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VERTRUE INC  
Form 10-Q  
May 10, 2007

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 March 31, 2007  
or  
 Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission File No. 0-21527

VERTRUE INCORPORATED

-----  
(Exact name of registrant as specified in its charter)

DELAWARE  
-----  
(State or other jurisdiction of incorporation or organization)

06-1276882  
-----  
(I.R.S. Employer Identification No.)

20 Glover Avenue  
Norwalk, Connecticut  
-----  
(Address of principal executive offices)

06850  
-----  
(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [ X ] No [ ]

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 9,724,735 shares of Common

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Stock, \$0.01 par value as of May 4, 2007.

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### PART I. FINANCIAL INFORMATION ITEM 1. FINANCIAL STATEMENTS

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

March 31,  
2007

Assets

Current assets:

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Cash and cash equivalents	\$ 62,276
Restricted cash	-
Short-term investments	16,618
Accounts and notes receivable, net	35,455
Prepaid expenses	5,516
Deferred marketing costs	22,362
Other current assets	4,523
	-----
Total current assets	146,750
Fixed assets, net	35,981
Goodwill	260,336
Intangible assets, net	39,625
Other long-term assets	32,000
	-----
Total assets	\$ 514,692
	=====
Liabilities and Shareholders' Equity (Deficit)	
Current liabilities:	
Current maturities of long-term obligations	\$ 615
Accounts payable	43,143
Accrued liabilities	123,362
Deferred revenues	74,652
Deferred income taxes	13,486
	-----
Total current liabilities	255,258
Deferred income taxes	4,224
Long-term debt	238,121
Other long-term liabilities	9,757
	-----
Total liabilities	507,360
	-----
Commitments and contingencies (Note 7)	
Shareholders' equity (deficit):	
Preferred stock, \$0.01 par value -- 1,000 shares authorized; no shares issued	-
Common stock, \$0.01 par value -- 80,000 shares authorized; 20,298 shares issued (20,168 shares at June 30, 2006)	203
Capital in excess of par value	194,897
Retained earnings	88,178
Accumulated other comprehensive (loss) income	(226)
Treasury stock, 10,584 shares at cost (10,518 shares at June 30, 2006)	(275,720)
	-----
Total shareholders' equity (deficit)	7,332
	-----
Total liabilities and shareholders' equity (deficit)	\$ 514,692
	=====

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

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	Three months ended March 31,		Nine months ended March 31,
	2007	2006	2007
Revenues	\$ 194,405	\$ 163,841	\$ 550,310
Expenses:			
Marketing	99,983	81,626	273,304
Operating	42,730	38,038	125,558
General and administrative	36,248	31,337	99,926
Amortization of intangible assets	2,316	1,878	6,476
Operating income	13,128	10,962	45,046
Interest income	1,837	926	4,765
Interest expense	(5,109)	(5,070)	(15,350)
Other income (expense), net	175	17	670
Income before income taxes	10,031	6,835	35,131
Provision for income taxes	5,606	2,694	15,335
Net income	\$ 4,425	\$ 4,141	\$ 19,796
Earnings per share:			
Basic	\$ 0.46	\$ 0.43	\$ 2.04
Diluted	\$ 0.39	\$ 0.38	\$ 1.72
Weighted average common shares used in earnings per share calculations:			
Basic	9,704	9,728	9,683
Diluted	12,705	12,848	12,715

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

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

	Nine months ended March 31,	
	2007	2006
Operating activities		

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Net income	\$ 19,796	\$ 20,446
Adjustments to reconcile net income to net cash provided by operating activities:		
Change in deferred revenues	(10,859)	(12,641)
Change in deferred marketing costs	3,991	9,008
Depreciation and amortization	19,368	19,781
Stock-based compensation	3,461	3,362
Deferred and other income taxes	(853)	(206)
Excess tax benefit from stock-based compensation	(744)	(1,457)
Other	762	(639)
Changes in assets and liabilities:		
Restricted cash	2,699	(95)
Accounts and notes receivable	(17,327)	(10,132)
Prepaid expenses	3,958	(1,397)
Other assets	793	(3,052)
Accounts payable	(802)	(798)
Accrued and other liabilities	9,262	15,383
Net cash provided by operating activities	33,505	37,563
Investing activities		
Acquisition of fixed assets	(8,243)	(14,712)
Purchases of short-term investments	(52,333)	(121,875)
Proceeds from maturities of short-term investments	67,536	106,383
Acquisitions of businesses, net of cash acquired, and other	(14,178)	(15,092)
Net cash used in investing activities	(7,218)	(45,296)
Financing activities		
Net proceeds from issuance of stock	2,702	7,400
Excess tax benefit from stock-based compensation	744	1,457
Treasury stock purchases	(2,762)	(10,663)
Debt issuance costs	(64)	(125)
Payments of long-term obligations	(423)	(519)
Net cash provided by (used in) financing activities	197	(2,450)
Effect of exchange rate changes on cash and cash equivalents	(498)	531
Net increase (decrease) in cash and cash equivalents	25,986	(9,652)
Cash and cash equivalents at beginning of period	36,290	64,356
Cash and cash equivalents at end of period	\$ 62,276	\$ 54,704

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

VERTRUE INCORPORATED  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - NATURE OF BUSINESS

Vertrue Incorporated is a premier internet direct marketing services company. We operate a diverse group of marketing businesses that share a unified mission: to

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

### NOTE 2 - BASIS OF PRESENTATION

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

Certain prior year amounts have been reclassified to conform to the current year's presentation. Commencing in the second quarter of fiscal 2007, we began classifying our acquired website costs, which were previously included in fixed assets, net, in other long-term assets. Other long-term assets included \$5.7 million and \$2.9 million of acquired website costs, net at March 31, 2007 and June 30, 2006, respectively. This reclassification had no impact on results of operations or previously reported cash flows from operations or financing activities.

### NOTE 3 - MERGER

On March 22, 2007, we entered into a definitive agreement and plan of merger (the "Merger Agreement") with Velo Holdings Inc., a Delaware corporation, and Velo Acquisition Inc., a Delaware corporation and a wholly owned subsidiary of Velo Holdings ("Merger Sub"). Under the terms of the Merger Agreement, Merger Sub will be merged with and into the Company with the Company continuing as the surviving corporation and becoming a wholly owned subsidiary of Velo Holdings (the "Merger"). Velo Holdings is owned and/or backed by the equity commitment of an investor group consisting of One Equity Partners II, L.P., Oak Investment Partners XII, L.P., Rho Ventures V, L.P. and Rho Ventures V, Affiliates, L.L.C. Under the terms of the Merger Agreement, at the effective time of the Merger, each outstanding share of Vertrue common stock, other than certain specified shares, will be cancelled and converted into the right to receive \$48.50 in cash without interest. The transaction, including the assumption of debt, is valued at approximately \$800 million. The transaction is expected to be completed in the first quarter of fiscal 2008, which ends on September 30, 2007, and is subject to receipt of stockholder and customary regulatory approvals as well as satisfaction of additional customary closing conditions. Upon completion of the transaction, Vertrue's executive management team will continue to lead the Company. Assuming this transaction closes as planned, our stock will no longer be publicly traded upon the completion of the transaction. More detailed

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information regarding the Merger is disclosed in the preliminary proxy statement for a special meeting of stockholders to vote on the Merger Agreement, which was filed with the Securities and Exchange Commission on May 1, 2007.

During the first nine months of fiscal 2007, we recorded in general and administrative expenses \$5.3 million related to this proposed merger. If our stockholders approve the proposed Merger, we expect to incur additional transaction costs. If we terminate the Merger Agreement or the Merger Agreement is terminated by Velo Holdings under certain conditions, we may be obligated to pay Velo Holdings a termination fee of \$22.5 million. If the Merger Agreement is terminated due to the failure to obtain stockholder approval, we may be obligated to reimburse up to \$4.0 million of Velo Holdings' documented reasonable and actual out-of-pocket expenses.

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### VERTRUE INCORPORATED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### NOTE 4 - ACCOUNTS AND NOTES RECEIVABLE

Accounts and notes receivable, net were composed of the following:

	March 31, 2007	June 30, 2006
	-----	-----
Accounts receivable	22.8	14.0
Notes receivable	17.2	8.6
	-----	-----
	40.0	22.6
Allowance for uncollectible notes receivable	(4.5)	(1.6)
	-----	-----
Accounts and notes receivable, net	35.5	21.0
	=====	=====

Other long-term assets included notes receivable, net as follows:

	March 31, 2007	June 30, 2006
	-----	-----
Notes receivable	23.9	12.1
Allowance for uncollectible notes receivable	(6.7)	(2.2)
	-----	-----
Notes receivable, net	17.2	9.9
	=====	=====

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### VERTRUE INCORPORATED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### NOTE 5 - GOODWILL AND OTHER INTANGIBLE ASSETS

The gross carrying value and accumulated amortization of goodwill and other intangible assets are as follows:

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	March 31, 2007		June 30, 2006	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
(Dollar amounts in thousands)				
Membership and client relationships	\$ 44,559	\$ 27,094	\$ 40,215	\$ 21,859
Trade names	24,884	4,253	21,859	3,712
Other	2,438	1,572	1,504	1,281
Total amortizable intangible assets	\$ 71,881	\$ 32,919	\$ 63,578	\$ 26,852
Amortizable intangible assets, net	38,962		\$ 37,135	

	March 31, 2007	June 30, 2006
(Dollar amounts in thousands)		
Goodwill	\$ 260,336	\$ 212,187
Intangible asset related to minimum pension liability	663	663

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

(Dollar amounts in thousands)	
Fiscal Year	
Remainder of 2007	\$ 1,761
2008	6,007
2009	5,499
2010	4,272
2011	4,066

Changes in the carrying amount of goodwill by segment during the nine months ended March 31, 2007 were as follows:

(Dollar amounts in thousands)	Marketing Services	Personals	Management Services	Total
Balance at beginning of period	\$ 96,432	\$ 81,508	\$ 34,247	\$ 212,187
Acquisition	-	2,874	-	2,874
Accrual of contingent purchase price payments	-	-	45,275	45,275
Balance at end of period	\$ 96,432	\$ 84,382	\$ 79,522	\$ 260,336

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

Additionally, we acquired Neverblue Media Inc., a private Canadian online affiliate marketing company during the third quarter of fiscal 2007. In connection with the acquisition, we recorded intangible assets of \$7.0 million. The estimated fair value of the assets acquired and liabilities assumed exceeded



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the initial payments by \$3.9 million resulting in negative goodwill. Because this acquisition involved contingent consideration, we recorded a liability up to the amount of negative goodwill. If contingent payments are earned and come due, we will apply the payments against this contingent liability. Any contingent payments in excess of \$3.9 million will be recorded as goodwill. To the extent contingent payments are not made, we will reduce the basis of certain acquired assets and any remaining negative goodwill will be charged to our results of operations as an extraordinary gain.

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### VERTRUE INCORPORATED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

As of March 31, 2007, we recorded \$45.3 million in accrued liabilities related to contingent payments, which were disclosed in previous quarterly filings, in connection with our acquisition of My Choice Medical, Inc., which we acquired in fiscal 2005. In April 2007, we paid \$39.8 million in contingent payments related to this acquisition. The remaining accrued contingent payment of \$5.5 million is expected to be paid in the fourth quarter of fiscal 2008.

#### NOTE 6 - ALLOWANCE FOR MEMBERSHIP CANCELLATIONS

Accrued liabilities reported in the accompanying unaudited condensed consolidated balance sheets as of March 31, 2007 and June 30, 2006 included an allowance for membership cancellations of \$7.8 million and \$9.3 million, respectively.

#### NOTE 7 - COMMITMENTS AND CONTINGENCIES

We have an amended and restated senior secured credit facility dated as of March 17, 2006, which allows borrowings of up to \$50.0 million. Borrowings under this senior secured credit facility accrue interest at the Eurodollar rate or Prime rate, plus an applicable margin. There were no borrowings outstanding under this senior secured credit facility as of March 31, 2007. This credit facility matures on March 31, 2009.

In April 2007, we paid \$39.8 million in contingent payment related to the acquisition of My Choice Medical. Payments under the contingency arrangements will be considered additional purchase price. Remaining payments related to acquisitions of up to \$41.7 million may be paid if certain performance targets, including increasing levels of revenues and earnings, are achieved. These contingent payments may be paid over the next two fiscal years.

As of March 31, 2007, we had outstanding purchase obligations of \$4.2 million primarily related to marketing agreements and contracts for our software, equipment, and services. In addition, we had commitments of \$54.0 million related to existing operating leases.

#### Legal proceedings

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

#### NOTE 8 - INCOME TAX EXPENSE

Income tax expense as a percentage of pre-tax income was 55.9% and 39.4% for the three months ended March 31, 2007 and 2006, respectively, and 43.7% and 36.8%

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for the nine months ended March 31, 2007 and 2006, respectively. The effective tax rate was higher than the U.S. statutory rate for the three and nine months ended March 31, 2007, primarily due to non-deductible transaction costs related to the proposed merger and state income tax expense partially offset by the favorable impact of foreign operations. The effective tax rate was higher than the U.S. statutory rate for the three and nine months ended March 31, 2006, primarily due to non-deductible items and state income tax expense partially offset by the favorable impact of foreign operations.

We are currently under examination by the Internal Revenue Service for the fiscal year ended June 30, 2005. The examination is currently in the process of being finalized. As a result of preliminary discussions, we believe the final assessment of the 2005 Internal Revenue Service examination will not have a material effect on our results of operations, financial position, or cash flow.

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

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### VERTRUE INCORPORATED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### NOTE 9 - EARNINGS PER SHARE

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

	Three months ended March 31,	
(Amounts in thousands, except per share data)	2007	2006
<b>Numerator:</b>		
Income available to common shareholders used in basic earnings per share	\$ 4,425	\$ 4,141
Add back interest expense on convertible securities, net of tax	546	750
	\$ 4,971	\$ 4,891
<b>Income available to common shareholders after assumed conversion of dilutive securities</b>	<b>\$ 4,971</b>	<b>\$ 4,891</b>
<b>Denominator:</b>		
Weighted average number of common shares outstanding - basic	9,704	9,728
<b>Effect of dilutive securities:</b>		
Convertible securities	2,230	2,230
Stock options and restricted stock awards	771	890
	12,705	12,848
<b>Weighted average number of common shares outstanding - diluted</b>	<b>12,705</b>	<b>12,848</b>
<b>Basic earnings per share</b>	<b>\$ 0.46</b>	<b>\$ 0.43</b>

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Diluted earnings per share	=====	=====	=====
	\$	0.39	\$ 0.38
	=====	=====	=====

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

	Three months ended March 31,	
	-----	-----
(Shares in thousands)	2007	2006
	-----	-----
Antidilutive stock options	281	342

NOTE 10 - COMPREHENSIVE INCOME

The components of comprehensive income are as follows:

	Three months ended March 31,	
	-----	-----
(Dollar amounts in thousands)	2007	2006
	-----	-----
Net income	\$ 4,425	\$ 4,141
Unrealized hedging gain (loss)	109	(250)
Currency translation adjustment	7	75
	-----	-----
Comprehensive income	\$ 4,541	\$ 3,966
	=====	=====

VERTRUE INCORPORATED  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(continued)

NOTE 11- RELATED PARTY

In fiscal 2007, we engaged Jefferies Broadview, a division of Jefferies & Co, as our financial advisor related to our proposed merger with Velo Holdings Inc. and Velo Acquisition Inc. Jefferies Broadview provided a fairness opinion related to this transaction to the Special Committee of our board of directors. Mr. Ellison, one of our board members, is the President and a Managing Director of Broadview International LLC, a division of Jefferies & Co. As of March 31, 2007, we incurred fees of \$2.0 million with Jefferies Broadview, which were paid in April 2007.

NOTE 12- BUSINESS SEGMENTS

The operating business segments reported below are our reportable business segments for which separate financial information is available and for which operating results are evaluated regularly by our executive management in assessing performance and deciding how to allocate capital and other resources. We have three reportable business segments: Marketing Services, Personals, and Management Services. The Marketing Services business segment primarily provides

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discounted products and services to consumers and generates recurring, membership-based revenue. The Personals business segment provides web, phone, and mobile-based personals services and primarily generates transaction-based revenue. The Management Services business segment provides advertising and practice management services to healthcare professionals throughout the United States. The Corporate business unit includes unallocated general corporate expenses.

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

(Dollar amounts in thousands)	Three months ended March 31, 2007			Three months ended	
	Revenues from External Customers	Intersegment Revenues	Total Revenues	Revenues from External Customers	Interseg Revenu
	-----	-----	-----	-----	-----
Marketing Services	\$ 154,678	\$ 1,026	\$ 155,704	\$ 132,453	\$
Personals	23,433	22	23,455	18,339	
Management Services	16,294	-	16,294	13,049	
Eliminations	-	(1,048)	(1,048)	-	
Total Revenues	\$ 194,405	\$ -	\$ 194,405	\$ 163,841	\$
	=====	=====	=====	=====	=====

	Nine months ended March 31, 2007			Nine months ended	
	Revenues from External Customers	Intersegment Revenues	Total Revenues	Revenues from External Customers	Interseg Revenu
	-----	-----	-----	-----	-----
Marketing Services	438,134	1,692	\$ 439,826	398,780	
Personals	69,912	81	69,993	55,432	
Management Services	42,264	-	42,264	27,287	
Eliminations	-	(1,773)	(1,773)	-	
Total Revenues	\$ 550,310	\$ -	\$ 550,310	\$ 481,499	\$
	=====	=====	=====	=====	=====

VERTRUE INCORPORATED  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(continued)

(Dollar amounts in thousands)	Three months ended March 31,		Nine months ended March 31,	
	2007	2006	2007	2006
	-----	-----	-----	-----
Adjusted EBITDA (1)				
Marketing Services	\$ 26,583	\$ 19,502	\$ 70,928	\$ 69,329
Personals	4,480	3,766	9,443	7,828
Management Services	1,339	2,948	3,989	3,869

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Corporate	(11,957)	(7,777)	(27,707)	(20,233)
	-----	-----	-----	-----
Total	\$ 20,445	\$ 18,439	\$ 56,653	\$ 60,793
	=====	=====	=====	=====
Capital Expenditures (2)				
Marketing Services	\$ 2,415	\$ 7,883	\$ 6,983	\$ 13,863
Personals	298	247	966	729
Management Services	34	64	294	120
	-----	-----	-----	-----
Total	\$ 2,747	\$ 8,194	\$ 8,243	\$ 14,712
	=====	=====	=====	=====
Depreciation and Amortization				
Marketing Services	\$ 3,011	\$ 2,929	\$ 8,614	\$ 9,277
Personals	2,468	2,860	7,370	7,611
Management Services	667	409	1,971	1,214
Corporate	178	272	520	828
	-----	-----	-----	-----
Total	\$ 6,324	\$ 6,470	\$ 18,475	\$ 18,930
	=====	=====	=====	=====
	March 31,	June 30,		
	2007	2006		
Assets	-----	-----		
Marketing Services	\$ 235,115	\$ 214,083		
Personals	127,827	124,571		
Management Services	123,947	62,730		
Corporate (3)	27,803	41,644		
	-----	-----		
Total	\$ 514,692	\$ 443,028		
	=====	=====		

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

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VERTRUE INCORPORATED  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(continued)

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

	Three months ended March 31, 2007				
	-----				
(Dollar amounts in thousands)	Total	Marketing Services	Personals	Management Services	Corporate

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Income before income taxes	\$ 10,031				
Interest and other expense, net (1)	3,097				
Operating income (expense)	\$ 13,128	\$ 24,533	\$ 1,880	\$ (1,150)	\$ (12,135)
Depreciation and amortization	6,324	3,011	2,468	667	178
Change in deferred revenues	(1,958)	(3,701)	(79)	1,822	-
Change in deferred marketing costs	2,951	2,740	211	-	-
Adjusted EBITDA	\$ 20,445	\$ 26,583	\$ 4,480	\$ 1,339	\$ (11,957)

Three months ended March 31, 2006

	Total	Marketing Services	Personals	Management Services	Corporate
Income before income taxes	\$ 6,835				
Interest and other expense, net (1)	4,127				
Operating income (expense)	\$ 10,962	\$ 16,418	\$ 866	\$ 1,727	\$ (8,049)
Depreciation and amortization	6,470	2,929	2,860	409	272
Change in deferred revenues	(2,030)	(2,882)	40	812	-
Change in deferred marketing costs	3,037	3,037	-	-	-
Adjusted EBITDA	\$ 18,439	\$ 19,502	\$ 3,766	\$ 2,948	\$ (7,777)

Nine months ended March 31, 2007

	Total	Marketing Services	Personals	Management Services	Corporate
Income before income taxes	\$ 35,131				
Interest and other expense, net (1)	9,915				
Operating income (expense)	\$ 45,046	\$ 69,791	\$ 2,720	\$ 762	\$ (28,227)
Depreciation and amortization	18,475	8,614	7,370	1,971	520
Change in deferred revenues	(10,859)	(11,696)	(419)	1,256	-
Change in deferred marketing costs	3,991	4,219	(228)	-	-
Adjusted EBITDA	\$ 56,653	\$ 70,928	\$ 9,443	\$ 3,989	\$ (27,707)

Nine months ended March 31, 2006

	Total	Marketing Services	Personals	Management Services	Corporate
Income before income taxes	\$ 32,364				
Interest and other expense, net (1)	13,132				
Operating income (expense)	\$ 45,496	\$ 64,110	\$ 262	\$ 2,185	\$ (21,061)
Depreciation and amortization	18,930	9,277	7,611	1,214	828
Change in deferred revenues	(12,641)	(13,066)	(45)	470	-
Change in deferred marketing costs	9,008	9,008	-	-	-
Adjusted EBITDA	\$ 60,793	\$ 69,329	\$ 7,828	\$ 3,869	\$ (20,233)

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

VERTRUE INCORPORATED  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(continued)

## NOTE 13- GUARANTOR FINANCIAL INFORMATION

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

The following condensed consolidating financial information presents the balance sheets as of March 31, 2007 and June 30, 2006, statements of operations for the three and nine months ended March 31, 2007 and 2006, and statements of cash flows for the nine months ended March 31, 2007 and 2006. The information includes the elimination entries necessary to consolidate the Company ("Parent") with the guarantor entities.

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

## Condensed Consolidating Balance Sheets at March 31, 2007

(Dollar amounts in thousands)	Parent	Guarantor Subsidiaries	Eliminations
	-----	-----	-----
<b>Assets</b>			
Current assets	\$ 64,328	\$ 134,415	\$ (51,993)
Fixed assets, net	21,006	14,975	-
Goodwill	-	260,336	-
Intangible assets, net	663	38,962	-
Other long-term assets	9,002	22,998	-
Investment in subsidiaries	374,803	-	(374,803)
	-----	-----	-----
Total assets	\$ 469,802	\$ 471,686	\$ (426,796)
	=====	=====	=====
<b>Liabilities and Shareholders' Equity (Deficit)</b>			
Current liabilities	\$ 217,868	\$ 89,383	\$ (51,993)
Deferred income taxes	(2,243)	6,467	-
Long-term debt	238,121	-	-
Other long-term liabilities	8,724	1,033	-
	-----	-----	-----
Total liabilities	462,470	96,883	(51,993)
	-----	-----	-----
Shareholders' equity (deficit):			
Preferred stock	-	-	-

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Common stock	203	3	(3)
Capital in excess of par value	194,897	327,821	(327,821)
Retained earnings	88,178	47,156	(47,156)
Accumulated other comprehensive (loss) income	(226)	(177)	177
Treasury stock	(275,720)	-	-
	-----	-----	-----
Total shareholders' equity (deficit)	7,332	374,803	(374,803)
	-----	-----	-----
Total liabilities and shareholders' equity (deficit)	\$ 469,802	\$ 471,686	\$ (426,796)
	=====	=====	=====

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VERTRUE INCORPORATED  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(continued)

Condensed Consolidating Balance Sheets at June 30, 2006

(Dollar amounts in thousands)	Parent	Guarantor Subsidiaries	Eliminations
	-----	-----	-----
Assets			
Current assets	\$ 37,724	115,844	\$ (21,545)
Fixed assets, net	22,403	15,255	-
Goodwill	-	212,187	-
Intangible assets, net	675	37,123	-
Other long-term assets	10,334	13,028	-
Investment in subsidiaries	308,919	-	(308,919)
	-----	-----	-----
Total assets	\$ 380,055	\$ 393,437	\$ (330,464)
	=====	=====	=====
Liabilities and Shareholders' (Deficit) Equity			
Current liabilities	\$ 149,958	\$ 75,891	\$ (21,545)
Deferred income taxes	(318)	7,238	-
Long-term debt	237,984	-	-
Other long-term liabilities	8,600	1,389	-
	-----	-----	-----
Total liabilities	396,224	84,518	(21,545)
	-----	-----	-----
Shareholders' (deficit) equity:			
Common stock	202	9	(9)
Capital in excess of par value	187,991	278,751	(278,751)
Retained earnings	68,382	29,890	(29,890)
Accumulated other comprehensive income	214	269	(269)
Treasury stock	(272,958)	-	-
	-----	-----	-----
Total shareholders' (deficit) equity	(16,169)	308,919	(308,919)
	-----	-----	-----
Total liabilities and shareholders' (deficit) equity	\$ 380,055	\$ 393,437	\$ (330,464)
	=====	=====	=====



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VERTRUE INCORPORATED  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(continued)

Condensed Consolidating Statements of Operations for the Three Months Ended March 31, 2007

(Dollar amounts in thousands)	Parent	Guarantor Subsidiaries	Eliminations
	-----	-----	-----
Revenues	\$ 107,461	\$ 93,731	\$ (6,787)
Expenses:			
Marketing	62,013	44,753	(6,783)
Operating	17,086	25,648	(4)
General and administrative	23,932	12,316	-
Amortization of intangible assets	-	2,316	-
	-----	-----	-----
Operating income	4,430	8,698	-
Equity in income of subsidiaries	5,977	-	(5,977)
Interest (expense) income, net	(4,864)	1,592	-
Other income, net	29	146	-
	-----	-----	-----
Income before income taxes	5,572	10,436	(5,977)
Provision for income taxes	1,147	4,459	-
	-----	-----	-----
Net income	\$ 4,425	\$ 5,977	\$ (5,977)
	=====	=====	=====

Condensed Consolidating Statements of Operations For the Three Months Ended March 31, 2006

(Dollar amounts in thousands)	Parent	Guarantor Subsidiaries	Eliminations
	-----	-----	-----
Revenues	\$ 96,123	\$ 73,814	\$ (6,096)
Expenses:			
Marketing	56,496	31,155	(6,025)
Operating	16,658	21,451	(71)
General and administrative	20,320	11,017	-
Amortization of intangible assets	9	1,869	-
	-----	-----	-----
Operating income	2,640	8,322	-
Equity in income of subsidiaries	5,152	-	(5,152)
Interest (expense) income, net	(4,618)	474	-
Other (expense) income, net	(17)	34	-
	-----	-----	-----
Income before income taxes	3,157	8,830	(5,152)
Provision for income taxes	(984)	3,678	-
	-----	-----	-----
Net income	\$ 4,141	\$ 5,152	\$ (5,152)
	=====	=====	=====

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VERTRUE INCORPORATED  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(continued)

### Condensed Consolidating Statements of Operations for the Nine Months Ended March 31, 2007

(Dollar amounts in thousands)	Parent	Guarantor Subsidiaries	Eliminations
Revenues	\$ 308,125	\$ 258,307	\$ (16,122)
Expenses:			
Marketing	170,810	118,604	(16,110)
Operating	53,120	72,450	(12)
General and administrative	62,567	37,359	-
Amortization of intangible assets	13	6,463	-
Operating income	21,615	23,431	-
Equity in income of subsidiaries	17,266	-	(17,266)
Interest expense, net	(14,920)	4,335	-
Other (expense) income, net	(5)	675	-
Income before income taxes	23,956	28,441	(17,266)
Provision for income taxes	4,160	11,175	-
Net income	\$ 19,796	\$ 17,266	\$ (17,266)

### Condensed Consolidating Statements of Operations for the Nine Months Ended March 31, 2006

(Dollar amounts in thousands)	Parent	Guarantor Subsidiaries	Eliminations
Revenues	\$ 289,896	\$ 207,413	\$ (15,810)
Expenses:			
Marketing	160,277	86,621	(15,103)
Operating	50,713	58,373	(707)
General and administrative	54,603	34,715	-
Amortization of intangible assets	94	6,417	-
Operating income	24,209	21,287	-
Equity in income of subsidiaries	13,699	-	(13,699)
Interest (expense) income, net	(14,121)	1,136	-
Other expense, net	(7)	(140)	-
Income before income taxes	23,780	22,283	(13,699)
Provision for income taxes	3,334	8,584	-
Net income	\$ 20,446	\$ 13,699	\$ (13,699)

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### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### Condensed Consolidating Statements of Cash Flows for the Nine Months Ended March 31, 2007

(Dollar amounts in thousands)	Parent	Guarantor Subsidiaries	Eliminations
	-----	-----	-----
Net cash provided by (used in) operating activities	\$ 27,114	\$ 23,658	\$ (17,266)
Investing activities			
Acquisition of fixed assets	(4,732)	(3,511)	-
Purchases of short-term investments	(52,315)	(18)	-
Proceeds from maturities of short-term investments	67,536	-	-
Acquisitions of businesses, net of cash acquired, and other	(4,106)	(10,072)	-
Investment in subsidiaries	(17,266)	-	17,266
	-----	-----	-----
Net cash (used in) provided by investing activities	(10,883)	(13,601)	17,266
Financing activities			
Net proceeds from issuance of stock	2,702	-	-
Excess tax benefit from stock-based compensation	744	-	-
Treasury stock purchases	(2,762)	-	-
Debt issuance costs	(64)	-	-
Payments of long-term obligations	(276)	(147)	-
	-----	-----	-----
Net cash provided by (used) in financing activities	344	(147)	-
Effect of exchange rate changes on cash and cash equivalents	-	(498)	-
	-----	-----	-----
Net increase in cash and cash equivalents	16,574	9,412	-
Cash and cash equivalents at beginning of period	6,908	29,382	-
	-----	-----	-----
Cash and cash equivalents at end of period	\$ 23,482	\$ 38,794	\$ -

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### VERTRUE INCORPORATED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### Condensed Consolidating Statements of Cash Flows for the Nine Months Ended March 31, 2006

(Dollar amounts in thousands)	Parent	Guarantor Subsidiaries	Eliminations
	-----	-----	-----
Net cash provided by (used in) operating activities	\$ 58,302	\$ (7,040)	\$ (13,600)
Investing activities			
Acquisition of fixed assets	(10,046)	(4,666)	-
Purchases of short-term investments	(121,875)	-	-
Proceeds from maturities of short-term investments	105,764	619	-

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Acquisitions of businesses, net of cash acquired, and other	(14,867)	(225)	
Investment in subsidiaries	(13,699)	-	13,6
Net cash used in investing activities	(54,723)	(4,272)	13,6
Financing activities			
Net proceeds from issuance of stock	7,400	-	
Excess tax benefit from stock-based compensation	1,457	-	
Treasury stock purchases	(10,663)	-	
Debt issuance costs	(125)	-	
Payments of long-term obligations	(293)	(226)	
Net cash used in financing activities	(2,224)	(226)	
Effect of exchange rate changes on cash and cash equivalents	-	531	
Net increase (decrease) in cash and cash equivalents	1,355	(11,007)	
Cash and cash equivalents at beginning of period	24,366	39,990	
Cash and cash equivalents at end of period	\$ 25,721	28,983	\$

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VERTRUE INCORPORATED  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(continued)

NOTE 14- NEW ACCOUNTING PRONOUNCEMENTS

In February 2007, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115" ("SFAS 159"). SFAS 159 permits entities to choose to measure certain financial instruments at fair value. The fair value option permits entities to choose to measure eligible items at fair value at specified election dates. Unrealized gains and losses on items for which the fair value option has been elected would be recognized in earnings at each subsequent reporting date. Generally, the fair value option may be applied instrument by instrument and is irrevocable unless a new election date occurs. SFAS 159 will become effective for us beginning in fiscal 2009, with earlier adoption permitted as of the beginning of fiscal 2008, provided that we elect to apply the provisions of SFAS 157. We are currently evaluating the impact that SFAS 159 will have on our consolidated financial statements.

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

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

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

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

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

#### OVERVIEW

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

The Marketing Services business segment primarily provides discounted products and services to consumers and generates recurring, membership-based revenue. The Marketing Services segment offers consumers a variety of products and services from selected vendors and service providers on a monthly or annual subscription basis or on a fee for service basis. Revenues are derived principally from recurring fees which are billed to the member on either a monthly or annual basis. In the case of annually billed membership fees, we receive full payment at or near the beginning of the membership period, but recognize the revenues as the member's refund privilege expires. Membership fees that are billed monthly are recognized when earned. Revenues derived from one-time fees are recognized when the service is performed. During the third quarter of fiscal 2007, we

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acquired Neverblue Media Inc., ("Neverblue") a private Canadian online affiliate marketing company. The net assets and results of operations of Neverblue have been included in our Marketing Services segment as of the date of the acquisition.

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

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

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

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

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

DISCUSSION OF RESULTS OF OPERATIONS

(Dollar amounts in millions)	Three months ended March 31,			Nine months ended March 31,		Incre (Decre
	2007	2006	Increase/ (Decrease)	2007	2006	
Revenues	\$ 194.4	\$ 163.8	19%	\$ 550.3	\$ 481.5	14
Marketing expenses	100.0	81.6	23%	273.3	231.8	18
Operating expenses	42.8	38.0	13%	125.6	108.4	16
General and administrative expenses	36.2	31.3	16%	99.9	89.3	12
Amortization of intangible assets	2.3	1.9	21%	6.5	6.5	0
Operating income	13.1	11.0	19%	45.0	45.5	(1
Interest income	1.8	0.9	100%	4.8	2.3	109

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Interest expense	(5.1)	(5.1)	0%	(15.4)	(15.3)	(15.3)
Other income (expense), net	0.2	-	0%	0.7	(0.2)	450
<hr/>						
Income before income taxes	10.0	6.8	47%	35.1	32.3	9
Provision for income taxes	5.6	2.7	107%	15.3	11.9	29
<hr/>						
Net income	\$ 4.4	\$ 4.1	7%	\$ 19.8	\$ 20.4	(3)
<hr/>						
EBITDA	\$ 19.4	\$ 17.4	11%	\$ 63.5	\$ 64.4	(1)
<hr/>						
	Three months ended March 31,			Nine months ended March 31,		
	<hr/>			<hr/>		
Percentage of revenues:	2007	2006		2007	2006	
	<hr/>			<hr/>		
Marketing expenses	51%	50%		50%	48%	
Operating expenses	22%	23%		23%	23%	
General and administrative expenses	19%	19%		18%	19%	
Operating income	7%	7%		8%	9%	
EBITDA	10%	11%		12%	13%	
Effective tax rate	55.9%	39.4%		43.7%	36.8%	

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

Revenues

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

(Dollar amounts in millions)	Three months ended March 31,			Nine months ended March 31,		
	2007	2006	Increase/ (Decrease)	2007	2006	Increase/ (Decrease)
Monthly payment plans	\$ 118.4	\$ 89.0	33%	\$ 328.9	\$ 258.7	27%
Annual payment plans	22.4	34.4	(35%)	77.5	113.1	(31%)
Other	14.9	9.1	64%	33.4	27.0	24%
<hr/>						
Total Marketing Services	155.7	132.5	18%	439.8	398.8	10%
Personals	23.5	18.3	28%	70.0	55.6	26%
Management Services	16.3	13.0	25%	42.3	27.3	55%
Intersegment revenues	(1.1)	-	NM	(1.8)	(0.2)	800%
<hr/>						
Total	\$ 194.4	\$ 163.8	19%	\$ 550.3	\$ 481.5	14%

NM = Not Meaningful

For the Three Months Ended March 31, 2007 and 2006

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Revenues increased \$30.6 million in the third quarter of fiscal 2007 compared with the third quarter of fiscal 2006. The organic growth in consolidated revenues from the third quarter of fiscal 2006 to the third quarter of fiscal 2007 was 13%. Net active retail members and customers increased 6% to 6.9 million at March 31, 2007 from 6.5 million at March 31, 2006.

Marketing Services revenues increased \$23.2 million primarily due to a \$29.4 million increase in revenues from members enrolled in monthly payment plans and a \$5.8 million increase in other revenue primarily due to the acquisition of Neverblue during the third quarter of fiscal 2007, partially offset by a \$12.0 million decrease in revenue from members enrolled in annual payment plans. Revenues from monthly payment plans increased primarily due to higher average monthly members billed, which grew 16% to 3.2 million and higher average monthly member price point, which grew 15% to \$12.63 for the third quarter of fiscal 2007 compared with the prior year quarter. (1) Revenues from members enrolled in annual payment plans continue to decrease due to the attrition of the annual renewal base and the continued shift to enrolling new members in monthly payment programs.

Personals revenues increased \$5.2 million, or 28%, primarily due to the acquisition of Mobile Lifestyles during the first quarter of fiscal 2007. Of the 28% increase in Personals revenues, 24% was due to this acquisition and the remaining 4% was due to the growing mobile dating business, which was partially offset by a decrease in revenues from our web-based business.

Management Services revenues increased \$3.3 million and resulted from an increase in the number of procedures completed, as well as an increase in the mix of higher priced procedures. These increases were due to the increase in financed transactions.

For the Nine Months Ended March 31, 2007 and 2006

Revenues increased \$68.8 million in the first nine months of fiscal 2007 compared with the prior year period. The organic growth in consolidated revenues from the first nine months of fiscal 2006 to the first nine months of fiscal 2007 was 11%.

Marketing Services revenues increased \$41.0 million primarily due to a \$70.2 million increase in revenues from members enrolled in monthly payment plans and a \$6.4 million increase in other revenues primarily due to the acquisition of Neverblue during the third quarter of fiscal 2007, partially offset by \$35.6 million decrease in revenue from members enrolled in annual payment plans. Revenues from monthly payment plans increased primarily due to higher average monthly members billed, which grew 14% to 9.2 million and higher average monthly member price point, which grew 11% to \$12.10 for the first nine months of fiscal 2007. Revenues from members enrolled in annual payment plans continue to decrease due to the attrition of the annual renewal base and the continued shift to enrolling new members in monthly payment programs.

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



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Personals revenues increased \$14.4 million, or 26%, primarily due to the acquisition of Mobile Lifestyles during the first quarter of fiscal 2007. Of the 26% increase in Personals revenues, 23% was due to this acquisition and the remaining 3% was due to the growing mobile dating business, which was partially offset by a decrease in revenues from our web-based and interactive voice response, or IVR, businesses.

Management Services revenues increased \$15.0 million and resulted from an increase in the number of procedures completed and an increase in the mix of higher priced procedures. These increases were due to the increase in financed transactions.

### Operating Income and EBITDA

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

(Dollar amounts in millions)	Operating Income			EBITDA		
	Three months ended March 31,			Three months ended March 31,		
	2007	2006	Increase/ (Decrease)	2007	2006	Incre (Decre)
Marketing Services	\$ 24.5	\$ 16.5	48%	\$ 27.5	\$ 19.4	42
Personals	1.9	0.8	138%	4.4	3.7	19
Management Services	(1.2)	1.7	(171%)	(0.5)	2.1	(124)
Corporate	(12.1)	(8.0)	(51%)	(12.0)	(7.8)	(54)
<b>Total Operating Income</b>	<b>\$ 13.1</b>	<b>\$ 11.0</b>	<b>19%</b>	<b>\$ 19.4</b>	<b>17.4</b>	<b>11</b>

### For the Three Months Ended March 31, 2007 and 2006

Operating income increased \$2.1 million and, as a percentage of revenues, remained unchanged at 7% during the third quarter of fiscal 2007. EBITDA increased \$2.0 million in the third quarter of fiscal 2007 from the prior year quarter and, as a percentage of revenues, EBITDA was 10% this year versus 11% in the prior year quarter. Operating income and EBITDA for the third quarter of fiscal 2007 included \$5.0 million of expenses incurred related to the proposed merger, offset by a \$1.3 million benefit related to a commercial litigation settlement.

Marketing Services operating income increased \$8.0 million and, as a percentage of Marketing Services revenues, increased to 16% from 12% in the prior year quarter. Marketing Services EBITDA increased \$8.1 million and, as a percentage of Marketing Services revenues, increased to 18% from 15% in the prior year quarter. These increases were primarily due to a decrease in operating and general and administrative expenses as a percentage of revenues. Operating expenses increased 2% to \$26.7 million and as a percentage of Marketing Services revenues were 17% in the current year compared to 20% in the prior year quarter. Operating expenses decreased as a percentage of revenues due to effective cost control measures over our member benefits and member call center expenses. General and administrative expenses decreased 2% to \$18.6 million and as a percentage of Marketing Services revenues were 12% in the current year and 14% in the prior year quarter. General and administrative expenses for the third quarter of fiscal 2007 decreased as a percentage of revenues due to the leveraging of the increased revenue in the third quarter of fiscal 2007. These improvements were offset by higher marketing expenses, which grew \$14.8 million

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and as a percentage of revenues were 55% for the third quarter of fiscal 2007 compared to 53% in the prior year quarter. Marketing expenses as a percentage of Marketing Services revenues increased due to an increase in the level of marketing and an increase in the monthly acquisition costs per new billed member. The monthly acquisition cost per new billed member increased 10% to \$45.51 from \$41.39 in the prior year quarter. Monthly member acquisition costs represent the cost to acquire a new monthly member who has successfully billed and is not expected to cancel during the reported period. We expect the increase in the monthly acquisition cost per new billed member to be more than recovered by the monthly new member price point which increased \$4.03, or 26%, to \$19.63 per month during the third quarter of fiscal 2007. In addition, we continue to expect the increase in marketing expenses this period to translate into expected revenue growth during the remainder of fiscal 2007.

Personals operating income increased \$1.1 million and, as a percentage of Personals revenues, increased to 8% from 4% in the prior year quarter. Personals EBITDA increased \$0.7 million and, as a percentage of Personals revenues, decreased to 19% from 20% in the prior year quarter. The increases in operating income and EBITDA were primarily due to the marketing margin contributed by the Mobile Lifestyle acquisition and lower operating expenses, which as a percentage of Personals revenues, decreased to 17% this quarter from 25% last year. The decrease in operating expenses as a percentage of revenues was primarily due to tight expense control. Operating margin increased from the prior year quarter while EBITDA margin decreased due to a significant decrease in depreciation expense as a result of the disposal of IVR platforms which benefited the operating margin. Additionally, during the third quarter of fiscal 2006, general and administrative expenses reflected a one time \$1.6 million benefit realized on the recovery of certain expenses related to litigation settled during that quarter.

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

Management Services operating income decreased \$2.9 million, and as a percentage of Management Services revenue, decreased to (7%) from 13% in the prior year quarter. Management Services EBITDA decreased \$2.6 million and as a percentage of Management Services revenue, decreased to (3%) from 16% in the prior year quarter. These decreases are primarily due to higher operating expenses, which increased \$4.9 million and as a percentage of Management Services revenues, increased to 74% from 55% in the prior year quarter. Operating expenses increased due to an increase in loan and doctor costs associated with the increased number of financed procedures completed. Financed transactions have higher operating expenses due to an allowance for uncollectible notes receivable. However, the increase in financed procedures completed also resulted in an increase in interest income discussed below.

Corporate operating loss increased \$4.1 million and EBITDA decreased \$4.2 million primarily due to \$5.0 million of expenses incurred related to the proposed merger (see Note 3).

For the Nine Months Ended March 31, 2007 and 2006

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

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(Dollar amounts in millions)	Operating Income			EBITDA		
	Nine months ended March 31,		Increase/ (Decrease)	Nine months ended March 31,		Incre (Decre
	2007	2006		2007	2006	
Marketing Services	\$ 69.8	\$ 64.1	9%	\$ 78.4	\$ 73.3	7
Personals	2.7	0.3	800%	10.1	7.9	28
Management Services	0.7	2.2	(68%)	2.7	3.4	(21
Corporate	(28.2)	(21.1)	(34%)	(27.7)	(20.2)	(37
<b>Total Operating Income</b>	<b>\$ 45.0</b>	<b>\$ 45.5</b>	<b>(1%)</b>	<b>\$ 63.5</b>	<b>\$ 64.4</b>	<b>(1</b>

Operating income decreased \$0.5 million and as a percentage of revenues, was 8% during the first nine months of fiscal 2007 compared to 9% in the prior year period. EBITDA decreased \$0.9 million in the first nine months of fiscal 2007 from the prior year period and, as a percentage of revenues, EBITDA was 12% this year versus 13% last year. Operating income and EBITDA for the first nine months of fiscal 2007 included \$5.3 million of expenses incurred related to the proposed merger, offset by a \$1.3 million benefit related to the commercial litigation settlement.

Marketing Services operating income increased \$5.7 million and, as a percentage of Marketing Services revenues, remained at 16% when compared to the prior year period. Marketing Services EBITDA increased \$5.1 million and, as a percentage of Marketing Services revenues, remained at 18% when compared to the prior year period. The increases in operating income and EBITDA were primarily due to the increased revenues discussed above, partially offset by higher marketing expenses, which grew \$28.7 million and as a percentage of Marketing Services revenues were 52% this year compared to 51% last year, and were in line with our expected revenue growth. Marketing expenses as a percentage of revenues increased due to an increase in the level of marketing and an increase in the monthly acquisition costs per new billed member. The monthly acquisition cost per new billed member increased 18% to \$44.77 from \$38.09 in the prior year period. We expect the increase in the monthly acquisition cost per new billed member to be more than recovered by the monthly new member price point which increased \$2.81 to \$18.09 per month during the first nine months of fiscal 2007. In addition, we expect the increase in marketing expenses this period to translate into expected revenue growth during the remainder of fiscal 2007. Offsetting the increase in marketing expenses as a percentage of revenues were operating and general and administrative expenses, which decreased as a percentage of revenues.

Personals operating income increased \$2.4 million and, as a percentage of Personals revenues, increased to 4% from 1% in the prior year period. Personals EBITDA increased \$2.2 million and as percentage of revenues remained unchanged at 14% when compared to the prior year period. The increases in operating income and EBITDA were primarily due to the marketing margin contributed by the Mobile Lifestyle acquisition, as well as lower operating expenses and general and administrative expenses as a percentage of revenues. Operating expenses, as a percentage of Personals revenues, decreased to 18% for the first nine months of fiscal 2007 from 26% last prior year period and general and administrative expenses, as a percentage of revenues, decreased to 21% for the first nine months of fiscal 2007 from 25% last prior year period. The decreases in operating and general and administrative expenses were primarily due to tight expense control and cost savings realized from our transition to voice over internet protocol platform, or VoIP. During the first nine months of fiscal

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2006, general and administrative expenses reflected a one time \$1.6 million benefit realized on the recovery of certain expenses related to litigation settled during that period.

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

Management Services operating income decreased \$1.5 million, and as a percentage of Management Services revenue, decreased to 2% from 8% in the prior year period. Management Services EBITDA decreased \$0.7 million and as a percentage of Management Services revenue, decreased to 6% from 12% in the prior year period. These decreases were primarily due to increases in operating expenses, which increased \$13.9 million and, as a percentage of revenues, increased to 68% from 55% in the prior year period. The increase in operating expenses as a percentage of revenues was due to an increase in loan and doctor costs associated with the increased number of financed procedures completed. Financed transactions have higher operating expenses due to an allowance for uncollectible notes receivable. However, the increase in financed procedures completed also resulted in an increase in interest income, as discussed below.

Corporate operating loss increased \$7.1 million and EBITDA decreased \$7.5 million primarily due to \$5.3 million of expenses incurred related to the proposed merger (see Note 3) and higher legal and employee related expenses.

#### Interest Income

Interest income increased \$0.9 million and \$2.5 million for the third quarter and first nine months of fiscal 2007, respectively, as compared to the prior year periods primarily due to the increase in financed transactions for the Management Services segment.

#### Provision for Income Taxes

The provision for income taxes increased \$2.9 million, or 107%, in the third quarter of fiscal 2007 compared to the third quarter of fiscal 2006 because of non-deductible transaction costs related to the proposed merger, also higher income before income taxes which resulted in an effective tax rate of 55.9% versus 39.4% in the third quarter of fiscal 2006. The increase in the effective tax rate for the quarter is primarily due to non-deductible transaction costs related to the proposed merger, also a decrease in non-taxable municipal interest income, an increase in state taxes and a decrease in the favorable impact of foreign operations. The provision for income taxes increased \$3.4 million, or 28.7%, in the first nine months of fiscal 2007 compared to the first nine months of fiscal 2006 because of non-deductible transaction costs related to the proposed merger, also a decrease in non-taxable municipal interest income, an increase in state taxes and a decrease in the favorable impact of foreign operations, which gave rise to an effective tax rate of 43.7% in the first nine months of fiscal 2007 versus 36.8% in the first nine months of fiscal 2006.

#### LIQUIDITY AND CAPITAL RESOURCES

As of March 31, 2007, we had cash, cash equivalents, and short-term investments of \$78.9 million in addition to our unused \$50.0 million line of credit under our senior secured credit facility. We believe that existing cash, short-term investment balances, and funds available under our senior secured credit

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facility together with cash generated from operations will be sufficient to meet our funding requirements for the foreseeable future.

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

Net cash flow provided by operating activities is an important measure used to understand our liquidity. Net cash provided by operating activities decreased to \$33.5 million in the nine months ended March 31, 2007 from \$37.6 million in the nine months ended March 31, 2006. The \$4.1 million decrease in operating cash flow was primarily due to a \$4.1 million decrease in Adjusted EBITDA.

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

(Dollar amounts in millions)	Nine months ended March 31,		Increase/ (Decrease)
	2007	2006	
Marketing Services	\$ 70.9	\$ 69.2	2%
Personals	9.5	7.9	20%
Management Services	4.0	3.9	3%
Corporate	(27.7)	(20.2)	(37%)
	\$ 56.7	\$ 60.8	(7%)
	=====	=====	=====

Marketing Services Adjusted EBITDA increased \$1.7 million and as a percentage of revenue before deferral, decreased to 17% from 18% in the prior year period. The decrease as a percentage of revenue before deferral is primarily due to an increase in the level of marketing and an increase in the monthly acquisition costs per new billed member, as discussed above.

Personals Adjusted EBITDA increased \$1.6 million and as a percentage of revenue before deferral, remained unchanged at 14% compared with the prior year period. The increase was primarily due to the marketing margin contributed by the acquisition of Mobile Lifestyles, as well as lower operating expenses.

Management Services Adjusted EBITDA increased \$0.1 million and as a percentage of revenue before deferral, decreased to 9% from 14% in the prior year period primarily due to increases in operating expenses. The increase in operating expenses was due to an increase in loan and doctor costs associated with the increased number of financed procedures completed. Financed transactions have higher operating expenses due to an allowance for uncollectible notes receivable.

Corporate Adjusted EBITDA decreased \$7.5 million primarily due to \$5.3 million of expenses incurred related to the proposed merger (see Note 3) and higher legal and employee related expenses.

In the first nine months of fiscal 2007, cash used from changes in assets and

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liabilities was \$1.4 million compared to \$0.1 million in the prior year period. The increase in the cash used from changes in assets and liabilities was primarily due to the increased notes receivable and timing of accrued liabilities partially offset by the timing of prepaid expenses and the release of restricted cash. The increase in notes receivable is related to the increase in procedures completed that are being financed in the Management Services segment.

In the first nine months of fiscal 2007, capital expenditures decreased to \$8.2 million from \$14.7 million in the prior year period. Free cash flow, defined as operating cash flow less capital expenditures, increased to \$25.3 million in the first nine months of fiscal 2007 compared with \$22.9 million in the prior year period. The increase in free cash flow was primarily due to the \$6.5 million decrease in capital expenditures in the first nine months of fiscal 2007 partially offset by an increase in cash used from changes in assets and liabilities, as discussed above.

In the first nine months of fiscal 2007, net cash used in investing activities decreased \$38.1 million from the prior year period. Net cash provided by investing activities in the first nine months of fiscal 2007 reflected \$15.2 million of net proceeds from maturities of short-term investments partially offset by \$14.2 million used in connection with our recent acquisitions and other investing activities. Net cash used in investing activities in the first nine months of fiscal 2006 reflected \$15.5 million net purchases of short-term investments and \$15.1 million used in connection with business acquisitions and other investing activities.

In the first nine months of fiscal 2007, net cash provided by financing activities increased \$2.6 million from the prior year period. Net cash provided by financing activities in the first nine months fiscal 2007 reflected \$2.7 million of proceeds from the exercise of stock options and \$0.7 million of excess tax benefit from stock-based compensation, which was partially offset by the use of \$2.8 million to repurchase our common stock. Net cash used in financing activities in the first nine months of fiscal 2006 reflected the use of \$10.7 million to repurchase our common stock, which was partially offset by proceeds from the exercise of stock options of \$7.4 million and \$1.5 million of excess tax benefits from stock-based compensation.

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

#### Credit Facility

We have an amended and restated senior secured credit facility dated as of March 17, 2006, which allows borrowings of up to \$50.0 million. Borrowings under this senior secured credit facility accrue interest at the Eurodollar rate or the Prime rate, plus an applicable margin. As of March 31, 2007, the base interest rate for borrowings under this credit facility was 8.5%. There were no borrowings outstanding under this credit facility as of March 31, 2007. The senior secured credit facility has certain financial covenants, including a maximum debt coverage ratio, potential restrictions on borrowings, and potential restrictions on additional stock repurchases. As of March 31, 2007, we were in compliance with all such debt covenants. The senior secured credit facility matures on March 31, 2009.

#### Stock Repurchase Program

In the first nine months of fiscal 2007, we purchased 66,000 shares of our

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common stock for \$2.8 million at an average price of \$41.82 per share, compared to 275,500 shares for \$10.7 million at an average price of \$38.70 per share in the prior year period. We used existing cash and cash equivalents from operations and stock issuances to repurchase these shares. In July 2006, our Board of Directors authorized the additional repurchase of up to a 1.0 million shares of our common stock. As of March 31, 2007, we had approximately 1.3 million shares available for repurchase under our stock repurchase program.

### Other

We expect to incur capital expenditures of \$10.8 million in fiscal 2007. Contingent payments related to acquisitions of up to \$81.5 million may be paid over the next two fiscal years if certain performance targets, including increasing levels of revenues and earnings, are achieved. In April 2007, we paid \$39.8 million in contingent payments related to our My Choice Medical, Inc. acquisition. We utilized existing cash, short-term investment balances, and funds available under our senior secured credit facility to fund this contingent payment.

### RECONCILIATION OF NON-GAAP MEASURES

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

Revenues before deferral are calculated as follows:

	Nine months ended March 31,	
(Dollar amounts in millions)	2007	2006
Revenues	\$ 550.3	\$ 481.5
Change in deferred revenues	(10.8)	(12.6)

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Revenues before deferral	\$ 539.5	\$ 468.9
	=====	=====

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

Marketing costs before deferral are calculated as follows:

	Nine months ended March 31,	
(Dollar amounts in millions)	2007	2006
	-----	-----
Marketing expenses	\$ 273.3	\$ 231.8
Change in deferred marketing costs	(4.0)	(9.0)
	-----	-----
Marketing costs before deferral	\$ 269.3	\$ 222.8
	=====	=====

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

We use EBITDA and Adjusted EBITDA to evaluate the overall performance of our business and to measure that performance compared with internal budgets. Additionally, we use Adjusted EBITDA as our primary measure to allocate capital and other resources to our operating segments and assess the operating performance of those segments (See Note 12 to the condensed consolidated financial statements in Item 1 of this report). Adjusted EBITDA is also one of the measures used to determine compensation under our management incentive plans.

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

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

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

Adjusted EBITDA and EBITDA should not be considered a substitute for or superior



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to, operating income, net income, net cash from operating activities, or other measures of financial performance and liquidity determined in accordance with GAAP.

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

(Dollar amounts in millions)	Nine months ended March 31,	
	2007	2006
Net cash provided by operating activities	\$ 33.5	\$ 37.6
Changes in assets and liabilities (use of cash)	1.4	0.1
Interest and other expense, net (to be paid in cash)	9.0	12.3
Taxes	17.0	13.6
Stock compensation expense	(3.5)	(3.4)
Other	(0.7)	0.6
Adjusted EBITDA	\$ 56.7	\$ 60.8
	=====	=====

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

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

(Dollar amounts in millions)	Three months ended March 31, 2007				
	Total	Marketing Services	Personals	Management Services	Corporate
Net income	\$ 4.4				
Interest and other expense, net (1)	3.1				
Provision for income taxes (1)	5.6				
Operating income (expense)	\$ 13.1	\$ 24.5	\$ 1.9	\$ (1.2)	\$ (12.1)
Depreciation and amortization	6.3	3.0	2.5	0.7	0.1
EBITDA	\$ 19.4	\$ 27.5	\$ 4.4	\$ (0.5)	\$ (12.0)
	=====	=====	=====	=====	=====
(Dollar amounts in millions)	Three months ended March 31, 2006				
	Total	Marketing Services	Personals	Management Services	Corporate
Net income	\$ 4.1				
Interest and other expense, net (1)	4.2				
Provision for income taxes (1)	2.7				
Operating income (expense)	\$ 11.0	\$ 16.5	\$ 0.8	\$ 1.7	\$ (8.0)
Depreciation and amortization	6.4	2.9	2.9	0.4	0.2
	=====	=====	=====	=====	=====

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EBITDA	\$ 17.4	\$ 19.4	\$ 3.7	\$ 2.1	\$ (7.8)
	=====	=====	=====	=====	=====

Nine months ended March 31, 2007

(Dollar amounts in millions)	Total	Marketing Services	Personals	Management Services	Corporate
Net income	\$ 19.8				
Interest and other expense, net (1)	9.9				
Provision for income taxes (1)	15.3				
Operating income (expense)	\$ 45.0	\$ 69.8	\$ 2.7	\$ 0.7	\$ (28.2)
Depreciation and amortization	18.5	8.6	7.4	2.0	0.5
EBITDA	63.5	78.4	10.1	2.7	(27.7)
Change in deferred revenues	(10.8)	(11.7)	(0.4)	1.3	-
Change in deferred marketing costs	4.0	4.2	(0.2)	-	-
Adjusted EBITDA	\$ 56.7	\$ 70.9	\$ 9.5	\$ 4.0	\$ (27.7)

Nine months ended March 31, 2006

	Total	Marketing Services	Personals	Management Services	Corporate
Net income	\$ 20.4				
Interest and other expense, net (1)	13.2				
Provision for income taxes (1)	11.9				
Operating income (expense)	\$ 45.5	\$ 64.1	\$ 0.3	\$ 2.2	\$ (21.1)
Depreciation and amortization	18.9	9.2	7.6	1.2	0.9
EBITDA	64.4	73.3	7.9	3.4	(20.2)
Change in deferred revenues	(12.6)	(13.1)	-	0.5	-
Change in deferred marketing costs	9.0	9.0	-	-	-
Adjusted EBITDA	\$ 60.8	\$ 69.2	\$ 7.9	\$ 3.9	\$ (20.2)

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

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

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

Nine months ended  
March 31,

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(Dollar amounts in millions)	2007	2006
Net cash provided by operating activities	\$ 33.5	\$ 37.6
Capital expenditures	(8.2)	(14.7)
Free cash flow	\$ 25.3	\$ 22.9

### COMMITMENTS

Future minimum payments of contractual obligations as of March 31, 2007 are as follows:

(Dollar amounts in millions)	Payments Due by Period				
	Total	Less than 1 year	1 - 3 years	3 - 5 years	After 5 y
Operating leases	\$ 54.0	\$ 10.0	\$ 18.5	\$ 11.1	\$ 1
Capital leases	0.7	0.6	0.1	-	
Long-term debt	240.0	-	-	90.0	15
Purchase obligations	4.2	4.2	-	-	
Other:					
Contingent payments	81.5	51.8	29.7	-	
Interest payments on long-term debt	123.9	18.8	37.7	32.7	3
Other (1)	6.3	0.5	0.1	0.4	
Total payments due	\$ 510.6	\$ 85.9	\$ 86.1	\$ 134.2	\$ 20

(1) Includes pension obligations and other current obligations.

On March 22, 2007, we entered into a definitive agreement and plan of merger (the "Merger Agreement") with Velo Holdings Inc., a Delaware corporation ("Parent"), and Velo Acquisition Inc., a Delaware corporation and a wholly owned subsidiary of Parent ("Merger Sub"). Under the terms of the Merger Agreement, Merger Sub will be merged with and into Vertrue with Vertrue continuing as the surviving corporation and becoming a wholly owned subsidiary of Parent (the "Merger"). Parent is owned and /or backed by the equity commitment of an investor group consisting of One Equity Partners II, L.P., Oak Investment Partners XII, L.P., Rho Ventures V, L.P. and Rho Ventures V, Affiliates, L.L.C. In connection with this proposed Merger, we expect to incur additional transaction costs if our stockholders approve the proposed Merger. If we terminate the Merger Agreement or the Merger Agreement is terminated by Parent under certain conditions, we may be obligated to pay Parent a termination fee of \$22.5 million. If the Merger Agreement is terminated due to the failure to obtain stockholder approval, we may be obligated to reimburse up to \$4.0 million of Parent's documented reasonable and actual out-of-pocket expenses.

### CRITICAL ACCOUNTING POLICIES

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

### NEW ACCOUNTING PRONOUNCEMENTS

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See Note 14 to the condensed consolidated financial statements in Item 1 of this report for a description of the effect of recently issued accounting pronouncements.

### FORWARD LOOKING STATEMENTS

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

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

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

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### VERTRUE INCORPORATED

#### Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

#### Item 4. Controls and Procedures

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Evaluation of disclosure controls and procedures  
Our Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined under Rules 13a-15(e) and 15d-15(e) of the Securities and Exchange Act of 1934) as of the end of the period covered by this report and

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have concluded that the Company's disclosure controls and procedures were effective at the reasonable assurance level. The Company's disclosure controls and procedures are designed to ensure that material information relating to the Company and its consolidated subsidiaries that is required to be disclosed in its reports under the Exchange Act is accumulated, communicated to the Chief Executive Officer and Chief Financial Officer and disclosed appropriately and timely in its reports under the Exchange Act.

Because a cost-effective control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met, misstatements due to error or fraud may occur and not be detected. In addition, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

### Changes in internal control over financial reporting

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

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## VERTRUE INCORPORATED PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

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

### Item 1A. Risk Factors

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Except as noted below, there have been no material changes to the risk factors included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2006.

Failure to complete the proposed merger could negatively affect the stock price and the future business and financial results of our Company. On March 22, 2007, we entered into a definitive agreement and plan of merger (the "Merger Agreement") with Velo Holdings Inc., a Delaware corporation ("Parent"), and Velo Acquisition Inc., a Delaware corporation and a wholly owned subsidiary of Parent ("Merger Sub"). Under the terms of the Merger Agreement, Merger Sub will be merged with and into Vertrue with Vertrue continuing as the surviving corporation and becoming a wholly owned subsidiary of Parent (the "Merger"). Parent is owned and/or backed by the equity commitment of an investor group consisting of One Equity Partners II, L.P., Oak Investment Partners XII, L.P., Rho Ventures V, L.P. and Rho Ventures V, Affiliates, L.L.C.

In the event that the Merger Agreement is not adopted by Vertrue's stockholders or if the Merger is not completed for any other reason, Vertrue stockholders

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will not receive any payment for their shares of Vertrue common stock. Instead, Vertrue will remain a public company, its common stock will continue to be listed and traded on the Nasdaq Global Market and Vertrue stockholders will continue to be subject to the same risks and opportunities as they currently are with respect to their ownership of Vertrue common stock. If the Merger is not completed, there can be no assurance as to the effect of these risks and opportunities on the future value of Vertrue common stock, including the risk that the market price of Vertrue common stock may decline to the extent that the current market price of our stock reflects a market assumption that the merger will be completed. From time to time, our board of directors will evaluate and review the business operations, properties, dividend policy and capitalization of Vertrue and, among other things, make such changes as are deemed appropriate and continue to seek to identify strategic alternatives to maximize stockholder value. If the Merger Agreement is not adopted by Vertrue's stockholders or if the Merger is not consummated for any other reason, there can be no assurance that any other transaction acceptable to Vertrue will be offered or that the business, prospects or results of operations of Vertrue will not be adversely impacted.

If we terminate the Merger Agreement or the Merger Agreement is terminated by Parent under certain conditions, we may be obligated to pay Parent a termination fee of \$22.5 million. If the Merger Agreement is terminated due to the failure to obtain stockholder approval, we may be obligated to reimburse up to \$4.0 million of Parent's documented reasonable and actual out-of-pocket expenses.

In addition to the factors described above, other risks associated with this proposed merger include:

- o the outcome of any legal proceedings that have been or may be instituted against us and others relating to the Merger;
- o the inability to complete the Merger due to regulatory approval or the failure to satisfy other conditions to consummate the Merger;
- o the failure to obtain the necessary debt financing arrangements set forth in commitment letters received by Parent in connection with the Merger;
- o the failure of the Merger to close for any other reason;
- o risks that the proposed Merger disrupts our current plans and operations and the potential difficulties in employee retention as a result of the Merger;
- o the effect of the announcement of the Merger on our customer relationships, operating results and business generally;
- o the ability to realize the benefits of the Merger;

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### VERTRUE INCORPORATED PART II. OTHER INFORMATION

- o the amount of the costs, fees, expenses and charges related to the Merger and the actual terms of certain financings that will be obtained for the Merger;
- o the impact of the substantial indebtedness incurred to finance the consummation of the Merger;

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- o the risk of unforeseen material adverse changes to our business or operations, and
- o management's attention from Vertrue's day-to-day business may be diverted.

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

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No share repurchases were made during the third quarter of fiscal 2007 by us or on behalf of the Company. In July 2006, our Board of Directors authorized an additional 1,000,000 shares, no expiration date, to be purchased under our stock repurchase program originally authorized during fiscal 1997. There are 261,000 shares remaining authorized under the Board of Directors approval from October 2004.

### Item 6. Exhibits

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- 2.1 Agreement and Plan of Merger, dated as of March 22, 2007, by and among Vertrue Incorporated, Velo Holdings Inc. and Velo Acquisition Inc (incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K, filed on March 22, 20007).
- 31.1 Rule 13a-14(a) CEO Certification.
- 31.2 Rule 13a-14(a) CFO Certification.
- 32.1 CEO Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 CFO Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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### VERTRUE INCORPORATED SIGNATURES

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

VERTRUE INCORPORATED  
(Registrant)

Date: May 10, 2007

By: /s/ Gary A. Johnson

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

Date: May 10, 2007

By: /s/ James B. Duffy

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

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