earlier application of the provisions of FIN 48 is encouraged if the enterprise has not yet issued financial statements, including interim financial statements, in the period in which it is adopted. The provisions of FIN 48 apply to all tax positions upon its adoption. Only tax positions that meet the recognition threshold criteria at the effective date may be recognized or continue to be recognized upon adoption of FIN 48. The cumulative effect of applying the provisions of FIN 48 will be reported as an adjustment to the opening balance of retained earnings for that fiscal year, presented separately. We will be required to adopt FIN 48 on January 1, 2007. We are currently evaluating FIN 48, but do not expect it to have a material effect on our consolidated financial statements or results of operations.

In September 2006, FASB issued SFAS No. 157 (SFAS 157), *Fair Value Measurements,* which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. This statement is effective for us beginning January 1, 2008. We are currently assessing whether adoption of SFAS 157 will have an impact on our financial statements.

EHEALTH, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 2 Unaudited Pro Forma Stockholders Equity (Deficit)

During September 2006, as permitted by our Amended and Restated Certificate of Incorporation, holders of more than two-thirds of the Series A, B and C convertible preferred stock consented to the automatic conversion of each share of Series A, B and C convertible preferred stock into common stock upon the closing of a firmly underwritten public offering of our common stock on or prior to February 28, 2007 pursuant to a registration statement on Form S-1 under the Securities and Exchange Act of 1933, as amended, at an offering price of not less than $8.00. In accordance with the original provisions of our Class A nonvoting common stock, a resolution was adopted by our board of directors on May 3, 2006, which required that each eight shares of Class A nonvoting common stock be automatically converted into one share of common stock upon the closing of a firmly underwritten public offering of our common stock pursuant to a registration statement on Form S-1 under the Securities and Exchange Act of 1933, as amended. Unaudited pro forma stockholders equity at September 30, 2006 reflected the assumed conversion of convertible preferred stock and Class A nonvoting common stock, based on the shares of convertible preferred stock and Class A nonvoting common stock outstanding at September 30, 2006. This conversion occurred during October 2006 upon the completion of our IPO.

Note 3 Balance Sheet Accounts

Cash, Cash Equivalents and Investments

Cash and cash equivalents consisted of the following (in thousands):

	As of December 31, 2005		As of September 30, 2006 (unaudited)	
Cash and cash equivalents:				
Cash	$	1,582	$	995
Money market funds		7,833		11,646
Total cash and cash equivalents	$	9,415	$	12,641

At December 31, 2005 and September 30, 2006, our investment portfolio, apart from certificates of deposit related to our restricted investments, consisted primarily of cash and money market funds, which are highly liquid in nature. Since the duration of these securities is short, the risk of fluctuations in market interest rates and yields is not significant.

We did not experience any significant realized gains or losses on our investments in the periods presented. Gross unrealized gains and losses at December 31, 2005 and September 30, 2006 were not material.

Property and Equipment

Property and equipment consisted of the following (in thousands):

	As of December 31, 2005		As of September 30, 2006 (unaudited)	
Computer equipment and software	$	5,103	$	7,009
Office equipment and furniture		407		530
Leasehold improvements		273		403
		5,783		7,942

Less accumulated depreciation and amortization		(3,022)		(4,100)
Property and equipment, net	$	2,761	$	3,842

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EHEALTH, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Assets under capital leases were included in the condensed consolidated balance sheets as follows (in thousands):

	As of December 31, 2005	As of September 30, 2006 (unaudited)
Office equipment and furniture	$ 28	$ 416
Less accumulated depreciation	(9)	(30)
	19	386

Other Current Liabilities

Other current liabilities consisted of the following (in thousands):

	As of December 31, 2005	As of September 30, 2006 (unaudited)
Professional fees	$ 731	$ 1,313
Other accrued expenses	448	1,285
Other current liabilities	$ 1,179	$ 2,598

Note 4 Stock-Based Compensation

Prior to the adoption of SFAS No. 123R, *Share-Based Payment* (SFAS 123R) on January 1, 2006, we accounted for stock option grants in accordance with Accounting Principles Board Opinion No. 25 (APB 25), *Accounting for Stock Issued to Employees,* and complied with the disclosure provisions of SFAS No. 123, *Accounting for Stock Based Compensation,* as amended by SFAS No. 148, *Accounting for Stock Based Compensation Transition and Disclosure.* Under APB 25, deferred stock-based compensation expense is recorded for the intrinsic value of options (the difference between the deemed fair value of our common stock and the option exercise price) at the grant date and is amortized ratably over the option s vesting period.

We account for equity instruments issued to non-employees in accordance with SFAS 123, EITF Issue No. 96-18, *Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring or in Conjunction with Selling, Goods or Services*, and the FASB Interpretation No. 44 (FIN 44), *Accounting for Certain Transactions Involving Stock Compensation,* which is an interpretation of APB 25. All transactions in which equity instruments are issued in consideration for the receipt of goods or services are accounted for based on the fair value of the consideration received or the fair value of the equity instrument issued, whichever is more reliably measurable. The measurement date of the fair value of the equity instrument issued is the earlier of the date on which the counterparty s performance is complete or the date on which it is probable that performance will occur.

Had compensation cost for all options granted to our employees under our stock-based compensation plans been determined based on the fair value method prescribed by SFAS 123, our net loss and net loss per share would have been adjusted to the pro forma amounts as follows (in thousands, except per share data, unaudited):

	Three Months	Nine Months Ended

	Ended September 30, 2005		September 30, 2005	
Net loss as reported	$	(428)	$	(637)
Add: stock-based employee compensation expense included in reported net loss, net of related tax effects		12		115
Deduct: stock-based employee compensation expense determined under fair value method for all awards, net of related tax effects		(46)		(122)
Net loss, pro forma	$	(462)	$	(644)
Net loss per share:				
As reported basic and diluted	$	(0.09)	$	(0.14)
Pro forma basic and diluted	$	(0.10)	$	(0.14)

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EHEALTH, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For purposes of the above pro forma calculation, the fair value of each option granted during the three and nine months ended September 30, 2005 was estimated on the date of grant using the minimum value method with the following weighted-average assumptions (unaudited):

	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2005
Expected term	4.0 years	4.0 years
Dividend		
Risk-free interest rate	4.20%	4.20%

All options granted during the three and nine months ended September 30, 2005 were granted with an exercise price equal to the fair value at the time of grant. The weighted-average fair value of options granted during the three and nine months ended September 30, 2005 was $1.09 and $0.92, respectively.

Adoption of SFAS 123R Effective January 1, 2006, we adopted the fair value recognition provisions of SFAS 123R, which requires us to measure the cost of employee services received in exchange for an award of equity instruments, based on the fair value of the award on the date of grant, and to recognize the cost over the period during which the employee is required to provide services in exchange for the award. We adopted SFAS 123R using the prospective method. Stock-based compensation expense recognized during the three and nine months ended September 30, 2006 consisted of 1) stock-based compensation related to stock option and restricted stock awards granted prior to January 1, 2006, which were calculated in accordance with APB 25, and 2) stock-based compensation for all stock-based awards granted on or after to January 1, 2006, based on the grant-date fair value estimated in accordance with SFAS 123R. Results for prior periods have not been restated. In anticipation of the adoption of SFAS 123R, we did not modify the terms of any previously granted stock options or restricted stock awards.

As a result of adopting SFAS 123R on January 1, 2006, our income from operations, income before provision for income taxes and net income for the three and nine months ended September 30, 2006 was $115,000 and $174,000 less, respectively, than if we had continued to account for share-based compensation under the recognition and measurement provisions of APB 25. For the three and nine months ended September 30, 2006, basic net income per share would have been $0.02 and $0.04 higher, respectively, and diluted net income per share would have been $0.00 and $0.01 higher, respectively, had we not adopted SFAS 123R. As required by SFAS 123R, we are recognizing stock-based compensation expense only for those equity awards expected to vest.

At September 30, 2006, total unrecognized stock-based compensation cost related to stock options and restricted stock awards granted to employees under our stock plans and accounted for in accordance with SFAS 123R was approximately $1.9 million, net of estimated forfeitures of approximately $204,000. This cost will be amortized on a straight-line basis over a weighted-average period of approximately 3.5 years and will be adjusted for subsequent changes in estimated forfeitures.

Net cash proceeds from the exercise of stock options were $61,000 and $439,000 for the three and nine months ended September 30, 2006, respectively. No income tax benefits were realized from stock option exercises during the three or nine months ended September 30, 2006. In accordance with SFAS 123R, we present excess tax benefits from the exercise of stock options, if any, as financing cash flows rather than operating cash flows.

We estimate the fair value of stock options granted using the Black-Scholes-Merton pricing model and a single option award approach. This fair value is then amortized on a straight-line basis over the requisite service periods of the awards, which is generally the vesting period. The weighted-average expected term for stock options granted during the three and nine months ended September 30, 2006 were calculated using the simplified method in accordance with the provisions of SAB No. 107, *Share-Based Payment*. 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 and forfeiture rates used as inputs to the model based on an analysis of the most 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 and forfeiture data for these companies. The dividend yield is determined by dividing the expected per share dividend during the coming year by the grant date stock price. Through September 30, 2006, we had not declared or paid any cash dividends. We base the risk-free interest rate on the implied yield currently available on U.S. Treasury zero-coupon issues with a remaining term equal to the expected term of our stock options.

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EHEALTH, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The fair value of stock options and restricted stock awards granted to employees for the three and nine months ended September 30, 2006 was estimated using the following weighted-average assumptions (unaudited):

	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2006
Expected term	6.1 years	6.1 years
Expected volatility	65.58%	65.58%
Expected dividend yield		
Risk-free interest rate	4.90%	4.90%
Estimated forfeitures	5.00%	5.00%
Weighted-average fair value	$ 8.33	$ 8.14

Note 5 Stockholders Equity (Deficit)

Shares Reserved Shares of authorized but unissued common stock reserved for future issuance were as follows (in thousands):

	As of December 31, 2005	As of September 30, 2006 (unaudited)
Convertible preferred stock:		
Issued and outstanding (including antidilution provision for Series B convertible preferred stock)	10,956	10,956
Common stock:		
Stock options issued and outstanding	5,387	5,360
Stock options available for future grants	312	141
Class A nonvoting common stock:		
Issued and outstanding	32	37
Stock awards available for future grants	68	63
	16,755	16,557

See *Note 1* for additional information regarding common stock outstanding following the completion of our IPO.

2006 Equity Incentive Plan Our 2006 Equity Incentive Plan (the 2006 Plan) was adopted by our board of directors in April 2006 and approved by our stockholders in May 2006. The 2006 Plan became effective in October 2006 upon the effective date of the registration statement related to our IPO. We have reserved 2,000,000 shares of our common stock for issuance under the 2006 Plan. In general, if options or shares awarded under the 2006 Plan are forfeited or repurchased, those options or shares will again become available for grant or award under the 2006 Plan. In addition, on January 1 of each year, starting in 2007, the number of shares reserved 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. Employees, non-employee members of our board of directors and consultants of our company and our subsidiaries are eligible to participate in our 2006 Plan. As of September 30, 2006, no awards had been granted under the 2006 Plan.

1998 and 2005 Stock Plans We 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 IPO in October 2006, although we will continue to issue shares of common stock upon the exercise of stock options granted under each plan.

Our stock options and restricted stock grants under the 1998 and 2005 Stock Plans and the 2006 Plan (collectively, the Stock Plans) generally vest over four years at a rate of 25% after one year and 1/48th per month thereafter. Our stock options generally expire after ten years from the date of grant.

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EHEALTH, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table summarizes stock option activity under the Stock Plans (in thousands, except per share data):

	Shares Available for Grant	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life	Aggregate Intrinsic Value
Balance at December 31, 2005	312	5,387	$ 3.05		
Granted exercise price equal to fair value (unaudited)	(269)	269	$ 12.71		
Exercised (unaudited)		(198)	$ 2.22		
Cancelled (unaudited)	98	(98)	$ 7.97		
Balance at September 30, 2006 (unaudited)	141	5,360	$ 3.47	6.29	$ 51,068
Vested and expected to vest at September 30, 2006 (unaudited)		5,261	$ 3.37	6.26	$ 50,676
Exercisable at September 30, 2006 (unaudited)		3,930	$ 1.76	5.35	$ 44,155

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the fair value of our common stock at September 30, 2006 for the 5.3 million options that were in-the-money at September 30, 2006. Total intrinsic value of stock options exercised during the three and nine months ended September 30, 2006 was $322,000 and $1.6 million, respectively. Total fair value of stock options accounted for under SFAS 123R, which vested during the three and nine months ended September 30, 2006 was zero. The per share weighted-average fair value of stock options granted during the three and nine months ended September 30, 2006 was $8.33 and $8.14, respectively.

During the three and nine months ended September 30, 2006, we recorded stock-based compensation expense totaling $110,000 and $166,000, respectively, related to stock options granted to employees and accounted for in accordance with the provisions of SFAS 123R. At September 30, 2006, total unrecognized stock-based compensation cost related to stock options granted to employees under our stock plans and accounted for in accordance with SFAS 123R was approximately $1.8 million, net of estimated forfeitures of approximately $196,000. This cost will be amortized on a straight-line basis over a weighted-average period of approximately 3.5 years and will be adjusted for subsequent changes in estimated forfeitures.

The following tables summarize information about stock options outstanding as of September 30, 2006 (in thousands, except per share data and lives, unaudited):

	Outstanding and Exercisable		Vested	
Exercise Price	Number of Options	Weighted-Average Remaining contractual Life (in years)	Number of Options Vested	Weighted-Average Exercise Price
$0.50	162	2.92	162	$ 0.50
$1.00	1,246	4.55	1,246	$ 1.00
$2.00	2,517	5.80	2,353	$ 2.00
$4.00	128	7.71	77	$ 4.00
$5.00	65	8.23	29	$ 5.00
$6.50	116	8.69	41	$ 6.50
$8.00	74	8.96	19	$ 8.00
$8.30	257	9.09	3	$ 8.30

$8.80	555	9.21		$	8.80
$9.70	19	9.34		$	9.70
$12.90	137	9.59		$	12.90
$13.00	84	9.84		$	13.00
$3.47	5,360	6.29	3,930	$	1.76

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EHEALTH, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2004 Stock Plan for eHealth China During November 2004, our board of directors adopted the 2004 Stock Plan for eHealth China, Inc. (the eHealth China Plan) for the issuance of shares of Class A nonvoting common stock. The eHealth China Plan was terminated with respect to the grant of additional shares upon the effective date of the 2006 Plan in October 2006. Shares of restricted Class A nonvoting common stock previously issued under the eHealth China Plan converted into common stock in connection with our IPO. Shares issued under the eHealth China Plan generally vest over four years at a rate of 25% after one year and 1/48th per month thereafter.

The following table summarizes activity under the eHealth China Plan (in thousands):

	Shares Available for Grant
Balance at December 31, 2005	543
Granted stock awards (unaudited)	(57)
Cancelled stock awards (unaudited)	21
Balance at September 30, 2006 (unaudited)	507

Due to uncertainty of the events that would have triggered a conversion of Class A nonvoting common stock into common stock, we account for awards granted under the eHealth China Plan prior to January 1, 2006 as variable awards. Under this method, we record no deferred stock-based compensation, but measure and record stock-based compensation expense based on the fair value of the underlying Class A nonvoting common stock at the end of each reporting period within the vesting periods. During the three and nine months ended September 30, 2006, we recorded approximately $19,000 and $93,000, respectively, and during the three and nine months ended September 30, 2005, we recorded approximately $14,000 and $33,000, respectively, of stock-based compensation expense related to these awards.

We account for Class A nonvoting common stock awards granted subsequent to January 1, 2006 in accordance with the provisions of SFAS 123R. During the three and nine months ended September 30, 2006, we recorded approximately $5,000 and $8,000, respectively, of stock-based compensation expense related to these awards. As of September 30, 2006, total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the eHealth China Plan and accounted for under SFAS 123R was approximately $72,000, net of estimated forfeitures of approximately $8,000. This cost will be recognized over a weighted-average period of 3.5 years.

All outstanding shares of Class A nonvoting common stock automatically converted into shares of common stock upon the closing of our IPO in October 2006. Restricted stock activity under the Stock Plans and the eHealth China Plan (as converted) is as follows for the nine months ended September 30, 2006 (in thousands, except per share data):

Nonvested shares	Number of Shares	Weighted-Average Grant-Date Fair Value
Outstanding at December 31, 2005	32	$ 5.89
Awarded (unaudited)	7	$ 12.49
Vested (unaudited)	(6)	$ 4.62
Forfeited (unaudited)	(3)	$ 6.32

Outstanding at September 30, 2006 (unaudited)	30	$	7.66

Note 6 Net Income (Loss) Per Share

Basic net income (loss) per share is calculated using the weighted-average number of shares of common stock and Class A nonvoting common stock outstanding during the period, excluding shares subject to repurchase or forfeiture. Since our common stock and Class A nonvoting common stock are both participating securities as defined in SFAS No. 128, *Earnings Per Share*, diluted net income (loss) per share is presented using the two-class method and gives effect to all dilutive potential common shares outstanding during the period, including convertible preferred stock, common stock

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EHEALTH, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

options and warrants, preferred stock warrants, and common stock and Class A nonvoting common stock subject to repurchase or forfeiture, unless such common stock equivalent shares are anti-dilutive.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2006	2005	2006
Actual:				
Basic:				
Numerator:				
Net income (loss) allocated to common stock	$ (428)	$ 2,705	$ (637)	$ 5,376
Net income (loss) allocated to Class A nonvoting common stock		33		56
	$ (428)	$ 2,738	$ (637)	$ 5,432
Denominator:				
Weighted average number of common stock shares	4,669	4,974	4,620	4,903
Weighted average number of Class A nonvoting common stock shares		61		51
Net income (loss) per share basic:				
Common stock	(0.09)	0.54	(0.14)	1.10
Class A nonvoting common stock		0.54		1.10
Diluted:				
Numerator:				
Net income (loss) allocated to common stock	$ (428)	$ 2,705	$ (637)	$ 5,376
Net income (loss) allocated to Class A nonvoting common stock		33		56
	$ (428)	$ 2,738	$ (637)	$ 5,432
Denominator:				
Weighted average number of common stock shares	4,669	4,975	4,620	4,905
Weighted average number of options outstanding		3,403		3,297
Weighted average number of assumed issuable shares of common stock upon conversion of convertible preferred stock		10,956		10,956
Total common stock shares used in per share calculation	4,669	19,334	4,620	19,158
Weighted average number of Class A nonvoting common stock shares		61		51
Net income (loss) per share diluted:				
Common stock	$ (0.09)	$ 0.14	$ (0.14)	$ 0.28
Class A nonvoting common stock		$ 0.14		$ 0.28

For each of the three and nine-month periods ended September 30, 2005 and 2006, we had securities outstanding that could potentially dilute basic earnings per share, but the incremental shares from the assumed conversion or exercise of these securities were excluded in the computation of diluted net loss per share as their effect would have been anti-dilutive.

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EHEALTH, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The number of weighted-average outstanding securities excluded from the computation of basic and diluted net income (loss) per share consisted of the following (in thousands, unaudited):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2006	2005	2006
Outstanding options	2,923	217	2,756	116
Outstanding common stock warrants	9		8	
Restricted common stock awards subject to forfeiture	6		7	
Assumed issuable shares of common stock upon conversion of Class A nonvoting common stock, subject to forfeiture (on an as-converted basis)	23		23	
Assumed issuable shares of common stock upon conversion of convertible preferred stock	10,956		10,956	
Total	13,917	217	13,750	116

The following table sets forth the pro forma computation of basic and diluted net income (loss) per share assuming all shares of convertible preferred stock and Class A nonvoting common stock were converted into shares of common stock (in thousands, except per share data, unaudited):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2006	2005	2006
Pro forma:				
Basic:				
Numerator:				
Net income (loss)	$ (428)	$ 2,738	$ (637)	$ 5,432
Denominator basic:				
Weighted average number of common stock shares	4,669	4,974	4,620	4,903
Pro forma adjustment to reflect assumed weighted effect of conversion of convertible preferred stock	10,956	10,956	10,956	10,956
Pro forma adjustment to reflect assumed weighted effect of conversion of Class A nonvoting common stock		7		6
Total common stock shares used in per share calculation	15,625	15,937	15,576	15,865
Denominator diluted:				
Weighted average number of common stock shares	4,669	4,975	4,620	4,905
Pro forma adjustment to reflect assumed weighted effect of conversion of convertible preferred stock	10,956	10,956	10,956	10,956
Pro forma adjustment to reflect assumed weighted effect of conversion of Class A nonvoting common stock		37		34
Weighted average number of options outstanding		3,403		3,297

Total common stock shares used in per share calculation	15,625	19,371	15,576	19,192
Pro forma net income (loss) per share:				
Basic	$ (0.03)	$ 0.17	$ (0.04)	$ 0.34
Diluted	$ (0.03)	$ 0.14	$ (0.04)	$ 0.28

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EHEALTH, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 7 Commitments and Contingencies

Leases In August 2004, we entered into a lease agreement for our headquarters building in Mountain View, California. This facility is leased under a non-cancellable lease that expires in 2009, with a renewal option at fair market value for an additional five-year period. In December 2004, we moved our customer care center from Folsom, California to Gold River, California and entered into a non-cancellable sixty-five month lease which expires in 2010. In June 2006, we entered into a non-cancellable office lease for our subsidiary in China. The lease, which commenced in June 2006, is for a term of one year and automatically renews for one-year periods, up to a total term of five years. During June 2006, we also entered into a non-cancellable lease for our server co-location center in San Jose, California. The lease, which commenced in August 2006, is for a term of three years. In September 2006, we entered into a non-cancellable office lease for an additional facility in Mountain View, California. The lease is expected to commence in late November 2006 and is for a term of three years. We also lease other facilities in the United States under non-cancellable operating leases that range in terms up to one year. 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. In addition, we lease equipment under operating leases that range in terms from three to five years, the latest of which expires in January 2009.

Total rent expense under all operating leases was approximately $528,000 and $1.5 million for the three and nine months ended September 30, 2006, respectively, and was $401,000 and $1.2 million for the three and nine months ended September 30, 2005, respectively.

As of September 30, 2006, we had a capital lease obligation related to office equipment, which expires in December 2007. During the three months ended September 30, 2006, we entered into a second capital lease obligation for computer equipment related to our new server co-location center, which expires in July 2007.

Future minimum lease payments under non-cancellable operating and capital leases at September 30, 2006 were as follows (in thousands, unaudited):

Year ending December 31,	Operating Lease Obligations	Capital Lease Obligations
2006 (3 months)	$ 388	$ 109
2007	1,939	263
2008	1,977	
2009	1,482	
2010	384	
Thereafter	30	
Total minimum lease payments	$ 6,200	372
Less amount representing interest		(16)
Present value of net minimum lease payments		356
Current portion		347
		$ 9

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EHEALTH, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Service Agreements In November 2005, we entered into an agreement with a third-party service provider to provide certain information services for our website. In June 2006, we entered into a three-year software licensing agreement that requires us to make annual licensing payments of $115,000. As of September 30, 2006, future payment commitments for services provided in connection with these agreements were as follows (in thousands, unaudited):

Year ending December 31,	Service Obligations
2006 (3 months)	$ 39
2007	290
2008	325
2009	250
Total	$ 904

Legal Proceedings On September 20, 2006, we received an order from the Office of the Insurance Commissioner of the State of Washington in connection with our publication of a report in July 2006 entitled The Most Affordable Cities for Children s and Family Health Insurance. The Office of the Insurance Commissioner of the State of Washington contends that the report is advertising and that our alleged mischaracterization of the affordability of individual health insurance in Spokane, Washington caused a violation of various Washington laws governing advertising, including prohibitions against false and misleading advertising, in the conduct of insurance business. It also contends that we allegedly published on our website one or more out of date premium rates for insurance in Washington. In general terms, the order requires us to cease and desist from further publication, distribution or republication of the report and from granting permission to republish, or assisting in the republication of, the report. It also requires us to cease publishing insurance rates that are not verified to be correct and current. In addition, the Office of Insurance Commissioner of the State of Washington has orally informed us that it currently intends to issue an order that may attempt to require us to make certain admissions relating to various facts and pay a fine, and that it may further attempt to require us to develop a plan to comply with the various orders. We are able to challenge the orders of the Office of the Insurance Commissioner of the State of Washington described above and are in the process of reviewing and investigating that possibility, as we believe we have meritorious defenses.

We have also received inquiries relating to the circumstances described above from the Arkansas Insurance Department and the Colorado Division of Insurance and may receive similar inquiries from other jurisdictions. If we are found to have violated laws or regulations in the state of Washington or in other states, we could be subject to various fines and penalties, including revocation of our license to sell insurance in those states. For instance, assuming the Office of the Insurance Commissioner of the State of Washington attempts to impose a fine based on the violations alleged in the cease and desist order, the relevant law provides that the fine shall be an amount up to one thousand dollars for each offense. If the Arkansas Insurance Department were to attempt to impose a fine on us for violating the statute it refers to in its inquiry letter, the penalty is up to one thousand dollars for each act or violation, not to exceed a penalty of ten thousand dollars in the aggregate, unless the violator knew or reasonably should have known of the violation, in which case the penalty under the statute is up to five thousand dollars for each act or violation, not to exceed a penalty of fifty thousand dollars in the aggregate. If we are subject to fines and penalties or our license to sell insurance is revoked or suspended in any state, our business and financial results would be harmed. We would also be harmed to the extent that publicity concerning these reports and inquiries 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 in these or related proceedings regardless of the outcome. We cannot estimate the range of loss or financial impact of these matters, if any, at this time given their early stage.

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

Guarantees and Indemnifications We have agreed to indemnify our directors and officers for fees, expenses, judgments, fines and settlement amounts incurred in any action or proceeding, including actions or proceedings by or in the right of the Company, to which any of them is, or is threatened to be, made a party by reason of their service as a director or officer of the Company or service provided to another company or enterprise at our request. The term of the director and officer indemnification is perpetual as to events or occurrences that take place while the director or officer is, or was, serving at our request, as such, the maximum potential amount of future payment we could be required to make under these indemnification arrangements is unlimited. We, however, have a director and officer insurance policy that limits our exposure under certain circumstances and that may allow us to recover a portion of future amounts paid. We believe the estimated fair value of these indemnification agreements is minimal. Accordingly, we have not recorded any liabilities for these agreements as of December 31, 2005 or September 30, 2006.

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EHEALTH, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

While we have various guarantees included in contracts in the normal course of business, primarily in the form of indemnity obligations under certain circumstances, these guarantees do not represent significant commitments or contingent liabilities of the indebtedness of others. Accordingly, we have not recorded a liability related to these indemnification provisions.

Note 8 Segment and Geographic Information

Operating Segments SFAS No. 131, *Disclosures About Segments of an Enterprise and Related Information*, establishes standards for reporting information about operating segments. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance of the Company. Our chief operating decision maker is considered to be our chief executive officer (CEO). Our CEO reviews our financial information presented on a consolidated basis in a manner substantially similar to the accompanying condensed consolidated financial statements. Therefore, we have concluded that we operate in one segment, and accordingly we have provided only the required enterprise-wide disclosures.

Geographic Information We generate revenue solely in the United States. Our long-lived assets consist primarily of property and equipment and deferred initial public offering costs, and 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, 2005	As of September 30, 2006 (unaudited)
United States	$ 4,272	$ 7,737
China	289	