eHealth, Inc.
Form 10-Q
November 10, 2014

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

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

For the quarterly period ended September 30, 2014

OR

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

For the transition period from to

001-33071
(Commission File Number)

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

Delaware (State or other jurisdiction of incorporation or organization)	56-2357876 (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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulations S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO

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

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

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

The number of shares of the registrant's common stock, par value $0.001 per share, outstanding as of November 1, 2014 was 17,817,864 shares.

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PART I
FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

Assets	December 31, 2013 (Note 1)	September 30, 2014 (unaudited)
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	$166,426	$120,356
Liabilities and stockholders' equity		
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	$166,426	$120,356

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2014	2013	2014
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	14,852	9,228	43,448	41,946
Customer care and enrollment	8,936	9,695	23,914	28,392
Technology and content	9,117	10,303	23,585	30,320
General and administrative	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
Comprehensive income:				
Net income	$174	$1,524	$3,681	$2,994
Foreign currency translation adjustment	(7)	1	(25)	18
Comprehensive income	$167	$1,525	$3,656	$3,012

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)

	Nine Months Ended September 30,	
	2013	2014
Operating activities		
Net income	$3,681	$2,994
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred income taxes	(3,951)	1,349
Depreciation and amortization	2,290	3,111
Amortization of book-of-business consideration	2,822	1,909
Amortization of intangible assets	1,061	1,062
Stock-based compensation expense	5,361	6,585
Deferred rent	917	69
Changes in operating assets and liabilities:		
Accounts receivable	(2,131)	(1,292)
Prepaid expenses and other assets	(852)	(1,072)
Accounts payable	(1,895)	(1,612)
Accrued compensation and benefits	2,504	(2,155)
Accrued marketing expenses	(196)	(5,763)
Deferred revenue	3,794	420
Other current liabilities	1,370	254
Net cash provided by operating activities	14,775	5,859
Investing activities		
Purchases of property and equipment	(6,735)	(3,335)
Purchase of intangible assets	—	(4,500)
Net cash used in investing activities	(6,735)	(7,835)
Financing activities		
Net proceeds from exercise of common stock options	4,650	3,902
Cash used to net-share settle equity awards	(940)	(3,506)
Excess tax benefits from stock-based compensation	4,217	2,648
Repurchase of common stock	(59,007)	(50,000)
Principal payments in connection with capital leases	(41)	(57)
Net cash used in financing activities	(51,121)	(47,013)
Effect of exchange rate changes on cash and cash equivalents	(17)	14
Net decrease in cash and cash equivalents	(43,098)	(48,975)
Cash and cash equivalents at beginning of period	140,849	107,055
Cash and cash equivalents at end of period	$97,751	$58,080

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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Note 1 - Summary of Business and Significant Accounting Policies

Description of Business—eHealth, Inc. (the “Company,” “eHealth,” “we” or “us”) is the leading online source of health insura for individuals, families and small businesses in the United States. Through our website addresses (www.eHealth.com, www.eHealthInsurance.com, www.eHealthMedicare.com, www.Medicare.com and www.PlanPrescriber.com), consumers can get quotes from leading health insurance carriers, compare plans side-by-side, and apply for and purchase individual and family, Medicare-related, small business and ancillary health insurance plans. We actively market the availability of Medicare-related insurance plans and offer Medicare plan comparison tools and educational materials for Medicare-related insurance plans, including Medicare Advantage, Medicare Supplement and Medicare Part D prescription drug plans. Our ecommerce technology also enables us to deliver consumers’ health insurance applications electronically to health insurance carriers. As a result, we simplify and streamline the complex and traditionally paper-intensive health insurance sales and purchasing process. We are licensed to market and sell health insurance in all 50 states and the District of Columbia.

Basis of Presentation—The accompanying condensed consolidated balance sheet as of September 30, 2014, the condensed consolidated statements of comprehensive income for the three and nine months ended September 30, 2013 and 2014 and the condensed consolidated statements of cash flows for the nine months ended September 30, 2013 and 2014, respectively, are unaudited. The condensed consolidated balance sheet data as of December 31, 2013 was derived from the audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2013, which was filed with the Securities and Exchange Commission on March 12, 2014. The accompanying statements should be read in conjunction with the audited consolidated financial statements and related notes contained in our Annual Report on Form 10-K.

The accompanying condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles, or U.S. GAAP, for interim financial information. Accordingly, they do not include all of the financial information and footnotes required by U.S. GAAP for complete financial statements. The unaudited condensed consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2013, and include all adjustments necessary for the fair presentation of eHealth’s statement of financial position as of September 30, 2014, its results of operations for the three and nine months ended September 30, 2013 and 2014 and its cash flows for the nine months ended September 30, 2013 and 2014. All adjustments are of a normal recurring nature. The results for the three and nine months ended September 30, 2014 are not necessarily indicative of the results to be expected for any subsequent period or for the fiscal year ending December 31, 2014.

Seasonality—In periods prior to the fourth quarter of 2013, the number of individual and family health insurance applications submitted through our ecommerce platform generally increased in our first quarter compared to our fourth quarter and in our third quarter compared to our second quarter. This trend changed in the fourth quarter of 2013 and the first quarter of 2014 as a result of an increase in the number of individual and family applications submitted during the initial open enrollment period, which began on October 1, 2013 and ended on March 31, 2014, as mandated by the federal Patient Protection and Affordable Care Act and related amendments in the Health Care and Education Reconciliation Act. Accordingly, the number of submitted individual and family plan applications, relative to historical levels, increased significantly during the fourth quarter of 2013 and the first quarter of 2014. Additionally, following completion of the initial open enrollment period, the number of submitted individual and family health insurance applications, relative to historical levels, decreased significantly during the second and third quarters of 2014, when only consumers with qualifying life events were able to purchase individual and family major medical plans.

The majority of Medicare plans are sold in our fourth quarter during the Medicare annual enrollment period, when Medicare-eligible individuals are permitted to change their Medicare Advantage and Medicare Part D prescription drug coverage for the following year. As a result, we generate a significant amount of Medicare plan-related revenue in the fourth quarter of the year resulting from the sale of new Medicare plans. Additionally, we recognize a majority of our renewal Medicare Advantage and Medicare Part D prescription drug plan commission revenue in the first quarter of each year as the majority of policies sold during the annual enrollment period typically renew on January 1 of each year.

Since a significant portion of our marketing and advertising expenses are driven by the number of health insurance applications submitted on our ecommerce platform, those expenses are influenced by seasonal submitted application patterns. As a result, in periods prior to the fourth quarter of 2013, marketing and advertising expenses related to individual and family health insurance plans have been highest in our first and third quarters, while marketing and advertising expenses related to

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Medicare-related plans have been highest in our third and fourth quarters. However, these historical trends were impacted by the initial open enrollment period for individual and family plans that began in October 2013 and ended on March 31, 2014. Marketing and advertising expenses increased significantly in the fourth quarter of 2013 and first quarter of 2014, relative to historical levels, and decreased significantly during the second and third quarters of 2014, consistent with the respective increases and decreases in submitted applications.

As a result of our seasonal trends in years prior to 2013, our revenue was highest in the fourth quarter of the year and our profitability was highest in the first quarter. However, in connection with the initial open enrollment period for individual and family plans which began on October 1, 2013 and ended on March 31, 2014, as well as the Medicare annual enrollment period for Medicare plans in the fourth quarter of 2013, we experienced an increase in revenue in both the fourth quarter of 2013 and the first quarter of 2014 compared to the fourth quarter of 2012 and first quarter of 2013, respectively. However, given our significantly higher marketing and advertising expenses associated with the increase in the number of individual and family health insurance applications and Medicare related health insurance applications during the enrollment periods, we incurred a net loss in both the fourth quarter of 2013 and the first quarter of 2014. Conversely, in both the second and third quarters of 2014, we recorded net income due to significantly lower marketing and advertising expenses associated with the decrease in the number of individual and family health insurance applications outside of the open enrollment period.

Recent Accounting Pronouncement—In May 2014, the FASB issued Accounting Standards Update No. 2014-09 (ASU 2014-09) “Revenue from Contracts with Customers.” ASU 2014-09 supersedes the revenue recognition requirements in “Revenue Recognition (Topic 605)”, and requires an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period and can be adopted using either a full retrospective or modified retrospective approach. Early adoption is not permitted. We are currently in the process of evaluating the impact of the adoption of ASU 2014-09 on our consolidated financial statements.

In August 2014, the FASB issued Accounting Standards Update No. 2014-15, (ASU 2015-15) “Going Concern.” ASU 2014-15 requires management of all entities to evaluate whether there are conditions and events that raise substantial doubt about the entity’s ability to continue as a going concern within one year after the financial statements are issued (or available to be issued when applicable). The guidance is effective for fiscal years beginning after December 15, 2016 and for interim periods within that fiscal year. We do not expect the adoption of this guidance to have a material effect on our consolidated financial statements.

Recently Adopted Accounting Standards—Effective January 1, 2014, we adopted an accounting standards update with new guidance on the presentation of unrecognized tax benefits. This standard requires an entity to present an unrecognized tax benefit, or a portion of an unrecognized tax benefit, as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except: to the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The adoption of this standard did not have a material effect on our condensed consolidated financial statements.

Effective January 1, 2014, we adopted an accounting standards update with new guidance with respect to the release of cumulative translation adjustments into net income when a parent sells either a part or all of its investment in a foreign entity. This standard requires the release of cumulative translation adjustments when a company no longer holds a controlling financial interest in a subsidiary or group of assets that is a business within a foreign entity, and provides guidance for the acquisition in stages of a controlling interest in a foreign entity. The adoption of this standard did not have a material effect on our condensed consolidated financial statements.

Note 2 – Balance Sheet Accounts

Cash and Cash Equivalents—As of December 31, 2013 and September 30, 2014, our cash equivalents consisted of money market accounts that invested in U.S. government-sponsored enterprise bonds and discount notes, U.S. government treasury bills and notes and repurchase agreements collateralized by U.S. government obligations. At December 31, 2013 and September 30, 2014, our cash equivalents carried no unrealized gains or losses and we did not realize any significant gains or losses on sales of cash equivalents during the three and nine months ended September 30, 2013 and 2014.

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As of December 31, 2013 and September 30, 2014, our cash and cash equivalent balances were invested as follows (in thousands):

	December 31, 2013	September 30, 2014
Cash	$16,935	$21,459
Money market funds	90,120	36,621
Total cash and cash equivalents	$107,055	$58,080

We used observable prices in active markets in determining the classification of our money market funds as Level 1 as of December 31, 2013 and September 30, 2014.

Accounts Receivable—As of December 31, 2013 and September 30, 2014, our accounts receivable consisted of the following (in thousands):

	December 31, 2013	September 30, 2014
Accounts receivable - from other revenues	$2,322	$2,270
Commissions receivable	2,264	3,608
Total accounts receivable	$4,586	$5,878

Intangible Assets—On March 31, 2014, we purchased an internet domain name, www.Medicare.com, for $4.8 million. Cash consideration paid in connection with the purchase of the domain name totaled $4.5 million. The consideration paid also included $0.3 million of outstanding receivables from the owner of the domain name that were settled upon completion of the purchase. The related intangible asset was assigned an indefinite useful life. The carrying amounts, accumulated amortization, net carrying value and weighted average remaining life of our definite-lived amortizable intangible assets, as well as our indefinite-lived non-amortizable intangible trademarks and website addresses, are presented in the tables below (dollars in thousands, weighted-average useful life is as of September 30, 2014):

	December 31, 2013			September 30, 2014			Weighted Average Remaining Life
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	September 30, 2014
Technology	$1,752	$(1,277)	$475	$1,752	$(1,536)	$216	0.6 years
Pharmacy and customer relationships	10,410	(4,267)	6,143	10,410	(5,001)	5,409	5.5 years
Trade names, trademarks and website addresses	907	(336)	571	907	(405)	502	5.6 years
Total intangible assets subject to amortization	$13,069	$(5,880)	7,189	$13,069	$(6,942)	6,127	
			307			5,114	Indefinite

Indefinite-lived trademarks and domain names		
Intangible assets	$7,496	$11,241

During the three and nine months ended September 30, 2013, amortization expense related to intangible assets totaled $354,000 and $1,061,000, respectively. During the three and nine months ended September 30, 2014, amortization expense related to intangible assets totaled $354,000 and $1,062,000, respectively.

As of September 30, 2014, expected amortization expense in future periods is as follows (in thousands):

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Years Ending December 31,	Technology	Pharmacy and Customer Relationships	Trade Names, Trademarks and Website Address	Total
2014 (three months)	86	245	22	353
2015	118	979	91	1,188
2016	5	979	91	1,075
2017	5	979	91	1,075
2018	2	959	91	1,052
Thereafter	-	1,268	116	1,384
Total	$216	$5,409	$502	$6,127

Note 3 – Stockholders' Equity

Stock Plans—On June 12, 2014, upon approval at the Annual Meeting of Stockholders, we adopted the 2014 Equity Incentive Plan (the "2014 Plan"). The 2014 Plan replaced the 2006 Equity Incentive Plan and 4,500,000 shares were authorized for issuance under the 2014 Plan. The 2014 Plan does not include an evergreen provision to automatically increase the number of shares available under it and increases in the number of shares authorized for issuance under the 2014 Plan require stockholder approval. Also, under the 2014 Plan the following shares are not recycled for future grant under the 2014 Plan: (i) shares used in connection with the exercise of an option and/or stock appreciation right to pay the exercise price or purchase price of such award or satisfy applicable tax withholding obligations; and (ii) the gross number of shares subject to stock appreciation rights that are exercised. Furthermore, the 2014 Plan included a provision that prohibits repricing of outstanding stock options or stock appreciation rights and formalized and updated procedures to qualify awards as "performance-based" compensation under Section 162(m) of the Internal Revenue Code in order to preserve full tax deductibility of such awards.

The following table summarizes activity under our 2014 Plan, 2006 Equity Incentive Plan, 1998 Stock Plan and 2005 Stock Plan (collectively, the "Stock Plans") (in thousands):

	Shares Available for Grant	
Shares available for grant December 31, 2013	4,085	
Additional shares authorized (1)	751	
Restricted stock units granted	(462	)
Options granted	(41	)
Restricted stock units cancelled	14	
Options cancelled	16	
2014 Equity Incentive Plan adjustment (2)	(98	)
Shares available for grant September 30, 2014	4,265	

(1) On January 1, 2014, the number of shares authorized for issuance under the 2006 Equity Incentive Plan was automatically increased pursuant to the terms of the 2006 Equity Incentive Plan.

(2) On June 12, 2014, shares available for grant were adjusted to 4,500,000 pursuant to the terms of the 2014 Plan.

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

The following table summarizes stock option activity under the Stock Plans (in thousands, except per share amounts and weighted average remaining contractual life data):

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	Number of Stock Options	Weighted Average Exercise Price	Weighted-Average Remaining Contractual Life (years)	Aggregate Intrinsic Value (1)
Balance outstanding at December 31, 2013	1,979	$17.91	4.20	$56,569
Granted	41	$40.31		
Exercised	(243)	$16.02		$6,350
Cancelled	(34)	$26.99		
Balance outstanding at September 30, 2014	1,743	$18.52	3.56	$11,836
Vested and expected to vest at September 30, 2014	1,694	$18.38	3.52	$11,612
Exercisable at September 30, 2014	1,214	$16.95	2.92	$9,172

(1) The aggregate intrinsic value is calculated as the difference between eHealth's closing stock price as of December 31, 2013, the date of options exercised and September 30, 2014 and the exercise price of in-the-money options as of those dates.

The total fair value of stock options vested during the three and nine months ended September 30, 2013 was $0.7 million and $2.6 million, respectively. The total fair value of stock options vested during the three and nine months ended September 30, 2014 was $0.7 million and $1.8 million, respectively.

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

	Number of Restricted Stock Units (1)	Weighted-Average Grant Date Fair Value	Weighted-Average Remaining Contractual Life (years)	Aggregate Intrinsic Value (2)
Balance outstanding as of December 31, 2013	779	$ 19.57	2.30	$36,220
Granted	462	$ 40.72		
Vested	(218)	$ 19.51		
Cancelled	(19)	$ 28.13		
Balance outstanding as of September 30, 2014	1,004	$ 29.16	2.31	$24,223

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

(2) The aggregate intrinsic value is calculated as eHealth's closing stock price as of December 31, 2013 and September 30, 2014 multiplied by the number of restricted stock units outstanding as of December 31, 2013 and September 30, 2014, respectively.

The fair value of the restricted stock units is based on eHealth's stock price on the date of grant, and compensation expense related to these awards is recognized on a straight-line basis over the vesting period. The fair value of performance-based restricted stock units is based on eHealth's stock price on the date of grant, and compensation expense related to these awards is recognized on an accelerated basis over the vesting period. The amount of expense recorded for performance-based restricted stock units is based on expected attainment of performance criteria. The total fair value of restricted stock units vested during the three and nine months ended September 30, 2013 was $0.2 million and $3.5 million, respectively. The total fair value of restricted stock units vested during the three and nine months ended September 30, 2014 was $0.4 million and $10.3 million, respectively.

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Stock Repurchase Programs—On September 10, 2012, we announced that our board of directors approved a stock repurchase program authorizing us to purchase up to $30 million of our common stock and on March 6, 2013, we announced that our board of directors increased the approved repurchase amount under this program to $60 million. Purchases under this program were made in the open market. The cost of the repurchased shares was funded from available working capital. We completed repurchasing common stock under this program in June 2013 having repurchased 2,957,179 shares for $60.0 million at an average price of $20.29 per share.

On March 31, 2014, we announced that our board of directors approved a stock repurchase program authorizing us to purchase up to $50 million of our common stock. Purchases under this program were made in the open market. We completed this stock repurchase program in July 2014 having repurchased in the aggregate 1.4 million shares for approximately $50.0 million at an average price of $36.91 per share including commissions. The cost of the repurchase was funded from available working capital.

For accounting purposes, common stock repurchased under our stock repurchase programs is recorded based upon the settlement date of the applicable trade. Such repurchased shares are held in treasury and are presented using the cost method.

Stock repurchase activity under our stock repurchase programs during the nine months ended September 30, 2014 is summarized as follows (dollar in thousands, except share and per share amounts):

	Total Number of Shares Repurchased	Average Price Paid Per Share (3)	Amount of Repurchase
Cumulative balance at December 31, 2013 (1)	9,309,269	$ 16.11	$ 149,998
Repurchases of common stock during 2014	1,354,619	$ 36.91	$ 50,000
Cumulative balance at September 30, 2014 (2)	10,663,888	$ 18.75	$ 199,998

(1) Cumulative balances at December 31, 2013 consist of shares repurchased in connection with our previous stock repurchase plans announced in 2013, 2012, 2011, 2010 and 2008.

(2) Cumulative balances at September 30, 2014 consist of shares repurchased in connection with our stock repurchase program announced on March 31, 2014, as well as previous stock repurchase plans announced in 2013, 2012, 2011, 2010 and 2008.

(3) Average price paid per share includes commissions.

In addition to the shares repurchased under our repurchase programs as of September 30, 2014, we have in treasury 281,322 shares that were previously surrendered by employees to satisfy tax withholdings due in connection with the vesting of certain restricted stock units. As of December 31, 2013 and September 30, 2014, we had a total of 9,519,286 shares and 10,945,210 shares, respectively, held in treasury.

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(unaudited)

Stock-Based Compensation—The fair value of stock options granted to employees for the three and nine months ended September 30, 2013 and 2014 was estimated using the following weighted average assumptions:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2013		2014		2013		2014	
Expected term	4.3 years		4.2 years		4.3 years		4.2 years	
Expected volatility	39.8	%	46.9	%	39.7	%	46.3	%
Expected dividend yield	—	%	—	%	—	%	—	%
Risk-free interest rate	1.13	%	1.37	%	0.79	%	1.40	%
Weighted-average fair value	$8.39		$13.09		$7.02		$15.50	

The following table summarizes stock-based compensation expense recorded during the three and nine months ended September 30, 2013 and 2014 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2014	2013	2014
Common stock options	$654	$523	$2,103	$1,729
Restricted stock units	1,291	1,767	3,258	4,856
Total stock-based compensation expense	$1,945	$2,290	$5,361	$6,585

The following table summarizes stock-based compensation expense by operating function for the three and nine months ended September 30, 2013 and 2014 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2014	2013	2014
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 stock-based compensation expense	$1,945	$2,290	$5,361	$6,585

Note 4 – Income Taxes

The following table summarizes our provision for income taxes and our effective tax rates for the three and nine months ended September 30, 2013 and 2014 (in thousands, except effective tax rate):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2013		2014		2013		2014	
Income before provision for income taxes	$381		$3,753		$6,307		$6,923	
Provision for income taxes	$207		$2,229		$2,626		$3,929	
Effective tax rate	54.3	%	59.4	%	41.6	%	56.8	%

Our effective tax rate in the three and nine months ended September 30, 2013 was higher than statutory federal and state tax rates due primarily to non-deductible lobbying expenses, partially offset by a tax benefit resulting from the extension

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of the federal research tax credit through December 31, 2013. Our effective tax rate in the three and nine months ended September 30, 2014 was higher than statutory federal and state tax rates due primarily to non-deductible lobbying expenses.

During the three and nine months ended September 30, 2013, excess federal and state tax benefits related to share-based payments resulted in increases of $0.3 million and $4.2 million, respectively, in Additional Paid-In Capital in the condensed consolidated balance sheets. These amounts are also classified in the condensed consolidated statements of cash flows as both a reduction to operating cash flows and as a financing cash inflow. During the three and nine months ended September 30, 2014, excess federal and state tax benefits related to share-based payments resulted in a decrease of $1.0 million and an increase of $2.6 million, respectively, in Additional Paid-In Capital in the condensed consolidated balance sheets. These amounts are also classified in the condensed consolidated statements of cash flows as both a reduction to operating cash flows and as a financing cash inflow.

Note 5 – Net Income Per Share

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2014	2013	2014
Basic:				
Numerator:				
Net income allocated to common stock	$174	$1,524	$3,681	$2,994
Denominator:				
Weighted average number of common stock shares outstanding	18,436	17,836	19,310	18,551
Net income per share—basic:	$0.01	$0.09	$0.19	$0.16
Diluted:				
Numerator:				
Net income allocated to common stock	$174	$1,524	$3,681	$2,994
Denominator:				
Weighted average number of common stock shares outstanding	18,436	17,836	19,310	18,551
Weighted average number of options	528	445	478	616
Weighted average number of restricted stock units	132	113	124	174
Total common stock shares used in diluted per share calculation	19,096	18,394	19,912	19,341
Net income per share—diluted:	$0.01	$0.08	$0.18	$0.15

For each of the three- and nine-month periods ended September 30, 2013 and 2014, we had securities outstanding that could potentially dilute net income per share, but the shares from the assumed exercise of these securities were excluded in the computation of diluted net income per share as their effect would have been anti-dilutive. The number of outstanding weighted average anti-dilutive shares that were excluded from the computation of diluted net income per share consisted of the following (in thousands):

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2014	2013	2014
Common stock options	127			