



## eHealth, Inc. Announces Third Quarter 2014 Results

October 30, 2014

MOUNTAIN VIEW, CA -- (Marketwired) -- 10/30/14 -- **Third Quarter 2014 Overview**

- Revenue of \$41.2 million, a decrease of 2% compared to the third quarter of 2013
- GAAP operating income of \$3.8 million compared to GAAP operating income of \$0.4 million for the third quarter of 2013
- GAAP net income of \$1.5 million, or \$0.08 per diluted share compared to GAAP net income of \$0.2 million, or \$0.01 per diluted share for the third quarter of 2013
- Non-GAAP net income of \$3.1 million, or \$0.17 per diluted share, compared to non-GAAP net income of \$1.6 million, or \$0.08 per diluted share for the third quarter of 2013
- Total estimated members increased 1% compared to the third quarter of 2013
- Submitted applications for IFP products decreased 81% from the third quarter of 2013
- Cash flow from operations was \$11.0 million compared to \$8.7 million in the third quarter of 2013

eHealth, Inc. (NASDAQ: EHTH), the nation's first and largest private health insurance exchange, announced today its financial results for the third quarter ended September 30, 2014.

Gary Lauer, chief executive officer of eHealth stated, "Our Medicare and ancillary product businesses continued to grow at a strong pace, while revenues in our individual family plan business declined outside of the healthcare reform Open Enrollment Period. During the quarter, we generated operating cash flows of \$11.0 million and strong annual growth in net income, reflecting careful expense management and reduced marketing costs in our individual and family plan business."

### **Third Quarter 2014 Results**

**Revenue** -- Revenue for the third quarter of 2014 totaled \$41.2 million, a 2% decrease compared to revenue of \$42.0 million for the third quarter of 2013. Commission revenue for the third quarter of 2014 totaled \$36.2 million, remaining flat compared to commission revenue of \$36.0 million for the third quarter of 2013. Medicare revenue was \$9.0 million for the third quarter of 2014, a 33% increase compared to Medicare revenue of \$6.7 million for the third quarter of 2013.

**Income from Operations** -- Operating income for the third quarter of 2014 was \$3.8 million, compared to \$0.4 million for the third quarter of 2013. Operating margins were 9% and 1% in the third quarters of 2014 and 2013, respectively. Non-GAAP operating income for the third quarter of 2014 was \$6.4 million compared to \$2.7 million for the third quarter of 2013. Non-GAAP operating margins were 16% and 6% in the third quarters of 2014 and 2013, respectively. Non-GAAP operating income and margins in the third quarter of 2014 exclude \$2.3 million of stock-based compensation expense and \$0.4 million of intangible asset amortization expense. Non-GAAP operating income and margins in the third quarter of 2013 exclude \$1.9 million of stock-based compensation expense and \$0.4 million of intangible asset amortization expense.

**EBITDA** -- EBITDA for the third quarter of 2014 was \$7.5 million compared to EBITDA of \$3.6 million for the third quarter of 2013. EBITDA is calculated by adding stock-based compensation, depreciation and amortization expense, including intangible asset amortization expense, other expense, net and provision for income taxes to GAAP net income.

**Pre-tax Income** -- Pre-tax income for the third quarter of 2014 was \$3.8 million, compared to \$0.4 million for the third quarter of 2013.

**Net Income** -- Net income for the third quarter of 2014 was \$1.5 million, or \$0.08 per diluted share, compared to \$0.2 million, or \$0.01 per diluted share for the third quarter of 2013. Non-GAAP net income for the third quarter of 2014 was \$3.1 million, or \$0.17 per diluted share, compared to non-GAAP net income of \$1.6 million, or \$0.08 per diluted share for the third quarter of 2013. Non-GAAP net income and non-GAAP net income per diluted share in the third quarter of 2014 exclude \$2.3 million of stock-based compensation expense and \$0.4 million of intangible asset amortization expense, less \$1.1 million for related income tax benefit. Non-GAAP net income and non-GAAP net income per diluted share in the third quarter of 2013 exclude \$1.9 million of stock-based compensation expense and \$0.4 million of intangible asset amortization expense, less \$0.9 million for related income tax benefit.

**Membership** -- Total estimated membership at September 30, 2014 was 1,158,100 members, a 1% increase over estimated membership of 1,147,100 at September 30, 2013. Estimated individual and family plan membership was 653,700, down from estimated membership of 765,500 at September 30, 2013. Estimated Medicare membership was 121,300, a 42% increase over estimated membership of 85,300 at September 30, 2013.

**Submitted Applications** -- Submitted applications for individual and family plan products decreased 81% in the third quarter of 2014 to 23,800 applications, compared to 123,300 applications in the third quarter of 2013. Submitted applications for Medicare products increased 33% in the third quarter of 2014 to 11,500 applications, compared to 8,600 applications in the third quarter of 2013. Submitted applications for Medicare Advantage products increased 24% in the third quarter of 2014 to 6,200 applications, compared to 5,000 applications in the third quarter of 2013. Approved members for individual and family plan products decreased 75% in the third quarter of 2014 to 28,100 members, compared to 112,300 members in the third quarter of 2013. Total approved members, including individual and family plan, Medicare plan and other product members, decreased 38% to 130,000 members in the third quarter of 2014, compared to 210,700 in the third quarter of 2013.

**Cash Flows** -- Cash flows from operations was \$11.0 million for the third quarter of 2014 compared to \$8.7 million for the third quarter of 2013.

### **Year-to-Date Results**

**Revenue** -- Revenue for the nine months ended September 30, 2014 totaled \$134.7 million, a 8% increase compared to revenue of \$125.0 million for the nine months ended September 30, 2013. Commission revenue for the nine months ended September 30, 2014 totaled \$120.3 million, a 10% increase compared to commission revenue of \$109.2 million for the nine months ended September 30, 2013. Medicare revenue was \$31.0 million for the nine months ended September 30, 2014, a 36% increase compared to Medicare revenue of \$22.7 million for the nine months ended September 30, 2013.

**Income from Operations** -- Operating income for the nine months ended September 30, 2014 was \$7.0 million, compared to operating income of \$6.4 million for the nine months ended September 30, 2013. Operating margins were 5% for the nine month period ended September 30, 2014, compared to 5% for the nine-month period ended September 30, 2013.

**EBITDA** -- EBITDA for the nine months ended September 30, 2014 was \$17.8 million compared to EBITDA of \$15.1 million for the nine months ended September 30, 2013. EBITDA is calculated by adding stock-based compensation, depreciation and amortization expense, including intangible asset amortization expense, other expense, net and provision for income taxes to GAAP net income.

**Pre-tax Income** -- Pre-tax income for the nine months ended September 30, 2014 was \$6.9 million, compared to \$6.3 million for the nine months ended September 30, 2013.

**Net Income** -- Net income for the nine months ended September 30, 2014 was \$3.0 million, or \$0.15 per diluted share, compared to net income of \$3.7 million, or \$0.18 per diluted share for the nine months ended September 30, 2013. Non-GAAP net income for the nine months ended September 30, 2014 was \$7.6 million, or \$0.39 per diluted share, compared to non-GAAP net income of \$7.5 million, or \$0.38 per diluted share for the nine months ended September 30, 2013. Non-GAAP net income and non-GAAP net income per diluted share in the nine months ended September 30, 2014 exclude \$6.6 million of stock-based compensation expense and \$1.1 million of intangible asset amortization expense, less \$3.1 million for related income tax benefit. Non-GAAP net income and non-GAAP net income per diluted share in the nine months ended September 30, 2013 exclude \$5.4 million of stock-based compensation expense and \$1.1 million of intangible asset amortization expense, less \$2.6 million for related income tax benefit.

**Cash Flows** -- Cash flows from operations was \$5.9 million for the nine months ended September 30, 2014 compared to \$14.8 million for the nine months ended September 30, 2013.

**Cash Balance** -- Cash and cash equivalents as of September 30, 2014 totaled \$58.1 million, compared to \$107.1 million as of December 31, 2013. The decrease in cash and cash equivalents reflects \$50.0 million used to repurchase common stock, \$3.3 million used to purchase property and equipment, \$4.5 million to purchase intangible assets and \$3.5 million to net-share settle equity awards, partially offset by \$5.9 million provided by operating activities, \$2.6 million of excess tax benefits from stock-based compensation and \$3.9 million provided by financing activities from the exercise of common stock options. The intangible asset purchased during the nine months ended September 30, 2014 was the Internet domain name [www.Medicare.com](http://www.Medicare.com).

#### **2014 Guidance**

eHealth is reaffirming guidance for the full year ending December 31, 2014 based on information available as of October 30, 2014. These expectations are forward-looking statements and eHealth assumes no obligation to update these statements. Results may be materially different and are affected by the risk factors and uncertainties identified in this release and in eHealth's annual and quarterly filings with the Securities and Exchange Commission.

- Total revenue is expected to be in the range of \$185 million to \$194 million
- Stock-based compensation expense is expected to be in the range of \$8.0 million to \$9.5 million
- EBITDA\* is expected to be in the range of \$13.5 million to \$18.5 million
- Non-GAAP net income per diluted share\*\* is expected to be in the range of \$0.30 to \$0.43 per share

\* EBITDA is calculated by adding stock-based compensation expense, depreciation and amortization expense, including intangible asset amortization expense, other expense, net and provision for income taxes to GAAP net income.

\*\* Non-GAAP net income per diluted share is calculated by excluding stock-based compensation expense, intangible asset amortization expense and the estimated tax benefit relating to these expenses.

#### **Webcast and Conference Call Information**

A Webcast and conference call will be held today, Thursday, October 30, 2014 at 5:00 p.m. Eastern / 2:00 p.m. Pacific Time. The Webcast will be available live on the Investor Relations section on eHealth's website at <http://ir.ehealthinsurance.com>. Individuals interested in listening to the conference call may do so by dialing 877 280.4956 for domestic callers and 857 244.7313 for international callers. The participant passcode is 99188009. A telephone replay will be available two hours following the conclusion of the call for a period of 30 days and can be accessed by dialing 888 286.8010 for domestic callers and 617 801.6888 for international callers. The call ID for the replay is 44776704. The live and archived webcast of the call will also be available on eHealth's website at <http://www.ehealthinsurance.com> under the Investor Relations section.

#### **About eHealth, Inc.**

eHealth, Inc. (NASDAQ: EHTH) operates eHealthInsurance.com, the nation's first and largest private health insurance exchange where individuals, families and small businesses can compare health insurance products from leading insurers side by side and purchase and enroll in coverage online. eHealthInsurance offers thousands of individual, family and small business health plans underwritten by more than 180 of the nation's leading health insurance companies. eHealthInsurance is licensed to sell health insurance in all 50 states and the District of Columbia. eHealth, Inc. also provides powerful online and pharmacy-based tools to help Medicare beneficiaries navigate Medicare health insurance options, choose the right plan and enroll in select plans online through PlanPrescriber.com ([www.PlanPrescriber.com](http://www.PlanPrescriber.com)), eHealthMedicare.com ([www.eHealthMedicare.com](http://www.eHealthMedicare.com)) and Medicare.com ([www.Medicare.com](http://www.Medicare.com)).

For more health insurance news and information, visit the eHealthInsurance consumer blog: Get Smart - Get Covered or visit eHealth's Affordable Care Act Resource Center at [www.eHealth.com/affordable-care-act](http://www.eHealth.com/affordable-care-act)

### **Forward-Looking Statements**

This press release contains statements that are forward-looking statements as defined within the Private Securities Litigation Reform Act of 1995. These include statements regarding future events; future performance; the utility to our investors of the non-GAAP financial measures presented in this release; our guidance for total revenue, stock-based compensation expense, EBITDA and non-GAAP net income per diluted share for the year ending December 31, 2014 and our membership estimates. These forward-looking statements are inherently subject to various risks and uncertainties that could cause actual results to differ materially from the statements made, including risks associated with the impact of healthcare reform and medical loss ratio requirements; changes in consumer behaviors and their selection of individual and family health insurance products, including the selection of products for which we receive lower commissions; changes in competitive landscape and product offerings among carriers and the resulting impact on eHealth's commission revenue; increased competition from state and federal insurance exchanges; the impact of increased health insurance costs on demand; eHealth's ability to retain existing members and limit member turnover; eHealth's ability to attract new members and to convert online visitors into paying members; eHealth's ability to timely receive and accurately predict the amount of commission payments from health insurance carriers; variability in timing of commission payments from health insurance carriers; changes in member conversion rates; eHealth's ability to sell qualified health insurance plans to subsidy-eligible individuals; eHealth's ability to align its expenses with its revenue; the impact of annual enrollment periods for the purchase of individual and family health insurance and its timing on eHealth's recognition of revenue; eHealth's ability to accurately estimate membership; the evolving nature of Affordable Care Act implementation; eHealth's ability to enter into and maintain relationships with health insurance carriers; eHealth's success in marketing and selling health insurance plans; eHealth's ability to hire, train and retain licensed health insurance agents; the need for health insurance carrier and regulatory approvals in connection with the marketing of Medicare-related insurance products; costs of acquiring new members; lack of membership growth and retention rates; changes in products offered on eHealth's ecommerce platform; changes in commission rates; maintaining and enhancing eHealth's brand identity; eHealth's ability to derive desired benefits from its investments in its business, including its membership growth initiatives and development of private exchange capabilities; system failures, capacity constraints, data loss or online commerce security risks; dependence on acceptance of the Internet as a marketplace for the purchase and sale of health insurance; dependence upon Internet search engines; reliance on marketing partners; timing of receipt and accuracy of commission reports; payment practices of health insurance carriers; competition; dependence on our operations in China; success of eHealth's sponsorship and advertising business; protection of intellectual property and defense against intellectual property rights claims; legal liability and regulatory penalties; changes in our management and key employees; seasonality; maintenance of relationships with business development partners; maintenance of proper and effective internal controls; impact of provisions for income taxes; changes in laws and regulations, including in connection with healthcare reform and/or with respect to the marketing and sale of Medicare plans; compliance with insurance and other laws and regulations; exposure to security risks; and the performance, reliability and availability of eHealth's ecommerce platform and underlying network infrastructure. Other factors that could cause operating, financial and other results to differ are described in eHealth's most recent Quarterly Report on Form 10-Q or Annual Report on Form 10-K filed with the Securities and Exchange Commission and available on the investor relations page of eHealth's website at <http://www.ehealthinsurance.com> and on the Securities and Exchange Commission's website at [www.sec.gov](http://www.sec.gov). eHealth does not undertake any obligation to update any forward-looking statement to conform the statement to actual results or changes in expectations.

### **Non-GAAP Financial Information**

This press release includes financial measures that are not in accordance with generally accepted accounting principles in the United States (GAAP). To supplement eHealth's condensed consolidated financial statements presented in accordance with GAAP, eHealth presents investors with certain non-GAAP financial measures, including non-GAAP operating income; non-GAAP operating margins; earnings before interest, taxes, depreciation and amortization (EBITDA); non-GAAP net income and non-GAAP net income per diluted share.

- Non-GAAP operating income consists of GAAP operating income excluding the following items:
  - the effects of expensing stock-based compensation related to stock options and restricted stock units in accordance with FASB ASC Topic 718, and
  - intangible asset amortization expense.
- Non-GAAP operating margins are calculated by dividing non-GAAP operating income by GAAP total revenue.
- EBITDA is calculated by adding stock-based compensation, depreciation and amortization expense, including intangible asset amortization expense, other expense, net and provision for income taxes to GAAP net income.
- Non-GAAP net income consists of GAAP net income excluding the following items:
  - the effects of expensing stock-based compensation related to stock options and restricted stock units in accordance with FASB ASC Topic 718,
  - intangible asset amortization expense, and
  - the related income tax benefits of these excluded expenses.
- Non-GAAP net income per diluted share is calculated by dividing non-GAAP net income by GAAP weighted average diluted shares outstanding.

eHealth believes that the presentation of these non-GAAP financial measures provide important supplemental information to management and investors regarding financial and business trends relating to eHealth's financial condition and results of operations. Management believes that the use of these non-GAAP financial measures provides consistency and comparability with eHealth's past financial reports. Management also believes that the items described above provides an additional measure of eHealth's operating results and facilitates comparisons of eHealth's core operating performance against prior periods and business model objectives. This information is provided to investors in order to facilitate additional analyses of past, present and future operating performance and as a supplemental means to evaluate eHealth's ongoing operations. eHealth believes that these non-GAAP financial measures are useful to investors in their assessment of eHealth's operating performance.

Non-GAAP operating income, non-GAAP operating margins, EBITDA, non-GAAP net income and non-GAAP net income per diluted share are not calculated in accordance with GAAP, and should be considered supplemental to, and not as a substitute for, or superior to, financial measures calculated in accordance with GAAP. Non-GAAP financial measures used in this press release have limitations in that they do not reflect all of the

revenue and costs associated with the operations of eHealth's business and do not reflect income tax as determined in accordance with GAAP. As a result, you should not consider these measures in isolation or as a substitute for analysis of eHealth's results as reported under GAAP. eHealth expects to continue to incur the stock-based compensation costs and purchased intangible asset amortization costs described above, and exclusion of these costs, and their related income tax benefits, from non-GAAP financial measures should not be construed as an inference that these costs are unusual or infrequent. eHealth compensates for these limitations by prominently disclosing GAAP operating income, GAAP operating margins, GAAP net income and GAAP net income per diluted share and providing investors with reconciliations from eHealth's GAAP operating results to the non-GAAP financial measures for the relevant periods.

The accompanying tables provide more details on the GAAP financial measures that are most directly comparable to the non-GAAP financial measures described above and the related reconciliations between these financial measures.

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

	<b>December 31, 2013</b>	<b>September 30, 2014</b>
	(1)	(unaudited)
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 107,055	\$ 58,080
Accounts receivable	4,586	5,878
Deferred income taxes	4,459	1,574
Prepaid expenses and other current assets	8,364	6,745
Total current assets	124,464	72,277
Property and equipment, net	10,283	10,526
Deferred income taxes	4,569	6,197
Other assets	5,518	6,019
Intangible assets, net	7,496	11,241
Goodwill	14,096	14,096
Total assets	<u>\$ 166,426</u>	<u>\$ 120,356</u>
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Accounts payable	\$ 4,381	\$ 2,768
Accrued compensation and benefits	10,291	8,131
Accrued marketing expenses	8,227	2,464
Deferred revenue	1,784	2,267
Other current liabilities	2,561	2,846
Total current liabilities	27,244	18,476
Non-current liabilities	6,165	6,195
Stockholders' equity:		
Common stock	28	29
Additional paid-in capital	252,361	262,016
Treasury stock, at cost	(149,998)	(199,998)
Retained earnings	30,466	33,460
Accumulated other comprehensive income	160	178
Total stockholders' equity	133,017	95,685
Total liabilities and stockholders' equity	<u>\$ 166,426</u>	<u>\$ 120,356</u>

1. The condensed consolidated balance sheet at December 31, 2013 has been derived from the audited consolidated financial statements at that date.

**EHEALTH, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**  
(In thousands, except per share amounts, unaudited)

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2013</b>	<b>2014</b>	<b>2013</b>	<b>2014</b>
Revenue				
Commission	\$ 36,000	\$ 36,164	\$ 109,193	\$ 120,267
Other	6,008	5,004	15,822	14,435
Total revenue	42,008	41,168	125,015	134,702
Operating costs and expenses:				
Cost of revenue	806	745	4,441	3,750
Marketing and advertising (1)	14,852	9,228	43,448	41,946
Customer care and enrollment (1)	8,936	9,695	23,914	28,392

Technology and content (1)	9,117	10,303	23,585	30,320
General and administrative (1)	7,540	7,077	22,191	22,228
Amortization of intangible assets	354	354	1,061	1,062
Total operating costs and expenses	41,605	37,402	118,640	127,698
Income from operations	403	3,766	6,375	7,004
Other expense, net	(22)	(13)	(68)	(81)
Income before provision for income taxes	381	3,753	6,307	6,923
Provision for income taxes	207	2,229	2,626	3,929
Net income	\$ 174	\$ 1,524	\$ 3,681	\$ 2,994
Net income per share:				
Basic	\$ 0.01	\$ 0.09	\$ 0.19	\$ 0.16
Diluted	\$ 0.01	\$ 0.08	\$ 0.18	\$ 0.15
Weighted-average number of shares used in per share amounts:				
Basic	18,436	17,836	19,310	18,551
Diluted	19,096	18,394	19,912	19,341
(1) Includes stock-based compensation as follows:				
Marketing and advertising	\$ 517	\$ 721	\$ 1,446	\$ 1,957
Customer care and enrollment	92	116	261	283
Technology and content	425	559	1,129	1,550
General and administrative	911	894	2,525	2,795
Total	\$ 1,945	\$ 2,290	\$ 5,361	\$ 6,585

**EHEALTH, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In thousands, unaudited)

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2013</b>	<b>2014</b>	<b>2013</b>	<b>2014</b>
<b>Operating activities</b>				
Net income	\$ 174	\$ 1,524	\$ 3,681	\$ 2,994
Adjustments to reconcile net income to net cash provided by operating activities:				
Deferred income taxes	(502)	3,384	(3,951)	1,349
Depreciation and amortization	900	1,050	2,290	3,111
Amortization of book-of-business consideration	274	104	2,822	1,909
Amortization of intangible assets	354	354	1,061	1,062
Stock-based compensation expense	1,945	2,290	5,361	6,585
Deferred rent	90	35	917	69
Changes in operating assets and liabilities:				
Accounts receivable	(1,265)	985	(2,131)	(1,292)
Prepaid expenses and other assets	324	1	(852)	(1,072)
Accounts payable	(354)	(1,385)	(1,895)	(1,612)
Accrued compensation and benefits	3,034	896	2,504	(2,155)
Accrued marketing expenses	379	323	(196)	(5,763)
Deferred revenue	2,907	1,023	3,794	420
Other current liabilities	418	377	1,370	254
Net cash provided by operating activities	8,678	10,961	14,775	5,859
<b>Investing activities</b>				
Purchases of property and equipment	(2,914)	(995)	(6,735)	(3,335)
Purchase of intangible asset	-	-	-	(4,500)
Net cash used in investing activities	(2,914)	(995)	(6,735)	(7,835)
<b>Financing activities</b>				
Net proceeds from exercise of common stock options	2,101	658	4,650	3,902
Cash used to net-share settle equity awards	(98)	(151)	(940)	(3,506)
Excess tax benefits from stock-based compensation	291	(1,015)	4,217	2,648
Repurchase of common stock	-	(21,744)	(59,007)	(50,000)
Principle payments in connection with capital leases	(15)	(17)	(41)	(57)
Net cash provided by (used in) financing activities	2,279	(22,269)	(51,121)	(47,013)
Effect of exchange rate changes on cash and cash equivalents	(5)	1	(17)	14
Net increase (decrease) in cash and cash equivalents	8,038	(12,302)	(43,098)	(48,975)
Cash and cash equivalents at beginning of period	89,713	70,382	140,849	107,055

Cash and cash equivalents at end of period	\$	97,751	\$	58,080	\$	97,751	\$	58,080
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**EHEALTH, INC.**  
**SUMMARY OF SELECTED METRICS**  
(Unaudited)

<b>Key Metrics:</b>	<b>Three Months Ended September 30, 2013</b>		<b>Three Months Ended September 30, 2014</b>	
Operating cash flows (1)	\$	8,678,000	\$	10,961,000
IFP submitted applications (2)		123,300		23,800
IFP approved members (3)		112,300		28,100
Total approved members (4)		210,700		130,000
Commission revenue (5)	\$	36,000,000	\$	36,164,000
Commission revenue per estimated member for the period (6)	\$	32.39	\$	30.05

	<b>As of September 30, 2013</b>		<b>As of September 30, 2014</b>	
IFP estimated membership (7)		765,500		653,700
Medicare estimated membership (8)		85,300		121,300
Other estimated membership (9)		296,300		383,100
Total estimated membership (10)		1,147,100		1,158,100

<b>Other Metrics:</b>	<b>Three Months Ended September 30, 2013</b>		<b>Three Months Ended September 30, 2014</b>	
Source of IFP submitted applications (as a percentage of total IFP applications for the period):				
Direct (11)		51%		70%
Marketing partners (12)		33%		23%
Online advertising (13)		16%		7%
Total		100%		100%

**Notes:**

- (1) Net cash used in operating activities for the period from the condensed consolidated statements of cash flows.
- (2) IFP applications submitted on eHealth's website during the period. Applications are counted as submitted when the applicant completes the application, provides a method for payment and clicks the submit button on our website and submits the application to us. The applicant generally has additional actions to take before the application will be reviewed by the insurance carrier, such as providing additional information and providing an electronic signature. In addition, an applicant may submit more than one application. We include applications for IFP products for which we receive commissions as well as other forms of payment. We define our "IFP" offerings as major medical individual and family health insurance plans, which does not include small business, short-term major medical, stand-alone dental, life, student or Medicare-related health insurance plans.
- (3) New IFP members reported to eHealth as approved during the period. Some members that are approved by a carrier do not accept the approval and therefore do not become paying members.
- (4) New members for all products reported to eHealth as approved during the period. Some members that are approved by a carrier do not accept the approval and therefore do not become paying members.
- (5) Commission revenue (from all sources) recognized during the period from the condensed consolidated statements of income.
- (6) Calculated as commission revenue recognized during the period (see note (5) above) divided by average estimated membership for the period (calculated as beginning and ending estimated membership for all products for the period, divided by two). See the note below and our *Form 10-K for the year ended December 31, 2013 - Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations - Summary of Selected Metrics* for additional information regarding our calculation of estimated membership.
- (7) Estimated number of members active on IFP insurance policies as of the date indicated. See the note below and our *Form 10-K for the year ended December 31, 2013 - Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations - Summary of Selected Metrics* for additional information regarding our calculation of estimated membership.
- (8) Estimated number of members active on Medicare insurance policies as of the date indicated. See our *Form 10-K for the year ended December 31, 2013 - Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations - Summary of Selected Metrics* for additional information regarding our calculation of estimated membership.
- (9) Estimated number of members active on insurance policies other than IFP and Medicare policies as of the date indicated. See our *Form 10-K for the year ended December 31, 2013 - Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations - Summary of Selected Metrics* for additional information regarding our calculation of estimated membership.

- (10) Estimated number of members active on all insurance policies as of the date indicated. See the note below and our *Form 10-K for the year ended December 31, 2013 - Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations - Summary of Selected Metrics* for additional information regarding our calculation of estimated membership.
- (11) Percentage of IFP submitted applications from applicants who came directly to the eHealth website through algorithmic search engine results or otherwise. See note (2) above for further information as to what constitutes a submitted application.
- (12) Percentage of IFP submitted applications from applicants sourced through eHealth's network of marketing partners. See note (2) above for further information as to what constitutes a submitted application.
- (13) Percentage of IFP submitted applications from applicants sourced through paid search and other online advertising activities. See note (2) above for further information as to what constitutes a submitted application.

**Note:** Historically, to calculate the estimated number of members active on individual and family plan insurance policies, we have taken the sum of (i) the number of IFP members for whom we have received or applied a commission payment for the month that is six months prior to the date of estimation after reducing that number using historical experience (for which the experience for the period from March 1 to September 30, 2013 was used for the calculation of membership as of September 30, 2014) for assumed member cancellations over the six-month period and (ii) the number of approved members over the six-month period prior to the date of estimation after reducing that number using historical experience for an assumed number of members who do not accept their approved policy and for estimated member cancellations through the date of the estimate. Historically, the percentage of our members who did not accept their approved policy remained at a relatively constant rate. However, we observed an increase in the number of members who ultimately did not accept their approved policies, compared to our historical experience, beginning with policies that were submitted in the quarter ended March 31, 2014. This lower acceptance rate was used to estimate the assumed number of members who did not accept their approved policy for the six months ended September 30, 2014. As a result, for the purpose of estimating the number of members active on individual and family plan insurance policies as of September 30, 2014, we have assumed and applied a higher percentage of members who do not accept their approved policy as compared to the assumption used in prior years.

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

**EHEALTH, INC.**  
**GAAP TO NON-GAAP RECONCILIATION**  
**FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2014**  
*(In thousands, except per share amounts, unaudited)*

**Statement of Income Reconciliation**

<b>Three Months Ended September 30, 2014</b>					
	<b>GAAP Reported</b>	<b>GAAP Percent of Total Revenue</b>	<b>Adjustments</b>	<b>Non-GAAP Results</b>	<b>Non-GAAP Percent of Total Revenue</b>
Revenue:					
Commission	\$ 36,164	88%	\$ -	\$ 36,164	88%
Other	5,004	12	-	5,004	12
Total revenue	41,168	100	-	41,168	100
Operating costs and expenses:					
Cost of revenue	745	2	-	745	2
Marketing and advertising (1)	9,228	22	(721)	8,507	21
Customer care and enrollment (1)	9,695	24	(116)	9,579	23
Technology and content (1)	10,303	25	(559)	9,744	24
General and administrative (1)	7,077	17	(894)	6,183	15
Amortization of intangible assets (2)	354	1	(354)	-	-
Total operating costs and expenses	37,402	91	(2,644)	34,758	84
Income from operations	3,766	9	2,644	6,410	16
Other expense, net	(13)	-	-	(13)	-
Income before provision for income taxes	3,753	9	2,644	6,397	16
Provision for income taxes (3)	2,229	5	1,060	3,289	8
Net income (4)	\$ 1,524	4%	\$ 1,584	\$ 3,108	8%
Net income per share: (4)					
Basic - common stock	\$ 0.09		\$ 0.09	\$ 0.17	
Diluted - common stock	\$ 0.08		\$ 0.09	\$ 0.17	

Weighted-average number of shares used in per share amounts:

Basic - common stock	17,836	17,836	17,836
Diluted - common stock	18,394	18,394	18,394

**Explanation of adjustments**

- (1) Non-GAAP results exclude the effect of expensing stock-based compensation related to stock options and restricted stock units in accordance with FASB ASC Topic 718.
- (2) Non-GAAP results exclude intangible asset amortization expense.
- (3) Non-GAAP provision for income taxes excludes the estimated income tax benefits related to stock-based compensation expense listed in note (1) above and intangible asset amortization expense listed in note (2) above.
- (4) Non-GAAP net income and non-GAAP net income per share excludes stock-based compensation expense listed in note (1) above, intangible asset amortization expense listed in note (2) above, less the estimated income tax benefit listed in note (3) above.

**EHEALTH, INC.**  
**GAAP TO NON-GAAP RECONCILIATION**  
**FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2013**  
*(In thousands, except per share amounts, unaudited)*

**Statement of Income Reconciliation**

<b>Three Months Ended September 30, 2013</b>					
	<b>GAAP Reported</b>	<b>GAAP Percent of Total Revenue</b>	<b>Adjustments</b>	<b>Non-GAAP Results</b>	<b>Non-GAAP Percent of Total Revenue</b>
Revenue:					
Commission	\$ 36,000	86%	\$ -	\$ 36,000	86%
Other	6,008	14	-	6,008	14
Total revenue	42,008	100	-	42,008	100
Operating costs and expenses:					
Cost of revenue	806	2	-	806	2
Marketing and advertising (1)	14,852	35	(517)	14,335	34
Customer care and enrollment (1)	8,936	21	(92)	8,844	21
Technology and content (1)	9,117	22	(425)	8,692	21
General and administrative (1)	7,540	18	(911)	6,629	16
Amortization of intangible assets (2)	354	1	(354)	-	-
Total operating costs and expenses	41,605	99	(2,299)	39,306	94
Income from operations	403	1	2,299	2,702	6
Other expense, net	(22)	-	-	(22)	-
Income before provision for income taxes	381	1	2,299	2,680	6
Provision for income taxes (3)	207	-	922	1,129	3
Net income (4)	\$ 174	-%	\$ 1,377	\$ 1,551	4%
Net income per share: (4)					
Basic - common stock	\$ 0.01		\$ 0.07	\$ 0.08	
Diluted - common stock	\$ 0.01		\$ 0.07	\$ 0.08	

Weighted-average number of shares used in per share amounts:

Basic - common stock	18,436	18,436	18,436
Diluted - common stock	19,096	19,096	19,096

**Explanation of adjustments**

- (1) Non-GAAP results exclude the effect of expensing stock-based compensation related to stock options and restricted stock units in accordance with FASB ASC Topic 718.
- (2) Non-GAAP results exclude intangible asset amortization expense.
- (3) Non-GAAP provision for income taxes excludes the estimated income tax benefits related to stock-based compensation expense listed in note (1) above and intangible asset amortization expense listed in note (2) above.
- (4) Non-GAAP net income and non-GAAP net income per share exclude stock-based compensation expense listed in note (1) above, intangible asset amortization expense listed in note (2) above, less the estimated income tax benefit listed in note (3) above.

**EHEALTH, INC.**  
**GAAP TO NON-GAAP RECONCILIATION**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014**  
*(In thousands, except per share amounts, unaudited)*

**Statement of Income Reconciliation**

**Nine Months Ended September 30, 2014**

	<b>GAAP Reported</b>	<b>GAAP Percent of Total Revenue</b>	<b>Adjustments</b>	<b>Non-GAAP Results</b>	<b>Non-GAAP Percent of Total Revenue</b>
Revenue:					
Commission	\$ 120,267	89% \$	- \$	120,267	89%
Other	14,435	11	-	14,435	11
Total revenue	134,702	100	-	134,702	100
Operating costs and expenses:					
Cost of revenue-sharing	3,750	3	-	3,750	3
Marketing and advertising (1)	41,946	31	(1,957)	39,989	30
Customer care and enrollment (1)	28,392	21	(283)	28,109	21
Technology and content (1)	30,320	23	(1,550)	28,770	21
General and administrative (1)	22,228	17	(2,795)	19,433	14
Amortization of intangible assets (2)	1,062	1	(1,062)	-	-
Total operating costs and expenses	127,698	95	(7,647)	120,051	89
Income from operations	7,004	5	7,647	14,651	11
Other expense, net	(81)	-	-	(81)	-
Income before provision for income taxes	6,923	5	7,647	14,570	11
Provision for income taxes (3)	3,929	3	3,072	7,001	5
Net income (4)	\$ 2,994	2% \$	4,575 \$	7,569	6%

Net income per share: (4)					
Basic - common stock	\$ 0.16	\$	0.25 \$	0.41	
Diluted - common stock	\$ 0.15	\$	0.24 \$	0.39	

Weighted-average number of shares used in per share amounts:

Basic - common stock	18,551	18,551	18,551
Diluted - common stock	19,341	19,341	19,341

#### **Explanation of adjustments**

- (1) Non-GAAP results exclude the effect of expensing stock-based compensation related to stock options and restricted stock units in accordance with FASB ASC Topic 718.
- (2) Non-GAAP results exclude intangible asset amortization expense.
- (3) Non-GAAP provision for income taxes excludes the estimated income tax benefits related to stock-based compensation expense listed in note (1) above and intangible asset amortization expense listed in note (2) above.
- (4) Non-GAAP net income and non-GAAP net income per share excludes stock-based compensation expense listed in note (1) above, intangible asset amortization expense listed in note (2) above, less the estimated income tax benefit listed in note (3) above.

**EHEALTH, INC.**  
**GAAP TO NON-GAAP RECONCILIATION**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013**  
*(In thousands, except per share amounts, unaudited)*

#### **Statement of Income Reconciliation**

<b>Nine Months Ended September 30, 2013</b>					
	<b>GAAP Reported</b>	<b>GAAP Percent of Total Revenue</b>	<b>Adjustments</b>	<b>Non-GAAP Results</b>	<b>Non-GAAP Percent of Total Revenue</b>
Revenue:					
Commission	\$ 109,193	87% \$	- \$	109,193	87%
Other	15,822	13	-	15,822	13
Total revenue	125,015	100	-	125,015	100
Operating costs and expenses:					
Cost of revenue-sharing	4,441	4	-	4,441	4
Marketing and advertising (1)	43,448	35	(1,446)	42,002	34
Customer care and enrollment (1)	23,914	19	(261)	23,653	19
Technology and content (1)	23,585	19	(1,129)	22,456	18
General and administrative (1)	22,191	18	(2,525)	19,666	16
Amortization of intangible assets (2)	1,061	1	(1,061)	-	-
Total operating costs and expenses	118,640	95	(6,422)	112,218	90
Income from operations	6,375	5	6,422	12,797	10
Other expense, net	(68)	-	-	(68)	-
Income before provision for income taxes	6,307	5	6,422	12,729	10
Provision for income taxes (3)	2,626	2	2,577	5,203	4
Net income (4)	\$ 3,681	3% \$	3,845 \$	7,526	6%

Net income per share: (4)					
Basic - common stock	\$	0.19	\$	0.20	\$ 0.39
Diluted - common stock	\$	0.18	\$	0.19	\$ 0.38

Weighted-average number of shares used in per share amounts:

Basic - common stock	19,310	19,310	19,310
Diluted - common stock	19,912	19,912	19,912

**Explanation of adjustments**

- (1) Non-GAAP results exclude the effect of expensing stock-based compensation related to stock options and restricted stock units in accordance with FASB ASC Topic 718.
- (2) Non-GAAP results exclude intangible asset amortization expense.
- (3) Non-GAAP provision for income taxes excludes the estimated income tax benefits related to stock-based compensation expense listed in note (1) above and intangible asset amortization expense listed in note (2) above.
- (4) Non-GAAP net income and non-GAAP net income per share exclude stock-based compensation expense listed in note (1) above, intangible asset amortization expense listed in note (2) above, less the estimated income tax benefit listed in note (3) above.

**EHEALTH, INC.**  
**GAAP NET INCOME TO NON-GAAP EBITDA RECONCILIATION**  
**FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2013 AND 2014**  
*(In thousands, unaudited)*

**EBITDA Reconciliation**

	<i>Three Months Ended September 30,</i>		<i>Nine Months Ended September 30,</i>	
	<i>2013</i>	<i>2014</i>	<i>2013</i>	<i>2014</i>
Net income	\$ 174	\$ 1,524	\$ 3,681	\$ 2,994
Stock-based compensation expense (1)	1,945	2,290	5,361	6,585
Depreciation and amortization (2)	900	1,050	2,290	3,111
Amortization of intangible assets (2)	354	354	1,061	1,062
Other expense, net (3)	22	13	68	81
Provision for income taxes (4)	207	2,229	2,626	3,929
EBITDA	<u>\$ 3,602</u>	<u>\$ 7,460</u>	<u>\$ 15,087</u>	<u>\$ 17,762</u>

**Explanation of adjustments**

- (1) Non-GAAP EBITDA excludes the effect of expensing stock-based compensation related to stock options and restricted stock units in accordance with FASB ASC Topic 718.
- (2) Non-GAAP EBITDA excludes depreciation and amortization expense, including intangible asset amortization expense.
- (3) Non-GAAP EBITDA excludes other expense, net.
- (4) Non-GAAP EBITDA excludes income tax expense.

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