

eHealth, Inc.  
Form 10-Q  
November 06, 2018  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2018

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

001-33071  
(Commission File Number)

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

Delaware 56-2357876  
(State or other jurisdiction of (I.R.S Employer  
incorporation or organization) Identification No)

440 EAST MIDDLEFIELD ROAD  
MOUNTAIN VIEW, CALIFORNIA 94043  
(Address of principal executive offices)

(650) 584-2700  
(Registrant's telephone number, including area code)

Not Applicable  
(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulations S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required

to submit and post such files). YES NO

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

Large accelerated filer                      Accelerated filer  
Non-accelerated filer                      Smaller reporting company  
Emerging growth Company

The number of shares of the registrant’s common stock, par value \$0.001 per share, outstanding as of October 31, 2018 was 19,406,466 shares.

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## PART I

## FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## EHEALTH, INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, unaudited)

	December 31, 2017 (Note 1)	September 30, 2018
Assets		
Current assets:		
Cash and cash equivalents	\$40,293	\$20,348
Accounts receivable	1,475	2,140
Commissions receivable - current	109,666	101,214
Prepaid expenses and other current assets	4,305	12,751
Total current assets	155,739	136,453
Commissions receivable - non-current	169,751	164,521
Property and equipment, net	4,705	7,011
Other assets	7,287	10,995
Intangible assets, net	7,540	12,796
Goodwill	14,096	40,233
Total assets	\$359,118	\$372,009
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$3,246	\$4,909
Accrued compensation and benefits	15,498	13,549
Accrued marketing expenses	4,693	3,058
Earnout liability - current	—	17,673
Other current liabilities	2,008	7,303
Total current liabilities	25,445	46,492
Earnout liability - non-current	—	16,327
Deferred income taxes - non-current	45,089	32,410
Other non-current liabilities	1,920	2,316
Stockholders' equity:		
Common stock	30	31
Additional paid-in capital	281,706	295,408
Treasury stock, at cost	(199,998 )	(199,998 )
Retained earnings	204,725	178,894
Accumulated other comprehensive income	201	129
Total stockholders' equity	286,664	274,464
Total liabilities and stockholders' equity	\$359,118	\$372,009

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

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## EHEALTH, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(in thousands, except per share amounts, unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017 (Note 1)	2018	2017 (Note 1)	2018
Revenue				
Commission	\$29,539	\$33,613	\$100,827	\$104,966
Other	1,927	7,138	6,761	11,512
Total revenue	31,466	40,751	107,588	116,478
Operating costs and expenses:				
Cost of revenue	(9 )	170	228	473
Marketing and advertising	13,383	16,148	42,678	45,756
Customer care and enrollment	15,798	17,272	39,919	43,730
Technology and content	8,354	7,740	24,358	23,368
General and administrative	9,353	10,528	29,879	32,459
Change in fair value of earnout liability	—	3,800	—	6,300
Restructuring charges	—	—	—	1,865
Acquisition costs	—	—	—	76
Amortization of intangible assets	260	547	780	1,545
Total operating costs and expenses	47,139	56,205	137,842	155,572
Loss from operations	(15,673 )	(15,454 )	(30,254 )	(39,094 )
Other income, net	300	296	875	776
Loss before benefit from income taxes	(15,373 )	(15,158 )	(29,379 )	(38,318 )
Benefit from income taxes	(13,197 )	(6,186 )	(26,777 )	(12,487 )
Net loss	\$(2,176 )	\$(8,972 )	\$(2,602 )	\$(25,831 )
Net loss per share:				
Basic	\$(0.12 )	\$(0.47 )	\$(0.14 )	\$(1.36 )
Diluted	\$(0.12 )	\$(0.47 )	\$(0.14 )	\$(1.36 )
Weighted-average number of shares used in per share amounts:				
Basic	18,565	19,236	18,473	19,059
Diluted	18,565	19,236	18,473	19,059
Comprehensive loss				
Net loss	\$(2,176 )	\$(8,972 )	\$(2,602 )	\$(25,831 )
Foreign currency translation adjustment, net of taxes	(7 )	(67 )	11	(72 )
Comprehensive loss	\$(2,183 )	\$(9,039 )	\$(2,591 )	\$(25,903 )

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

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

	Nine Months Ended September 30,	
	2017	2018
	(Note 1)	
Operating activities		
Net loss	\$(2,602 )	\$(25,831 )
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Deferred income taxes	(25,337 )	(12,679 )
Depreciation and amortization	2,212	1,870
Amortization of internally developed software	1,055	1,583
Amortization of intangible assets	780	1,545
Stock-based compensation expense	6,948	9,475
Change in fair value of earnout liability	—	6,300
Other non-cash items	(90 )	387
Changes in operating assets and liabilities:		
Accounts receivable	(1,542 )	(665 )
Commissions receivable	22,584	29,156
Prepaid expenses and other assets	(3,004 )	(8,209 )
Accounts payable	(1,552 )	1,513
Accrued compensation and benefits	(41 )	(2,081 )
Accrued marketing expenses	(5,251 )	(1,635 )
Deferred revenue	2,220	5,354
Accrued expense and other liabilities	(1,793 )	(595 )
Net cash (used in) provided by operating activities	(5,413 )	5,488
Investing activities		
Capitalized internal-use software and website development costs	(2,505 )	(4,344 )
Purchases of property and equipment and other assets	(1,483 )	(3,471 )
Acquisition of business, net of cash acquired	—	(14,929 )
Net cash used in investing activities	(3,988 )	(22,744 )
Financing activities		
Proceeds from exercise of common stock options	179	2,030
Cash used to net-share settle equity awards	(1,101 )	(3,398 )
Debt issuance cost payments	—	(1,172 )
Principal payments in connection with capital leases	(80 )	(78 )
Net cash used in financing activities	(1,002 )	(2,618 )
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	(1 )	(71 )
Net decrease in cash, cash equivalents, and restricted cash	(10,404 )	(19,945 )
Cash, cash equivalents, and restricted cash at beginning of period	61,781	40,293
Cash, cash equivalents, and restricted cash at end of period	\$51,377	\$20,348

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



EHEALTH, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited)

Note 1 - Summary of Business and Significant Accounting Policies

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

Basis of Presentation — The accompanying condensed consolidated balance sheets as of December 31, 2017 and September 30, 2018, the condensed consolidated statements of comprehensive loss for the three and nine months ended September 30, 2017 and 2018 and the condensed consolidated statements of cash flows for the nine months ended September 30, 2017 and 2018, respectively, are unaudited. Effective January 1, 2018, we adopted the requirements of Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers (Topic 606), as discussed in detail below under Adoption of New Accounting Standards. All amounts and disclosures set forth in this Quarterly Report on Form 10-Q have been updated to comply with Topic 606. Except for the impact of the adoption of Topic 606, the condensed consolidated balance sheet data as of December 31, 2017 was derived from the audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2017, which was filed with the Securities and Exchange Commission on March 19, 2018. The accompanying statements should be read in conjunction with the audited consolidated financial statements and related notes contained in our Annual Report on Form 10-K.

The accompanying condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”) for interim financial information. Certain information and disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted in accordance to such rules and regulations. The unaudited condensed consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2017 and include all adjustments necessary for the fair presentation of our financial position as of December 31, 2017 and September 30, 2018, our results of operations for the three and nine months ended September 30, 2017 and 2018 and our cash flows for the nine months ended September 30, 2017 and 2018. The results for the three and nine months ended September 30, 2018 are not necessarily indicative of the results to be expected for any subsequent period or for the fiscal year ending December 31, 2018 and therefore should not be relied upon as an indicator of future results.

Principles of Consolidation — The condensed consolidated financial statements include the accounts of eHealth, Inc. and its wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

Seasonality — A greater number of our Medicare-related health insurance plans are sold in our fourth quarter during the Medicare annual enrollment period when Medicare-eligible individuals are permitted to change their Medicare Advantage and Medicare Part D prescription drug coverage for the following year. As a result, our Medicare plan-related commission revenue is highest in our fourth quarter.

The majority of our individual and family health insurance plans are sold in the fourth quarter during the annual open enrollment period as defined under the federal Patient Protection and Affordable Care Act and related amendments in the Health Care and Education Reconciliation Act. Individuals and families generally are not able to purchase individual and family health insurance outside of these open enrollment periods, unless they qualify for a special enrollment period as a result of certain qualifying events, such as losing employer-sponsored health insurance or moving to another state.

#### Recent Accounting Pronouncements Not Yet Adopted

Leases (Topic 842) — In February 2016, the Financial Accounting Standards Board ("FASB") issued ASU No. 2016-02, Leases (Topic 842). ASU 2016-02 requires lessees to recognize a right-of-use asset and lease liability for all leases with terms of more than 12 months. Recognition, measurement, and presentation of expenses will depend on classification as a finance or operating lease. The guidance also eliminates existing real estate-specific provisions for all entities. The new

EHEALTH, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

standard is effective for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period. Early adoption is permitted. We expect to adopt this new accounting standard prospectively in the first quarter of 2019. While we are currently evaluating the impact of adopting ASU 2016-02, based on our lease portfolio as of September 30, 2018, our total operating lease commitments total \$32.6 million on an undiscounted basis. The discounted commitment amount will be capitalized on the balance sheet as a right-of-use asset and corresponding lease liability upon adoption. We do not expect a material impact to our condensed consolidated statements of comprehensive loss. However, the ultimate impact of adopting ASU 2016-02 will depend on our lease portfolio as of the adoption date.

#### Adoption of New Accounting Standards

Compensation — Stock Compensation (Topic 718) — In May 2017, the FASB issued ASU No. 2017-09, Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting, which provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. We adopted ASU 2017-09 in the first quarter of 2018. The adoption of this new standard did not have a material impact on our condensed consolidated financial statements.

Statement of Cash Flows (Topic 230) — In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash, which clarifies guidance on the classification and presentation of restricted cash in the statement of cash flows. Under ASU 2016-18, changes in restricted cash and restricted cash equivalents would be included along with those of cash and cash equivalents in the statement of cash flows. As a result, entities would no longer present transfers between cash/equivalents and restricted cash/equivalents in the statement of cash flows. In addition, a reconciliation between the balance sheet and the statement of cash flows would be disclosed when the balance sheet includes more than one line item for cash/equivalents and restricted cash/equivalents. We adopted ASU 2016-18 in the first quarter of 2018. The adoption of this new standard did not have a material impact on our condensed consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. ASU 2016-15 provides guidance on how certain cash receipts and cash payments are presented on the statement of cash flows. We adopted ASU 2016-15 in the first quarter of 2018. The adoption of this new standard did not have a material impact on our condensed consolidated financial statements.

Goodwill Impairment (Topic 350) — In January 2017, the FASB issued ASU No. 2017-04, Simplifying the Test for Goodwill Impairment (Topic 350). Under the new standard, goodwill impairment would be measured as the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying value of goodwill. ASU 2017-04 eliminates existing guidance that requires an entity to determine goodwill impairment by calculating the implied fair value of goodwill by hypothetically assigning the fair value of a reporting unit to all of its assets and liabilities as if that reporting unit had been acquired in a business combination. ASU 2017-04 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2019 with early adoption permitted for annual goodwill impairment tests performed after January 1, 2017. The standard must be applied prospectively. We early adopted ASU 2017-04 in the first quarter of 2018 and perform our annual impairment test in the fourth fiscal quarter of each year. The adoption of this new standard did not have a material impact on our condensed consolidated financial statements.

Revenue Recognition (Topic 606) — In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), requiring an entity to recognize revenue when it transfers promised goods or services to

customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. In April 2016, the FASB issued ASU No. 2016-10, Identifying Performance Obligations and Licensing. ASU 2016-10 provides guidance in identifying performance obligations and determining the appropriate accounting for licensing arrangements.

The effective date and transition requirements for ASU 2016-10 are the same as the effective date and transition requirements in Topic 606 (and any other Topic amended by ASU 2014-09). ASU 2014-09 may be adopted retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (modified retrospective method). We adopted ASC 2014-09 effective January 1, 2018, using the full retrospective method to restate each prior reporting period presented. The adoption of this standard had a material impact on our condensed consolidated balance sheets and condensed consolidated statements of comprehensive loss, but had no impact on total net cash provided by (used in) operating, investing, or financing activities within the condensed consolidated statements of cash flows.

EHEALTH, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Intangibles - Goodwill and Other - Internal-Use Software (Topic 350-40) - In August 2018, the FASB issued ASU 2018-15, Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Agreement That is a Service Contract, which provides guidance for accounting for implementation costs incurred in internal-use cloud computing agreements. We early adopted ASU 2018-15 in the current quarter. It did not have a material impact on our condensed consolidated financial statements.

#### Change in Significant Accounting Policies

Except for the accounting policies for revenue recognition, commissions receivable and deferred revenue that were updated as a result of adopting Topic 606, there have been no changes to our significant accounting policies described in the Annual Report on Form 10-K for the year ended December 31, 2017, filed with the SEC on March 19, 2018, that have had a material impact on our condensed consolidated financial statements and related notes.

#### Revenue Recognition Policy

We are compensated by the receipt of commission payments from health insurance carriers whose health insurance policies are purchased through our ecommerce platforms or our customer care centers. We may also receive commission bonuses based on our attaining predetermined target sales levels for Medicare, individual and family, small business and ancillary health insurance products, or other objectives, as determined by the health insurance carrier, which we recognize as commission revenue when we achieve the predetermined target sales levels or other objectives. In addition, we also generate revenue from non-commission revenue sources, which include online sponsorship and advertising, technology licensing and lead referrals.

The core principle of Topic 606 is to recognize revenue upon the transfer of promised goods or services to customers in an amount that reflects the consideration the entity expects to be entitled to in exchange for those goods or services. Accordingly, we recognize revenue for our services in accordance with the following five steps outlined in Topic 606:

Identification of the contract, or contracts, with a customer. A contract with a customer exists when (i) we enter into an enforceable contract with a customer that defines each party's rights regarding the goods or services to be transferred and identifies the payment terms related to these goods or services, (ii) the contract has commercial substance, and (iii) we determine that collection of substantially all consideration for goods or services that are transferred is probable based on the customer's intent and ability to pay the promised consideration.

Identification of the performance obligations in the contract. Performance obligations promised in a contract are identified based on the goods or services that will be transferred to the customer that are both capable of being distinct, whereby the customer can benefit from the goods or service either on its own or together with other resources that are readily available from third parties or from us, and are distinct in the context of the contract, whereby the transfer of the goods or services is separately identifiable from other promises in the contract.

Determination of the transaction price. The transaction price is determined based on the consideration to which we will be entitled in exchange for transferring goods or services to the customer.

Allocation of the transaction price to the performance obligations in the contract. If the contract contains a single performance obligation, the entire transaction price is allocated to the single performance obligation. Contracts that contain multiple performance obligations require an allocation of the transaction price to each performance obligation based on a relative standalone selling price basis.

Recognition of revenue when, or as, we satisfy a performance obligation. We satisfy performance obligations either over time or at a point in time, as discussed in further detail below. Revenue is recognized at the time the related performance obligation is satisfied by transferring the promised good or service to the customer.

Commission Revenue — Our commission revenue is primarily comprised of commissions paid to us by health insurance carriers related to insurance plans that have been purchased by a member through our health insurance exchange service. We define a member as an individual currently covered by an insurance plan, which include Medicare-related, individual and family, small business and ancillary plans. We are compensated by the health insurance carrier, which we define as our customer.

EHEALTH, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

We typically enter into contractual relationships with health insurance carriers that are non-exclusive and terminable on short notice by either party for any reason. In addition, health insurance carriers often have the ability to terminate or amend our agreements unilaterally on short notice, including provisions in our agreements relating to the commission rates paid to us by the health insurance carriers. The amendment or termination of an agreement we have with a health insurance carrier may adversely impact the commissions we are paid on health insurance plans purchased from the carrier by means of our health insurance exchange services.

For both Medicare Advantage and Medicare Part D prescription drug plans, we receive a fixed, annual commission payment from insurance carriers once the plan is approved by the carrier and either a fixed, monthly or annual commission payment beginning with and subsequent to the second plan year. In the first plan year of a Medicare Advantage and Medicare Part D prescription drug plan, after the health insurance carrier approves the application but during the effective year of the plan, we are paid a fixed commission that is prorated for the number of months remaining in the calendar year. Additionally, if the plan is the first Medicare Advantage or Medicare Part D plan issued to the member, we may receive a higher commission rate that covers a full twelve-month period, regardless of the month the plan was effective. We earn commission revenue for Medicare Advantage and Medicare Part D prescription drug plans for which we are the broker of record, typically until either the policy is cancelled or we otherwise do not remain the agent on the policy.

For individual and family, Medicare Supplement, small business and ancillary plans, our commissions generally represent a flat amount per member per month or a percentage of the premium amount collected by the carrier during the period that a member maintains coverage under a plan. Commissions are reported to us after the premiums are collected by the carrier, generally on a monthly basis. We generally continue to receive the commission payment from the relevant insurance carrier until the health insurance plan is cancelled or we otherwise do not remain the agent on the policy.

We utilize a practical expedient to estimate commission revenue for each insurance product by applying the use of a portfolio approach to group approved members by the effective month of the relevant policy (referred to as a "cohort"). This allows us to estimate the commissions we expect to collect for each approved member cohort by evaluating various factors, including but not limited to, contracted commission rates, carrier mix and expected member churn.

For Medicare-related, individual and family and ancillary health insurance plans, our services are complete once a submitted application is approved by the relevant health insurance carrier. Accordingly, we recognize commission revenue based upon the total estimated lifetime commissions we expect to receive for selling the plan after the carrier approves an application, net of a constraint. We refer to these estimated and constrained lifetime values as the "constrained lifetime value" for the plan. We provide annual services in selling and renewing small business health insurance plans; therefore, we recognize small business health insurance plan commission revenue at the time the plan is approved by the carrier, and when it renews each year thereafter, equal to the estimated commissions we expect to collect from the plan over the following 12-months. Our estimate of commission revenue for each product line is based on a number of assumptions, which include, but are not limited to, estimating conversion of an approved member to a paying member, forecasting member churn and forecasting the commission amounts likely to be received per member. These assumptions are based on historical trends and incorporate management's judgment in interpreting those trends and in applying constraints discussed below. To the extent we make changes to the assumptions, we will recognize any material impact of the changes to commission revenue in the reporting period in which the change is made, including revisions of estimated lifetime commissions either below or in excess of previously estimated constrained lifetime value recognized as revenue.

For Medicare-related, individual and family and ancillary health insurance plans, we apply constraints to determine the amount of commission revenue to recognize per approved member. The constraints are applied to help ensure that the total estimated lifetime commissions expected to be collected for an approved member's plan are recognized as revenue only to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with future commissions receivable from the plan is subsequently resolved. We evaluate the appropriateness of these constraints on at least an annual basis, including assessing factors affecting our estimate of the estimated lifetime value of commissions per approved member based on current trends impacting our business and assessing whether any adjustment to those constraints should be made. We update the assumptions when we observe a sufficient level of evidence that would suggest that the long term expectation of the assumption has changed.



EHEALTH, INC.  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
 (unaudited)

For the three and nine months ended September 30, 2017 and 2018, the constraints applied to the total estimated lifetime commissions we expect to receive for selling the plan after the carrier approves an application in order to derive the constrained lifetime value of commissions per approved member are as follows:

	Three and Nine Months Ended September 30, 2017		2018	
Medicare				
Medicare Advantage	7 %	7 %		
Medicare Supplement	5 %	5 %		
Medicare Part D	5 %	5 %		
Individual and Family				
Non-Qualified Health Plans	15 %	15 %		
Qualified Health Plans	20 %	20 %		
Ancillary	10 %	10 %		
Small Business	—	—		

Other Revenue — Our sponsorship and advertising program allows carriers to purchase advertising space in specific markets in a sponsorship area on our website. In return, we are typically paid a monthly fee, which is recognized over the period that advertising is displayed. Such revenue often includes a performance fee component based on metrics such as submitted health insurance applications and is recognized when the performance obligations are fulfilled and control has been transferred. We also offer Medicare advertising services, which include website development, hosting and maintenance. In these instances, we are typically paid a fixed, up-front fee, which we recognize as revenue over the service period as the performance obligations are satisfied.

Our commercial technology licensing business allows carriers the use of our ecommerce platform to offer their own health insurance policies on their websites and allows agents to utilize our technology to power their online quoting, content and application submission processes. Typically, we are paid a one-time implementation fee, which we recognize upon transfer of control over the contract term, commencing once the technology is available for use by the third party. Variable consideration in the form of performance fees based on metrics such as submitted health insurance applications are recognized upon achieving the metrics. The metrics used to calculate performance fees for both sponsorship and advertising and technology licensing are based on performance criteria that are either measured based on data tracked by us, or data tracked by the third party.

Our lead generation business allows us to sell insurance policy leads to third parties. We are paid a fixed fee per lead at a rate that is determined by tiers of sales volume. Revenue is recognized at the time control of the the lead's broker of record status is transferred to the third party.

Deferred revenue includes deferred technology licensing implementation fees and amounts billed or collected from sponsorship or technology licensing customers in advance of our performing our service for such customers. It also includes the amount by which both unbilled and billed services provided under our technology licensing arrangements exceed the straight-line revenue recognized to-date.

Some of our contracts with customers contain multiple performance obligations. We allocate revenue to all performance obligations within an arrangement with multiple deliverables at the inception of the arrangement using the relative standalone selling price method.

EHEALTH, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited)

Disaggregation of Revenue

The table below depicts the disaggregation of revenue by product for the three and nine months ended September 30, 2017 and 2018 and is consistent with how we evaluate our financial performance:

	Three Months Ended		Nine Months Ended	
	September 30, 2017	September 30, 2018	September 30, 2017	September 30, 2018
Commission Revenue:				
Medicare				
Medicare Advantage	\$17,544	\$17,976	\$55,426	\$57,649
Medicare Supplement	3,442	7,358	10,242	18,305
Medicare Part D	977	1,005	3,558	2,879
Total Medicare	21,963	26,339	69,226	78,833
Individual and Family <sup>(1)</sup>				
Non-Qualified Health Plans	1,665	876	7,426	3,386
Qualified Health Plans	323	1,169	6,089	5,006
Total Individual and Family	1,988	2,045	13,515	8,392
Ancillary				
Short-term	1,405	1,699	4,280	4,242
Dental	960	245	3,810	1,611
Vision	285	126	1,137	857
Other	1,040	1,006	2,567	3,659
Total Ancillary	3,690	3,076	11,794	10,369
Small Business	1,506	1,697	4,962	5,828
Commission Bonus	392	456	1,330	1,544
Total Commission Revenue	29,539	33,613	100,827	104,966
Other Revenue	1,927	7,138	6,761	11,512
Total Revenue	\$31,466	\$40,751	\$107,588	\$116,478

We define our Individual and Family Plan offerings as major medical individual and family health insurance plans, which does not include Medicare-related, small business or ancillary plans. Individual and family health insurance plans include both Qualified and Non-Qualified plans. Qualified health plans are individual and family health insurance plans that meet the requirements of the Affordable Care Act and are offered through the government-run health insurance exchange in the relevant jurisdiction. Non-Qualified health plans are individual and family health insurance plans that meet the requirements of the Affordable Care Act and are not offered through the exchange in the relevant jurisdiction. Individuals that purchase Non-Qualified health plans cannot receive a subsidy in connection with the purchase of Non-Qualified plans.

Book-of-Business Transfers

We entered into several agreements with a broker partner, whereby the partner transferred certain of its existing Medicare plan members to us as the broker of record on the underlying policies. The first of these book-of-business transfers occurred in November 2010 and the most recent in June 2012. Total consideration paid by us for these books-of-business amounted to \$13.9 million. Consideration paid for these books-of-business is included within commissions receivable in the accompanying condensed consolidated balance sheets. The consideration we paid to the broker partner was based on the discounted commissions expected to be received over the remaining life of each

transferred Medicare plan member. As we receive commission payments from health insurance carriers for these plan members, we reduce commissions receivable for the discounted commissions expected to be received, with the remaining margin earned recorded to other income (expense), net in the condensed consolidated statements of comprehensive income (loss). The margin earned and recorded to other income, net

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for these books-of-business for the three and nine months ended September 30, 2017 totaled \$0.2 million and \$0.7 million, respectively, and for the three and nine months ended September 30, 2018 totaled \$0.2 million and \$0.6 million, respectively.

**Incremental Costs to Obtain a Contract**

We reviewed our sales compensation plans, which are directed at converting leads into approved members, and concluded that they are fulfillment costs and not costs to obtain a contract with a health insurance carrier, which we define as our customer. Additionally, we reviewed compensation plans related to personnel responsible for identifying new health insurance carriers and entering into contracts with new health insurance carriers and concluded that no incremental costs are incurred to obtain such contracts.

**Income Taxes**

As described in more detail in Note 6 - Income Taxes, as a result of the adoption of Topic 606, we recorded a significant deferred tax liability on our recasted opening balance sheet related to the resulting accelerated revenue recognition under Topic 606. Additionally, as a result of the deferred tax liability, we re-evaluated the need for the valuation allowance recorded against our U.S. deferred tax assets. As a result of this evaluation, we determined that the deferred tax liability is a source of income that can be used to support realization of deferred tax assets on a more-likely-than-not level and accordingly reversed our previously recorded valuation allowance as of January 1, 2015, the earliest period to which the retrospective adoption of Topic 606 was applied.

**Impact to Previously Reported Results**

The adoption of ASU 2014-09 impacted our reported results as follows (in thousands, except per share amounts):

Balance Sheets	December 31, 2017		
	As Reported	ASC 606 Adoption Adjustment	As Adjusted
Accounts receivable	\$9,894	\$(8,419 )	\$1,475
Commissions receivable - current	\$—	\$109,666	\$109,666
Prepaid expenses and other current assets	\$4,845	\$(540 )	\$4,305
Commissions receivable - non-current	\$—	\$169,751	\$169,751
Other assets	\$7,317	\$(30 )	\$7,287
Accrued marketing expenses	\$4,088	\$605	\$4,693
Other current liabilities	\$3,815	\$(1,807 )	\$2,008
Deferred income taxes - non-current	\$—	\$45,089	\$45,089
Non-current liabilities	\$900	\$1,020	\$1,920
Retained earnings (accumulated deficit)	\$(20,796)	\$225,521	\$204,725

  

Statements of Operations	Three Months Ended September 30, 2017			Nine Months Ended September 30, 2017		
	As Reported	ASC 606 Adoption Adjustment	As Adjusted	As Reported	ASC 606 Adoption Adjustment	As Adjusted
Revenue	\$26,619	\$4,847	\$31,466	\$133,515	\$(25,927 )	\$107,588
Cost of revenue	\$176	\$(185 )	\$(9 )	\$2,009	\$(1,781 )	\$228
Other income, net	\$98	\$202	\$300	\$214	\$661	\$875
Provision (benefit) from income taxes	\$9	\$(13,206 )	\$(13,197)	\$(1,439 )	\$(25,338 )	\$(26,777 )
Net income (loss)	\$(20,616)	\$18,440	\$(2,176 )	\$(4,455 )	\$1,853	\$(2,602 )

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Net income (loss) per diluted share    \$(1.11 ) \$ 0.99        \$(0.12 ) \$(0.24 ) \$ 0.10        \$(0.14 )

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Segment Information	Three Months Ended September 30, 2017			Nine Months Ended September 30, 2017		
	As Reported	ASC 606 Adoption Adjustment	As Adjusted	As Reported	ASC 606 Adoption Adjustment	As Adjusted
Revenue						
Medicare segment revenue	\$ 10,682	\$ 12,317	\$ 22,999	\$ 79,670	\$ (7,099 )	\$ 72,571
Individual, Family and Small Business segment revenue	15,937	(7,470 )	8,467	53,845	(18,828 )	35,017
Total revenue	\$ 26,619	\$ 4,847	\$ 31,466	\$ 133,515	\$ (25,927 )	\$ 107,588
Segment profit (loss)						
Medicare segment profit (loss)	\$(18,058)	\$ 12,262	\$(5,796 )	\$(2,470 )	\$(6,268 )	\$(8,738 )
Individual, Family and Small Business segment profit (loss)	6,824	(7,228 )	(404 )	26,307	(17,876 )	8,431
Total segment profit (loss)	\$(11,234)	\$ 5,034	\$(6,200 )	\$ 23,837	\$(24,144 )	\$(307 )

## Note 2 - Acquisition

On January 22, 2018, we completed our acquisition of all outstanding membership interests of Wealth, Health and Life Advisors, LLC, more commonly known as GoMedigap, a technology-enabled provider of Medicare Supplement enrollment services. This acquisition is expected to enhance our growing presence in the Medicare Supplement market and put us in a stronger position with carriers and strategic partners. The acquisition consideration consisted of cash of \$15.0 million, less \$0.1 million of cash acquired, and 294,637 shares of our common stock. In addition, the members of GoMedigap are entitled to receive earnout payments ("Earnout Consideration") consisting of up to \$20 million in cash and 589,275 shares of our common stock. The Earnout Consideration will become payable, subject to the terms and conditions of the purchase agreement relating to the acquisition, upon the final determination of the achievement of certain milestones in 2018 and 2019.

## EHEALTH, INC.

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The GoMedigap acquisition was accounted for using the acquisition method of accounting under ASC 805, Business Combinations. The acquisition method of accounting requires, among other things, that assets acquired and liabilities assumed be recognized at their fair values as of the acquisition date. The major classes of assets and liabilities to which we have preliminarily allocated the acquisition consideration were as follows (in thousands):

## Acquisition Consideration

Cash paid	\$ 15,000
Fair value of equity awards issued to GoMedigap members <sup>(1)</sup>	5,595
Estimated fair value of earnout liability	27,700
	\$48,295

## Allocation

Cash and cash equivalents	\$71
Commission receivable - current	4,371
Prepaid expenses and other current assets	11
Commission receivable - non-current	11,103
Property and equipment, net	174
Accounts payable	(110 )
Accrued compensation and benefits	(132 )
Other current liabilities	(130 )
Net tangible assets acquired	15,357
Intangible assets	6,800
Goodwill	26,137
Total intangible assets acquired	32,938
Total net assets acquired	\$48,295

(1) The fair value of equity awards issued was determined based on the January 22, 2018 closing price of our common stock of \$18.99.

The acquisition consideration allocation as of the date of the acquisition was based on a preliminary valuation and is subject to revision as more detailed analyses are completed and additional information about the fair value of assets acquired and liabilities assumed becomes available. Additional information that result in adjustments to the provisional current and non-current commissions receivable amounts recognized as of the acquisition date may result in a corresponding adjustment to goodwill in the period in which new information becomes available.

**Goodwill and Intangible Assets** — Goodwill represents the excess of the purchase price of the acquired business over the acquisition date fair value of the net assets acquired. Goodwill is primarily attributable to the assembled workforce, new product development capabilities and anticipated synergies and economies of scale expected from the operations of the combined company. The goodwill was assigned to our Medicare segment. Goodwill is tested for impairment on an annual basis in the fourth quarter of each year or whenever events or changes in circumstances indicate that the asset may be impaired. Factors that we consider in deciding when to perform an impairment test include significant negative industry or economic trends or significant changes or planned changes in our use of the intangible assets. Goodwill will be deductible for tax purposes over 15 years.

**Earnout liability** — The earnout liability represents the fair value of the Earnout Consideration payable and will be adjusted to fair value at each reporting date until settled. Changes in fair value will be recognized in income (loss) from operations. The earnout liability will be adjusted to the extent the specified enrollment targets are not achieved.



Fair Value Measurements — The assets acquired and liabilities assumed of GoMedigap have been recognized at fair value in accordance with ASC 820, Fair Value Measurement. ASC 820 defines fair value as the price that would be received to sell an asset or would be paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 requires three levels of hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy level assigned to each asset and liability is based on the assessment of the transparency and reliability of inputs used in the valuation of such items based on the lowest level of input that is significant to fair value measurement. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and lowest priority to unobservable inputs (Level 3 measurements).

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Assets acquired and liabilities assumed measured and reported at fair value are classified in one of the following categories based on inputs:

- Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2 Unadjusted quoted prices in active markets for similar assets or liabilities; or unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active; or inputs other than quoted prices that are observable for the asset or liability.
- Level 3 Unobservable inputs for the asset or liability.

The fair value of prepaid expenses and other current assets, property and equipment, net, accounts payable, accrued compensation and benefits and other current liabilities approximated their carrying value at the date of acquisition. The fair value of commissions receivable was determined using a discount rate of interest, which is a Level 2 input. Intangible assets and the earnout liability were valued using Level 3 inputs.

The fair values of the acquired intangible assets were determined using the profit allocation method, which is based on determining the estimated royalties we are relieved from paying because we own the assets.

The fair value of the earnout liability was measured using probability-weighted analysis and is discounted using a rate that appropriately captures the risk associated with the obligation. Key assumptions included new enrollments and volatility for the years ending December 31, 2018 and 2019 and eHealth's simulated stock price at the time of payment. The earnout liability was part of the acquisition consideration and will be adjusted to fair value at each reporting date until settled. The fair value adjustments to the earnout liability during both the three and nine months ended September 30, 2018 totaled \$3.8 million and \$6.3 million, respectively. We will continue to update the key assumptions each period and record any fair value adjustments, as necessary.

Following are the details of the acquisition consideration allocated to the intangible assets acquired (in thousands):

Technology	\$2,000
Trade names, trademarks and website addresses	4,800
Total intangible assets	\$6,800

We are amortizing the existing technology and trade name using the straight-line method over an estimated life of 3 and 10 years, respectively. The estimated useful lives are based on the time periods during which the intangibles are expected to result in incremental cash flows.

We incurred \$0.1 million of acquisition-related costs during the nine months ended September 30, 2018, which were expensed as incurred.

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Note 3 - Balance Sheet Accounts

Cash and Cash Equivalents — As of December 31, 2017 and September 30, 2018, our cash equivalents consisted of money market accounts that invested in U.S. government-sponsored enterprise bonds and discount notes, U.S. government treasury bills and notes and repurchase agreements collateralized by U.S. government obligations. As of December 31, 2017 and September 30, 2018, our cash equivalents carried no unrealized gains or losses and we did not realize any significant gains or losses on sales of cash equivalents during the three or nine months ended September 30, 2017 and 2018.

As of December 31, 2017 and September 30, 2018, our cash and cash equivalent balances were invested as follows (in thousands):

	December 31, September 30,	
	2017	2018
Cash	\$ 5,098	\$ 2,881
Money market funds	35,195	17,467
Total cash and cash equivalents	\$ 40,293	\$ 20,348

Prepaid Expenses and Other Current Assets — Prepaid expenses and other current assets consisted of the following (in thousands):

	December 31, September 30,	
	2017	2018
Prepaid maintenance contracts	\$ 1,945	\$ 2,511
Prepaid insurance	490	1,215
Prepaid rent	311	502
Prepaid marketing	24	6,772
Other prepaid expenses	1,535	1,751
Total prepaid expenses and other current assets	\$ 4,305	\$ 12,751

Intangible Assets — The carrying amounts, accumulated amortization, net carrying value and weighted average remaining life of our definite-lived amortizable intangible assets, as well as our indefinite-lived intangible trademarks, are presented in the tables below (dollars in thousands, weighted-average remaining life in years):

	December 31, 2017			September 30, 2018			Weighted-Average Remaining Life
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	
Technology	\$1,700	\$ (1,700 )	\$ —	\$3,700	\$ (2,144 )	\$ 1,556	2.3 years
Pharmacy and customer relationships	10,100	(7,884 )	2,216	10,100	(8,596 )	1,504	1.6 years
Trade names, trademarks and website addresses	900	(690 )	210	5,700	(1,078 )	4,622	9.1 years
Total intangible assets subject to amortization	\$12,700	\$ (10,274 )	2,426	\$19,500	\$ (11,818 )	7,682	

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Indefinite-lived trademarks and domain names	5,114	5,114	Indefinite
Total intangible assets	\$ 7,540	\$ 12,796	

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As of September 30, 2018, expected amortization expense in future periods is as follows (in thousands):

Years Ending December 31,	Technology	Pharmacy and Customer Relationships	Trade Names, Trademarks and Website Addresses	Total
2018	\$ 166	\$ 237	\$ 142	\$545
2019	667	950	570	2,187
2020	667	317	510	1,494
2021	56	—	480	536
2022	—	—	480	480
Thereafter	—	—	2,440	2,440
Total	\$ 1,556	\$ 1,504	\$ 4,622	\$7,682

Note 4 - Fair Value Measurements

We define fair value as the price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques we use to measure fair value maximize the use of observable inputs and minimize the use of unobservable inputs. We classify the inputs used to measure fair value into the following hierarchy:

Level 1	Unadjusted quoted prices in active markets for identical assets or liabilities.
Level 2	Unadjusted quoted prices in active markets for similar assets or liabilities; unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability.
Level 3	Unobservable inputs for the asset or liability.

The following table is a summary of financial assets measured at fair value on a recurring basis and their classification within the fair value hierarchy (in thousands).

	December 31, 2017			September 30, 2018			
	Carrying Value	Level 1	Total	Carrying Value	Level 1	Level 3	Total
<b>Assets</b>							
Money market funds	\$35,195	\$35,195	\$35,195	\$17,467	\$17,467	\$—	\$17,467
Total assets measured and recorded at fair value	\$35,195	\$35,195	\$35,195	\$17,467	\$17,467	\$—	\$17,467
<b>Liability</b>							
Earnout liability - current	\$—	\$—	\$—	\$17,673	\$—	\$17,673	\$17,673
Earnout liability - non-current	—	—	—	16,327	—	16,327	16,327
Total liabilities measured and recorded at fair value	\$—	\$—	\$—	\$34,000	\$—	\$34,000	\$34,000

Our cash equivalents were invested in money market funds and were classified as Level 1. We endeavor to utilize the best available information in measuring fair value. We used observable prices in active markets in determining the classification of our money market funds as Level 1.

The earnout liability represents the fair value of the Earnout Consideration payable to acquire GoMedigap and will be adjusted to fair value at each reporting date until settled. See Note 2 - Acquisition for additional information on the earnout consideration.

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We measure the earnout liability using internally developed assumptions, therefore it is classified as Level 3. The fair value of the earnout liability was measured using probability-weighted analysis and is discounted using a rate that appropriately captures the risk associated with the obligation. Key assumptions included new enrollments and volatility for the years ending December 31, 2018 and 2019 and our simulated stock price at the time of payment.

Note 5 - Stockholder's Equity

2014 Equity Incentive Plan — The following table summarizes activity under our 2014 Equity Incentive Plan (the “2014 Plan”) for the nine months ended September 30, 2018 (in thousands):

	Shares Available for Grant
Shares available for grant December 31, 2017	1,409
Restricted stock units granted <sup>1</sup>	(562 )
Options granted	