

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**FORM 10-Q**

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended September 30, 2019

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
**001-33071**  
(Commission File Number)

**EHEALTH, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of incorporation or organization)

**56-2357876**

(I.R.S Employer Identification No)

**2625 AUGUSTINE DRIVE, SECOND FLOOR  
SANTA CLARA, CALIFORNIA, 95054**

(Address of principal executive offices)

**(650) 584-2700**

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, par value \$0.001 per share	EHTH	The Nasdaq Stock Market LLC

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 every Interactive Data File required to be submitted 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 such files). Yes  No

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth Company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The number of shares of the registrant's common stock, par value \$0.001 per share, outstanding as of October 31, 2019 was 23,098,198 shares.

**EHEALTH, INC.**  
**FORM 10-Q**  
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**PART I  
FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

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

	September 30, 2019	December 31, 2018
Assets	(Unaudited)	
<b>Current assets:</b>		
Cash and cash equivalents	\$ 88,070	\$ 13,089
Accounts receivable	682	3,601
Commissions receivable — current	127,414	134,190
Prepaid expenses and other current assets	18,180	5,288
<b>Total current assets</b>	<b>234,346</b>	<b>156,168</b>
Commissions receivable — non-current	230,322	211,668
Property and equipment, net	10,401	7,684
Operating lease right-of-use assets	36,551	—
Restricted cash	3,354	—
Other assets	15,424	11,276
Intangible assets, net	10,609	12,249
Goodwill	40,233	40,233
<b>Total assets</b>	<b>\$ 581,240</b>	<b>\$ 439,278</b>
<b>Liabilities and stockholders' equity</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 18,062	\$ 5,688
Accrued compensation and benefits	18,139	20,763
Accrued marketing expenses	4,086	11,013
Earnout liability — current	28,300	20,730
Lease liabilities — current	4,317	—
Deferred Revenue	9,083	876
Other current liabilities	1,671	1,549
<b>Total current liabilities</b>	<b>83,658</b>	<b>60,619</b>
Debt	—	5,000
Earnout liability — non-current	—	19,270
Deferred income taxes — non-current	29,735	47,901
Lease liabilities — non-current	34,181	—
Other non-current liabilities	2,095	3,339
<b>Stockholders' equity:</b>		
Common stock	35	31
Additional paid-in capital	448,409	298,024
Treasury stock, at cost	(199,998)	(199,998)
Retained earnings	183,028	204,965
Accumulated other comprehensive income	97	127
<b>Total stockholders' equity</b>	<b>431,571</b>	<b>303,149</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 581,240</b>	<b>\$ 439,278</b>

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

**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,	
	2019	2018	2019	2018
<b>Revenue:</b>				
Commission	\$ 59,762	\$ 33,613	\$ 184,595	\$ 104,966
Other	10,151	7,138	19,858	11,512
<b>Total revenue</b>	<b>69,913</b>	<b>40,751</b>	<b>204,453</b>	<b>116,478</b>
<b>Operating costs and expenses:</b>				
Cost of revenue	410	170	782	473
Marketing and advertising	25,812	16,148	72,857	45,756
Customer care and enrollment	40,144	17,272	81,567	43,730
Technology and content	12,033	7,740	31,487	23,368
General and administrative	16,608	10,528	42,748	32,459
Acquisition costs	—	—	—	76
Change in fair value of earnout liability	(5,400)	3,800	15,106	6,300
Restructuring charges	—	—	—	1,865
Amortization of intangible assets	547	547	1,641	1,545
<b>Total operating costs and expenses</b>	<b>90,154</b>	<b>56,205</b>	<b>246,188</b>	<b>155,572</b>
Loss from operations	(20,241)	(15,454)	(41,735)	(39,094)
Other income, net	568	296	1,824	776
Loss before benefit from income taxes	(19,673)	(15,158)	(39,911)	(38,318)
Benefit from income taxes	(8,649)	(6,186)	(17,974)	(12,487)
<b>Net loss</b>	<b>\$ (11,024)</b>	<b>\$ (8,972)</b>	<b>\$ (21,937)</b>	<b>\$ (25,831)</b>
<b>Net loss per share:</b>				
Basic and diluted	\$ (0.47)	\$ (0.47)	\$ (0.96)	\$ (1.36)
<b>Weighted-average number of shares used in per share amounts:</b>				
Basic and diluted	23,493	19,236	22,840	19,059
<b>Comprehensive loss</b>				
Net loss	\$ (11,024)	\$ (8,972)	\$ (21,937)	\$ (25,831)
Foreign currency translation adjustment, net of taxes	(34)	(66)	(30)	(72)
<b>Comprehensive loss</b>	<b>\$ (11,058)</b>	<b>\$ (9,038)</b>	<b>\$ (21,967)</b>	<b>\$ (25,903)</b>

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

**EHEALTH, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
(in thousands, unaudited)

**Three Months Ended September 30, 2019**

	Common Stock		Additional Paid-in Capital	Treasury Stock		Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
	Shares	Amount		Shares	Amount			
Balance at June 30, 2019	34,267	\$ 34	\$ 449,046	11,482	\$ (199,998)	\$ 194,052	\$ 131	\$ 443,265
Issuance of common stock in connection with exercise of common stock options and release of vested restricted stock units, net of cash used to net-share settle equity awards	335	1	1,912	—	—	—	—	1,913
Common stock traded for employee tax obligations	—	—	(8,059)	89	—	—	—	(8,059)
Stock-based compensation expense	—	—	5,510	—	—	—	—	5,510
Foreign currency translation adjustment, net of taxes	—	—	—	—	—	—	(34)	(34)
Net loss	—	—	—	—	—	(11,024)	—	(11,024)
Balance at September 30, 2019	<u>34,602</u>	<u>\$ 35</u>	<u>\$ 448,409</u>	<u>11,571</u>	<u>\$ (199,998)</u>	<u>\$ 183,028</u>	<u>\$ 97</u>	<u>\$ 431,571</u>

**Three Months Ended September 30, 2018**

	Common Stock		Additional Paid-in Capital	Treasury Stock		Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
	Shares	Amount		Shares	Amount			
Balance at June 30, 2018	30,485	\$ 30	\$ 292,159	11,324	\$ (199,998)	\$ 187,866	\$ 195	\$ 280,252
Issuance of common stock in connection with exercise of common stock options and release of vested restricted stock units, net of cash used to net-share settle equity awards	249	1	1,362	—	—	—	—	1,363
Common stock traded for employee tax obligations	—	—	(1,656)	65	—	—	—	(1,656)
Stock-based compensation expense	—	—	3,543	—	—	—	—	3,543
Foreign currency translation adjustment, net of taxes	—	—	—	—	—	—	(66)	(66)
Net loss	—	—	—	—	—	(8,972)	—	(8,972)
Balance at September 30, 2018	<u>30,734</u>	<u>\$ 31</u>	<u>\$ 295,408</u>	<u>11,389</u>	<u>\$ (199,998)</u>	<u>\$ 178,894</u>	<u>\$ 129</u>	<u>\$ 274,464</u>

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

**EHEALTH, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
(in thousands, unaudited)

**Nine Months Ended September 30, 2019**

	Common Stock		Additional Paid-in Capital	Treasury Stock		Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
	Shares	Amount		Shares	Amount			
Balance at December 31, 2018	30,863	\$ 31	\$ 298,024	11,426	\$ (199,998)	\$ 204,965	\$ 127	\$ 303,149
Issuance of common stock in connection with exercise of common stock options and release of vested restricted stock units, net of cash used to net settle equity awards	684	1	5,167	—	—	—	—	5,168
Common stock traded for employee tax obligations	—	—	(11,511)	145	—	—	—	(11,511)
Stock issued in equity offering	2,760	3	126,048	—	—	—	—	126,051
Stock issued for GoMedigap earnout	295	—	17,264	—	—	—	—	17,264
Stock-based compensation expense	—	—	13,417	—	—	—	—	13,417
Foreign currency translation adjustment, net of taxes	—	—	—	—	—	—	(30)	(30)
Net loss	—	—	—	—	—	(21,937)	—	(21,937)
Balance at September 30, 2019	<u>34,602</u>	<u>\$ 35</u>	<u>\$ 448,409</u>	<u>11,571</u>	<u>\$ (199,998)</u>	<u>\$ 183,028</u>	<u>\$ 97</u>	<u>\$ 431,571</u>

**Nine Months Ended September 30, 2018**

	Common Stock		Additional Paid-in Capital	Treasury Stock		Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
	Shares	Amount		Shares	Amount			
Balance at December 31, 2017	29,880	\$ 30	\$ 281,706	11,238	\$ (199,998)	\$ 204,725	\$ 201	\$ 286,664
Issuance of common stock in connection with exercise of common stock options and release of vested restricted stock units, net of cash used to net-share settle equity awards	559	1	2,030	—	—	—	—	2,031
Common stock traded for employee tax obligation	—	—	(3,398)	151	—	—	—	(3,398)
Stock-based compensation expense	—	—	9,475	—	—	—	—	9,475
Stock issued for GoMedigap acquisition	295	—	5,595	—	—	—	—	5,595
Foreign currency translation adjustment, net of taxes	—	—	—	—	—	—	(72)	(72)
Net loss	—	—	—	—	—	(25,831)	—	(25,831)
Balance at September 30, 2018	<u>30,734</u>	<u>\$ 31</u>	<u>\$ 295,408</u>	<u>11,389</u>	<u>\$ (199,998)</u>	<u>\$ 178,894</u>	<u>\$ 129</u>	<u>\$ 274,464</u>

*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,	
	2019	2018
<b>Operating activities</b>		
Net loss	\$ (21,937)	\$ (25,831)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Deferred income taxes	(18,166)	(12,679)
Depreciation and amortization	2,153	1,870
Amortization of internally developed software	2,443	1,583
Amortization of intangible assets	1,641	1,545
Stock-based compensation expense	13,417	9,475
Change in fair value of earnout liability	15,106	6,300
Change in deferred rent	(1,272)	326
Other non-cash items	336	61
Changes in operating assets and liabilities:		
Accounts receivable	2,920	(665)
Commissions receivable	(11,878)	29,156
Prepaid expenses and other assets	(9,346)	(8,209)
Accounts payable	13,155	1,513
Accrued compensation and benefits	(2,624)	(2,081)
Accrued marketing expenses	(6,927)	(1,635)
Deferred revenue	8,207	5,354
Accrued expenses and other liabilities	(1,942)	(595)
Net cash (used in) provided by operating activities	(14,714)	5,488
<b>Investing activities</b>		
Capitalized internal-use software and website development costs	(6,356)	(4,344)
Purchases of property and equipment and other assets	(5,616)	(3,471)
Payments for security deposits	(72)	—
Acquisition of business, net of cash acquired	—	(14,929)
Cash used in investing activities	(12,044)	(22,744)
<b>Financing activities</b>		
Proceeds from issuance of common stock, net of issuance costs	126,051	—
Net proceeds from exercise of common stock options	5,168	2,030
Cash used to net-share settle equity awards	(11,511)	(3,398)
Debt issuance cost payments	—	(1,172)
Repayment of debt	(5,000)	—
Acquisition-related contingent payments	(9,542)	—
Principal payments in connection with finance leases	(81)	(78)
Net cash (used in) provided by financing activities	105,085	(2,618)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	8	(71)
Net increase (decrease) in cash, cash equivalents and restricted cash	78,335	(19,945)
Cash, cash equivalents and restricted cash at beginning of period	13,089	40,293
Cash, cash equivalents and restricted cash at end of period <sup>(1)</sup>	\$ 91,424	\$ 20,348

<sup>(1)</sup> The ending balance of cash, cash equivalents and restricted cash as of September 30, 2019 included \$3.4 million of restricted cash as of September 30, 2019. There was no restricted cash as of December 31, 2018.

*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](http://www.eHealth.com), [www.eHealthInsurance.com](http://www.eHealthInsurance.com), [www.eHealthMedicare.com](http://www.eHealthMedicare.com), [www.Medicare.com](http://www.Medicare.com), [www.PlanPrescriber.com](http://www.PlanPrescriber.com) and [www.GoMedigap.com](http://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 September 30, 2019 and December 31, 2018, the condensed consolidated statements of comprehensive loss and stockholders’ equity for the three and nine months ended September 30, 2019 and 2018, and the condensed consolidated statements of cash flows for the nine months ended September 30, 2019 and 2018, respectively, are unaudited. The condensed consolidated balance sheet data as of December 31, 2018 was derived from the audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2018, which was filed with the Securities and Exchange Commission on March 14, 2019. The accompanying financial statements and related notes should be read in conjunction with the audited consolidated financial statements and related notes included 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 and reflect all normal recurring adjustments that are necessary to present fairly the results for the interim periods presented. Certain information and disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted in accordance with those rules and regulations. However, the Company believes the disclosures made are adequate to make the information not misleading. 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, 2018 and include all adjustments necessary for the fair presentation of our financial position as of September 30, 2019 and December 31, 2018, and our results of operations for the periods presented. The results for the three and nine months ended September 30, 2019 are not necessarily indicative of the results to be expected for any subsequent period or for the year ending December 31, 2019 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.

**Operating Segments** — We report segment information based on how our chief executive officer, who is our chief operating decision maker (“CODM”), regularly reviews our operating results, allocates resources and makes decisions regarding our business operations. The performance measures of our segments include total revenue and profit (loss). Our business structure is comprised of two operating segments:

- Medicare; and
- Individual, Family and Small Business.

The Medicare segment consists primarily of commissions earned from our sale of Medicare-related health insurance plans, including Medicare Advantage, Medicare Supplement and Medicare Part D prescription drug plans, and to a lesser extent, ancillary products sold to our Medicare-eligible customers, including but not limited to, dental and vision insurance, as well as our advertising program that allows carriers to purchase Medicare-related advertising on a separate website developed, hosted and maintained by us, and our delivery and sale to third parties of Medicare-related health insurance leads generated by our ecommerce platforms and our marketing activities.

The Individual, Family and Small Business segment consists primarily of commissions earned from our sale of individual, family and small business health insurance plans and ancillary products sold to our non-Medicare-eligible



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

customers, including but not limited to, dental, vision, and short-term health insurance. To a lesser extent, the Individual, Family and Small Business segment consists of amounts earned from our online sponsorship program that allows carriers to purchase advertising space in specific markets in a sponsorship area on our website, our licensing to third parties the use of our health insurance ecommerce technology, and our delivery and sale to third parties of individual and family health insurance leads generated by our ecommerce platforms and our marketing activities.

Marketing and advertising, customer care and enrollment, technology and content, and general and administrative operating expenses that are directly attributable to a segment are reported within the applicable segment. Indirect marketing and advertising, customer care and enrollment, and technology and content operating expenses are allocated to each segment based on usage. Other indirect general and administrative operating expenses are managed in a corporate shared services environment and, since they are not the responsibility of segment operating management, are not allocated to the two operating segments and instead reported within Corporate.

Segment profit (loss) is calculated as total revenue for the applicable segment less direct and allocated marketing and advertising, customer care and enrollment, technology and content, and general and administrative operating expenses, excluding stock-based compensation, change in fair value of earnout liability, restructuring charges, acquisition costs, depreciation and amortization expense, other income, net, and amortization of intangible assets.

**Use of Estimates** — The preparation of condensed consolidated financial statements and related disclosures in conformity with U.S. GAAP requires management to make estimates, judgments and assumptions that affect the amounts reported and disclosed in the condensed consolidated financial statements and accompanying notes. On an ongoing basis, we evaluate our estimates, including those related to, but not limited to, the commissions we expect to collect for each approved member cohort, the useful lives of intangible assets, fair value of investments, recoverability of intangible assets, valuation allowance for deferred income taxes, provision (benefit) for income taxes and the assumptions used in determining stock-based compensation. We base our estimates of the carrying value of certain assets and liabilities on historical experience and on various other assumptions that we believe to be reasonable. Actual results may differ from these estimates.

**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, Medicare Supplement, 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. Due to the recent reintroduction of the Medicare open enrollment period into January to March of the following year, commission revenue is typically second-highest in our first quarter.

The majority of our major medical 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 major medical 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.

**Cash Equivalents** — We consider all investments with an original maturity of 90 days or less from the date of purchase to be cash equivalents. Cash and cash equivalents are stated at fair value.

**Revenue Recognition** — We account for revenue under Accounting Standards Codification ("ASC") 606 — Revenue from Contracts with Customers. Refer to *Note 2 — Revenue* in the *Notes to Condensed Consolidated Financial Statements* of this Quarterly Report on Form 10-Q for a discussion of our revenue recognition.

***Accounting Pronouncement Not Yet Adopted***

**Financial Instruments — Credit Losses (Topic 326)** — In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-13, *Financial Instruments — Credit Losses (Topic 326)*, which amends the guidance for accounting for assets that are potentially subject to credit risk. The amendments affect contract assets, loans, debt securities, trade receivables, net investments in leases, off-balance-sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash. ASU 2016-13 is effective for us beginning January 1, 2020 using a modified retrospective transition method. We are still in the process of assessing the impact, if any, this ASU will have on our condensed consolidated financial statements.

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

***Recently Adopted Accounting Pronouncement***

***Leases (Topic 842)*** — In February 2016, the 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. For lessors, the guidance modifies the classification criteria and the accounting for sales-type and direct finance leases. The guidance also eliminates existing real estate-specific provisions for all entities. The new standard was effective for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period. We adopted the standard using the optional transition method on January 1, 2019. As a result of adopting the ASU, on January 1, 2019, we recorded a right-of-use asset and lease liability of \$23.3 million and \$24.6 million, respectively, which are discussed in *Note 11 — Leases* in the *Notes to Condensed Consolidated Financial Statements* of this Quarterly Report on Form 10-Q.

**Note 2 — Revenue**

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. Payment of commissions typically commences within 60 days from the effective date. Payment terms for non-commission revenue are typically 30 days from the invoice date.

We account for revenue under Accounting Standards Codification ("ASC") 606 — Revenue from Contracts with Customers. The core principle of ASC 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 ASC 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.

We adopted ASC 606 using the full retrospective method on January 1, 2018, which required us to recast previously reported financial statements. Upon adoption at January 1, 2018, our retained earnings balance increased by \$225.5 million.

***Commission Revenue*** — Our commission revenue results from approval of an application from health insurance carriers, which we define as our customers. Our commission revenue is primarily comprised of commissions from health

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insurance carriers which is computed using the estimated constrained lifetime value of commission payments that we expect to receive.

We typically enter into contractual agency 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 prescription drug 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. Premium-based 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 estimate commission revenue for each insurance product by applying the use of a portfolio approach to a group of approved members by plan type and the effective month of the relevant plan, which we refer to as "cohorts". We 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 estimated average plan duration.

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 an estimated constraint. We refer to these estimated and constrained lifetime values as the "constrained LTV" 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 twelve 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 average plan duration and forecasting the commission amounts likely to be received per member. These assumptions are based on our analysis of historical trends for the different cohorts and incorporate management's judgment in interpreting those trends to apply the constraints discussed below. For our Medicare business, which represented 78% and 75% of our total commission revenue for the nine months ended September 30, 2019 and 2018, respectively, the estimated average plan duration used to calculate Medicare health insurance plan LTVs historically has been approximately 3 years for Medicare Advantage plans, approximately 5 years for Medicare Part D prescription drug plans, and approximately 5.5 years for Medicare Supplement plans. The estimated average plan duration used to calculate the LTV for major medical individual and family health insurance plans historically has been approximately 1.5 to 2 years. For short term health insurance plan LTVs, the estimated average plan duration historically has been less than six months. For all other ancillary health insurance plan LTVs, the estimated average plan duration has historically varied from 1 to 3 years. To the extent we make changes to the assumptions we use to calculate constrained LTVs, 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 LTV recognized as revenue.

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We recognize revenue at the time of approval as the constrained LTV for that product. We recognize adjustment revenue when our cash collections are in excess of the estimated constrained LTVs for previously approved members. Adjustment revenue is a result of actual cash collections exceeding the estimated constrained LTV for the revenue recognized at the time of approval. If cash collections to date are lower than expected collections to date in the constrained LTV in the revenue booked at the time of approval, we would consider an impairment of the commission receivable.

We recorded adjustment revenue of \$11.5 million and \$28.3 million, respectively, or \$0.49 per share and \$1.24 per share, respectively, for the three and nine months ended September 30, 2019, and \$2.4 million and \$8.0 million, or \$0.12 per share and \$0.42 per share, respectively, for the three and nine months ended September 30, 2018.

Commission revenue by segment is presented in the table below (in thousands):

	<b>Three Months Ended September 30, 2019</b>			<b>Three Months Ended September 30, 2018</b>		
	<b>Commission Revenue from Members Approved During the Period <sup>(1)</sup></b>	<b>Net Commission Revenue from Members Approved in Prior Periods<sup>(2)</sup></b>	<b>Total Commission Revenue</b>	<b>Commission Revenue from Members Approved During the Period <sup>(1)</sup></b>	<b>Net Commission Revenue from Members Approved in Prior Periods<sup>(2)</sup></b>	<b>Total Commission Revenue</b>
Medicare	\$ 43,888	\$ 3,813	\$ 47,701	\$ 26,999	\$ (35)	\$ 26,964
Individual, Family and Small Business	4,392	7,669	12,061	4,262	2,387	6,649
<b>Total commission revenue</b>	<b>\$ 48,280</b>	<b>\$ 11,482</b>	<b>\$ 59,762</b>	<b>\$ 31,261</b>	<b>\$ 2,352</b>	<b>\$ 33,613</b>

  

	<b>Nine Months Ended September 30, 2019</b>			<b>Nine Months Ended September 30, 2018</b>		
	<b>Commission Revenue from Members Approved During the Period <sup>(1)</sup></b>	<b>Net Commission Revenue from Members Approved in Prior Periods<sup>(2)</sup></b>	<b>Total Commission Revenue</b>	<b>Commission Revenue from Members Approved During the Period <sup>(1)</sup></b>	<b>Net Commission Revenue from Members Approved in Prior Periods<sup>(2)</sup></b>	<b>Total Commission Revenue</b>
Medicare	\$ 141,898	\$ 5,226	\$ 147,124	\$ 80,601	\$ (62)	\$ 80,539
Individual, Family and Small Business	14,403	23,068	37,471	16,333	8,094	24,427
<b>Total commission revenue</b>	<b>\$ 156,301</b>	<b>\$ 28,294</b>	<b>\$ 184,595</b>	<b>\$ 96,934</b>	<b>\$ 8,032</b>	<b>\$ 104,966</b>

<sup>(1)</sup> These amounts include commission bonus revenue.

<sup>(2)</sup> These amounts reflect our revised estimates of cash collections for certain members approved prior to the relevant reporting period that are recognized as adjustments to revenue within the relevant reporting period. These amounts include revenue associated with renewing small business health insurance members.

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. The judgments that can be significant in estimating LTVs are related to the constraint. To determine the constraints to be applied to LTV, we compare prior calculations of LTV to actual cash received and review the reasons for any differences. We then apply judgment in assessing whether the difference between historical cash collections and LTV is representative of differences that can be expected in future periods. We also analyze whether circumstances have changed and considers any known or potential modifications to the inputs into LTV in light of the factors that can impact the amount of cash expected to be collected in future periods such as commission rates, carrier mix, plan duration, changes in laws and regulations, and cancellations of insurance plans offered by health insurance carriers with which we have a relationship. We evaluate the appropriateness of our constraints on at least an annual basis, and 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.

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For the three and nine months ended September 30, 2019 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 LTV per approved member were as shown in the following table.

	<b>Three and Nine Months Ended September 30,</b>	
	<b>2019</b>	<b>2018</b>
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%
Ancillaries	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, and often a performance fee based on metrics such as submitted health insurance applications, which is recognized based on attainment of metrics. 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 ratably over the service period.

Our commercial technology licensing business allows carriers the use of our ecommerce platform to offer their own health insurance policies on their websites and 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 ratably on a straight-line basis over the estimated term of the customer relationship (generally the initial term of the agreement), commencing once the technology is available for use by the third party, and a performance fee based on metrics such as submitted health insurance applications. 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 based on data tracked by the third party. In instances where the performance criteria data is tracked by us, we recognize revenue in the period of performance and when all other revenue recognition criteria have been met. In instances where the performance criteria data is tracked by the third party, we recognize revenue at amounts in which reversal of such amounts is not likely to occur. Typically, this occurs through our receipt of a cash payment from the third party along with a detailed statement containing the data that is tracked by the third party.

**Deferred Revenue** — Deferred revenue includes deferred technology licensing implementation fees and amounts billed for 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.

**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 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.

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**Disaggregation of Revenue** — The table below depicts the disaggregation of revenue by product for the three and nine months ended September 30, 2019 and 2018 and is consistent with how we evaluate our financial performance (in thousands):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2019	2018	Percent Change	2019	2018	Percent Change
Medicare						
Medicare Advantage	\$ 36,735	\$ 17,976	104 %	\$ 113,185	\$ 57,649	96 %
Medicare Supplement	8,229	7,358	12 %	25,082	18,305	37 %
Medicare Part D	1,805	1,005	80 %	5,906	2,879	105 %
Total Medicare	46,769	26,339	78 %	144,173	78,833	83 %
Individual and Family <sup>(1)</sup>						
Non-Qualified Health Plans	3,146	876	259 %	11,592	3,386	242 %
Qualified Health Plans	839	1,169	(28)%	4,900	5,006	(2)%
Total Individual and Family	3,985	2,045	95 %	16,492	8,392	97 %
Ancillaries						
Short-term	3,151	1,699	85 %	7,162	4,242	69 %
Dental	1,420	245	480 %	3,138	1,611	95 %
Vision	537	126	326 %	1,294	857	51 %
Other	1,104	1,006	10 %	2,778	3,659	(24)%
Total Ancillaries	6,212	3,076	102 %	14,372	10,369	39 %
Small Business	1,938	1,697	14 %	6,576	5,828	13 %
Commission Bonus	858	456	88 %	2,982	1,544	93 %
Total Commission Revenue	59,762	33,613	78 %	184,595	104,966	76 %
Other Revenue	10,151	7,138	42 %	19,858	11,512	72 %
Total Revenue	\$ 69,913	\$ 40,751	72 %	\$ 204,453	\$ 116,478	76 %

<sup>(1)</sup> 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.

**Note 3 — 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. We expect this acquisition 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 cash acquired, and 294,637 shares of our common stock. In addition, the members are entitled to receive earnout consideration consisting of up to \$20 million in cash and 589,216 shares of our common stock. The earnout consideration becomes 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. The first earnout liability settlement was made during

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the three months ended March 31, 2019, which consisted of a \$9.5 million cash payment as well as a \$17.3 million non-cash issuance of common stock.

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 allocated the acquisition consideration were as follows (in thousands):

<b>Acquisition Consideration</b>	
Cash paid	\$ 15,000
Fair value of equity awards issued to GoMedigap members <sup>(1)</sup>	5,595
Estimated fair value of earnout liability <sup>(2)</sup>	27,700
	<b>\$ 48,295</b>
<b>Allocation</b>	
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	15,358
Intangible assets	6,800
Goodwill	26,137
Total intangible assets acquired	32,937
Total net assets acquired	<b>\$ 48,295</b>

(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 per share.

(2) The fair value of the earnout liability was determined based on the valuation of a third-party specialist, which utilized certain inputs, including the closing price of our common stock on January 22, 2018 of \$18.99 per share.

**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 operations while changes in the earnout liability due to the passage of time will be recognized as other expense. The earnout liability will be adjusted to the extent the specified enrollment targets are not achieved. The first earnout liability settlement was made during the three months ended March 31, 2019, which consisted of a \$9.5 million cash payment as well as a \$17.3 million non-cash issuance of common stock. The second payment is expected to be made in the first quarter of 2020. See *Note 5 — Fair Value Measurement* for additional information regarding change in fair value of the earnout liability for the three and nine months ended September 30, 2019.

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**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).

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 values of cash and cash equivalents, prepaid expenses and other current assets, property and equipment, net, accounts payable, accrued compensation and benefits, and other current liabilities were determined using Level 1 inputs, which 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 risks associated with the obligation. Key assumptions included new enrollments and volatility for the year ended December 31, 2018 and the year ending December 31, 2019 and our simulated stock price at the time of payment. The earnout consideration payable was part of the acquisition consideration and will be adjusted to fair value at each reporting date until settled. The fair value adjustment to the earnout liability during the three months ended September 30, 2019 was a non-cash gain of \$5.4 million primarily related to the decrease in value of the shares to be issued upon settlement of the earnout liability. The fair value adjustment to the earnout liability during the nine months ended September 30, 2019 was a non-cash expense of \$15.1 million, primarily due to the increase in the value of the shares to be issued upon settlement of the earnout liability. We will update the key assumptions each reporting 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	\$	<u>6,800</u>

We are amortizing the existing technology and trade name using a 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.



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**Note 4 — Balance Sheet Accounts**

**Cash and Cash Equivalents** — As of September 30, 2019 and December 31, 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 September 30, 2019 and December 31, 2018, our cash equivalents carried no unrealized gains or losses.

As of September 30, 2019 and December 31, 2018, our cash and cash equivalent balances were invested as follows (in thousands):

	September 30, 2019	December 31, 2018
Cash	\$ 5,989	\$ 12,766
Money market funds	82,081	323
Total cash and cash equivalents	<u>\$ 88,070</u>	<u>\$ 13,089</u>

In addition to our \$88.1 million total cash and cash equivalents balance as of September 30, 2019, we also had \$3.4 million of restricted cash on our condensed consolidated balance sheet. This amount collateralizes letters of credit related to certain lease commitments.

**Total Accounts Receivable** — We do not require collateral or other security for our total accounts receivable. We believe the potential for collection issues with any of our customers was minimal as of September 30, 2019. Accordingly, our estimate for uncollectible amounts at September 30, 2019 was immaterial. Total accounts receivable as of September 30, 2019 and December 31, 2018 was comprised of the following (in thousands):

	September 30, 2019	December 31, 2018
Accounts receivable	\$ 682	\$ 3,601
Commissions receivable — current	127,414	134,190
Commissions receivable — non-current	230,322	211,668
Total accounts receivable	<u>\$ 358,418</u>	<u>\$ 349,459</u>

**Concentration of Credit Risk** — Our financial instruments that are exposed to concentrations of credit risk principally consist of cash, cash equivalents and total accounts receivable (which includes commissions receivable). We invest our cash and cash equivalents with major banks and financial institutions and, at times, such investments are in excess of federally insured limits. We also have deposits with major banks in China that are denominated in both U.S. dollars and Chinese Yuan Renminbi and are not insured by the U.S. federal government.

We do not require collateral or other security for our total accounts receivable. Carriers that represented 10% or more of our total accounts receivable balance of \$358.4 million and \$349.5 million as of September 30, 2019 and December 31, 2018, respectively, were as follows:

	September 30, 2019	December 31, 2018
Aetna <sup>(1)</sup>	21%	19%
UnitedHealthcare <sup>(2)</sup>	20%	19%
Humana	19%	19%

(1) Aetna also includes other carriers owned by Aetna.

(2) UnitedHealthcare also includes other carriers owned by UnitedHealthcare.

Commissions receivable activity during the nine months ended September 30, 2019 was as follows (in thousands):

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Commissions receivable, December 31, 2018	\$	345,858
Commission revenue from members approved during the nine months ended September 30, 2019		156,301
Net commission revenue adjustments from members approved in prior periods		28,294
Cash receipts		(172,717)
Commissions receivable, September 30, 2019	\$	<u>357,736</u>

**Prepaid Expenses and Other Current Assets** — Prepaid expenses and other current assets as of September 30, 2019 and December 31, 2018 was comprised of the following (in thousands):

	September 30, 2019	December 31, 2018
Prepaid maintenance contracts	\$ 3,727	\$ 1,937
Equity issuance costs	—	294
Prepaid insurance	477	161
Prepaid facilities	86	324
Income tax receivable	1,108	1,108
Prepaid advertising	10,939	62
Other current assets	1,843	1,402
Total prepaid expenses and other current assets	<u>\$ 18,180</u>	<u>\$ 5,288</u>

**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 table below as of September 30, 2019 and December 31, 2018 (dollars in thousands, weighted-average remaining life in years):

	September 30, 2019			Weighted-Average Remaining Life	December 31, 2018		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount		Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Technology	\$ 2,000	\$ (1,111)	\$ 889	1.3	\$ 2,000	\$ (611)	\$ 1,389
Pharmacy and customer relationships	9,500	(8,946)	554	0.6	9,500	(8,234)	1,266
Trade names, trademarks and website addresses	5,700	(1,648)	4,052	8.2	5,700	(1,220)	4,480
Total intangible assets subject to amortization	<u>\$ 17,200</u>	<u>\$ (11,705)</u>	5,495		<u>\$ 17,200</u>	<u>\$ (10,065)</u>	7,135
Indefinite-lived trademarks and domain names			5,114	Indefinite			5,114
Total intangible assets			<u>\$ 10,609</u>				<u>\$ 12,249</u>

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As of September 30, 2019, expected amortization expense in future periods is as follows (in thousands):

<b>Years Ending December 31,</b>	<b>Technology</b>	<b>Pharmacy and Customer Relationships</b>	<b>Trade Names, Trademarks and Website Addresses</b>	<b>Total</b>
Remainder of 2019	\$ 166	\$ 237	\$ 142	\$ 545
2020	667	317	510	1,494
2021	56	—	480	536
2022	—	—	480	480
2023	—	—	480	480
Thereafter	—	—	1,960	1,960
<b>Total</b>	<b>\$ 889</b>	<b>\$ 554</b>	<b>\$ 4,052</b>	<b>\$ 5,495</b>

**Note 5 — 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; 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 following table is a summary of financial assets measured at fair value as of September 30, 2019 and December 31, 2018 on a recurring basis and their classification within the fair value hierarchy (in thousands):

	<b>September 30, 2019</b>				<b>December 31, 2018</b>			
	<b>Carrying Value</b>	<b>Level 1</b>	<b>Level 3</b>	<b>Total</b>	<b>Carrying Value</b>	<b>Level 1</b>	<b>Level 3</b>	<b>Total</b>
<b>Assets</b>								
Money market funds	\$ 82,081	\$ 82,081	\$ —	\$ 82,081	\$ 323	\$ 323	\$ —	\$ 323
Total assets measured and recorded at fair value	<u>\$ 82,081</u>	<u>\$ 82,081</u>	<u>\$ —</u>	<u>\$ 82,081</u>	<u>\$ 323</u>	<u>\$ 323</u>	<u>\$ —</u>	<u>\$ 323</u>
<b>Liabilities</b>								
Earnout liability—current	\$ 28,300	\$ —	\$ 28,300	\$ 28,300	\$ 20,730	\$ —	\$ 20,730	\$ 20,730
Earnout liability—non-current	—	—	—	—	19,270	—	19,270	19,270
Total liabilities measured and recorded at fair value	<u>\$ 28,300</u>	<u>\$ —</u>	<u>\$ 28,300</u>	<u>\$ 28,300</u>	<u>\$ 40,000</u>	<u>\$ —</u>	<u>\$ 40,000</u>	<u>\$ 40,000</u>

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. Changes in fair value will be recognized in operations while changes in the earnout liability due to the passage of time will be recognized as other expense.

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

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captures the risks associated with the obligation. Key assumptions included new enrollments and volatility for the year ended December 31, 2018 and the year ending December 31, 2019 and our simulated stock price at the time of payment.

Earnout liability activity during the nine months ended September 30, 2019 was as follows (in thousands):

Balance at December 31, 2018	\$ 40,000
Settlement of first earnout liability	(26,806)
Change in fair value	13,306
Balance at March 31, 2019	26,500
Change in fair value	7,200
Balance at June 30, 2019	33,700
Change in fair value	(5,400)
Balance at September 30, 2019	\$ 28,300

The first earnout liability settlement was made during the three months ended March 31, 2019, which consisted of a \$9.5 million cash payment as well as a \$17.3 million non-cash issuance of common stock.

**Note 6 — 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, 2019 (in thousands):

	<b>Shares Available for Grant</b>
Shares available for grant December 31, 2018	512
Additional shares authorized pursuant to the 2014 Equity Incentive Plan	2,500
Restricted stock units granted <sup>(1)</sup>	(563)
Options granted <sup>(2)</sup>	(14)
Restricted stock units cancelled <sup>(3)</sup>	95
Options cancelled	36
Shares available for grant September 30, 2019	2,566

(1) Includes grants of restricted stock units with service, performance-based or market-based vesting criteria.

(2) Includes grants of stock options with service, performance-based or market-based vesting criteria.

(3) Includes cancelled restricted stock units with service, performance-based or market-based vesting criteria.

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The following table summarizes stock option activity for the nine months ended September 30, 2019 (in thousands, except weighted-average exercise price and weighted-average remaining contractual life data):

	Number of Stock Options <sup>(1)</sup>	Weighted Average Exercise Price	Weighted-Average Remaining Contractual Life (years)	Aggregate Intrinsic Value <sup>(2)</sup>
Balance outstanding at December 31, 2018	1,005	\$ 18.34	5.0	\$ 20,226
Granted	14	\$ 66.06		
Exercised	(298)	\$ 17.19		
Cancelled	(41)	\$ 25.45		
Balance outstanding at September 30, 2019	<u>680</u>	\$ 19.42	4.7	\$ 32,230
Vested and expected to vest at September 30, 2019	<u>656</u>	\$ 19.16	4.6	\$ 31,231
Exercisable at September 30, 2019	<u>402</u>	\$ 16.21	4.1	\$ 20,334

(1) Includes certain stock options with service, performance-based or market-based vesting criteria.

(2) The aggregate intrinsic value is calculated as the difference between the closing price of our common stock as of September 30, 2019 and December 31, 2018 and the exercise price multiplied by number of in-the-money options.

The following table summarizes restricted stock unit activity for the nine months ended September 30, 2019 (in thousands, except weighted-average grant date fair value and weighted-average remaining contractual life data):

	Number of Restricted Stock Units <sup>(1)</sup>	Weighted-Average Grant Date Fair Value	Weighted-Average Remaining Service Period (years)	Aggregate Intrinsic Value <sup>(2)</sup>
Unvested as of December 31, 2018	1,869	\$ 16.95	4.8	\$ 71,816
Granted	563	\$ 66.94		
Vested	(386)	\$ 13.58		
Cancelled	(95)	\$ 32.01		
Unvested as of September 30, 2019	<u>1,951</u>	\$ 31.03	5.4	\$ 130,307

(1) Includes certain restricted stock units with service, performance-based or market-based vesting criteria.

(2) The aggregate intrinsic value is calculated as the product of our closing stock price as of September 30, 2019 and December 31, 2018, and the number of restricted stock units outstanding as of September 30, 2019 and December 31, 2018, respectively.

**Stock Repurchase Programs** — We had no stock repurchase activity during the three and nine months ended September 30, 2019. In addition to 10,663,888 shares repurchased under our past repurchase programs as of September 30, 2019, we have in treasury 907,363 shares that were previously surrendered by employees to satisfy tax withholdings due in connection with the vesting of certain restricted stock units. As of September 30, 2019 and December 31, 2018, we had a total of 11,571,251 shares and 11,426,292 shares, respectively, held in treasury.

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

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**Stock-Based Compensation Expense** — The following table summarizes stock-based compensation expense recorded during the three and nine months ended September 30, 2019 and 2018 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Common stock options	\$ 542	\$ 639	\$ 1,745	\$ 1,573
Restricted stock units	4,968	2,904	11,672	7,902
Total stock-based compensation expense	<u>\$ 5,510</u>	<u>\$ 3,543</u>	<u>\$ 13,417</u>	<u>\$ 9,475</u>

The following table summarizes stock-based compensation expense by operating function for the three and nine months ended September 30, 2019 and 2018 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Marketing and advertising	\$ 872	\$ 545	\$ 2,212	\$ 1,477
Customer care and enrollment	369	194	927	565
Technology and content	729	388	1,946	1,115
General and administrative	3,540	2,416	8,332	6,067
Restructuring charges	—	—	—	251
Total stock-based compensation expense	<u>\$ 5,510</u>	<u>\$ 3,543</u>	<u>\$ 13,417</u>	<u>\$ 9,475</u>

**Note 7 — Net Loss Per Share**

For each of the three and nine months ended September 30, 2019 and 2018, we had securities outstanding that could potentially dilute earnings per share, but the shares from the assumed conversion or exercise of these securities were excluded in the computation of diluted net loss per share as their effect would have been anti-dilutive. The number of outstanding anti-dilutive shares that were excluded from the computation of diluted net loss per share consisted of the following (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Common stock options	729	925	850	928
Restricted stock units	1,461	1,610	1,537	1,662
Total	<u>2,190</u>	<u>2,535</u>	<u>2,387</u>	<u>2,590</u>

**Note 8 — Commitments and Contingencies**

**Operating Leases**

Refer to *Note 11 — Leases* for commitments related to our operating leases.

**Contingencies**

From time to time, we receive inquiries from governmental bodies and also may be subject to various legal proceedings and claims arising in the ordinary course of business. We assess contingencies to determine the degree of probability and range of possible loss for potential accrual in our consolidated financial statements. An estimated loss contingency is accrued in the consolidated financial statements if it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Legal proceedings or other contingencies could result in material costs, even if we ultimately prevail.

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***Legal Proceedings***

On April 6, 2018, a former Company employee, Lupita Gonzalez, filed a complaint against the Company in the Superior Court of the State of California for the County of Sacramento (the "Gonzalez Complaint"). The Gonzalez Complaint is brought under the California Private Attorney General Act ("PAGA") on behalf of all current and former hourly-paid or non-exempt employees who work or have worked for us in California. The claim alleges that the Company violated wage and hour laws with respect to these non-exempt employees, including, among other things, the failure to comply with California law as to (i) the payment of overtime wages; (ii) the payment of minimum wages; (iii) providing meal and rest periods, (iv) the payment of wages earned during employment and owed upon the termination of employment; (v) providing complete and accurate wage statements, (vi) keeping of accurate payroll records; and (vii) the proper reimbursement for necessary business-related expenses and costs. The Gonzalez Complaint seeks civil penalties and costs, expenses and attorneys' fees. Discovery is ongoing, and a trial date has been set for April 13, 2020. Given the early stage of the litigation, we cannot estimate the likelihood of liability or the amount of potential damages.

On July 1, 2019, two other former Company employees, Michael Le'Vias and Ramona Meadows, filed a similar complaint against the Company and eHealth Ins. Serv. Co., in the Superior Court of the State of California for the County of Santa Clara (the "Le'Vias Complaint"). There is substantial overlap between the facts and circumstances alleged in the Gonzalez Complaint and the Le'Vias Complaint. Specifically, the Le'Vias Complaint is also brought under PAGA on behalf of all current and former hourly-paid or non-exempt employees who work or have worked for us in California. The claim alleges that the Company violated wage and hour laws with respect to these non-exempt employees, including, among other things, the failure to comply with California law as to (i) the payment of overtime wages; (ii) the payment of minimum wages; (iii) providing meal and rest periods, (iv) the payment of wages earned during employment and owed upon the termination of employment; (v) providing complete and accurate wage statements, (vi) keeping of accurate payroll records; and (vii) the proper reimbursement for necessary business-related expenses and costs. The Le'Vias Complaint seeks unpaid wages, civil penalties and costs, expenses and attorneys' fees. Plaintiffs in the Le'Vias Complaint have agreed to stay the Le'Vias case until December 15, 2019. No trial date has been set for the Le'Vias Complaint and discovery has not yet commenced. Given the early stage of the litigation, we cannot estimate the likelihood of liability or the amount of potential damages.

***Service and Licensing Obligations***

We have entered into service and licensing agreements with third party vendors to provide various services, including network access, equipment maintenance and software licensing. As the benefits of these agreements are experienced uniformly over the applicable contractual periods, we record the related service and licensing expenses on a straight-line basis, although actual cash payment obligations under certain of these agreements fluctuate over the terms of the agreements.

The following table presents a summary of our future minimum payments under non-cancellable contractual service and licensing obligations as of September 30, 2019 (in thousands):

<b>For the Years Ending December 31,</b>	<b>Service and Licensing Obligations</b>
Remainder of 2019	\$ 499
2020	2,465
2021	950
2022	415
2023	444
Thereafter	229
<b>Total</b>	<b>\$ 5,002</b>

**Note 9 — Operating Segments, Geographic Information and Significant Customers**

***Operating Segments***

We report segment information based on how our chief executive officer, who is our chief operating decision maker ("CODM"), regularly reviews our operating results, allocates resources and makes decisions regarding our business operations.

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The performance measures of our segments include total revenue and profit (loss). Our business structure is comprised of two operating segments:

- Medicare; and
- Individual, Family and Small Business.

The Medicare segment consists primarily of commissions earned from our sale of Medicare-related health insurance plans, including Medicare Advantage, Medicare Supplement and Medicare Part D prescription drug plans, and to a lesser extent, ancillary products sold to our Medicare-eligible customers, including but not limited to, dental and vision insurance, as well as our advertising program that allows carriers to purchase Medicare-related advertising on a separate website developed, hosted and maintained by us, and our delivery and sale to third parties of Medicare-related health insurance leads generated by our ecommerce platforms and our marketing activities.

The Individual, Family and Small Business segment consists primarily of commissions earned from our sale of individual, family and small business health insurance plans and ancillary products sold to our non-Medicare-eligible customers, including but not limited to, dental, vision, and short-term health insurance. To a lesser extent, the Individual, Family and Small Business segment consists of amounts earned from our online sponsorship program that allows carriers to purchase advertising space in specific markets in a sponsorship area on our website, our licensing to third parties the use of our health insurance ecommerce technology, and our delivery and sale to third parties of individual and family health insurance leads generated by our ecommerce platforms and our marketing activities.

Segment profit (loss) is calculated as total revenue for the applicable segment less direct and allocated marketing and advertising, customer care and enrollment, technology and content, and general and administrative operating expenses, excluding stock-based compensation, change in fair value of earnout liability, restructuring charges, acquisition costs, depreciation and amortization expense, other income, net, and amortization of intangible assets.

Marketing and advertising, customer care and enrollment, technology and content, and general and administrative operating expenses that are directly attributable to a segment are reported within the applicable segment. Indirect marketing and advertising, customer care and enrollment, and technology and content operating expenses are allocated to each segment based on usage. Other indirect general and administrative operating expenses are managed in a corporate shared services environment and, since they are not the responsibility of segment operating management, are not allocated to the two operating segments and instead reported within Corporate.



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The following table presents summary results of our operating segments for the three and nine months ended September 30, 2019 and 2018 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
<b>Revenue</b>				
Medicare revenue	\$ 57,189	\$ 32,733	\$ 164,357	\$ 88,964
Individual, Family and Small Business revenue	12,724	8,018	40,096	27,514
Total revenue	<u>\$ 69,913</u>	<u>\$ 40,751</u>	<u>\$ 204,453</u>	<u>\$ 116,478</u>
<b>Segment profit (loss)</b>				
Medicare segment profit (loss)	\$ (11,004)	\$ 467	\$ 5,917	\$ 2,174
Individual, Family and Small Business segment profit (loss)	3,753	(579)	15,045	2,292
Total segment profit (loss)	<u>(7,251)</u>	<u>(112)</u>	<u>20,962</u>	<u>4,466</u>
Corporate	(11,568)	(6,832)	(30,380)	(22,680)
Stock-based compensation expense	(5,510)	(3,543)	(13,417)	(9,224)
Depreciation and amortization	(765)	(620)	(2,153)	(1,870)
Acquisition costs	—	—	—	(76)
Change in fair value of earnout liability	5,400	(3,800)	(15,106)	(6,300)
Restructuring charges	—	—	—	(1,865)
Amortization of intangible assets	(547)	(547)	(1,641)	(1,545)
Other income, net	568	296	1,824	776
Loss before benefit from income taxes	<u>\$ (19,673)</u>	<u>\$ (15,158)</u>	<u>\$ (39,911)</u>	<u>\$ (38,318)</u>

There are no internal revenue transactions between our operating segments. Our CODM does not separately evaluate assets by segment, and therefore assets by segment are not presented.

***Geographic Information***

Our long-lived assets consisted of property and equipment and internally-developed software. Our long-lived assets are attributed to the geographic location in which they are located. Long-lived assets by geographical area as of September 30, 2019 and December 31, 2018 were as follows (in thousands):

	September 30, 2019	December 31, 2018
United States	\$ 22,340	\$ 15,614
China	282	378
Total	<u>\$ 22,622</u>	<u>\$ 15,992</u>

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**Significant Customers**

Substantially all revenue for the three and nine months ended September 30, 2019 and 2018 was generated from customers located in the United States. Carriers representing 10% or more of our total revenue for the three and nine months ended September 30, 2019 and 2018 are presented in the table below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Humana	26%	17%	24%	16%
UnitedHealthcare <sup>(1)</sup>	18%	20%	18%	22%
Aetna <sup>(2)</sup>	17%	12%	17%	11%

(1) UnitedHealthcare also includes other carriers owned by UnitedHealthcare.

(2) Aetna also includes other carriers owned by Aetna.

As of September 30, 2019, our total outstanding accounts receivable balance was \$358.4 million. Our contracts with carriers expose us to credit risk that a financial loss could be incurred if the counterparty does not fulfill its financial obligation. While we are exposed to credit losses due to the non-performance of our counterparties, we consider the risk of this remote. We estimate our maximum credit risk in determining the commissions receivable amount recorded on the balance sheet.

**Note 10 — Restructuring Charges**

In February 2018, our Board of Directors approved a plan to close our sales call center in Massachusetts and to terminate the employment of other employees in certain other locations. As part of this plan, we eliminated approximately 110 full-time positions in the United States, representing approximately 10% of our workforce primarily within customer care and enrollment groups, and to a lesser extent, in our marketing and advertising and general and administrative groups.

Total pre-tax restructuring charges for the year ended December 31, 2018 were \$1.9 million, which included approximately \$1.6 million for employee termination benefits and \$0.3 million in non-cash accelerated stock-based compensation. Substantially all of the restructuring charges resulted in cash expenditures. The restructuring activities comprising the plan were completed by June 30, 2018, and there were no restructuring charges during the three or nine months ended September 30, 2019.

**Note 11 — Leases**

**Adoption of ASC 842**

On January 1, 2019, we adopted ASC 842 — Leases, using the optional transition method. We have operating and finance leases for our corporate offices and certain equipment. Our leases have remaining lease terms of 1 to 10 years. Our operating lease expense recognized under ASC 842 for the three months ended September 30, 2019 was \$2.0 million and \$4.9 million for the nine months ended September 30, 2019, and our cash outflows related to operating leases were \$1.4 million for the three months ended September 30, 2019 and \$3.5 million for the nine months ended September 30, 2019. As a result of adopting the ASU, on January 1, 2019, we recorded a right-of-use asset and lease liability of \$23.3 million and \$24.6 million, respectively. For the three months ended June 30, 2019, we recorded an additional lease liability of \$10.8 million related to a newly leased office space in Indianapolis, Indiana, which is described further below, and \$1.1 million and \$0.8 million related to an expansion and lease extension, respectively, of our office space in Gold River, California. We recorded an additional lease liability of \$3.2 million related to an amendment entered into for our Salt Lake City office during the three months ended March 31, 2019. During the nine months ended September 30, 2019 in the Condensed Consolidated Statements of Cash Flows, we had non-cash investing activities of \$39.2 million relating to right-of-use assets.

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Supplemental information as of September 30, 2019 related to leases is as follows (in thousands):

	<b>As of September 30, 2019</b>
Operating lease right-of-use assets	\$ 36,551
Operating lease liabilities	\$ 38,498
Weighted-average remaining lease term of operating leases	7.9 years
Weighted-average discount rate used to recognize operating lease right-of-use-assets	5.9%

As of September 30, 2019, maturities of operating lease liabilities are as follows (in thousands):

<b>Year ending December 31,</b>	
Remainder of 2019	\$ 1,645
2020	6,862
2021	6,236
2022	4,964
2023	5,792
Thereafter	26,958
Total lease payments	52,457
Less imputed interest	(13,959)
Total	\$ 38,498

***Operating Lease Obligations***

We lease our operating facilities and certain of our equipment, furniture and fixtures under various operating leases, the latest of which expires in January 2030. Certain of these leases have free or escalating rent payment provisions. We recognize rent expense on our operating leases on a straight-line basis over the terms of the leases, although actual cash payment obligations under certain of these agreements fluctuate over the terms of the agreements.

On August 15, 2019, we entered into an amendment to the lease agreement for our Santa Clara, California, office to expand our office space to a total of 45,657 square feet from 32,492 square feet. This operating lease will commence in the later part of fiscal year 2019 and therefore, we did not reflect this on the condensed consolidated balance sheet as of September 30, 2019 and the tables above. As of September 30, 2019, future minimum payments are expected to be \$6.4 million over the lease term of 9 years plus our proportionate share of certain operating expenses, insurance costs and taxes for each calendar year during the lease. In connection with the Santa Clara lease agreement, we entered into a financial guarantee consisting of a standby letter of credit for \$0.3 million.

On June 3, 2019, we entered into a sublease agreement for 56,276 square feet and a lease agreement for 81,515 square feet as a sublessee and lessee, respectively, of office space in Indianapolis, Indiana. The sublease consists of two suites (Suite 200 and Suite 300). The lease term of Suite 300 commenced on June 3, 2019, and the lease term of Suite 200 commenced on July 1, 2019. The term of the sublease will terminate on October 31, 2022. The term of the lease, which will commence after the sublease, extends from November 1, 2022 to January 31, 2030, which, in addition to Suite 200 and Suite 300, includes an additional 25,239 square feet of office space in Suite 100. As of September 30, 2019, future minimum payments related to the Indiana office space are expected to be \$17.8 million over the remaining term of the lease, plus our proportionate share of certain operating expenses, insurance costs and taxes for each calendar year during the lease. The landlord also agreed to contribute up to \$1.9 million toward the cost of leasehold improvements. In connection with the Indianapolis, Indiana lease agreement, we entered into a financial guarantee consisting of a standby letter of credit for \$0.8 million.

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On April 8, 2019, we entered into an amendment to the lease agreement for our Gold River, California, office to expand our office space to a total of 63,206 square feet from 44,738 square feet. The lease term for the expanded office space commenced on May 1, 2019. The term of the expanded office space will terminate on September 30, 2021. As of September 30, 2019, future minimum payments are expected to be \$3.3 million over the remaining term of the lease plus our proportionate share of certain operating expenses, insurance costs and taxes for each calendar year during the lease. In addition, we have an option to extend the lease for one additional period of five years at the end of the term of the lease and will receive a one-time refurbishment allowance from the landlord if the option to renew is exercised.

On March 26, 2019, we entered into an amendment to the lease agreement for our Salt Lake City, Utah, office to expand our office space to a total of 41,813 square feet from 28,915 square feet. The lease term for the expanded office space commenced on May 1, 2019. The term of the lease for the original and expanded office space was also extended to terminate on the last day of the month that is 84 months after the commencement date of the expanded space. As of September 30, 2019, future minimum payments are expected to be \$6.9 million over the remaining term of the lease plus our proportionate share of certain operating expenses, insurance costs and taxes for each calendar year during the lease.

On April 25, 2018, we entered into a lease agreement to lease approximately 32,492 square feet of office space located in Santa Clara, California. We entered into this lease agreement as a result of the expiration of one of our leases in Mountain View, California on December 31, 2018. The term of the lease is approximately one hundred twenty-three months, commencing on October 1, 2018 and ending on an estimated date of February 28, 2029. As of September 30, 2019, future minimum payments are expected to be \$16.5 million over the remaining term of the lease plus our proportionate share of certain operating expenses, insurance costs and taxes for each calendar year during the lease.

In connection with the Santa Clara, California lease agreement, we entered into a financial guarantee consisting of a standby letter of credit for \$1.5 million, which may be reduced in increments of 20% of the original amount thereof on the second, third, fourth and fifth anniversaries of the commencement date, and may be reduced by an additional 8% of the original amount on the sixth anniversary of the commencement date, subject to our compliance with the applicable conditions to such reductions set forth in the lease.

In March 2018, we entered into an agreement to lease 26,878 square feet of office space in Austin, Texas. The term of this lease agreement is 90 months, commencing in September 2018 and ending in May 2026. As of September 30, 2019, future minimum payments are expected to be \$4.2 million over the remaining term of the lease plus our proportionate share of certain operating expenses, insurance costs and taxes for each calendar year during the lease.

In connection with the Austin, Texas office lease agreement, we entered into a financial guarantee consisting of a standby letter of credit for \$0.6 million, which may be reduced on the third and subsequent anniversaries of the commencement date, subject to our compliance with the applicable conditions to such reductions set forth in the lease.

In March 2012, we entered into an agreement to lease 18,272 square feet of office space in Mountain View, California. In connection with this lease agreement, we entered into a financial guarantee consisting of a standby letter of credit for \$0.1 million. On November 2, 2018, we entered into an agreement to sublease this office space to a third party. As of September 30, 2019, future minimum payments are expected to be \$2.9 million. The obligation as of September 30, 2019 was immaterial net of sublease income.

In March 2018, we renewed our agreement to lease approximately 1,413 square feet of office space in Washington, DC. The lease commenced in November 2018 and is for a term of 5 years and 5 months. As of September 30, 2019, future minimum payments are \$0.3 million.

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**Note 12 — Debt**

On September 17, 2018, we entered into a Credit Agreement with Royal Bank of Canada (“RBC”), as administrative agent and collateral agent (the “Credit Agreement”). The Credit Agreement provides for a \$40 million secured asset-backed revolving credit facility with a \$5 million letter of credit sub-facility. The commitments under the Credit Agreement expire on September 17, 2021, at which time any amounts drawn under facility are contractually due.

The borrowing base under the Credit Agreement is comprised of an amount equal to (a) the lesser of (i) eighty percent (80%) of Eligible Commissions Receivables (as defined in the Credit Agreement) we actually collected by during the immediately preceding period of three months or (ii) eighty percent (80%) of our Eligible Commission Receivables for the immediately succeeding period of three months, plus (b) fifty percent (50%) of our Eligible Commission Receivables for the immediately succeeding period of six months (excluding the immediately succeeding period of three months), in each case subject to reserves established by RBC (the “Borrowing Base”). The proceeds of the loans under the Credit Agreement may be used for working capital and general corporate purposes. The Borrowers have the right to prepay the loans under the Credit Agreement in whole or in part at any time without penalty. Subject to availability under the Borrowing Base, amounts repaid may be reborrowed.

Amounts not borrowed under the Credit Agreement will be subject to a commitment fee of 0.5% per annum on the daily unused portion of the credit facility, to be paid in arrears on the first business day of each calendar quarter. At closing, the Company paid a one-time facility fee of 1.75% of the total commitments under the Credit Agreement. The Company is also obligated to pay other customary administration fees for a credit facility of this size and type.

Availability under the credit facility is up to the lesser of \$40 million or the Borrowing Base, which may be reduced from time to time pursuant to the Credit Agreement. In addition, the Credit Agreement contains a financial covenant requiring that we maintain Excess Availability (as defined in the Credit Agreement) at or above \$6 million at any time. As of September 30, 2019, we were in compliance with all debt covenants.

We incurred \$1.2 million of issuance costs in connection with the Credit Agreement, which were capitalized as part of other assets on the balance sheet. As of September 30, 2019, the balance of these issuance costs was \$0.8 million.

As of September 30, 2019, we had no outstanding principal amount under our revolving credit facility.

**Note 13 — Public Offering of Common Stock**

Pursuant to the effective registration statement which was filed on December 17, 2018, and amended on January 22, 2019, we entered into an underwriting agreement in January 2019 to issue a total of 2,760,000 shares of common stock, which included the exercise in full of the underwriters’ option to purchase 360,000 additional shares of common stock, at a price to the public of \$48.50 per share. Net proceeds from the offering were approximately \$126.1 million after deducting underwriting discounts, commissions and expenses of the offering. We intend to use the net proceeds of the offering for general corporate purposes, including working capital.

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

**Note 14 — Income Taxes**

The following table summarizes our benefit from income taxes and our effective tax rates for the three and nine months ended September 30, 2019 and 2018 (in thousands, except effective tax rate):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Loss before benefit from income taxes	\$ (19,673)	\$ (15,158)	\$ (39,911)	\$ (38,318)
Benefit from income taxes	(8,649)	(6,186)	(17,974)	(12,487)
Effective tax rate	44.0%	40.8%	45.0%	32.6%

For the three months ended September 30, 2019, we recognized a benefit for income taxes of \$8.6 million representing an effective tax rate of 44.0%, which was higher than the statutory federal tax rate due primarily to stock-based compensation adjustments, lobbying expenses and state taxes, partially offset by research and development credits. For the three months ended September 30, 2018, we recognized a benefit from income taxes of \$6.2 million, representing an effective tax rate of 40.8%, which was higher than the statutory federal tax rate due primarily to stock-based compensation adjustments, non-deductible lobbying expenses and foreign income inclusions, partially offset by research and development credits.

For the nine months ended September 30, 2019, we recognized a benefit for income taxes of \$18.0 million, representing an effective tax rate of 45.0%, which was higher than the statutory federal tax rate due primarily to stock-based compensation adjustments, lobbying expenses and state taxes, partially offset by research and development credits. For the nine months ended September 30, 2018, we recognized a benefit from income taxes of \$12.5 million, representing an effective tax rate of 32.6%, which was higher than the statutory federal tax rate due primarily to stock-based compensation adjustments, non-deductible lobbying expenses and foreign income inclusions, partially offset by research and development credits.

Assessing the realizability of our deferred tax assets is dependent upon several factors, including the likelihood and amount, if any, of future taxable income in relevant jurisdictions during the periods in which those temporary differences become deductible. We forecast taxable income by considering all available positive and negative evidence, including our history of operating income and losses and our financial plans and estimates that we use to manage the business. These assumptions require significant judgment about future taxable income. As a result, the amount of deferred tax assets considered realizable is subject to adjustment in future periods if estimates of future taxable income change. We continue to recognize our deferred tax assets as of September 30, 2019, as we believe it is more likely than not that the net deferred tax assets will be realized, with the exception of certain state net operating losses that are expected to expire unutilized which have a valuation allowance.

As a result of our adoption of ASC 606 using the full retrospective method, we recognized a significant deferred tax liability due to the resulting acceleration of revenue recognition while revenue for tax purposes will continue to be recognized as we collect cash. This deferred tax liability is a source of income that can be used to support the realizability of our deferred tax assets. As a result of the significantly increased deferred tax liability, in 2018, we reversed the valuation allowance recorded against our U.S. deferred tax assets as of January 1, 2015, the earliest period to which the retrospective adoption of ASC 606 was applied.

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

*In addition to historical information, this Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements include, among other things, statements regarding our expectations relating to submitted applications, approved members, constrained lifetime value of commissions; our expectations relating to revenue, sources of revenue, cost of revenue, operating expenses and profitability; our expectations relating to the seasonality of our business; our expectations regarding our strategy and investments including our acquisition of GoMedigap, and impact to our operating results; growth opportunities in our business and our expected investments; our expectations regarding the impact of future and existing healthcare laws and regulations on our business; our belief that the Internet will be a frequently utilized channel for researching and enrolling in health insurance plans; the anticipated trends and market opportunity for Medicare and health insurance plans; our execution during the Medicare annual enrollment period; the scalability of our Medicare business; our expectations regarding commission rates, payment rates, conversion rates, membership retention rates and membership acquisition costs; our estimates regarding membership and the constrained lifetime value of commissions per approved member; our expectations relating to marketing and advertising expense and expected contributions from our marketing partner channel; the timing of our receipt of commission and other payments; our critical accounting policies and related estimates; our estimates relating to fair value of earnout liability; our belief that cash generated from operations and our current cash and cash equivalents will be sufficient to fund operations for the next twelve months; our use of proceeds from our equity offering; future capital requirements; expected competition from government-run health insurance exchanges and other sources; the timing and source of our Medicare-related revenue; political, legislative, regulatory and legal challenges; the merits or potential impact of any lawsuits filed against us; as well as other statements regarding our future operations, financial condition, prospects and business strategies. These forward-looking statements are subject to certain risks and uncertainties that could cause our actual results to differ materially from those expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those risks associated with our ability to retain existing members and enroll new members during the annual healthcare open enrollment period and Medicare annual enrollment period; the impact of the annual enrollment period on the purchase of individual and family health insurance and its timing on our recognition of revenue; changes in laws and regulations, including in connection with healthcare reform or with respect to the marketing and sale of Medicare plans; the success of our sale of short-term health insurance; our ability to comply with CMS guidance and the impact on conversion rates from federal exchange changes to enrollment; competition, including competition from government-run health insurance exchanges; the seasonality of our business and the fluctuation of our operating results; changes in consumer behaviors and their selection of individual and family health insurance products, including the selection of products for which we receive lower commissions; changes in product offerings among carriers on our ecommerce platform and the resulting impact on our commission revenue; carriers exiting the market of selling individual and family health insurance and the resulting impact on our supply and commission revenue; our ability to execute on our growth strategy in the Medicare and small business health insurance markets; exposure to security risks and our ability to safeguard the security and privacy of confidential data; the impact of increased health insurance costs on demand; our ability to timely receive and accurately predict the amount of commission payments from health insurance carriers; medical loss ratio requirements; our ability to accurately estimate membership and lifetime value of commissions; our relationships with health insurance carriers; customer concentration and consolidation of the health insurance industry; our success in marketing and selling health insurance plans and our unit cost of acquisition; our ability to hire, train and retain licensed health insurance agents and other employees; the need for health insurance carrier and regulatory approvals in connection with the marketing of Medicare-related insurance products; costs of acquiring new members; scalability of the Medicare business; consumer satisfaction of our service; changes in member conversion rates and our ability to attract and convert online visitors into paying members; changes in commission rates; our ability to sell qualified health insurance plans to subsidy-eligible individuals and to enroll subsidy-eligible individuals through government-run health insurance exchanges; our ability to maintain and enhance our brand identity; our ability to derive desired benefits from investments in our business, including membership growth initiatives; reliance on marketing partners; the impact of our direct-to-consumer email, telephone and television marketing efforts; timing of receipt and accuracy of commission reports; payment practices of health insurance carriers; our ability to successfully make and integrate acquisitions; dependence on our operations in China; the restrictions in our debt obligations; compliance with insurance and other laws and regulations; and the performance, reliability and availability of our ecommerce platform and underlying network infrastructure. Other factors that could cause operating, financial and other results to differ are discussed under the heading "Risk Factors" in Part II, Item 1A. of this report and those discussed in our other Securities and Exchange Commission filings. The following discussion should be read in conjunction with our Annual Report on Form 10-K as filed with the Securities and Exchange Commission in March 2019, and the audited consolidated financial statements and related notes contained therein. We undertake no obligation to revise or publicly release the results of any revision to these forward-looking*

statements. Given these risks and uncertainties, you are cautioned not to place undue reliance on such forward-looking statements.

## Overview

We are a leading private health insurance exchange for individuals, families and small businesses in the United States. Through our website addresses ([www.eHealth.com](http://www.eHealth.com), [www.eHealthInsurance.com](http://www.eHealthInsurance.com), [www.eHealthMedicare.com](http://www.eHealthMedicare.com), [www.Medicare.com](http://www.Medicare.com), [www.PlanPrescriber.com](http://www.PlanPrescriber.com) and [www.GoMedigap.com](http://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. Our ecommerce technology also enables us to deliver consumers' health insurance applications electronically to health insurance carriers. As a result, we simplify and streamline the complex and traditionally paper-intensive health insurance sales and purchasing process.

On January 22, 2018, we completed our acquisition of Wealth, Health and Life Advisors, LLC, more commonly known as GoMedigap, a technology-enabled provider of Medicare Supplement enrollment services. GoMedigap built a leading consumer acquisition and engagement platform focused on meeting the Medicare Supplement insurance needs of its individual customers with a technology-enabled, consumer-centric approach that aligns with our mission and operations. For more information on our acquisition of GoMedigap, see *Note 3 — Acquisition* in the *Notes to Condensed Consolidated Financial Statements* of this Quarterly Report on Form 10-Q.

We have invested heavily in technology and content related to our ecommerce platforms. We have also invested significant time and resources in obtaining licenses to sell health insurance in all 50 states and the District of Columbia, developing member acquisition programs, obtaining necessary regulatory approvals and establishing relationships and appointments with leading health insurance carriers, enabling us to offer thousands of health insurance plans online. Our ecommerce platforms can be accessed directly through our websites as well as through our network of marketing partners.

We operate as two distinct reporting segments:

- Medicare; and
- Individual, Family and Small Business.

For more information regarding our segments, see *Note 9 — Operating Segments, Geographic Information and Significant Customers* in the *Notes to Condensed Consolidated Financial Statements* of this Quarterly Report on Form 10-Q.

## Summary of Selected Metrics

In addition to traditional financial metrics, we rely upon certain metrics to estimate and recognize commission revenue, evaluate our business performance and facilitate strategic planning. Our commission revenue is influenced by a number of factors including:

- the number of individuals on applications for Medicare-related, individual and family, small business and ancillary health insurance plans we submit to and are approved by the relevant health insurance carriers; and
- the constrained lifetime value, or LTV, of approved members for Medicare-related, individual and family and ancillary health insurance plans we sell, as well as the estimated annual value of approved members for small business plans we sell.

## Submitted Applications

Applications are counted as submitted when the applicant completes the application and either clicks the submit button on our website or provides verbal authorization to submit the application. The applicant may have additional actions to take before the application will be reviewed by the insurance carrier, such as providing additional information. In addition, an applicant may submit more than one application.



The following table shows submitted applications by product for the three and nine months ended September 30, 2019 and 2018:

	Submitted Applications					
	Three Months Ended September 30,		Percent Change	Nine Months Ended September 30,		Percent Change
	2019	2018		2019	2018	
<b>Medicare <sup>(1)</sup></b>						
Medicare Advantage <sup>(2)</sup>	37,915	21,115	80 %	120,855	69,060	75 %
Medicare Supplement <sup>(2)</sup>	11,099	8,924	24 %	31,936	22,180	44 %
Medicare Part D	7,422	3,863	92 %	23,979	11,447	109 %
<b>Total Medicare</b>	<b>56,436</b>	<b>33,902</b>	<b>66 %</b>	<b>176,770</b>	<b>102,687</b>	<b>72 %</b>
<b>Individual and Family <sup>(3)</sup></b>						
Non-Qualified Health Plans	3,131	1,224	156 %	8,343	6,419	30 %
Qualified Health Plans	1,248	438	185 %	3,534	4,159	(15)%
<b>Total Individual and Family</b>	<b>4,379</b>	<b>1,662</b>	<b>163 %</b>	<b>11,877</b>	<b>10,578</b>	<b>12 %</b>
<b>Ancillaries <sup>(4)</sup></b>						
Short-term	13,977	30,365	(54)%	42,442	75,639	(44)%
Dental	8,609	9,111	(6)%	28,972	31,428	(8)%
Vision	3,654	4,318	(15)%	13,245	14,111	(6)%
Other	5,871	10,641	(45)%	18,612	32,759	(43)%
<b>Total Ancillaries</b>	<b>32,111</b>	<b>54,435</b>	<b>(41)%</b>	<b>103,271</b>	<b>153,937</b>	<b>(33)%</b>
<b>Small Business <sup>(5)</sup></b>	<b>1,566</b>	<b>1,843</b>	<b>(15)%</b>	<b>5,348</b>	<b>5,235</b>	<b>2 %</b>
<b>Total</b>	<b>94,492</b>	<b>91,842</b>	<b>3 %</b>	<b>297,266</b>	<b>272,437</b>	<b>9 %</b>

(1) Medicare-related health insurance applications submitted on our website or through our customer care center during the period, including Medicare Advantage, Medicare Supplement, and Medicare Part D prescription drug plans.

(2) The percentage of members who submit applications for Medicare Advantage and Medicare Supplement products online through our platform increased from 9% for the three months ended September 30, 2018 to 21% for the three months ended September 30, 2019. The percentage of applications for Medicare Advantage and Medicare Supplement products submitted online through our platform increased from 8% for the nine months ended September 30, 2018 to 15% for the nine months ended September 30, 2019.

(3) Major medical individual and family plan (IFP) health insurance applications submitted on our website during the period. An applicant may submit more than one application. We define our IFP offerings as major medical individual and family health insurance plans, which does not include Medicare-related, small business or ancillary plans.

(4) Ancillary plans consists primarily of short-term, dental and vision insurance plans submitted on our website during the period.

(5) Applications for small business health insurance are counted as submitted when the applicant completes the application, the employees complete their applications, the applicant submits the application to us and we submit the application to the carrier.

Medicare submitted applications grew 66% in the three months ended September 30, 2019 compared to the three months ended September 30, 2018 driven by growth in submitted applications for all Medicare products that we offer, including 80% for Medicare Advantage, 24% for Medicare Supplement and 92% for Medicare Part D prescription drug plans. Individual and family plan submitted applications increased 163% in the three months ended September 30, 2019 compared to the three months ended September 30, 2018. There was a decline of 41% in ancillary submitted applications for the three months ended September 30, 2019 compared to the three months ended September 30, 2018, which was primarily due to a 54% decrease in submitted applications for short-term plans and a 45% decrease in submitted applications for other ancillary plans year-over-year. Small business submitted applications declined 15% in the three months ended September 30, 2019 compared to the three months ended September 30, 2018 as we shifted a portion of our sales resources to Medicare ahead of the annual enrollment period.

Medicare submitted applications grew 72% in the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018 driven by growth in submitted applications for all Medicare products that we offer, including 75% for Medicare Advantage, 44% for Medicare Supplement and 109% for Medicare Part D prescription drug plans. Individual and family plan submitted applications increased 12% in the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018. We experienced a decline of 33% in ancillary plan submitted applications for the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018, which was primarily due to a 44% decrease in submitted applications for short-term plans and a 43% decrease in submitted applications for other ancillary plans year-over-year. Small business submitted applications grew 2% in the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018 due to improved focus on key partnerships and technology enhancements.

### **Approved Members**

Approved members represents the number of individuals on submitted applications that were approved by the relevant insurance carrier for the identified product during the current period. The applications may be submitted in either the current period or prior periods. Not all approved members ultimately become paying members.

The following table shows approved members by product for the three and nine months ended September 30, 2019 and 2018:

	Approved Members <sup>(1)</sup>					
	Three Months Ended September 30,			Nine Months Ended September 30,		
	2019	2018	Percent Change	2019	2018	Percent Change
<b>Medicare</b>						
Medicare Advantage	35,171	19,664	79 %	112,488	65,102	73 %
Medicare Supplement	9,110	6,985	30 %	26,510	17,667	50 %
Medicare Part D	6,933	3,511	97 %	22,684	11,230	102 %
Total Medicare	51,214	30,160	70 %	161,682	93,999	72 %
<b>Individual and Family</b>						
Non-Qualified Health Plans	2,245	1,227	83 %	10,250	11,715	(13)%
Qualified Health Plans	942	583	62 %	7,389	16,483	(55)%
Total Individual and Family	3,187	1,810	76 %	17,639	28,198	(37)%
<b>Ancillaries</b>						
Short-term	15,630	32,723	(52)%	44,691	79,683	(44)%
Dental	9,487	9,256	2 %	32,021	32,720	(2)%
Vision	4,265	4,539	(6)%	15,108	15,578	(3)%
Other	6,296	8,716	(28)%	17,654	25,447	(31)%
Total Ancillaries	35,678	55,234	(35)%	109,474	153,428	(29)%
Small Business	2,871	3,255	(12)%	10,368	12,013	(14)%
<b>Total</b>	<b>92,950</b>	<b>90,459</b>	<b>3 %</b>	<b>299,163</b>	<b>287,638</b>	<b>4 %</b>

(1) The number of approved members is equal to the number of individuals on applications that were approved during the period presented and includes individuals on approved applications that were submitted prior to the period presented. A single application for some products may cover more than one individual. Each of the individuals on a single submitted application are counted as approved members after the application is approved.

Medicare total approved members grew 70% in the three months ended September 30, 2019 compared to the three months ended September 30, 2018. Approved Medicare Advantage members grew 79%, approved Medicare Supplement plan members grew 30% and approved members on Medicare Part D prescription drug plans increased 97% compared to the third quarter of 2018 driven by increased enrollment volumes. Individual and family plan approved members increased 76% in the three months ended September 30, 2019 compared to the three months ended September 30, 2018 due to higher enrollment volumes. Ancillary approved members declined 35% in the three months ended September 30, 2019 compared to the three months ended September 30, 2018, primarily due to a 52% decline in short-term approved members. Small business approved members decreased 12% in the three months ended September 30, 2019 compared to the three months ended September 30, 2018 mainly due to a decrease in the number of members per application and in the percentage of approved applications.

Medicare total approved members grew 72% in the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018. Approved Medicare Advantage members grew 73%, approved Medicare Supplement plan members increased 50% and approved members on Medicare Part D prescription drug plans increased 102% compared to the nine months ended September 30, 2018 driven by increased enrollment volumes. Individual and family plan approved members decreased 37% in the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018 due to a CMS requirement for us to send applicants to CMS's website to complete their enrollment, at which time they are given the option to finish enrolling on CMS's website or to return back to our website to qualify as approved members. Ancillary approved members decreased 29% in the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018 primarily due to a decrease in our sale of short-term health insurance and a decrease in other ancillary insurance. Small business approved members decreased 14% in the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018 mainly due to a decrease in the volume of high-quality leads.

## Constrained LTV of Commissions Per Approved Member

The following table shows our estimated constrained LTV of commissions per approved member by product for the three months ended September 30, 2019 and 2018:

	Three Months Ended September 30,		Percentage Change
	2019	2018	
<b>Medicare</b>			
Medicare Advantage	\$ 923	\$ 914	1 %
Medicare Supplement	\$ 951	\$ 1,058	(10)%
Medicare Part D	\$ 265	\$ 286	(7)%
<b>Individual and Family</b>			
Non-Qualified Health Plans	\$ 173	\$ 119	45 %
Qualified Health Plans	\$ 165	\$ 115	43 %
<b>Ancillaries</b>			
Short-term	\$ 112	\$ 55	104 %
Dental	\$ 65	\$ 62	5 %
Vision	\$ 45	\$ 47	(4)%
<b>Small Business</b>	\$ 168	\$ 163	3 %

The constrained LTV per approved member represents commissions we estimate to be collected over the estimated life of an approved member's plan after applying constraints in accordance with our revenue recognition policy. The estimate is driven by multiple factors, including but not limited to, contracted commission rates, carrier mix, expected average plan duration and applied constraints. These factors may result in varying values from period to period. We evaluate constrained LTVs on a quarterly basis, and our estimates are based on observed historical results for that relevant product. For additional information on constraints, see *Note 2 — Revenue* in the *Notes to Condensed Consolidated Financial Statements* of this Quarterly Report on Form 10-Q.

For small business, the constrained LTV represents the estimated commissions we expect to collect on each member covered by the policy over the following twelve months. The estimate is driven by multiple factors, including but not limited to, contracted commission rates, carrier mix, expected plan duration and applied constraints. These factors may result in varying values from period to period.

The constrained LTV of commissions per approved member for Medicare Advantage plans increased by 1% in the three months ended September 30, 2019 compared to the three months ended September 30, 2018 primarily due to improved member retention on some of our member cohorts, favorable product mix and commission rate increases. When comparing the three months ended September 30, 2019 to the three months ended September 30, 2018, the constrained LTV of commissions per Medicare Supplement approved member decreased by 10% primarily as a result of a decrease in the duration factor, and the constrained LTV of commissions per Medicare Part D approved member decreased by 7% primarily as a result of carrier mix. We experienced a decreased member retention rate in the Medicare Advantage members that we enrolled during the Medicare annual enrollment period in the fourth quarter of 2018.

We believe the reintroduction of the Medicare open enrollment period during the first quarter of 2019 contributed to an initial decreased average plan duration rate on our Medicare Advantage plans that we enrolled members into during the annual enrollment period in the fourth quarter of 2018 as those members were able to switch Medicare Advantage plans or disenroll from their Medicare Advantage plan and return to original Medicare during the Medicare open enrollment period. While we initially expected the decrease in plan duration to adversely impact our fourth quarter 2019 Medicare Advantage plan constrained LTV to a greater degree, we now expect that it will only decline by 1 or 2 percentage points compared to the Medicare Advantage constrained LTV for the fourth quarter of 2018 given that we have observed reduced member turnover with respect to fourth quarter 2018 enrollments since the end of the quarter ended March 31, 2019. For the full year 2019, our weighted average Medicare Advantage constrained LTVs are expected to be flat to slightly up compared to 2018.

The constrained LTV of commissions per qualified health plan and non-qualified health plan for approved members increased 43% and 45%, in the three months ended September 30, 2019 compared with the three months ended September 30, 2018, respectively, mostly due to improved plan duration.

The constrained LTV of commissions per short-term approved member increased 104% in the three months ended September 30, 2019 compared to the three months ended September 30, 2018 primarily as a result of selling higher priced plans and an increase in average plan duration.

## Estimated Membership

Estimated membership represents the estimated number of members active as of the date indicated based on the number of members for whom we have received or applied a commission payment during the period of estimation.

The following table shows estimated membership by product as of September 30, 2019 and 2018:

	As of September 30,		Percent Change
	2019	2018	
Medicare <sup>(1)</sup>			
Medicare Advantage	309,180	235,269	31 %
Medicare Supplement	85,821	64,632	33 %
Medicare Part D	156,067	109,987	42 %
Total Medicare	551,068	409,888	34 %
Individual and Family <sup>(2)</sup>	131,058	161,371	(19)%
Ancillaries <sup>(3)</sup>			
Short-term	24,167	25,008	(3)%
Dental	131,409	142,990	(8)%
Vision	72,765	71,875	1 %
Other	36,014	38,380	(6)%
Total Ancillaries	264,355	278,253	(5)%
Small Business <sup>(4)</sup>	44,723	38,296	17 %
Total Estimated Membership	991,204	887,808	12 %

(1) To estimate the number of members on Medicare-related health insurance plans, we take the sum of (i) the number of members for whom we have received or applied a commission payment for a month that is up to two months prior to the date of estimation (after reducing that number using historical experience for assumed member cancellations over the period being estimated); and (ii) the number of applicants since that month (after reducing that number using historical experience for an assumed number of members who do not accept their approved application from the same period the previous year and for estimated member cancellations through the date of the estimate). To the extent we determine we have received substantially all of the commission payments related to a given month during the period being estimated, we will take the number of members for whom we have received or applied a commission payment during the month of estimation. The estimated number of members active on Medicare-related health insurance as of the date indicated is based on the number of members for whom we have received or applied a commission payment during the month of estimation.

(2) To estimate the number of members on individual and family health insurance plans, we take the sum of (i) the number of IFP members for whom we have received or applied a commission payment for a month that is up to six months prior to the date of estimation (after reducing that number using historical experience for assumed member cancellations over the period being estimated); and (ii) the number of approved applications since that month (after reducing that number by the percentage of members who do not accept their approved policy from the same month of the previous year for estimated member cancellations through the date of the estimate). To the extent we determine we have received substantially all of the commission payments related to a given month during the period being estimated, we will take the number of members for whom we have received or applied a commission payment during the month of estimation.

(3) For ancillary health insurance plans (such as short-term, dental and vision), we take the sum of (i) the number of members for whom we have received or applied a commission payment for a month that is up to three months prior to the date of estimation (after reducing that number using historical experience for assumed member cancellations over the period being estimated); and (ii) the number of approved members over that period (after reducing that number using historical experience for an assumed number of members who do not accept their approved policy from the same month of the previous year and for estimated member cancellations through the date of the estimate). To the extent we determine we have received substantially all of the commission payments related to a given month during the period being estimated, we will take the number of members for whom we have received or applied a commission payment during the month of estimation. The one to three-month period varies by insurance product and is largely dependent upon the timeliness of commission payment and related reporting from the related carriers.

(4) For small business health insurance plans, we estimate the number of members using the number of initial members at the time the group is approved, and we update this number for changes in membership if such changes are reported to us by the group or carrier in the period it is reported. However, groups generally notify the carrier directly of policy cancellations and increases or decreases in group size without informing us. Health insurance carriers often do not communicate policy cancellation information or group size changes to us. We often are made aware of policy cancellations and group size changes at the time of annual renewal and update our membership statistics accordingly in the period they are reported.

Health insurance carriers bill and collect insurance premiums paid by our members. The carriers do not report to us the number of members that we have as of a given date. The majority of our members who terminate their plans do so by discontinuing their premium payments to the carrier and do not inform us of the cancellation. Also, some of our members pay their premiums less frequently than monthly. Given the number of months required to observe non-payment of commissions in order to confirm cancellations, we estimate the number of members who are active on insurance policies as of a specified date.

After we have estimated membership for a period, we may receive information from health insurance carriers that would have impacted the estimate if we had received the information prior to the date of estimation. We may receive commission payments or other information that indicates that a member who was not included in our estimates for a prior period was in fact an active member at that time, or that a member who was included in our estimates was in fact not an active member of ours. For instance, we reconcile information carriers provide to us and may determine that we were not historically paid commissions owed to us, which would cause us to have under estimated membership. Conversely, carriers may require us to return commission payments paid in a prior period due to policy cancellations for members we previously estimated as being active. We do not update our estimated membership numbers reported in previous periods. Instead, we reflect updated information regarding our historical membership in the membership estimate for the current period. As a result of the delay in our receipt of information from insurance carriers, actual trends in our membership are most discernible over periods longer than from one quarter to the next. As a result of the delay we experience in receiving information about our membership, it is difficult for us to determine with any certainty the impact of current conditions on our membership retention. Various circumstances could cause the assumptions and estimates that we make in connection with estimating our membership to be inaccurate, which would cause our membership estimates to be inaccurate. A member who purchases and is active on multiple standalone insurance plans will be counted as a member more than once. For example, a member who is active on both an individual and family health insurance plan and a standalone dental plan will be counted as two continuing members.

Medicare-related plan estimated membership as of September 30, 2019 grew 34% compared to estimated membership as of September 30, 2018 due to 31% growth in Medicare Advantage membership, 33% growth in Medicare Supplement membership, and 42% growth in Medicare Part D membership. Individual and family plan estimated membership as of September 30, 2019 declined 19% compared to estimated membership as of September 30, 2018 due to market conditions in the individual and family plan market and our decision to shift our marketing investments towards our Medicare business. Ancillary membership as of September 30, 2019 declined 5% compared to estimated membership as of September 30, 2018 primarily as a result of the decline in dental and short-term plan members. Small business estimated membership grew 17% when comparing September 30, 2019 to September 30, 2018 due to improved focus on key partnerships, technology enhancements and increased conversions.

### **Member Acquisition**

Marketing initiatives are an important component of our strategy to increase revenue. Our marketing initiatives are focused on three primary member acquisition channels: direct, marketing partners, and online advertising. Our marketing initiatives are primarily designed to encourage consumers to complete an application for health insurance. In addition, we incur customer care and enrollment expenses in assisting applicants during the enrollment process.

The following table shows our variable marketing cost per approved member and the customer care and enrollment expense per approved member metrics for the three months ended September 30, 2019 and 2018:

	Three Months Ended September 30,		Percent Change
	2019	2018	
<b>Medicare variable cost per approved member</b>			
Medicare variable marketing cost per approved Medicare Advantage ("MA")-equivalent member <sup>(1)</sup>	\$ 381	\$ 356	7%
Medicare customer care and enrollment ("CC&E") cost per approved MA-equivalent member <sup>(2)</sup>	\$ 819	\$ 538	52%
Total Medicare cost per approved member	\$ 1,200	\$ 894	34%
<b>Individual and family plan ("IFP") variable cost per approved member</b>			
IFP variable marketing cost per approved IFP-equivalent member <sup>(3)</sup>	\$ 80	\$ 77	4%
IFP CC&E cost per approved IFP-equivalent member <sup>(4)</sup>	\$ 167	\$ 97	72%
Total IFP cost per approved member	\$ 247	\$ 174	42%

#### **Expense Metrics Per Approved Member**

(1) Variable marketing cost per approved MA-equivalent member represents direct costs incurred in member acquisition for Medicare Advantage, Medicare Supplement and Medicare Part D plans from our direct marketing partners and online advertising channels divided by MA-equivalent approved members in a given period. MA-equivalent members is a derived metric and is equal to the sum of Medicare Part D approved members divided by 4, the number of Medicare Advantage approved members and the number of Medicare Supplement approved members in the given period.

(2) Medicare CC&E cost per approved MA-equivalent member is equal to the CC&E expense of our Medicare business included in our operating costs divided by MA-equivalent approved members in a given period. MA-equivalent approved members is a derived metric and is equal to the sum of Medicare Part D approved members divided by 4, the number of Medicare Advantage approved members and the number of Medicare Supplement approved members in the given period.

(3) Variable marketing cost per approved IFP-equivalent member represents direct costs incurred in member acquisition for IFP plans from our direct, marketing partners and online advertising channels divided by IFP-equivalent approved members in a given period. IFP-equivalent approved members is a derived metric and is equal to the sum of the number of short-term approved members divided by 3 and the IFP approved members in the given period.

(4) IFP CC&E cost per approved IFP-equivalent member is equal to the CC&E expense of our IFP business included in our operating costs divided by IFP-equivalent approved members in a given period. IFP-equivalent approved members is a derived metric and is equal to the sum of the number of short-term approved members divided by 3 and the IFP approved members in the given period.

Variable marketing costs per approved MA-equivalent member increased 7% in the three months ended September 30, 2019 compared to the three months ended September 30, 2018 due to approved members growing slower than Medicare marketing costs. Variable CC&E costs per approved MA-equivalent member increased 52% in the three months ended September 30, 2019 compared to the three months ended September 30, 2018 due to an increase in our agent headcount in preparation for the annual enrollment period.

Variable marketing cost per approved IFP-equivalent member increased by 4% and CC&E cost per approved IFP-equivalent member increased 72% in the three months ended September 30, 2019 compared to the three months ended September 30, 2018 due to a decline in the number of approved members for short-term products. The overall variable marketing cost in the Individual, Family, and Small Business segment also increased year-over-year.



## Critical Accounting Policies and Estimates

The preparation of financial statements and related disclosures in conformity with U.S. generally accepted accounting principles, or U.S. GAAP, requires us to make judgments, assumptions, and estimates that affect the amounts reported in the consolidated financial statements and the accompanying notes. These estimates and assumptions are based on current facts, historical experience, and various other factors that we believe are reasonable under the circumstances to determine reported amounts of assets, liabilities, revenue and expenses that are not readily apparent from other sources. To the extent there are material differences between our estimates and the actual results, our future consolidated results of operations may be affected.

An accounting policy is considered to be critical if the nature of the estimates or assumptions is material due to the levels of subjectivity and judgment necessary to account for highly uncertain matters or the susceptibility of such matters to change, and the effect of the estimates and assumptions on financial condition or operating performance. The accounting policies we believe to reflect our more significant estimates, judgments and assumptions and are most critical to understanding and evaluating our reported financial results are as follows:

- Revenue Recognition;
- Stock-Based Compensation;
- Business Combinations;
- Realizability of Long-Lived Assets; and
- Accounting for Income Taxes.

There have been no changes to our significant accounting policies described in our Annual Report on Form 10-K for the year ended December 31, 2018, filed with the SEC on March 14, 2019, that have had a material impact on our condensed consolidated financial statements and related notes. Please refer to *Management's Discussion and Analysis of Financial Condition and Results of Operations* contained in Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2018, for a complete discussion of our other critical accounting policies and estimates.

## Results of Operations

The following table sets forth our operating results and related percentages of total revenue for the three and nine months ended September 30, 2019 and 2018 (in thousands):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2019		2018		2019		2018	
<b>Revenue</b>								
Commission	\$ 59,762	85 %	\$ 33,613	82 %	\$ 184,595	90 %	\$ 104,966	90 %
Other	10,151	15 %	7,138	18 %	19,858	10 %	11,512	10 %
<b>Total revenue</b>	<b>69,913</b>	<b>100 %</b>	<b>40,751</b>	<b>100 %</b>	<b>204,453</b>	<b>100 %</b>	<b>116,478</b>	<b>100 %</b>
<b>Operating costs and expenses</b>								
Cost of revenue	410	1 %	170	— %	782	— %	473	— %
Marketing and advertising	25,812	37 %	16,148	40 %	72,857	36 %	45,756	39 %
Customer care and enrollment	40,144	57 %	17,272	42 %	81,567	40 %	43,730	38 %
Technology and content	12,033	17 %	7,740	19 %	31,487	15 %	23,368	20 %
General and administrative	16,608	24 %	10,528	26 %	42,748	21 %	32,459	28 %
Acquisition costs	—	— %	—	— %	—	— %	76	— %
Change in fair value of earnout liability	(5,400)	(8)%	3,800	9 %	15,106	7 %	6,300	5 %
Restructuring charges	—	— %	—	— %	—	— %	1,865	2 %
Amortization of intangible assets	547	1 %	547	1 %	1,641	1 %	1,545	1 %
<b>Total operating costs and expenses</b>	<b>90,154</b>	<b>129 %</b>	<b>56,205</b>	<b>138 %</b>	<b>246,188</b>	<b>120 %</b>	<b>155,572</b>	<b>134 %</b>
Loss from operations	(20,241)	(29)%	(15,454)	(38)%	(41,735)	(20)%	(39,094)	(34)%
Other income, net	568	1 %	296	1 %	1,824	1 %	776	1 %
Loss before benefit from income taxes	(19,673)	(28)%	(15,158)	(37)%	(39,911)	(20)%	(38,318)	(33)%
Benefit from income taxes	(8,649)	(12)%	(6,186)	(15)%	(17,974)	(9)%	(12,487)	(11)%
<b>Net loss</b>	<b>\$ (11,024)</b>	<b>(16)%</b>	<b>\$ (8,972)</b>	<b>(22)%</b>	<b>\$ (21,937)</b>	<b>(11)%</b>	<b>\$ (25,831)</b>	<b>(22)%</b>

Operating costs and expenses include the following amounts of stock-based compensation expense (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Marketing and advertising	\$ 872	\$ 545	\$ 2,212	\$ 1,477
Customer care and enrollment	369	194	927	565
Technology and content	729	388	1,946	1,115
General and administrative	3,540	2,416	8,332	6,067
Restructuring charges	—	—	—	251
<b>Total stock-based compensation expense</b>	<b>\$ 5,510</b>	<b>\$ 3,543</b>	<b>\$ 13,417</b>	<b>\$ 9,475</b>

### Three and Nine Months Ended September 30, 2019 and 2018

#### Revenue

The following table presents our commission revenue, other revenue and total revenue for the three and nine months ended September 30, 2019 and 2018 and the dollar and percentage changes from the prior year (dollars in thousands):

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2019	2018	Amount	Percent	2019	2018	Amount	Percent
Commission	\$ 59,762	\$ 33,613	\$ 26,149	78%	\$ 184,595	\$ 104,966	\$ 79,629	76%
Percentage of total revenue	85%	82%			90%	90%		
Other	10,151	7,138	3,013	42%	19,858	11,512	8,346	72%
Percentage of total revenue	15%	18%			10%	10%		
Total revenue	\$ 69,913	\$ 40,751	\$ 29,162		\$ 204,453	\$ 116,478	\$ 87,975	

**Three Months Ended September 30, 2019 and 2018** — Commission revenue increased \$26.1 million, or 78%, in the three months ended September 30, 2019 compared to the three months ended September 30, 2018 due to a \$20.7 million increase in commission revenue from the Medicare segment, and a \$5.4 increase in commission revenue from the Individual, Family and Small Business segment. The increase in commission revenue from the Medicare segment was primarily attributable to a 70% increase in Medicare approved members in the three months ended September 30, 2019 compared to the three months ended September 30, 2018, as well as a 1% increase in the constrained LTV per Medicare Advantage approved member. The increase in commission revenue from the Individual, Family and Small Business segment was primarily due to an increase in net commission revenue adjustments of \$5.3 million, and an increase of \$0.1 million in revenue relating to members approved during the three months ended September 30, 2019 when compared to the three months ended September 30, 2018. We believe the positive impact of these net commission revenue adjustments during the three months ended September 30, 2019 was primarily due to favorable retention rates when compared to the three months ended September 30, 2018.

Commission revenue includes adjustment revenue. We recognize adjustment revenue when our cash collections are in excess of the estimated constrained LTVs for previously approved members. Adjustment revenue is a result of actual cash collections exceeding the estimated constrained LTV for the revenue booked at the time of approval. If cash collections to date are lower than expected collections to date based on the constrained LTV for the revenue recorded at the time of approval, we would consider an impairment of the commission receivable. Adjustment revenue for our Medicare segment for the three months ended September 30, 2019 and 2018 was \$3.8 million and \$(35) thousand, respectively. For our Individual, Family and Small Business segment adjustment revenue for the three months ended September 30, 2019 and 2018 was \$7.7 million and \$2.4 million, respectively.

Other revenue increased \$3.0 million, or 42%, in the three months ended September 30, 2019 compared to the three months ended September 30, 2018 due to a \$4.2 million increase in sponsorship and online advertising revenue, partially offset by a \$1.0 million decrease in leads revenue and a \$0.2 million decrease in licensing revenue.

**Nine Months Ended September 30, 2019 and 2018** — Commission revenue increased \$79.6 million, or 76%, in the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018 due to a \$66.6 million increase in commission revenue from the Medicare segment and a \$13.0 million increase in commission revenue from the Individual, Family and Small Business segment. The increase in commission revenue from the Medicare segment was primarily attributable to a 72% increase in Medicare approved members in the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018. The increase in commission revenue from the Individual, Family and Small Business segment was primarily due to an increase in net commission revenue adjustments of \$15.0 million, partially offset by a decrease of \$1.9 million in revenue relating to members approved during the nine months ended September 30, 2019 when compared to the nine months ended September 30, 2018. We believe the positive impact of these net commission revenue adjustments during the nine months ended September 30, 2019 were due to favorable retention rates when compared to the nine months ended September 30, 2018.

Adjustment revenue for our Medicare segment for the nine months ended September 30, 2019 and 2018 was \$5.2 million and \$(62) thousand, respectively. For our Individual, Family and Small Business segment adjustment revenue for the three months ended September 30, 2019 and 2018 was \$23.1 million and \$8.1 million, respectively.

Other revenue increased \$8.3 million, or 72%, in the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018 due to a \$9.5 million increase in sponsorship and online advertising revenue, partially offset by a decrease of \$0.8 million in leads revenue and a \$0.4 million decrease in licensing revenue.

### Cost of Revenue

Included in cost of revenue are payments related to health insurance plans sold to members who were referred to us by marketing partners with whom we have revenue-sharing arrangements. In order to enter into a revenue-sharing arrangement, marketing partners must be licensed to sell health insurance in the state where the policy is sold. Costs related to revenue-sharing arrangements are expensed as the related revenue is recognized.

The following table presents our cost of revenue for the three and nine months ended September 30, 2019 and 2018 and the dollar and percentage changes from the prior year (dollars in thousands):

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2019	2018	Amount	Percent	2019	2018	Amount	Percent
	Cost of revenue	410	\$ 170	\$ 240	141%	\$ 782	\$ 473	\$ 309
Percentage of total revenue	1%	—%			—%	—%		

**Three Months Ended September 30, 2019 and 2018** — Cost of revenue increased \$0.2 million, or 141%, in the three months ended September 30, 2019 compared to the three months ended September 30, 2018, mostly due to an increase in volumes of applications driven through our partner channel compared to prior year.

**Nine Months Ended September 30, 2019 and 2018** — Cost of revenue increased \$0.3 million, or 65%, in the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018, mostly due to an increase in volumes of applications driven through our partner channel compared to prior year.

### Marketing and Advertising

Marketing and advertising expenses consist primarily of member acquisition expenses associated with our direct, marketing partner and online advertising member acquisition channels, in addition to compensation and other expenses related to marketing, business development, partner management, public relations and carrier relations personnel who support our offerings.

The following table presents our marketing and advertising expenses for the three and nine months ended September 30, 2019 and 2018 and the dollar and percentage changes from the prior year (dollars in thousands):

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2019	2018	Amount	Percent	2019	2018	Amount	Percent
	Marketing and advertising	25,812	\$ 16,148	\$ 9,664	60%	\$ 72,857	\$ 45,756	\$ 27,101
Percentage of total revenue	37%	40%			36%	39%		

**Three Months Ended September 30, 2019 and 2018** — Marketing and advertising expenses increased \$9.7 million, or 60%, in the three months ended September 30, 2019 compared to the three months ended September 30, 2018, primarily due to an increase of \$9.9 million in marketing and advertising expenses from our Medicare segment, partially offset by a decrease of \$0.2 million in marketing and advertising expenses from our Individual, Family, and Small Business segment. The net increase was driven primarily by an increase in variable advertising costs in the Medicare market and an increase in headcount, as well

as a higher volume of Medicare submitted applications in the three months ended September 30, 2019 compared to the three months ended September 30, 2018.

**Nine Months Ended September 30, 2019 and 2018** — Marketing and advertising expenses increased \$27.1 million, or 59%, in the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018, primarily due to a \$28.0 million increase in marketing and advertising expenses from our Medicare segment, partially offset by a decrease of \$0.9 million in marketing and advertising expenses from our Individual, Family, and Small Business segment. The net increase was driven primarily by an increase in variable advertising costs in the Medicare market and an increase in headcount, as well as a higher volume of Medicare submitted applications in the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018. The decrease in marketing and advertising expenses from our Individual, Family and Small Business segment was due to a shift in our focus toward our Medicare business.

### **Customer Care and Enrollment**

Customer care and enrollment expenses primarily consist of compensation and benefits costs for personnel engaged in assistance to applicants who call our customer care center and for enrollment personnel who assist applicants during the enrollment process.

The following table presents our customer care and enrollment expenses for the three and nine months ended September 30, 2019 and 2018 and the dollar and percentage changes from the prior year (dollars in thousands):

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2019	2018	Amount	Percent	2019	2018	Amount	Percent
Customer care and enrollment	\$ 40,144	\$ 17,272	\$ 22,872	132%	\$ 81,567	\$ 43,730	\$ 37,837	87%
Percentage of total revenue	57%	42%			40%	38%		

**Three Months Ended September 30, 2019 and 2018** — Customer care and enrollment expenses increased \$22.9 million, or 132%, in the three months ended September 30, 2019 compared to the three months ended September 30, 2018, primarily due to increases of \$11.7 million in consulting expenses, \$8.3 million in personnel costs associated with higher headcount, \$2.0 million in license and permit costs, \$0.9 million in facilities and other operating costs, \$0.2 million in stock-based compensation expense, partially offset by a decrease of \$0.2 million in professional fees.

**Nine Months Ended September 30, 2019 and 2018** — Customer care and enrollment expenses increased \$37.8 million, or 87%, in the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018, primarily due to increases of \$18.0 million in personnel costs associated with higher headcount, \$15.7 million in consulting expenses, \$3.4 million in license and permit costs, \$0.7 million in facilities and other operating costs, and \$0.4 million in stock-based compensation expense, partially offset by a decrease of \$0.3 million in professional fees.

### **Technology and Content**

Technology and content expenses consist primarily of compensation and benefits costs for personnel associated with developing and enhancing our website technology as well as maintaining our websites.

The following table presents our technology and content expenses for the three and nine months ended September 30, 2019 and 2018 and the dollar and percentage changes from the prior year (dollars in thousands):

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2019	2018	Amount	Percent	2019	2018	Amount	Percent
	Technology and content	\$ 12,033	\$ 7,740	\$ 4,293	55%	\$ 31,487	\$ 23,368	\$ 8,119
Percentage of total revenue	17%	19%			15%	20%		

**Three Months Ended September 30, 2019 and 2018** — Technology and content expenses increased \$4.3 million, or 55%, in the three months ended September 30, 2019 compared to the three months ended September 30, 2018 primarily due to increases of \$1.9 million in personnel and compensation costs, \$1.0 million in consulting expenses, \$0.6 million in facilities and other operating costs, \$0.4 million of amortization of internal-use intangible assets, \$0.3 million in stock-based compensation, and \$0.1 million in professional fees.

**Nine Months Ended September 30, 2019 and 2018** — Technology and content expenses increased \$8.1 million, or 35%, in the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018 primarily due to increases of \$3.0 million in personnel and compensation costs, \$2.0 million in consulting expenses, \$1.3 million in facilities and other operating costs, \$0.9 million of amortization of internal-use intangible assets, \$0.8 million in stock-based compensation, and \$0.1 million in professional fees.

#### **General and Administrative**

General and administrative expenses include compensation and benefits costs for staff working in our executive, finance, investor relations, government affairs, legal, human resources, internal audit, facilities and internal information technology departments. These expenses also include fees paid for outside professional services, including audit, tax, legal, government affairs and information technology fees.

The following table presents our general and administrative expenses for the three and nine months ended September 30, 2019 and 2018 and the dollar and percentage changes from the prior year (dollars in thousands):

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2019	2018	Amount	Percent	2019	2018	Amount	Percent
	General and administrative	\$ 16,608	\$ 10,528	\$ 6,080	58%	\$ 42,748	\$ 32,459	\$ 10,289
Percentage of total revenue	24%	26%			21%	28%		

**Three Months Ended September 30, 2019 and 2018** — General and administrative expenses increased \$6.1 million, or 58%, in the three months ended September 30, 2019 compared to the three months ended September 30, 2018, primarily due to increases of \$3.1 million in personnel and compensation costs, \$1.1 million in stock-based compensation expense, \$0.9 million in legal and professional fees, \$0.8 million in facilities and other operating costs, and \$0.5 million in consulting expenses, partially offset by a decrease of \$0.3 million in licensing and permit costs.

**Nine Months Ended September 30, 2019 and 2018** — General and administrative expenses increased \$10.3 million, or 32%, in the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018, primarily due to increases of \$5.0 million in compensation and personnel costs, \$2.3 million in stock-based compensation expense, \$1.5 million in legal and professional fees, \$1.3 million in facilities and other operating costs, and \$0.6 million in consulting expenses, partially offset by a decrease of \$0.4 million in licensing and permit costs.

### Acquisition Costs

During the nine months ended September 30, 2018, we incurred \$0.1 million of costs associated with our acquisition of GoMedigap, which was completed on January 22, 2018.

### Change in Fair Value of Earnout Liability

During the three and nine months ended September 30, 2019, we recorded a gain of \$5.4 million and expense of \$15.1 million, respectively, of additional earnout consideration expense due to an adjustment in the estimated fair value of the earnout liability related to the acquisition of GoMedigap, which was completed on January 22, 2018. The increase or decrease in the fair value of the earnout liability corresponds to the change in value of our common stock.

### Restructuring Charges

In February 2018, our board of directors approved a plan to close our sales call center in Massachusetts and to terminate the employment of other employees in certain other locations. As part of this plan, we eliminated approximately 110 full-time positions in the United States, representing approximately 10% of our workforce primarily within our customer care and enrollment groups, and to a lesser extent, in our marketing and advertising and general and administrative groups.

We incurred \$1.9 million for employee termination benefits and related costs in the nine months ended September 30, 2018. Substantially all of the restructuring charges resulted in cash expenditures.

The following table presents our restructuring charges for the three and nine months ended September 30, 2019 and 2018 and the dollar and percentage changes from the prior year (dollars in thousands):

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2019	2018	Amount	Percent	2019	2018	Amount	Percent
Restructuring charges	\$ —	\$ —	\$ —	—%	\$ —	\$ 1,865	\$ (1,865)	(100)%
Percentage of total revenue	—%	—%			—%	2%		

### Amortization of Intangible Assets

The following table presents our intangible asset amortization expense for the three and nine months ended September 30, 2019 and 2018 and the dollar and percentage changes from the prior year (dollars in thousands):

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2019	2018	Amount	Percent	2019	2018	Amount	Percent
Amortization of intangible assets	\$ 547	\$ 547	\$ —	—%	\$ 1,641	\$ 1,545	\$ 96	6%
Percentage of total revenue	1%	1%			1%	1%		

Amortization expense related to intangible assets purchased through our acquisitions of PlanPrescriber and GoMedigap. Amortization expense in the three and nine months ended September 30, 2019 remained flat when compared to the three and nine months ended September 30, 2018.

### Other Income, Net

The following table presents our other income, net for the three and nine months ended September 30, 2019 and 2018 and the dollar and percentage changes from the prior year (dollars in thousands):

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2019	2018	Amount	Percent	2019	2018	Amount	Percent
Other income, net	\$ 568	\$ 296	\$ 272	92%	\$ 1,824	\$ 776	\$ 1,048	135%
Percentage of total revenue	1%	1%			1%	1%		

**Three Months Ended September 30, 2019 and 2018** — Other income, net, for the three months ended September 30, 2019 and 2018 primarily consisted of margin earned on commissions received from Medicare plan members transferred to us in 2010 through 2012 by a broker partner, whereby we became the broker of record on the underlying policies. In addition, other income, net included interest income earned on our invested cash, cash equivalents and marketable securities balances, offset by administrative bank fees, investment management fees and interest expense on finance leases and debt.

Other income, net increased \$0.3 million, or 92%, in the three months ended September 30, 2019 compared to the three months ended September 30, 2018, primarily due to a favorable exchange rate impact.

**Nine Months Ended September 30, 2019 and 2018** — Other income, net, for the nine months ended September 30, 2019 and 2018 primarily consisted of margin earned on commissions received from Medicare plan members transferred to us in 2010 through 2012 by a broker partner, whereby we became the broker of record on the underlying policies. In addition, other income, net included interest income earned on our invested cash, cash equivalents and marketable securities balances, offset by administrative bank fees, investment management fees and interest expense on finance leases and debt.

Other income, net increased \$1.0 million, or 135%, in the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018, primarily due to a favorable exchange rate impact.

### Benefit from Income Taxes

The following table presents our benefit from income taxes for the three and nine months ended September 30, 2019 and 2018 and the dollar and percentage changes from the prior year (dollars in thousands):

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2019	2018	Amount	Percent	2019	2018	Amount	Percent
Benefit from income taxes	\$ (8,649)	\$ (6,186)	\$ (2,463)	40%	\$ (17,974)	\$ (12,487)	\$ (5,487)	44%
Effective tax rate	44.0%	40.8%			45.0%	32.6%		

**Three Months Ended September 30, 2019 and 2018** — For the three months ended September 30, 2019, we recognized a benefit from income taxes of \$8.6 million representing an effective tax rate of 44.0% which was higher than the statutory federal tax rate due primarily to stock-based compensation adjustments, lobbying and state taxes, partially offset by research and development credits. For the three months ended September 30, 2018, we recognized a benefit for income taxes of \$6.2 million, representing an effective tax rate of 40.8%, which was higher than the statutory federal tax rate due primarily to stock-based compensation adjustments, non-deductible lobbying expenses, and foreign income inclusions, partially offset by research and development credits.

**Nine Months Ended September 30, 2019 and 2018** — For the nine months ended September 30, 2019, we recognized a benefit for income taxes of \$18.0 million, representing an effective tax rate of 45.0% which was higher than the statutory federal tax rate due primarily to stock-based compensation adjustments, lobbying and state taxes, partially offset by research and development credits. For the nine months ended September 30, 2018, we recognized a benefit for income taxes of \$12.5 million, representing an effective tax rate of 32.6%, which was higher than the statutory federal tax rate due primarily to stock-



based compensation adjustments, non-deductible lobbying expenses, and foreign income inclusions, partially offset by research and development credits.

## Segment Information

We report segment information based on how our chief executive officer, who is our chief operating decision maker ("CODM"), regularly reviews our operating results, allocates resources and makes decisions regarding our business operations. The performance measures of our segments include total revenue and profit (loss). Our business structure is comprised of two operating segments:

- Medicare; and
- Individual, Family and Small Business.

Our CODM does not separately evaluate assets by segment, and therefore assets by segment are not presented.

The Medicare segment consists primarily of commissions earned from our sale of Medicare-related health insurance plans, including Medicare Advantage, Medicare Supplement and Medicare Part D prescription drug plans, and to a lesser extent, ancillary products sold to our Medicare-eligible customers, including but not limited to, dental and vision insurance, as well as our advertising program that allows carriers to purchase Medicare-related advertising on a separate website developed, hosted and maintained by us, and our delivery and sale to third parties of Medicare-related health insurance leads generated by our ecommerce platforms and our marketing activities.

The Individual, Family and Small Business segment consists primarily of commissions earned from our sale of individual, family and small business health insurance plans and ancillary products sold to our non-Medicare-eligible customers, including but not limited to, dental, vision, and short-term health insurance. To a lesser extent, the Individual, Family and Small Business segment consists of amounts earned from our online sponsorship program that allows carriers to purchase advertising space in specific markets in a sponsorship area on our website, our licensing to third parties the use of our health insurance ecommerce technology, and our delivery and sale to third parties of individual and family health insurance leads generated by our ecommerce platforms and our marketing activities.

Marketing and advertising, customer care and enrollment, technology and content, and general and administrative operating expenses that are directly attributable to a segment are reported within the applicable segment. Indirect marketing and advertising, customer care and enrollment, and technology and content operating expenses are allocated to each segment based on usage. Other indirect general and administrative operating expenses are managed in a corporate shared services environment and, since they are not the responsibility of segment operating management, are not allocated to the two operating segments and instead reported within Corporate.

Segment profit (loss) is calculated as total revenue for the applicable segment less direct and allocated marketing and advertising, customer care and enrollment, technology and content, and general and administrative operating expenses, excluding stock-based compensation, change in fair value of earnout liability, restructuring charges, acquisition costs, depreciation and amortization expense, other income, net, and amortization of intangible assets.

The following table presents summary results of our operating segments for the three and nine months ended September 30, 2019 and 2018 (in thousands):

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2019	2018	Amount	Percent Change	2019	2018	Amount	Percent Change
<b>Revenue</b>								
Medicare revenue	\$ 57,189	\$ 32,733	\$ 24,456	75 %	\$ 164,357	\$ 88,964	\$ 75,393	85 %
Individual, Family and Small Business revenue	12,724	8,018	4,706	59 %	40,096	27,514	12,582	46 %
Total revenue	<u>\$ 69,913</u>	<u>\$ 40,751</u>	<u>\$ 29,162</u>	72 %	<u>\$ 204,453</u>	<u>\$ 116,478</u>	<u>\$ 87,975</u>	76 %
<b>Segment profit (loss)</b>								
Medicare segment profit (loss)	\$ (11,004)	\$ 467	\$ (11,471)	(2,456)%	\$ 5,917	\$ 2,174	\$ 3,743	172 %
Individual, Family and Small Business segment profit (loss)	3,753	(579)	4,332	748 %	15,045	2,292	12,753	556 %
Total segment profit (loss)	(7,251)	(112)	(7,139)	(6,374)%	20,962	4,466	16,496	369 %
Corporate	(11,568)	(6,832)	(4,736)	69 %	(30,380)	(22,680)	(7,700)	34 %
Stock-based compensation expense	(5,510)	(3,543)	(1,967)	56 %	(13,417)	(9,224)	(4,193)	45 %
Depreciation and amortization	(765)	(620)	(145)	23 %	(2,153)	(1,870)	(283)	15 %
Acquisition costs	—	—	—	— %	—	(76)	76	(100)%
Change in fair value of earnout liability	5,400	(3,800)	9,200	(242)%	(15,106)	(6,300)	(8,806)	140 %
Restructuring charges	—	—	—	— %	—	(1,865)	1,865	(100)%
Amortization of intangible assets	(547)	(547)	—	— %	(1,641)	(1,545)	(96)	6 %
Other income, net	568	296	272	92 %	1,824	776	1,048	135 %
Loss before benefit from income taxes	<u>\$ (19,673)</u>	<u>\$ (15,158)</u>	<u>\$ (4,515)</u>	30 %	<u>\$ (39,911)</u>	<u>\$ (38,318)</u>	<u>\$ (1,593)</u>	4 %

### Revenue

**Three Months Ended September 30, 2019 and 2018** — Revenue from our Medicare segment increased \$24.5 million, or 75%, in the three months ended September 30, 2019 compared to the three months ended September 30, 2018 due to a \$20.7 million increase in Medicare commission revenue and a \$3.8 million increase in other Medicare revenue. The increase in commission revenue was primarily attributable to a 70% increase in Medicare approved members in the three months ended September 30, 2019 compared to the three months ended September 30, 2018, as well as a 1% increase in the constrained LTV of commissions per Medicare Advantage approved member. The favorable constrained LTV of commissions per Medicare Advantage approved member was driven in part by improved member retention rates from some members of our older cohorts and increases to commission rates. The increase in other revenue was mostly due to an increase in online sponsorship and advertising revenue.

Revenue from our Individual, Family and Small Business segment increased \$4.7 million, or 59%, in the three months ended September 30, 2019 compared to the three months ended September 30, 2018 primarily attributable to a \$5.4 million increase in commission revenue, partially offset by a \$0.7 million decrease in other revenue. The increase in commission revenue from the Individual, Family and Small Business segment was primarily due to an increase in net commission revenue adjustments of \$5.3 million and an increase of \$0.1 million in revenue relating to members approved during the three months ended September 30, 2019 when compared to the three months ended September 30, 2018, and a 76% increase in individual and family health insurance approved members in the three months ended September 30, 2019 compared to the three months ended September 30, 2018.

**Nine Months Ended September 30, 2019 and 2018** — Revenue from our Medicare segment increased \$75.4 million, or 85%, in the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018 due to a \$66.6 million increase in Medicare commission revenue and a \$8.8 million increase in other Medicare revenue. The increase in commission revenue was primarily attributable to a 72% increase in Medicare approved members in the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018. The increase in other revenue was mostly due to an increase in online sponsorship and advertising revenue.

Revenue from our Individual, Family and Small Business segment increased \$12.6 million, or 46%, in the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018 primarily attributable to a \$13.0 million increase in commission revenue, partially offset by a \$0.4 million decrease in other revenue. The increase in commission revenue from the Individual, Family and Small Business segment was primarily due to an increase in net commission revenue adjustments of \$15.0 million, offset by a \$1.9 million decrease in revenue relating to members approved during the nine months ended September 30, 2019 when compared to the nine months ended September 30, 2018.

### **Segment Profit (Loss)**

**Three Months Ended September 30, 2019 and 2018** — Segment loss from our Medicare segment was \$11.0 million in the three months ended September 30, 2019, an \$11.5 million decrease, compared to a profit of \$0.5 million in the three months ended September 30, 2018. Medicare segment loss in the three months ended September 30, 2019 was primarily due to a \$24.5 million increase in revenue, partially offset by a \$35.9 million increase in operating expenses, excluding stock-based compensation, change in earnout liability, depreciation and amortization expenses and amortization of intangible assets. The increase in operating expenses was mostly attributable to increased variable marketing costs and customer care and enrollment costs.

Profit from our Individual, Family and Small Business segment was \$3.8 million in the three months ended September 30, 2019, a \$4.3 million improvement, compared to a loss of \$0.6 million from the Individual, Family and Small Business segment in the three months ended September 30, 2018. The increase in profit from the Individual, Family and Small Business segment in the three months ended September 30, 2019 compared to the three months ended September 30, 2018 was primarily due to a \$4.7 million increase in revenue, partially offset by a \$0.4 million increase in operating expenses, excluding stock-based compensation, change in earnout liability, restructuring charges, acquisition costs, depreciation and amortization expenses and amortization of intangible assets.

**Nine Months Ended September 30, 2019 and 2018** — Profit from our Medicare segment was \$5.9 million in the nine months ended September 30, 2019, a \$3.7 million improvement, compared to a profit of \$2.2 million in the nine months ended September 30, 2018. The improvement in the Medicare segment in the nine months ended September 30, 2019 was primarily due to a \$75.4 million increase in revenue, partially offset by a \$71.7 million increase in operating expenses, excluding stock-based compensation, change in earnout liability, acquisition costs, restructuring charges, depreciation and amortization expenses and amortization of intangible assets. The increase in operating expenses was mostly attributable to increased variable marketing costs and customer care and enrollment costs.

Profit from our Individual, Family and Small Business segment was \$15.0 million in the nine months ended September 30, 2019, a \$12.8 million increase, compared to profit of \$2.3 million from the Individual, Family and Small Business segment in the nine months ended September 30, 2018. The increase in profit from the Individual, Family and Small Business segment in the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018 was primarily due to a \$12.6 million increase in revenue and a \$0.2 million decrease in operating expenses, excluding stock-based compensation, change in earnout liability, restructuring charges, acquisition costs, depreciation and amortization expenses and amortization of intangible assets.

## Liquidity and Capital Resources

As of September 30, 2019, our cash and cash equivalents totaled \$88.1 million. Cash equivalents, which are comprised of financial instruments with an original maturity of 90 days or less from the date of purchase, primarily consist of money market funds. At December 31, 2018, our cash and cash equivalents totaled \$13.1 million. The increase in cash and cash equivalents reflects \$14.7 million used in operating activities, \$12.0 million used in investing activities, and \$105.1 million provided by financing activities. See *Note 13 — Public Offering of Common Stock*. We also had \$3.4 million in restricted cash as of September 30, 2019.

As of September 30, 2019, we had, in treasury, shares of our common stock that were previously surrendered by employees to satisfy tax withholdings in connection with the vesting of certain restricted stock units. As of September 30, 2019 and December 31, 2018, we had a total of 11,571,251 shares and 11,426,292 shares, respectively, held in treasury.

The following table presents a summary of our cash flows for the nine months ended September 30, 2019 and 2018 (in thousands):

	Nine Months Ended September 30,	
	2019	2018
Net cash (used in) provided by operating activities	\$ (14,714)	\$ 5,488
Cash used in investing activities	\$ (12,044)	\$ (22,744)
Net cash (used in) provided by financing activities	\$ 105,085	\$ (2,618)

### *Operating Activities*

Cash provided by operating activities primarily consists of net loss, adjusted for certain non-cash items, including change in fair value of earnout liability, deferred income taxes, stock-based compensation expense, depreciation and amortization, amortization of intangible assets and internally developed software, change in deferred rent, other non-cash items, and the effect of changes in working capital and other activities.

Collection of commissions receivable depends upon the timing of our receipt of commission payments and associated commission reports from health insurance carriers. If we were to experience a delay in receiving a commission payment from a health insurance carrier within a quarter, our operating cash flows for that quarter could be adversely impacted.

A significant portion of our marketing and advertising expenses is driven by the number of health insurance applications submitted on our ecommerce platforms. Since our marketing and advertising costs are expensed and generally paid as incurred, and since commission revenue is recognized upon approval of a member but commission payments are paid to us over time, our operating cash flows could be adversely impacted by a substantial increase in the volume of applications submitted during a quarter or positively impacted by a substantial decline in the volume of applications submitted during a quarter. During the Medicare annual enrollment period, we experience an increase in the number of submitted Medicare-related health insurance applications and marketing and advertising expenses compared to outside of Medicare annual enrollment periods. Similarly, during open enrollment periods for individual and family health insurance plans, we experience an increase in the number of submitted individual and family plan health insurance applications and marketing and advertising expenses compared to outside of open enrollment periods. The timing of open enrollment periods for individual and family health insurance and the Medicare annual enrollment period for Medicare-related health insurance can positively or negatively affect our cash flows during each quarter.

**Nine Months Ended September 30, 2019** — Net cash used in operating activities was \$14.7 million in the nine months ended September 30, 2019, primarily driven by a net loss of \$21.9 million and changes in net operating assets and liabilities of \$8.4 million, offset by adjustments for non-cash items of \$15.7 million. Adjustments for non-cash items primarily consisted of \$15.1 million of expense related to the fair value adjustment of our earnout liability, \$13.4 million of stock-based compensation expense, \$4.1 million of amortization of intangible assets and internally-developed software, \$2.2 million of depreciation and amortization and a \$0.3 million increase due to other non-cash items, partially offset by a \$18.2 million decrease due to the change in deferred income taxes and a \$1.3 million decrease to deferred rent. Cash used from changes in net operating assets and liabilities during the nine months ended September 30, 2019 primarily consisted of an increase of \$11.9 million in commissions receivable, an increase of \$9.3 million in prepaid expenses and other current assets, a decrease of \$6.9

million in accrued marketing expenses, a decrease of \$2.6 million in accrued compensation and benefits, and a decrease of \$1.9 million in accrued expenses and other liabilities, partially offset by increases of \$13.2 million in accounts payable and \$8.2 million in deferred revenue, and a decrease of \$2.9 million in accounts receivable.

**Nine Months Ended September 30, 2018** — Net cash provided by operating activities was \$5.5 million in the nine months ended September 30, 2018, primarily consisting of cash provided by changes in net operating assets and liabilities of \$22.8 million and adjustments for non-cash items of \$8.5 million, partially offset by a net loss of \$25.8 million. Adjustments for non-cash items primarily consisted of \$9.5 million of stock-based compensation expense, \$6.3 million of expense related to the fair value adjustment of our earnout liability, \$3.1 million of amortization of intangible assets and internally-developed software, \$1.9 million of depreciation and amortization, a \$0.3 million increase to deferred rent, and a \$0.1 million increase in other non-cash items, partially offset by a \$12.7 million decrease due to the change in deferred income taxes. Cash provided by changes in net operating assets and liabilities during the nine months ended September 30, 2018 primarily consisted of increases of \$5.4 million in deferred revenue, \$1.5 million in accounts payable, and \$0.7 million in accounts receivable, partially offset by decreases of \$29.2 million in commissions receivable, \$8.2 million in prepaid expenses and other assets, \$2.1 million in accrued compensation and benefits, \$1.6 million in accrued marketing expenses, and \$0.6 million in accrued expenses and other liabilities.

### ***Investing Activities***

Our investing activities primarily consist of purchases of computer hardware and software to enhance our website and customer care operations, leasehold improvements related to facilities expansion, capitalized internal-use software and website development costs, security deposit payments, and cash used to acquire a business.

**Nine Months Ended September 30, 2019** — Cash used in investing activities of \$12.0 million in the nine months ended September 30, 2019 was due to \$6.4 million in capitalized internal-use software and website development costs, \$5.6 million used to purchase property and equipment and other assets, and \$0.1 million of payments for security deposits.

**Nine Months Ended September 30, 2018** — Cash used in investing activities of \$22.7 million in the nine months ended September 30, 2018 was due to \$14.9 million of cash used to acquire GoMedigap, net of cash acquired, \$4.3 million in capitalized internal-use software and website development costs, and \$3.5 million used to purchase property and equipment and other assets.

### ***Financing Activities***

**Nine Months Ended September 30, 2019** — Net cash provided by financing activities of \$105.1 million for the nine months ended September 30, 2019 was primarily due to \$126.1 million net proceeds from the issuance of common stock in a public equity offering and \$5.2 million of proceeds from the exercise of common stock options, partially offset by \$9.5 million of acquisition-related contingent payments, a \$5.0 million debt repayment, \$11.5 million used to net-share settle equity awards, and \$0.1 million of principal payments in connection with finance leases.

**Nine Months Ended September 30, 2018** — Net cash used in financing activities of \$2.6 million for the nine months ended September 30, 2018 was primarily due to \$3.4 million used to net-share settle equity awards, \$1.2 million of debt cost issuance payments, and \$0.1 million of principal payments in connection with finance leases, partially offset by \$2.0 million of proceeds from the exercise of common stock options.

### ***Non-cash Activities***

During the nine months ended September 30, 2019, we recorded \$39.2 million in non-cash activities related to right-of-use assets and issued \$17.3 million of common stock to settle our first earnout liability with GoMedigap.

### ***Future Needs***

As discussed in *Note 3 — Acquisition* in the *Notes to the Condensed Consolidated Financial Statements* included elsewhere in this Quarterly Report on Form 10-Q, on January 22, 2018, we completed our acquisition of Wealth, Health and Life Advisors, LLC, more commonly known as GoMedigap, a technology-enabled provider of Medicare Supplement enrollment services. This strategic acquisition significantly has enhanced our growing presence in the Medicare Supplement market has put us in a stronger position with carriers and strategic partners. The acquisition price paid at closing of the

transaction consisted of cash of \$15.0 million, less \$0.1 million cash acquired, and approximately 294,637 shares of our common stock. The first earnout liability settlement was made during the three months ended March 31, 2019, which consisted of a \$9.5 million cash payment as well as a \$17.3 million non-cash issuance of common stock. In regards to the second earnout payment, which will be paid out in first quarter of 2020, we expect to pay a maximum of \$10 million in cash and 294,608 shares of our common stock subject to the terms of the acquisition agreement and upon final determination of the achievement of certain milestones in 2019.

As discussed in *Note 12 — Debt* in the *Notes to the Condensed Consolidated Financial Statements* included elsewhere in this Quarterly Report on Form 10-Q, on September 17, 2018, we entered into a Credit Agreement with Royal Bank of Canada (“RBC”), as administrative agent and collateral agent (the “Credit Agreement”). The Credit Agreement provides for a \$40 million secured asset-backed revolving credit facility with a \$5 million letter of credit sub-facility. The commitments under the Credit Agreement expire on September 17, 2021, at which time any amounts drawn under the revolving credit facility and letter of credit sub-facility are contractually due.

The borrowing base under the Credit Agreement is comprised of an amount equal to (a) the lesser of (i) eighty percent (80%) of Eligible Commissions Receivables (as defined in the Credit Agreement) we actually collected by during the immediately preceding period of three months or (ii) eighty percent (80%) of our Eligible Commission Receivables for the immediately succeeding period of three months, plus (b) fifty percent (50%) of our Eligible Commission Receivables for the immediately succeeding period of six months (excluding the immediately succeeding period of three months), in each case subject to reserves established by RBC (the “Borrowing Base”). The proceeds of the loans under the Credit Agreement may be used for working capital and general corporate purposes. The Borrowers have the right to prepay the loans under the Credit Agreement in whole or in part at any time without penalty. Subject to availability under the Borrowing Base, amounts repaid may be reborrowed.

Amounts not borrowed under the Credit Agreement will be subject to a commitment fee of 0.5% per annum on the daily unused portion of the credit facility, to be paid in arrears on the first business day of each calendar quarter. At closing, the Company paid a one-time facility fee of 1.75% of the total commitments under the Credit Agreement. The Company is also obligated to pay other customary administration fees for a credit facility of this size and type.

Availability under the credit facility is up to the lesser of \$40 million or the Borrowing Base, which may be reduced from time to time pursuant to the Credit Agreement. In addition, the Credit Agreement contains a financial covenant requiring that we maintain Excess Availability (as defined in the Credit Agreement) at or above \$6 million at any time. As of September 30, 2019, we were in compliance with all debt covenants.

We incurred \$1.2 million of issuance costs in connection with the Credit Agreement, which were capitalized as part of other assets on the balance sheet. As of September 30, 2019, the balance of these issuance costs was \$0.8 million.

As of September 30, 2019, we had no outstanding principal amount under our revolving credit facility.

Pursuant to the effective registration statement which was filed on December 17, 2018, and amended on January 22, 2019, we entered into an underwriting agreement in January 2019 to issue a total of 2,760,000 shares of common stock, which included the exercise in full of the underwriters’ option to purchase 360,000 additional shares of common stock, at a price to the public of \$48.50 per share. Net proceeds from the offering were approximately \$126.1 million after deducting underwriting discounts, commissions and expenses of the offering. We intend to use the net proceeds of the offering for general corporate purposes, including working capital.

We believe that cash generated from operations and our current cash and cash equivalents will be sufficient to fund our operations, including the additional amounts we are obligated to pay subject to the terms of the acquisition agreement with GoMedigap, for at least twelve months after the filing date of this Quarterly Report on Form 10-Q. Our future capital requirements will depend on many factors, including our expected membership and retention rates, our level of investment in technology, marketing and advertising and our customer care initiatives. While we recognize constrained LTV as revenue at the time applications are approved, our collection of the cash commissions resulting from approved applications generally occurs over a number of years. The expense associated with the approved application, however, is generally incurred at the time of enrollment. As a result, the net cash flow resulting from approved applications is generally negative in the period of revenue recognition and generally becomes positive over the lifetime of the member. In periods of membership growth, as has occurred over the past year, cash receipts associated with new and continuing members may be less than the cash outlays to acquire new members. In addition, our cash position could be impacted by further acquisitions and investments we make to pursue our growth strategy. We expect a reduction in cash and cash equivalents in the future resulting from our continued investments in

resources and headcount to facilitate growth in our business. We did not have any bank debt outstanding as of September 30, 2019. To the extent that available funds are insufficient to support our future activities or we otherwise desire to raise additional funds, we may raise additional capital by taking on bank debt, leveraging our commission receivables, drawing on our line of credit facilities, or issuing equity or debt securities in the public and private markets, or through a combination of such means, to the extent such funding sources are available.

### Contractual Obligations and Commitments

The following table presents a summary of our future minimum payments under non-cancellable operating lease agreements and contractual service and licensing obligations as of September 30, 2019 (in thousands):

<u>For the Years Ending December 31,</u>	<u>Operating Lease Obligations</u>	<u>Service and Licensing Obligations</u>	<u>Total Obligations</u>
Remainder of 2019	\$ 1,645	\$ 499	\$ 2,144
2020	7,308	2,465	9,773
2021	6,879	950	7,829
2022	5,626	415	6,041
2023	6,474	444	6,918
Thereafter	30,888	229	31,117
Total	<u>\$ 58,820</u>	<u>\$ 5,002</u>	<u>\$ 63,822</u>

#### *Operating Lease Obligations*

We lease our operating facilities and certain of our equipment, furniture and fixtures under various operating leases, the latest of which expires in January 2030. Certain of these leases have free or escalating rent payment provisions. We recognize rent expense on our operating leases on a straight-line basis over the terms of the leases, although actual cash payment obligations under certain of these agreements fluctuate over the terms of the agreements.

On August 15, 2019, we entered into an amendment to the lease agreement for our Santa Clara, California, office to expand our office space to a total of 45,657 square feet from 32,492 square feet. This operating lease will commence in the later part of fiscal year 2019 and therefore, we did not reflect this on the condensed consolidated balance sheet as of September 30, 2019 and the tables above. As of September 30, 2019, future minimum payments are expected to be \$6.4 million over the lease term of 9 years plus our proportionate share of certain operating expenses, insurance costs and taxes for each calendar year during the lease. In connection with the Santa Clara lease agreement, we entered into a financial guarantee consisting of a standby letter of credit for \$0.3 million.

On June 3, 2019, we entered into a sublease agreement for 56,276 square feet and a lease agreement for 81,515 square feet as a sublessee and lessee, respectively, of office space in Indianapolis, Indiana. The sublease consists of two suites (Suite 200 and Suite 300). The lease term of Suite 300 commenced on June 3, 2019, and the lease term of Suite 200 commenced on July 1, 2019. The term of the sublease will terminate on October 31, 2022. The term of the lease, which will commence after the sublease, extends from November 1, 2022 to January 31, 2030, which, in addition to Suite 200 and Suite 300, includes an additional 25,239 square feet of office space in Suite 100. As of September 30, 2019, future minimum payments related to the Indiana office space are expected to be \$17.8 million over the remaining term of the lease, plus our proportionate share of certain operating expenses, insurance costs and taxes for each calendar year during the lease. The landlord also agreed to contribute up to \$1.9 million toward the cost of leasehold improvements. In connection with the Indianapolis, Indiana lease agreement, we entered into a financial guarantee consisting of a standby letter of credit for \$0.8 million.

On April 8, 2019, we entered into an amendment to the lease agreement for our Gold River, California, office to expand our office space to a total of 63,206 square feet from 44,738 square feet. The lease term for the expanded office space commenced on May 1, 2019. The term of the expanded office space will terminate on September 30, 2021. As of September 30, 2019, future minimum payments are expected to be \$3.3 million over the remaining term of the lease plus our proportionate share of certain operating expenses, insurance costs and taxes for each calendar year during the lease. In addition, we have an option to extend the lease for one additional period of five years at the end of the term of the lease and will receive a one-time refurbishment allowance from the landlord if the option to renew is exercised.

On March 26, 2019, we entered into an amendment to the lease agreement for our Salt Lake City, Utah, office to expand our office space to a total of 41,813 square feet from 28,915 square feet. The lease term for the expanded office space commenced on May 1, 2019. The term of the lease for the original and expanded office space was also extended to terminate on the last day of the month that is 84 months after the commencement date of the expanded space. As of September 30, 2019, future minimum payments are expected to be \$6.9 million over the remaining term of the lease plus our proportionate share of certain operating expenses, insurance costs and taxes for each calendar year during the lease.

On April 25, 2018, we entered into a lease agreement to lease approximately 32,492 square feet of office space located in Santa Clara, California. We entered into this lease agreement as a result of the expiration of one of our leases in Mountain View, California on December 31, 2018. The term of the lease is approximately one hundred twenty-three months, commencing on October 1, 2018 and ending on an estimated date of February 28, 2029. As of September 30, 2019, future minimum payments are expected to be \$16.5 million over the remaining term of the lease plus our proportionate share of certain operating expenses, insurance costs and taxes for each calendar year during the lease.

In connection with the Santa Clara, California lease agreement, we entered into a financial guarantee consisting of a standby letter of credit for \$1.5 million, which may be reduced in increments of 20% of the original amount thereof on the second, third, fourth and fifth anniversaries of the commencement date, and may be reduced by an additional 8% of the original amount on the sixth anniversary of the commencement date, subject to our compliance with the applicable conditions to such reductions set forth in the lease.

In March 2018, we entered into an agreement to lease 26,878 square feet of office space in Austin, Texas. The term of this lease agreement is 90 months, commencing in September 2018 and ending in May 2026. As of September 30, 2019, future minimum payments are expected to be \$4.2 million over the remaining term of the lease plus our proportionate share of certain operating expenses, insurance costs and taxes for each calendar year during the lease.

In connection with the Austin, Texas office lease agreement, we entered into a financial guarantee consisting of a standby letter of credit for \$0.6 million, which may be reduced on the third and subsequent anniversaries of the commencement date, subject to our compliance with the applicable conditions to such reductions set forth in the lease.

In March 2012, we entered into an agreement to lease 18,272 square feet of office space in Mountain View, California. In connection with this lease agreement, we entered into a financial guarantee consisting of a standby letter of credit for \$0.1 million. On November 2, 2018, we entered into an agreement to sublease this office space to a third party. As of September 30, 2019, future minimum payments are expected to be \$2.9 million. The obligation as of September 30, 2019 was immaterial net of sublease income.

In March 2018, we renewed our agreement to lease approximately 1,413 square feet of office space in Washington, DC. The lease commenced in November 2018 and is for a term of 5 years and 5 months. As of September 30, 2019, future minimum payments are \$0.3 million.

#### ***Service and Licensing Obligations***

We have entered into service and licensing agreements with third party vendors to provide various services, including network access, equipment maintenance and software licensing. As the benefits of these agreements are experienced uniformly over the applicable contractual periods, we record the related service and licensing expenses on a straight-line basis, although actual cash payment obligations under certain of these agreements fluctuate over the terms of the agreements.

#### **Off-Balance Sheet Arrangements**

We do not have any off-balance sheet arrangements, investments in special purpose entities, undisclosed borrowings or debt. Additionally, we are not a party to any derivative contracts or synthetic leases.

#### **Recent Accounting Pronouncements**

See *Note 1 — Summary of Business and Significant Accounting Policies* in the *Notes to Condensed Consolidated Financial Statements* of this Quarterly Report on Form 10-Q for recently issued accounting standards that could have an effect on us.



### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our financial instruments that are exposed to concentrations of credit risk principally consist of cash and cash equivalents, accounts receivable and commissions receivable. As of September 30, 2019 and December 31, 2018, our cash and cash equivalents were invested as follows (in thousands):

	September 30, 2019	December 31, 2018
Cash <sup>(1)</sup>	\$ 5,989	\$ 12,766
Money market funds <sup>(2)</sup>	82,081	323
Total cash and cash equivalents	<u>\$ 88,070</u>	<u>\$ 13,089</u>

<sup>(1)</sup> We deposit our cash and cash equivalents in accounts with major banks and financial institutions and such deposits are in excess of federally insured limits. We also have deposits with major banks in China that are denominated in both U.S. dollars and Chinese Yuan Renminbi and are not insured by the U.S. federal government.

<sup>(2)</sup> At September 30, 2019 and December 31, 2018 money market funds consisted of investments 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 September 30, 2019, our total outstanding commissions receivable balance was \$357.7 million. Our contracts with carriers expose us to credit risk that a financial loss could be incurred if the counterparty does not fulfill its financial obligation. While we are exposed to credit losses due to the non-performance of our counterparties, we consider the risk of this remote. We estimate our maximum credit risk in determining the commissions receivable amount recorded on the balance sheet. Total accounts receivable as of September 30, 2019 and December 31, 2018 was comprised of the following (in thousands):

	September 30, 2019	December 31, 2018
Accounts receivable	\$ 682	\$ 3,601
Commissions receivable — current	127,414	134,190
Commissions receivable — non-current	230,322	211,668
Total accounts receivable	<u>\$ 358,418</u>	<u>\$ 349,459</u>

#### *Foreign Currency Exchange Risk*

To date, substantially all of our revenue has been derived from transactions denominated in United States Dollars. We have exposure to adverse changes in exchange rates associated with operating expenses of our foreign operations, which are denominated in Chinese Yuan Renminbi. Foreign currency fluctuations have not had a material impact historically on our results of operations; however, there can be no assurance that future fluctuations will not have material adverse effects on our results of operations. We have not engaged in any foreign currency hedging or other derivative transactions to date.

## ITEM 4. CONTROLS AND PROCEDURES

### *Evaluation of Our Disclosure Controls and Procedures*

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rules 13a-15(b) and 15d-15(b) under the Securities Exchange Act of 1934, as amended, as of the end of the period covered by this Quarterly Report on Form 10-Q.

Based on management's evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures are effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

### *Changes in Internal Control over Financial Reporting*

There were no changes in our internal control over financial reporting that occurred during the three months ended September 30, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### *Inherent Limitations on Effectiveness of Controls*

Our management, including our chief executive officer and chief financial officer, believes that our disclosure controls and our internal control over financial reporting are designed to provide reasonable assurance of achieving their objectives and are effective at the reasonable assurance level. However, our management does not expect that our disclosure controls or our internal control over financial reporting will prevent all errors and all fraud. A 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. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the controls. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

**PART II**  
**OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

Refer to [Note 8 — Commitments and Contingencies](#) in *Notes to Condensed Consolidated Financial Statements*.

**ITEM 1A. RISK FACTORS**

*In addition to other information in this Quarterly Report on Form 10-Q and in other filings we make with the Securities and Exchange Commission, the following risk factors should be carefully considered in evaluating our business as they may have a significant impact on our business, operating results and financial condition. If any of the following risks actually occurs, our business, financial condition, results of operations and future prospects could be materially and adversely affected. Because of the following factors, as well as other variables affecting our operating results, past financial performance should not be considered as a reliable indicator of future performance and investors should not use historical trends to anticipate results or trends in future periods.*

**Risks Related to Our Business**

***The marketing and sale of Medicare plans are subject to numerous, complex and frequently changing laws and regulations, and non-compliance with or changes in laws and regulations could harm our business, operating results and financial condition.***

The marketing and sale of Medicare plans are subject to numerous laws, regulations and guidelines at the federal and state level. The marketing and sale of Medicare Advantage and Medicare Part D prescription drug plans are principally regulated by the Centers for Medicare and Medicaid Services, or CMS. The marketing and sale of Medicare Supplement plans are principally regulated on a state-by-state basis by state departments of insurance. The laws and regulations applicable to the marketing and sale of Medicare plans are numerous, ambiguous and complex, and, particularly with respect to regulations and guidance issued by CMS for Medicare Advantage and Medicare Part D prescription drug plans, change frequently. The telephone calls on which we enroll individuals into Medicare Advantage and Medicare Part D prescription drug plans are required to be recorded. Health insurance carriers audit these recordings for compliance and listen to them in connection with their investigation of complaints. In addition, Medicare eligible individuals may receive a special election period and the ability to change Medicare Advantage and Part D prescription drug plans outside the Medicare annual enrollment period in the event the sale of the plan was not in accordance with CMS rules and guidelines. Given CMS's scrutiny of Medicare product health insurance carriers and the responsibility of the health insurance carriers for actions that we take, health insurance carriers may terminate our relationship with them or take other corrective action if our Medicare product sales, marketing and operations are not in compliance or give rise to too many complaints. The termination of our relationship with health insurance carriers for this reason would reduce the products we are able to offer, could result in the loss of commissions for past and future sales and would otherwise harm our business, operating results and financial condition.

As a result of the laws, regulations and guidelines relating to the sale of Medicare plans, we have altered, and likely will have to continue to alter, our websites and sales process to comply with several requirements that are not applicable to our sale of non-Medicare-related health insurance plans. For instance, many aspects of our online platforms and our marketing material and processes, as well as changes to these platforms, materials and processes, including call center scripts, must be filed on a regular basis with CMS and reviewed and approved by health insurance carriers in light of CMS requirements. In addition, certain aspects of our Medicare plan marketing partner relationships have been in the past, and will be in the future, subjected to CMS and health insurance carrier review. Changes to the laws, regulations and guidelines relating to Medicare plans, their interpretation or the manner in which they are enforced could be incompatible with these relationships, the manner in which we conduct our business, our platforms or our sale of Medicare plans, which could harm our business, operating results and financial condition.

Due to changes in CMS guidance or enforcement or interpretation of existing guidance applicable to our marketing and sale of Medicare products, or as a result of new laws, regulations and guidelines, CMS, state departments of insurance or health insurance carriers may determine to object to or not to approve aspects of our online platforms or marketing material and processes and may determine that certain existing aspects of our Medicare-related business are not in compliance. As a result, the progress of our Medicare operations could be slowed or we could be prevented from operating aspects of our Medicare revenue generating

activities altogether, which would harm our business, operating results and financial condition, particularly if it occurred during the Medicare annual enrollment period.

***If our ability to enroll individuals during enrollment periods is impeded, our business will be harmed.***

It is difficult for the health insurance agents we employ and our systems and processes to handle the increased volume of health insurance transactions that occur in a short period of time during the annual open enrollment period under the Patient Protection and Affordable Care Act, or Affordable Care Act, and the Medicare annual enrollment period. We contract with outsourced call centers and hire additional employees on a temporary or seasonal basis in a limited period of time to address the expected increase in the volume of health insurance transactions during the Medicare annual enrollment period. We must ensure that our employee health insurance agents and the health insurance agent employees of outsourced call centers are timely licensed, trained and certified and have the appropriate authority to sell health insurance in a number of states and for a number of different health insurance carriers. We depend upon our own employees, state departments of insurance, government exchanges and health insurance carriers for licensing, certification and appointment. If our ability to market and sell Medicare-related health insurance and individual and family health insurance is constrained during an enrollment period for any reason, such as technology failures, reduced allocation of resources, any inability to timely employ, license, train, certify and retain our employees and our contractors and their health insurance agents to sell health insurance, interruptions in the operation of our website or systems, or issues with government-run health insurance exchanges, we could acquire fewer members, suffer a reduction in our membership and our business, operating results and financial condition could be harmed.

***If investments we make in enrollment periods do not result in a significant number of approved and paying members, our business, operating results and financial condition would be harmed.***

In an attempt to attract and enroll a large number of individuals during the Medicare annual enrollment period and the health care reform open enrollment period we may invest in areas of our business, including technology and content, customer care and enrollment, and marketing and advertising. We have in the past made investments in areas of our business in advance of enrollment periods that have not yielded the results we expected when making those investments. Any investment we make in any enrollment period may not result in a significant number of approved and paying members. If it does not, our business, operating results and financial condition would be harmed.

***If we do not successfully compete with government-run health insurance exchanges, our business may be harmed.***

We compete with government-run health insurance exchanges, among others, with respect to our sale of Medicare-related and individual and family health insurance. The federal government operates a website where Medicare beneficiaries can purchase Medicare Advantage and Medicare Part D prescription drug plans or be referred to carriers to purchase Medicare Supplement plans. CMS has made improvements to the consumer experience on this website and proposals exist for it to continue to do so. Medicare beneficiaries can also obtain plan selection assistance from the federal government in connection with their purchase of a Medicare Advantage or Medicare Part D prescription drug plan. The exchanges in the individual and family health insurance market created by the Affordable Care Act may elect whether or not we are able to enroll subsidy-eligible individuals in qualified health plans through them, and determine the manner in which we may do so. The Affordable Care Act exchanges have websites where individuals and small businesses can purchase health insurance, and they also have offline customer support and enrollment capabilities. Individuals who are eligible for government subsidies in the form of premium tax credits and cost sharing reductions must apply for their subsidy and purchase qualified health plans through a government exchange. In the aggregate, government exchanges have greater resources and greater public outreach capability than we do and they or the government agencies that run them may in the future impact the process we use to enroll individuals and families in a manner that results in a reduction in revenue and our membership. In addition, individuals who utilize our platform and services to apply for subsidies and health insurance through Affordable Care Act exchanges receive marketing and communications from the exchanges after they do so. In the event our existing members purchase health insurance directly through health insurance exchanges without using us as their health insurance agent, as a result of their being eligible for a subsidy or otherwise, we will no longer receive commission payments as a result of our sale of health insurance to them. Competitive pressure from government-run health insurance exchanges has resulted, and may in the future result, in our experiencing increased marketing costs, decreased traffic to our website, a reduction in our membership and revenue and may otherwise harm our business, operating results and financial condition.

***Our operating results will be impacted by factors that impact our estimate of the constrained LTV of commissions per approved member.***

Effective January 1, 2018, we adopted Accounting Standards Update 2014-09, *Revenue from Contracts with Customers (ASC 606)* using the full retrospective method, which required us to revise our historical financial information to be consistent

with the new standard. The adoption had a material impact on our consolidated financial statements. The most significant impact of the standard was on our commission revenue. We now recognize revenue for Medicare-related, individual and family and ancillary health insurance plan approved members based upon the total estimated commissions we expect to receive over the life of the underlying plans, net of a constraint. We now recognize small business health insurance plan commission revenue at the time the application for the plan is approved by the carrier and when it renews each year thereafter, equal to the estimated commissions we expect to collect over the following twelve months. The constrained LTV for each product line is an estimate and is based on a number of assumptions, which include, but are not limited to, estimates of the conversion rates of approved members into paying members, forecasted plan duration and forecasted commission amounts we expect to receive per approved member. These assumptions are based on historical trends and require significant judgments by our management in interpreting those trends and in applying the constraints. Changes in our historical trends will result in changes to our constrained LTV estimates in future periods and therefore could adversely affect our revenue and financial results in those future periods. As a result, negative changes in the factors upon which we estimate constrained LTVs, such as reduced conversion of approved members to paying members, increased health insurance plan turnover or a reduction in the lifetime commission amounts we expect to receive for selling the plan to a member, or other changes outside our control, could harm our business, operating results and financial condition. In addition, if we ultimately receive commission payments that are less than the amount we estimated when we recognized commission revenue, we would need to write off of the remaining commission receivable balance, which would harm our business, operating results and financial condition.

The rate at which approved members become paying members is a significant factor in our estimation of constrained LTVs. For example, during the first open enrollment period under the Affordable Care Act, we experienced a decline in the rate at which members approved for individual and family health insurance turned into paying members, which harmed our operating results. To the extent we experience a similar decline in the rate at which approved members turn into our paying members, our business, operating results and financial condition would be harmed.

We receive commissions from health insurance carriers for health insurance plans sold through us. When one of these plans is canceled, or if we otherwise do not remain the agent on the policy, we no longer receive the related commission payment. Our estimate of constrained LTV is net of an estimated annual health insurance plan turnover rate based on our historical experience by plan type. As a result, an increase in our annual health insurance plan turnover rate would harm our business, operating results and financial condition.

Commission rates are a significant factor in our estimation of constrained LTVs. The commission rates we receive are impacted by a variety of factors, including the particular health insurance plans chosen by our members, the carriers offering those plans, our members' states of residence, the laws and regulations in those jurisdictions, the average premiums of plans purchased through us and health care reform. Our commission revenue per member has in the past decreased, and could in the future decrease, as a result of reductions in contractual commission rates, a change in the mix of carriers whose products we sell during a given period, and increased health insurance plan turnover, all of which are beyond our control and may occur on short notice. To the extent these and other factors cause our commission revenue per member to decline, our revenue may decline and our business, operating results and financial condition would be harmed. Given that Medicare-related and individual and family health insurance purchasing is concentrated during enrollment periods, we may experience a shift in the mix of Medicare-related and individual and family health insurance products selected by our members over a short period of time. Any reduction in our average commission revenue per member during the enrollment periods caused by such a shift or otherwise would harm our business, operating results and financial condition.

***Our business may be harmed if we lose our relationship with health insurance carriers or our relationship with health insurance carriers is modified.***

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 many cases, health insurance carriers also may amend the terms of our agreements unilaterally on short notice. Carriers may be unwilling to allow us to sell their existing or new health insurance plans, or desire to amend our agreements with them for a variety of reasons, including for competitive or regulatory reasons, dissatisfaction with the economics of the members that we place with them or because they do not want to be associated with our brand. We may also terminate our relationship with health insurance carriers. In the event we are not successful in gaining or maintaining the ability to sell Medicare, individual and family and qualified health insurance plans, if health insurance carriers pay us no commissions or reduced commissions in connection with the sale of these plans or if health insurance carriers change our relationship with them in other ways, we could lose a substantial number of existing and potential members and commissions, which would materially harm our business, operating results and financial condition. The termination of our relationship with a health insurance carrier by us or the health insurance carrier or the amendment of or change in our relationship with a carrier could reduce the variety of health insurance plans we offer, cause a loss of commission payments, cause a reduction in constrained LTVs and adversely impact our ability to recognize revenue or have other adverse impacts, which could harm our business, operating results and financial

condition. It also could adversely impact, or cause the termination of, commissions for past and future sales, which would materially harm our business, operating results and financial condition. Our business could also be harmed if in the future we fail to develop new carrier relationships and are unable to offer consumers a variety of health insurance plans in each jurisdiction.

Health insurance carriers can unilaterally amend the commission rates that they pay to us. For example, given the significant losses that carriers sustained in connection with their sale of individual and family health insurance as a result of health care reform, many health insurance carriers with which we have a relationship, including large national health insurance carriers, reduced or eliminated our commissions for selling individual and family health insurance, and in a limited number of cases, our renewal commissions. As a result, we experienced a meaningful reduction in our average commission rates for our aggregate individual and family health insurance plan membership. In addition, the reduction in contractual commission rates and these carriers' desire to not sell individual and family health insurance reduced the number of plans that we are able to offer on our websites, which resulted in less consumer demand for the individual and family health insurance that we sell and a reduction in our membership. In the future and as a result of health care reform or for other reasons, an increasing number of health insurance carriers may decide to reduce our commissions, rely on their own internal distribution channels to sell their own plans, determine not to sell their plans or otherwise limit or prohibit us from selling their plans. In addition to reducing commission rates, health insurance carriers may determine to exit certain states or increase premiums to a significant degree, which could cause our members' health insurance to be terminated or our members to purchase new health insurance or determine not to pay for health insurance at all. If we lose these members, our business, operating results and financial condition could be harmed.

***Changes in our management and key employees could affect our business and financial results.***

Our success is dependent upon our ability to attract and retain qualified personnel for all areas of our organization. We may not be successful in attracting and retaining personnel on a timely basis, on competitive terms or at all. If we are unable to attract and retain the necessary personnel, our business would be harmed. Our executive officers and employees can terminate their employment at any time. The transition and the departure of members of our senior management could result in attrition in our senior management and key personnel and any significant change in leadership over a short period of time could harm our business, operating results and financial condition.

The loss of the services of any of our executive officers or key employees could harm our business. For example, we appoint a single designated writing agent with each insurance carrier. A small number of our employees act as writing agent and each employee that acts as writing agent does so for a number of carriers. Robert Hurley, our president, carrier and business development, is the writing agent in a large number of our carrier relationships. If we lose the service of our appointed writing agent, the duties of writing agent will need to be transitioned to other company personnel. Due to our national reach and the large number of carriers whose plans are purchased by our members, this transition may be difficult and requires a significant period of time to complete, particularly in the case of Mr. Hurley. If the transition is not successful or takes too long to complete, our agency relationship with particular insurance carriers may be terminated, our commission payments could be discontinued or delayed and, as a result, our business, operating results and financial condition would be harmed.

***Our business may be harmed if we are not successful in executing on our strategic investments and initiatives.***

As part of our strategy, we have determined to invest in initiatives to accelerate growth in our Medicare product sales, including Medicare Advantage and Medicare Supplement plans. We also plan to invest resources in efforts to grow our small business group insurance business and pursue cross-selling and adjacent revenue opportunities in our Medicare and small business group businesses. Pursuing and investing in these initiatives will require significant investments in marketing and advertising, technology and product offerings, and customer care and enrollment, among others, and involves risks and uncertainties described elsewhere in this Risk Factors section, including the initiatives resulting in insufficient revenue to offset any expenses associated with these new investments, inadequate return of capital on our investments, legal and regulatory compliance risks, potential changes in laws and regulations and other issues that could cause us to fail to realize the anticipated benefits of our investments and incur unanticipated liabilities. Our pursuit of these strategic initiatives may not be successful. Our cash flow from operations was negative in each of the years ended December 31, 2018 and 2017. As a result, our investment in these initiatives could result in our needing to raise additional capital. If we are not successful in executing on our business strategy, our business, operating results and financial condition would be harmed.

***Significant consolidation in the health insurance industry could alter our relationships with carriers and harm our business and financial results.***

The health insurance industry in the United States has experienced a substantial amount of consolidation, resulting in a decrease in the number of health insurance carriers. Consolidation in the health insurance industry could cause a loss of or changes in our relationship with carriers and reduction in our commission or other revenue, which could harm our business, operating

results and financial condition. In the future, we may be forced to offer health insurance from a reduced number of insurance carriers or to derive a greater portion of our revenue from a more concentrated number of carriers as our business and the health insurance industry evolve. Revenue derived from Humana represented approximately 24% and 16% of our total revenue for the nine months ended September 30, 2019 and 2018, respectively. Revenue derived from carriers owned by UnitedHealthcare represented approximately 18% and 22% of our total revenue for the nine months ended September 30, 2019 and 2018, respectively. Revenue derived from Aetna represented approximately 17% and 11% of our total revenue for the nine months ended September 30, 2019 and 2018, respectively. We have several agreements that govern our sale of health insurance plans with these health insurance carriers. They may be unilaterally amended or terminated by the carrier on short notice and the amendment or termination could adversely impact or cause the termination of the commission payments that we receive from these health insurance carriers, including commissions on plans that we have already sold, which could materially harm our business, operating results and financial condition. Our revenue could be adversely impacted if we are unable to maintain currently-existing levels of business with any of our significant health insurance carriers if we are unable to offset any loss of business with alternative health insurance carriers. We expect that a small number of health insurance carriers will account for a significant portion of our revenue for the foreseeable future and any impairment of our relationship with, or the material financial impairment of, these health insurance carriers could adversely affect our business.

***Seasonality may cause fluctuations in our financial results.***

The Medicare annual enrollment period occurs from October 15 to December 7 each year, and we experience an increase in the number of submitted Medicare-related applications during the fourth quarter and, to a lesser extent, in the first quarter, and an increase in Medicare plan related expense during the third and fourth quarters. As a result of the reintroduction of the Medicare open enrollment period from January to March, commission revenue is typically second-highest in our first quarter. The individual and family health insurance open enrollment period runs from November 1 through December 15 of each year, and we expect the number of approved applications for individual and family health insurance to be higher in the fourth quarter compared to other quarters of the year as a result. A significant portion of our marketing and advertising expenses is driven by the number of health insurance applications submitted through us. Since our marketing and advertising costs are expensed and generally paid as incurred and commissions from approved members are paid to us over time, our operating cash flows could be adversely impacted by a substantial increase in marketing expense as a result of a higher volume of applications submitted during a quarter or positively impacted by a substantial decline in marketing expense as a result of lower volume of applications submitted during a quarter.

The seasonality of our business could change in the future due to other factors, including as a result of changes in timing of the Medicare or individual and family health plan enrollment periods and changes in the laws and regulations that govern the sale of health insurance. We may not be able to timely adjust to changes in the seasonality of our business. If the timing of the enrollment periods for Medicare-related health insurance or individual and family health insurance changes, we may not be able to timely adapt to changes in customer demand. If we are not successful in responding to changes in the seasonality of our business, our business, operating results and financial condition could be harmed.

***Our financial results will be adversely impacted if our membership does not grow or if we are unable to retain our existing members.***

We receive commissions from health insurance carriers for health insurance plans sold through us. When one of these plans is canceled, or if we otherwise do not remain the agent on the plan, we no longer receive the related commission payment. Our members may choose to discontinue their health insurance plans for a variety of reasons. Consumers may also purchase individual and family and Medicare-related health insurance plans directly from other sources, such as government-run health insurance exchanges, and we would not remain the agent on the policy and receive the related commission. Beginning January 1, 2019, Medicare Advantage plan enrollees may enroll in another Medicare Advantage plan or disenroll from their Medicare Advantage plan and return to original Medicare during the new Medicare Advantage open enrollment period that is scheduled to occur between January 1 and March 31 of each year. If the new members that we enroll during this Medicare Advantage open enrollment period do not offset any loss of existing Medicare Advantage members or if investments we make during this new Medicare Advantage open enrollment period do not result in a significant number of approved and paying Medicare Advantage members, our business, operating results and financial condition would be harmed. In addition, during the last open enrollment period, we experienced an increased health insurance plan turnover rate in the Medicare Advantage plans that we sold during the Medicare annual enrollment period occurring in the fourth quarter of 2018. While we benefited during the last open enrollment period from increased Medicare Advantage plan membership growth, the increased Medicare Advantage plan turnover we experienced in the first quarter of 2019 could adversely impact the Medicare Advantage lifetime value estimate that we use to recognize revenue for approved applications in the current annual enrollment period occurring in the fourth quarter of 2019, which could adversely impact our business, operating results and financial condition.

Health insurance carriers have in the past and may in the future terminate health insurance plans purchased and held by our members. Any decrease in the amount of time we retain our members on the health insurance plans that they purchased through us could adversely impact the estimated constrained LTV we use for purposes of recognizing revenue, which could harm our business, operating results and financial condition. Moreover, if we are not able to successfully retain existing members and limit health insurance plan turnover, our business, operating results and financial condition would be harmed. In addition, the Medicare-related commission rates that we receive may be higher in the first calendar year of a plan if the plan is the first Medicare-related plan issued to the member. The individual and family commission rates that we receive are typically higher in the first twelve months of a policy. After the first twelve months, they generally decline significantly. As a result, if we do not add a sufficient number of members to new plans, our business, operating results and financial condition would be harmed. If we experience higher health insurance plan turnover than we estimated when we recognized commission revenue, we may not collect all of the related commission receivable, resulting in a write-off of the remaining commission receivable balance, which would harm our business, operating results and financial condition.

***Our business may be harmed if we lose our relationship with health insurance carriers whose Medicare-related health insurance products we sell or if our relationship with those carriers changes.***

Our Medicare plan-related revenue is concentrated in a small number of health insurance carriers. The success of our Medicare-related health insurance business depends upon our ability to enter into new and maintain existing relationships with health insurance carriers on favorable economic terms. The concentration of our Medicare plan sales in a limited number of health insurance carriers makes us vulnerable to changes in carrier commission rates and changes in the competitiveness of our carriers' Medicare products. If our Medicare carriers reduce our commission rates, reduce the amount they pay us for advertising services, or the competitiveness of their products declines compared to original Medicare or the products of Medicare carriers with which we do not have a relationship, our business, operating results and financial condition would be harmed.

We also may temporarily or permanently lose the ability to market and sell Medicare plans for our Medicare plan carriers. The regulations applicable to the business of selling health insurance are complex and frequently changes. We or the health insurance agents we employ have in the past, and may in the future, violate one or more of the many requirements imposed by CMS or state laws and regulations. A carrier may terminate our relationship for that or other reasons, or CMS may penalize health insurance carriers for certain regulatory violations by suspending or terminating the carrier's ability to market and sell Medicare plans for significant periods of time. CMS also may require the carrier to terminate its membership and allow its members to move to other plans. Given the concentration of our Medicare plan sales in a small number of carriers, if we lose a relationship with a health insurance carrier to market their Medicare plans temporarily or permanently or if the health insurance carrier loses its Medicare product membership, our business, operating results and financial condition would be harmed. The agreements that we have with health insurance carriers to sell Medicare plans may be unilaterally amended or terminated by the carrier on short notice and the amendment or termination could adversely impact, or cause the termination of, the commission payments that we receive for selling their Medicare plans, including commissions on plans that we have already sold, which could materially harm our business operating results and financial condition.

***Our business may be harmed if we do not market Medicare plans effectively or if our websites and marketing materials are not timely approved or do not comply with legal requirements.***

Health insurance carriers whose Medicare plans we sell approve our websites, much of our marketing material and our call center scripts. We must receive these approvals in order for us to be able to generate Medicare plan demand and sell Medicare plans to Medicare-eligible individuals as a health insurance agent. Many of these materials also must be filed with CMS. In the event that CMS or a health insurance carrier requires change to, disapproves, or delays approval of our websites, our marketing material or call center scripts, we could lose a significant source of Medicare plan demand and our ability to sell Medicare plans would be adversely impacted, which would harm our business, operating results and financial condition. The rules and regulations relating to the approval and submission of marketing material are ambiguous and complex and state department of insurance or CMS may determine that certain aspects of our marketing material and processes are not in compliance with legal requirements. The CMS rules and regulations also apply to marketing material of our marketing partners. If we are not successful in timely submitting these marketing materials to health insurance carriers for approval, in gaining that approval and in filing all required marketing material with CMS, we could be prevented from implementing our Medicare marketing initiatives and our Medicare plan marketing could become less effective, which would harm our business, operating results and financial condition, particularly if the delay or non-compliance occurred during the Medicare annual or open enrollment period. If a marketing partner of ours does not consent to having its website or other marketing material filed with CMS, does not make changes required by carriers or CMS or does not comply with the CMS marketing guidelines or other Medicare program related laws, rules and regulations, we may lose the ability to receive referrals of individuals interested in purchasing Medicare plans from that marketing partner or our ability to receive referrals could be delayed and our business, operating results and financial condition would be harmed.



If we or our marketing partners substantively change our websites or call center scripts after they are filed with CMS, we may need to resubmit them to health insurance carriers and have them re-filed with CMS. We are not permitted to make CMS filings ourselves. Given the review cycles our scripts, websites and other marketing material undergo, it is very difficult and time consuming to make changes to them, and our inability to timely make changes to these marketing materials, whether to comply with new rules and regulations or otherwise, could adversely impact our ability to sell Medicare plans, which could adversely impact our business, operating results and financial condition. In addition, if a change to scripts, our websites or other marketing material is required by CMS, a state department of insurance or health insurance carriers, we may be prevented from using the marketing material until the change is made and approved, which would harm our business, operating results, and financial condition, particularly if it occurred during the annual enrollment period.

***Our ability to sell Medicare-related health insurance plans as a health insurance agent depends upon our ability to timely hire, train and retain licensed health insurance agents for our customer care center.***

In addition to our websites, we rely upon our customer care centers and, during the Medicare annual enrollment period, outsourced call centers to sell Medicare plans. The success of our customer care center operations is largely dependent on licensed health insurance agents and other employees. In order to sell Medicare-related health insurance plans, our health insurance agent employees and employees of third-party call centers must be licensed by the states in which they are selling plans and certified and appointed with the health insurance carrier that offers the plans in each applicable state. Because a significant number of Medicare plans are sold in the fourth quarter each year during the Medicare annual enrollment period, we retain and train a significant number of additional employees and employees of third-party call centers in a limited period of time. We must also ensure that our health insurance agents are timely licensed in a significant number of states and certified and appointed with the health insurance carriers whose products we sell. We depend upon our employees, state departments of insurance and health insurance carriers for the licensing, certification and appointment of our health insurance agents. We may not be successful in timely hiring a sufficient number of additional licensed agents or other employees for the Medicare annual enrollment period. We also may not be successful in engaging outsourced call centers, and the outsourced call centers may not be successful in engaging a sufficient number of licensed health insurance agents. Even if we and our outsourced call centers are successful, these health insurance agents may experience delays in obtaining health insurance licenses and certifications and health insurance carrier appointments. New health insurance agents also may not perform to the standard we expect of them, which could result in lower than expected conversion rates and revenue and higher costs of acquisition per member. If we and our outsourced call centers are not successful in these regards, our ability to sell Medicare-related health insurance plans will be impaired during the annual enrollment period, which would harm our business, operating results and financial condition.

***Our ability to sell Medicare-related health insurance plans as a health insurance agent depends upon maintenance of functioning information technology systems.***

The success of our Medicare plan customer care center operations is dependent upon information technology systems. Many of our Medicare plan members utilize our customer care center in connection with their purchase of a Medicare plan. CMS rules require that our health insurance agent employees utilize CMS-approved scripts in connection with the sale of Medicare plans and that we record and maintain the recording of telephonic interactions relating to the sale of Medicare plans. We rely on telephone, call recording, customer relationship management and other systems and technology in our Medicare customer care center operations, and we are dependent upon third parties for some of them, including our telephone and call recording systems. These systems have failed temporarily in the past. The effectiveness and stability of our Medicare customer care center systems and technology are critical to our ability to sell Medicare plans, particularly during the Medicare enrollment periods and the failure or interruption of any of these systems and technology or any inability to handle increased volume would harm our business, operating results and financial condition.

***Our success in selling Medicare-related health insurance will depend upon a number of factors some of which are outside of our control.***

Our success in selling Medicare-related health insurance is dependent in part on the actions of federal and state governments. The adoption of laws, regulations or policies by federal and state governments has in the past and could in the future adversely impact our Medicare business. For example, CMS has in the past determined to reduce the payments it makes to health insurance carriers in connection with the sale of Medicare Advantage plans. Any similar reduction in the future could cause the cost of Medicare Advantage plans to increase or the benefits under Medicare Advantage plans to decrease, either of which would impair our ability to sell Medicare Advantage plans. CMS also has in the past adopted rules relating to the timing and nature of the compensation of agents in connection with the sale of Medicare Advantage and Medicare Part D prescription drug plans. The effect of these rules was to reduce our compensation as a health insurance agent in connection with the sale of these plans or had other adverse consequences. In addition, under the Affordable Care Act, health insurance carriers are required to pay a fee or tax on net premium revenue for certain types of health insurance. The health insurance tax applies to Medicare Advantage, Part D

prescription drug, individual and family, and small group health insurance plans. This health insurance tax was suspended by the federal government in 2017 and 2019 and is scheduled to go back into effect in 2020. As a result of the health insurance tax, consumers could experience higher premiums, higher out of pocket costs and/or reduced benefits as health insurance carriers may pass the cost of the health insurance tax to the consumers. In the event the actions of the federal government, state governments or other circumstances decrease the demand for the Medicare related health insurance that we sell, or result in a reduction in the amount paid to us or have other adverse impacts, our business, operating results and financial condition could be harmed.

Our success in the Medicare plan market as a health insurance agent will also depend upon a number of additional factors, including:

- our ability to continue to adapt our ecommerce platforms to market Medicare plans, including our development or acquisition of marketing tools and features important in the sale of Medicare plans online and the effective modification of our user experience;
- our success in marketing to Medicare-eligible individuals, including television advertising, online marketing and direct mail marketing, and in entering into and maintaining marketing partner relationships to drive Medicare-eligible individuals to our ecommerce platforms or customer care centers on a cost-effective basis;
- our ability to hire and retain additional employees with experience in Medicare, including our ability to timely implement Medicare sales expertise into our customer care centers;
- our ability to implement and maintain an effective information technology infrastructure for the sale of Medicare plans, including the infrastructure and systems that support our websites, call centers and call recording;
- our ability to leverage technology in order to sell, and otherwise become more efficient at selling, Medicare-related plans over the telephone;
- our ability to comply with the numerous, complex and changing laws and regulations and CMS guidelines relating to the marketing and sale of Medicare plans, including continuing to conform our online and offline sales processes to those laws and regulations; and
- the effectiveness with which our competitors market the availability of Medicare plans from sources other than our ecommerce platforms.

As a result of these factors, we may prove unsuccessful in marketing Medicare plans and acting as a health insurance agent in connection with their sale, which would harm our business, operating results and financial condition. In addition, if our efforts to market Medicare plans during an enrollment period were impeded due to lack of health insurance carrier or CMS approval, or for other reasons, the impact on our business, operating results and financial condition would be significantly greater given the seasonality of our Medicare-related revenue, membership acquisition and expenses and the fact that much of the sales of Medicare plans occur during this period.

***We may be unsuccessful in competing effectively against current and future competitors.***

The market for selling health insurance plans is highly competitive. We compete with entities and individuals that offer and sell health insurance plans utilizing traditional distribution channels as well as the Internet. Our competitors include local insurance agents across the United States who sell health insurance plans in their communities. There also are a number of companies that operate websites, provide an online shopping experience for consumers interested in purchasing health insurance and act as a health insurance agent in connection with that purchase. Some local agents also use Internet advertising and “lead aggregator” services that use the Internet to find consumers interested in purchasing health insurance and are compensated for referring those consumers to health insurance agents or carriers. Many health insurance carriers also directly market and sell their plans to consumers through call centers, Internet advertising and their own websites. Although we offer health insurance plans for many of these carriers, they also compete with us by offering their plans directly to consumers. In connection with our marketing of Medicare plans, we compete with the original Medicare program. CMS also offers plan information, comparison tools, call centers and online enrollment for Medicare Advantage and Medicare Part D prescription drug plans. CMS offers plan information and referral to health insurance carriers for Medicare Supplement plans. We compete with the Federally Facilitated Marketplace, or FFM, and state health insurance exchanges implemented as a result of health care reform in marketing individual and family health insurance products. Health care reform also has resulted in health insurance plan cost and benefit data being more readily accessible, which has facilitated additional competition.

To remain competitive against our current and future competitors, we will need to market our services effectively and continue to improve the online shopping experience and functionalities of our website and other platforms that our current and future customers may access to purchase health insurance products from us. If we cannot predict, develop and deliver the right shopping experience and functionality in a timely and cost-effective manner, or if we are not effective in cost-effectively driving a substantial number of consumers interested in purchasing health insurance to our website and customer care centers, we may not be able to compete successfully against our current or future competitors and our business, operating results and financial condition may be adversely affected.

Some of our current and potential competitors have longer operating histories, larger customer bases, greater brand recognition and significantly greater financial, technical, marketing and other resources than we do. As compared to us, our current and future competitors may be able to:

- undertake more extensive marketing campaigns for their brands and services;
- devote more resources to website and systems development and other aspects of their operations to comply with applicable laws, regulations and rules;
- negotiate more favorable commission rates and commission override payments; and
- make more attractive offers to potential employees, marketing partners and third-party service providers.

In addition, CMS has the ability to regulate our marketing and sale of Medicare Advantage and Medicare Part D prescription drug plans, and government-run health insurance exchanges, including CMS with respect to the FFM, have the ability to regulate our marketing and sale of qualified health plans under health care reform. CMS and the exchanges could impact the commissions we receive in connection with the sale of these plans and impose other restrictions and limitations that make it difficult for us to sell them. Competitive pressures may result in our experiencing increased marketing costs, decreased traffic to our website and loss of market share, or may otherwise harm our business, operating results and financial condition.

***Changes and developments in the health insurance industry or in the health insurance system in the United States as a result of health care reform could harm our business.***

Our business depends upon the private sector of the United States health insurance system, its relative role in financing health care delivery and health insurance carriers' use of, and payment of commissions to, agents and brokers to market health insurance plans. In March 2010, the federal Patient Protection and Affordable Care Act and related amendments in the Health Care and Education Reconciliation Act were signed into law. These health care reform laws contain provisions that have and will continue to change the industry in which we operate in substantial ways. Among several other provisions, health care reform includes a mandate that individuals have qualifying health insurance or face a tax penalty, although the tax penalty is set at zero beginning in 2019; a mandate that certain employers offer their employees group health insurance coverage or face tax penalties; requirements relating to employer contribution to employee health coverage; prohibitions against insurance companies using pre-existing health conditions as a reason to deny an application for health insurance; prohibitions on rescission of health insurance; prohibitions on lifetime coverage limits; requirements for guaranteed renewability of health insurance plans; health insurance premium setting guidelines; limitations on deductibles and cost-sharing; medical loss ratio requirements that require each health insurance carrier to spend a certain percentage of their premium revenue on reimbursement for clinical services and activities that improve health care quality and, if they do not, to provide rebates to policyholders; minimum benefit levels for health insurance plans, including actuarial value standards and limitations on annual coverage limits; taxes and assessments on health insurance carriers; establishment of state and/or federal health insurance exchanges to facilitate access to, and the purchase of, health insurance; open enrollment periods for the purchase of individual and family health insurance; and subsidies and cost-sharing credits to make health insurance more affordable for those below certain income levels. The implementation of health care reform has increased, and could further increase, our competition in the individual and family health insurance market and reduce or eliminate the need for health insurance agents or demand for the health insurance for individuals and families that we sell; further decrease the number of health insurance plans that we sell as well as the number of health insurance carriers offering them; cause a further reduction in our membership and revenue; cause us to incur increased expense across our business and cause health insurance carriers to further reduce our commissions and other amounts they pay for our services or change our relationship with them in other ways, any of which could materially harm our business, operating results and financial condition. These and other impacts of health care reform caused a significant decline in our individual and family plan membership and other changes in the future could have similar impact on our Medicare related health insurance business. In addition, various aspects of health care reform have caused and could continue to cause health insurance carriers to limit the type of health insurance plans we sell and the geographies in which we sell them, to reduce or eliminate the commissions we receive from them as a result of our sale of health insurance plans, to exit the business of selling individual and family and small business health insurance plans in particular jurisdictions or altogether, to eliminate certain categories of products or attempt to move members into new plans for which we receive lower or no commissions, any of which could materially harm our business, operating results and financial condition.

Under the Affordable Care Act, health insurance carriers offering coverage in the individual or small business health insurance market must ensure that such coverage meets certain actuarial value standards, includes certain minimum health benefits and is not subject to lifetime or, for most health insurance benefits, annual dollar amount coverage limits. Moreover, health insurance carriers cannot deny individuals health insurance for health reasons. For these and other reasons, the cost of individual and family health insurance has generally increased and many health insurance carriers suffered financial losses in their individual and family health insurance businesses. As a result, many health insurance carriers exited the individual and family health insurance business in part or altogether. The number of individual and family health insurance plans offered on our website has been reduced, including states and many zip codes where we have no individual and family health insurance plans to offer. If these conditions persist, we

anticipate that they will continue to decrease demand for the individual and family health insurance that we sell and harm our business, operating results and financial condition. In addition, if carriers determine to exit the individual and family health insurance market in a jurisdiction, our members on the plans offered by that carrier will lose their health insurance plans and will need to purchase individual and family health insurance from another health insurance carrier if they desire to maintain individual and family health insurance. These circumstances have resulted and could in the future result in decreased retention rates in our membership, a reduction in our commission revenue and otherwise harm our business, operating results and financial condition. Many health insurance carriers have increased premiums on the individual and family health insurance that they sell as a result of health care reform. As a result of premium inflation, we have experienced and could in the future experience decreased retention of our members and a reduction in demand for the individual and family health insurance that we sell, which could cause us to suffer a substantial reduction in our membership, and materially harm our business, operating results and financial condition. Moreover, compared to the increased cost of individual and family health insurance plans, government subsidies to purchase health insurance may not be sufficient enough to encourage individuals and families to purchase individual and family health insurance or incentivize our existing members to maintain their individual and family health insurance plans, which could contribute to a decline in our membership and materially harm our business, operating results and financial condition.

The Trump administration and Republican leadership in Congress have attempted on several occasions to repeal or amend the Affordable Care Act, but their efforts at doing so have largely failed. The Affordable Care Act contains a mandate requiring individuals to maintain health insurance plans that comply with the Affordable Care Act or face a tax penalty. As a part of the tax reform law that came into effect in December 2017, the tax penalty for violating the mandate was set at zero effective in 2019, essentially repealing it. The essential repeal of the individual mandate could cause individuals to determine not to purchase or maintain individual and family health insurance and could cause carriers to increase premiums, reduce commissions or exit the business of selling individual and family health insurance, any of which would adversely impact our business, operating results and financial condition.

In addition to eliminating the penalty for violating the individual mandate, the Trump administration issued an executive order in October 2017 that directed the executive branch of the government to consider proposing regulations and revising guidance to expand access to association health plans, expand the availability of short-term health insurance and increase the usability of health reimbursement arrangements. As a result of the executive order, new regulations were adopted in July and August 2018, respectively, that would facilitate association-based health insurance plans and promote the sale of more short-term health insurance. The regulations relating to short-term health insurance plans extend the initial duration of short-term health insurance from three months to less than one year and allow for short-term health insurance plans to be renewed as long as the total duration of the plan does not exceed thirty-six months. However, states have authority to impose their own laws and regulations over short-term health insurance plans sold in their markets and certain states have adopted or are contemplating laws and regulations that would ban the sale of short-term health insurance, limit their duration and renewability, apply certain aspects of the Affordable Care Act to short-term health insurance or impose stronger disclosure requirements than the federal regulation. The expansion of the availability of short-term health insurance in many states may cause individuals and families to purchase short-term health insurance instead of individual and family health insurance, which could adversely impact our business, operating results and financial condition if any reduction in our sales of individual and family health insurance is not offset by increased revenue from sales of short-term health insurance. The regulations relating to association health plans allow small businesses, including sole proprietors and other self-employed individuals, to join industry or geographically-based associations and collectively purchase large group health insurance plans. Large group health insurance is not subject to many of the provisions of the Affordable Care Act, including the requirement that health insurance plans cover all of the essential health benefits defined under the Affordable Care Act. The goal of the new regulation is to create a new health insurance option for small businesses, sole proprietors and other self-employed individuals and to reduce the cost of insurance for these purchasers if they are association members. While the regulation could present new business opportunities for us, it also may reduce the size of the individual, family and small business health insurance markets that we are able to address, which would harm our business, operating results and financial condition.

In December 2018, a federal district court in Texas in *Texas v. United States of America et al.*, determined that the individual mandate in the Affordable Care Act is unconstitutional, because it was not within Congress's tax power or interstate commerce power. It also determined that the remaining provisions of the Affordable Care Act were inseparable and therefore invalid. The court, however, did not rule that the operation of the Affordable Care Act be enjoined, so the law continues to operate until determined otherwise by the court or an appellate court. If the Affordable Care Act were finally determined to be unconstitutional and no longer operated, it is unclear what impact it or its replacement would have on our business. However, it or its replacement could adversely impact our business, operating results and financial condition.

***Our business may be harmed if we do not enroll subsidy-eligible individuals through government-run health insurance exchanges efficiently.***

In order to offer the qualified health plans that individuals and families must purchase to receive Affordable Care Act subsidies, agents and brokers must meet certain conditions, such as receiving permission to do so from the applicable government health insurance exchange, entering into an agreement with the health insurance exchange or a partner of the exchange, ensuring that the enrollment and subsidy application is completed through the health insurance exchange and complying with privacy, security and other standards, some of which contain requirements that are new to us. In the event Internet-based agents and brokers such as us use the Internet for completion of qualified health plan selection purposes, their websites are required to meet certain additional requirements. To the extent we enroll individuals and families into qualified health plans, we do so through the Federally Facilitated Marketplace, or FFM, which runs all or part of the health insurance exchange in 38 states. We may experience difficulty in satisfying the conditions and requirements to offer qualified health plans to our existing members and new potential members, and in getting them enrolled through the FFM. If we are not able to satisfy these conditions and requirements, or if we are not able to successfully adopt and maintain solutions that allow us to enroll large numbers of individuals and families in qualified plans over the Internet both during and outside of open enrollment periods, we will lose existing members and new members, and may incur additional expense, which would harm our business, operating results and financial condition. In addition, if we are not able to adopt or contract with and maintain solutions to integrate with government-run health insurance exchanges or if the health insurance exchange websites and other processes are unstable or not consumer friendly, efficient and compatible with the process we have adopted for enrolling individuals and families into qualified health plans through the exchanges, we would not be successful in retaining and acquiring members, and our business, operating results and financial condition would be harmed. The FFM may at any time cease allowing us to enroll individuals in qualified health plans or change the requirements for doing so. If it does so or if the FFM platform does not function properly, our ability to retain existing members and add new members could be negatively impacted, which would harm our business, operating results and financial condition.

We have entered into agreements with CMS relating to our ability to enroll individuals in qualified health plans through the FFM. The agreements contain comprehensive privacy and security and other requirements. In order to be able to enroll individuals into qualified health plans, we also must satisfy several other regulatory requirements and comply with additional laws and regulations. In order to enroll individuals into qualified health plans online through the FFM, we must among other things, maintain our agreements with the FFM which need to be renewed every year; satisfy the requirements contained in the relevant agreements as well as applicable laws and regulations; maintain a compliant Internet platform incorporating those requirements; maintain qualified health plan information from health insurance carriers and CMS and incorporate it into our web platform; maintain a privacy and security program to conform to the privacy and security requirements of our agreement with CMS as well as applicable laws and regulations; and adopt and maintain solutions that integrate with the FFM (or contract with others that do so) so that information may be passed to and from us relating to enrollment in qualified health plans and subsidy eligibility. If we do not comply with applicable laws, regulations and requirements, our ability to enroll individuals into qualified health plans through the FFM could be terminated, and we may be required to pay significant monetary penalties, either of which would harm our business operating results and financial condition.

CMS has broad authority over the requirements that must be met in order to enroll individuals into qualified health plans through the FFM without visiting the FFM website. Beginning in the open enrollment period that occurred in the fourth quarter of 2018, CMS adopted a new enhanced direct enrollment pathway for CMS-approved partners to enroll individuals into qualified health plans and complete all steps in the eligibility and enrollment process on a single website. The enhanced direct enrollment process uses an application programming interface to transfer information relating to health plan and subsidy eligibility between the FFM and the approved partner's website. Before enhanced direct enrollment partners are approved, extensive security and privacy reviews are conducted by an independent third-party auditor and CMS reviews the audit results to ensure the entity satisfies numerous additional privacy and security standards. We entered into an agreement to outsource certain aspects of the enrollment process for qualified health plans to a third party in light of the expense and burden associated with the additional requirements, and the entity was successful in passing the required audit to use this new process for the current open enrollment period that began on November 1, 2019. However, if we were to fail to satisfy the requirements to use the improved qualified health plan enrollment process in the future, or if we are unsuccessful in entering into or maintaining a relationship with a third party who is approved to use the process, we could be required to use the alternative "double redirect" process that would require our customers to visit the FFM website in the middle of purchasing qualified health insurance plans to receive a subsidy eligibility determination. We have in the past used the "double redirect" process which resulted in a reduction in the rate at which individuals and families starting the application process for qualified health plans and subsidies became members and a reduction in our individual and family health insurance plan membership and revenue. If we are forced to use the "double redirect" process in the future, we could continue to experience loss of existing members and new potential members and a reduction in our individual and family health insurance plan membership and commission revenue, which would harm our business, operating results and financial condition. In addition, if any third party we contract with to perform certain aspects of the qualified health plan selection and enrollment process has a poor consumer experience or otherwise

experiences technical or other difficulties, we could experience a reduction in our individual and family health insurance plan membership and revenue and our business, operating results and financial condition could be harmed.

***The medical loss ratio requirements that are a part of health care reform may harm our business.***

The Affordable Care Act contains provisions requiring health insurance carriers to maintain specified medical loss ratios. The medical loss ratio requirements for both individual and family and small business health insurance require health insurance companies to spend 80% of their premium revenue in each of their individual and small group health insurance businesses on reimbursement for clinical services and activities that improve health care quality. The medical loss ratio requirement for Medicare Advantage plans is 85%. If a health insurance carrier fails to meet medical loss ratio requirements, the health insurance carrier is required to rebate a portion of its premium revenue to its members to make up for the difference. Health insurance carriers may determine to reduce our Medicare Advantage plan, individual and family, or small group commissions as a result of the medical loss ratio requirements, which would harm our business, operating results and financial condition.

***If we are not successful in cost-effectively converting visitors to our website and customer call centers into members for which we receive commissions, our business and operating results would be harmed.***

Our growth depends in large part upon growth in approved members in a given period. The rate at which consumers visiting our ecommerce platform and customer care centers seeking to purchase health insurance are converted into approved members directly impacts our revenue. In addition, the rate at which consumers who are approved become paying members impacts the constrained LTV of our approved members, which impacts the revenue that we are able to recognize. A number of factors have influenced, and could in the future influence, these conversion rates for any given period, some of which are outside of our control. These factors include:

- changes in consumer shopping behavior due to circumstances outside of our control, such as economic conditions, consumers' ability or willingness to pay for health insurance, availability of unemployment benefits or proposed or enacted legislative or regulatory changes impacting our business, including health care reform;
- the quality of and changes to the consumer experience on our ecommerce platform or with our customer care center;
- regulatory requirements, including those that make the experience on our online platforms cumbersome or difficult to navigate or reduce the ability of consumers to purchase plans outside of enrollment periods;
- the variety, competitiveness and affordability of the health insurance plans that we offer;
- system failures or interruptions in the operation of our ecommerce platform or call center operations;
- changes in the mix of consumers who are referred to us through our direct, marketing partner and online advertising member acquisition channels;
- health insurance carriers offering the health insurance plans for which consumers have expressed interest, and the degree to which our technology is integrated with those carriers;
- health insurance carrier guidelines applicable to applications submitted by consumers, the amount of time a carrier takes to make a decision on that application and the percentage of submitted applications approved by health insurance carriers;
- the effectiveness of health insurance agents in assisting consumers; and
- our ability to enroll subsidy-eligible individuals in qualified health plans through government-run health insurance exchanges and the efficacy of the process we are required to use to do so.

Our conversion rates can be impacted by changes in the mix of consumers referred to us through our member acquisition channels. We may make changes to our ecommerce platforms in response to regulatory requirements or undertake other initiatives in an attempt to improve consumer experience or for other reasons. These changes have in the past, and may in the future have the unintended consequence of adversely impacting our conversion rates. A decline in the percentage of consumers who submit health insurance applications on our ecommerce platforms or telephonically via our customer care centers and are converted into approved and paying members could cause an increase in our cost of acquiring members on a per member basis and impact our revenue in any given period. To the extent the rate at which we convert consumers visiting our ecommerce platforms or telephonically via our customer care centers into members suffers, our membership may decline, which would harm our business, operating results and financial condition.

***Changes in the health insurance market or in the variety, quality and affordability of the health insurance plans that carriers offer on our ecommerce platforms could harm our business and operating results.***

Our business depends upon the private sector of the United States health insurance system, its relative role in financing health care delivery and health insurance carriers' use of, and payment of commissions to, agents and brokers to market health insurance plans. The market for private health insurance in the United States is evolving and our future financial performance will depend in part on growth in this market. Changes and developments in the health insurance system in the United States could

reduce demand for our products and harm our business. For example, there has been an ongoing national debate relating to the health care reimbursement system in the United States. Certain candidates for President of the United States as well as some members of Congress have introduced proposals to expand the Medicare program, ranging from proposals that would create a new single payor national health insurance program for all United States residents, replacing virtually all other sources of public and private insurance, to more incremental approaches such as lowering the age of eligibility for the Medicare program or creating a new public health insurance plan option as a supplement to private sources of coverage. In the event that laws, regulations or rules that eliminate or reduce private sources of health insurance are adopted, the demand for our products could be adversely impacted and our business, operating results and financial condition would be harmed.

The demand for health insurance marketed through our ecommerce platforms is impacted by, among other things, the variety, quality and price of the health insurance plans we offer. If our ability to sell a variety of high-quality, affordable health insurance plans in the Medicare, individual and family, small business and ancillary product markets is impaired, or our health insurance plan offerings are limited or terminated as a result of consolidation in the health insurance industry, health care reform or otherwise, our sales or average commission rate per member may decrease and our business, operating results and financial condition could be harmed. In addition, the cost of health insurance has increased substantially in many states as a result of health care reform implementation, which has reduced demand for individual and family health insurance. To the extent these conditions persist or worsen or the cost of other types of plans we sell increases, our business, operating results and financial condition would be harmed.

***If we are not able to maintain and enhance our brand, our business and operating results will be harmed.***

We believe that maintaining and enhancing our brand identity is critical to our relationships with existing members, marketing partners and health insurance carriers and to our ability to attract new members, marketing partners and health insurance carriers. The promotion of our brand in these and other ways may require us to make substantial investments and we anticipate that, as our market becomes increasingly competitive, these branding initiatives may become increasingly difficult and expensive. Our brand promotion activities may not be successful or yield increased revenue, and to the extent that these activities yield increased revenue, the increased revenue may not offset the expenses we incur and our operating results could be harmed. If we do not successfully maintain and enhance our brand, our business may not grow and we could lose our relationships with health insurance carriers, marketing partners and/or members, which would harm our business, operating results and financial condition.

In addition, we have historically received media attention in connection with our public relations efforts. While we cannot be certain of the impact of media coverage on our business, if it were to be reduced or if we were to receive negative publicity, the number of consumers visiting our platforms or customer call centers could decrease, and our cost of acquiring members could increase as a result of a reduction in the number of members coming from our direct member acquisition channel, both of which could harm our business, operating results and financial condition.

***Our future operating results are likely to fluctuate and could fall short of expectations.***

Our operating results are likely to fluctuate as a result of a variety of factors, including the factors described elsewhere in this Risk Factors section, many of which are outside of our control. Among these factors, the assumptions underlying our estimates of commission revenue as required by Accounting Standards Update 2014-09, *Revenue from Contracts with Customers (ASC 606)*, may vary significantly over time. As a result, comparing our operating results on a period-to-period basis may not be meaningful and you should not rely on our past results as an indication of our future performance, particularly in light of the fact that our business and industry are undergoing substantial change as a result of health care reform and initiatives we determined to pursue. If our revenue or operating results differ from our guidance or fall below the expectations of investors or securities analysts, the price of our common stock could decline substantially. In the past, when our revenue and operating results differed from our guidance and the expectations of investors or securities analysts, the price of our common stock was impacted.

***System failures or capacity constraints could harm our business and operating results.***

The performance, reliability and availability of our ecommerce platforms and underlying network infrastructures are critical to our financial results, our brand and our relationship with members, marketing partners and health insurance carriers. Although we regularly attempt to enhance our ecommerce platform and system infrastructure, system failures and interruptions may occur if we are unsuccessful in these efforts, if we are unable to accurately project the rate or timing of increases in our website traffic or for other reasons, some of which are completely outside our control. Although we have experienced only minor system failures and interruptions to date, we could experience significant failures and interruptions in the future, which would harm our business, operating results and financial condition. If these failures or interruptions occurred during the Medicare annual enrollment period or during the open enrollment period under health care reform, the negative impact on us would be particularly pronounced.

We rely in part upon third-party vendors, including data center and bandwidth providers, to operate our ecommerce platforms. We cannot predict whether additional network capacity will be available from these vendors as we need it, and our network or our suppliers' networks might be unable to achieve or maintain a sufficiently high capacity of data transmission to allow us to process health insurance applications in a timely manner or effectively download data, especially if our website traffic increases. Any system failure that causes an interruption in or decreases the responsiveness of our services would impair our revenue-generating capabilities and harm our business and operating results and damage our reputation. In addition, any loss of data could result in loss of customers and subject us to potential liability. Our database and systems are vulnerable to damage or interruption from human error, fire, floods, power loss, telecommunications failures, physical or electronic break-ins, computer viruses, acts of terrorism, other attempts to harm our systems and similar events. In addition, our operations are vulnerable to earthquakes, fires, severe weather and other natural disasters in the San Francisco Bay Area and elsewhere in Northern California as well as in other parts of the country where we or our outsourced health insurance agents maintain offices.

Consumers may access our customer care centers for assistance in connection with submitting health insurance applications. We depend upon third parties, including telephone service providers and third party software providers, to operate our customer care centers. Any failure of the systems that we rely upon in the operation of our customer care centers could negatively impact sales as well as our relationship with consumers and members, which could harm our business, operating results and financial condition.

***We depend upon Internet search engines to attract a significant portion of the consumers who visit our website, and if we are unable to effectively advertise on search engines on a cost-effective basis, our business and operating results would be harmed.***

We derive a significant portion of our website traffic from consumers who search for health insurance through Internet search engines, such as Google, Bing and Yahoo!. A critical factor in attracting consumers to our website is whether we are prominently displayed in response to an Internet search relating to health insurance. Search engines typically provide two types of search results, algorithmic listings and paid advertisements. We rely on both to attract consumers to our websites and otherwise generate demand for our services.

Algorithmic search result listings are determined and displayed in accordance with a set of formulas or algorithms developed by the particular Internet search engine. The algorithms determine the order of the listing of results in response to the consumer's Internet search. From time to time, search engines revise these algorithms. In some instances, these modifications have caused our website to be listed less prominently in algorithmic search results, which has resulted in decreased traffic to our website. We may also be listed less prominently as a result of new websites or changes to existing websites that result in these websites receiving higher algorithmic rankings with the search engine. For example, government health insurance exchange websites appear prominently in algorithmic search results. Our website may become listed less prominently in algorithmic search results for other reasons, such as search engine technical difficulties, search engine technical changes and changes we make to our website. In addition, search engines have deemed the practices of some companies to be inconsistent with search engine guidelines and decided not to list their website in search result listings at all. If we are listed less prominently in, or removed altogether from, search result listings for any reason, the traffic to our websites would decline and we may not be able to replace this traffic, which would harm our business, operating results and financial condition. If we decide to attempt to replace this traffic, we may be required to increase our marketing expenditures, which would also increase our cost of member acquisition and harm our business, operating results and financial condition.

We purchase paid advertisements on search engines in order to attract consumers to our platforms. We typically pay a search engine for prominent placement of our website when particular health insurance-related terms are searched for on the search engine, regardless of the algorithmic search result listings. The prominence of the placement of our advertisement is determined by a combination of factors, including the amount we are willing to pay and algorithms designed to determine the relevance of our paid advertisement to a particular search term. As with algorithmic search result listings, search engines may revise the algorithms relevant to paid advertisements and websites other than our ecommerce platform may become more optimized for the algorithms. These changes may result in our having to pay increased amounts to maintain our paid advertisement placement in response to a particular search term. We could also have to pay increased amounts should the market share of major search engines continue to become more concentrated with a single search engine. Additionally, we bid against our competitors and others for the display of these paid search engine advertisements. Many of our competitors, including many health insurance carriers and government-run health insurance exchanges, have greater resources with which to bid and better brand recognition than we do. We have experienced increased competition from health insurance carriers, government health insurance exchanges and some of our marketing partners for both algorithmic search result listings and for paid advertisements. The competition has increased the cost of paid internet search advertising and has increased our marketing and advertising expenses. The competition increases substantially during the enrollment periods for Medicare related health insurance and for individual and family health insurance. If paid search advertising costs increase or become cost prohibitive, whether as a results of competition, algorithm changes or



otherwise our advertising expenses could rise significantly or we could reduce or discontinue our paid search advertisements, either of which would harm our business, operating results and financial condition.

*We rely significantly on marketing partners and our business and operating results would be harmed if we are unable to maintain effective relationships with our existing marketing partners or if we do not establish successful relationships with new marketing partners.*

In addition to marketing through Internet search engines, we frequently enter into contractual marketing relationships with other online and offline businesses that promote us. These marketing partners include financial and online service companies, affiliate programs and online advertisers and content providers. We also have relationships with strategic marketing partners, including hospitals and pharmacy chains that promote our Medicare platforms to their customers as well as pharmacy service providers. We compensate many of our marketing partners for their referrals on a submitted health insurance application basis and, if they are licensed to sell health insurance, may share a percentage of the commission we earn from the health insurance carrier for each member referred by the marketing partner.

Many factors influence the success of our relationship with our marketing partners, including:

- the continued positive market presence, reputation and growth of the marketing partner;
- the effectiveness of the marketing partner in marketing our website and services, including whether the marketing partner is successful in maintaining the prominence of its website in algorithmic search result listings and paid Internet advertisements;
- the compliance of our marketing partners with applicable laws, regulations and guidelines;
- the interest of the marketing partner's customers in the health insurance plans that we offer;
- the contractual terms we negotiate with the marketing partner, including the marketing fees we agree to pay a marketing partner;
- the percentage of the marketing partner's customers that submit applications or purchase health insurance policies through us;
- the ability of a marketing partner to maintain efficient and uninterrupted operation of its website; and
- our ability to work with the marketing partner to implement website changes, launch marketing campaigns and pursue other initiatives necessary to maintain positive consumer experiences and acceptable traffic volumes.

For instance, we partner with Internet lead aggregators who refer a significant number of consumers to our online platforms. Major search engines have in the past and may in the future determine not to list lead aggregator websites prominently in search result listings for various reasons, which would cause a significant reduction in the number of consumers referred to us through our marketing partner channel. While we have relationships with a large number of marketing partners, we depend upon referrals from a limited number of marketing partners for a significant portion of the submitted applications we receive from our marketing partner customer acquisition channel.

Given our reliance on our marketing partners, our business operating results and financial condition would be harmed if any of the following were to occur:

- if we are unable to maintain successful relationships with our existing marketing partners, particularly marketing partners responsible for a significant number of our submitted applications;
- if we fail to establish successful relationships with new marketing partners;
- if we experience competition in our receipt of referrals from our high volume marketing partners; and
- if we are required to pay increased amounts to our marketing partners.

Competition for referrals from our marketing partners has increased particularly during the enrollment periods for Medicare-related health insurance and individual and family health insurance. We may lose marketing partner referrals if our competitors pay marketing partners more than we do or be forced to pay increased fees to our marketing partners, which could harm our business, operating results and financial condition. If we lose marketing partner referrals during the Medicare or individual and family health insurance enrollment periods, the adverse impact on our business would be particularly pronounced. In addition, the promulgation of laws, regulations or guidelines, or the interpretation of existing laws, regulations and guidelines, by state departments of insurance or by CMS, could cause our relationships with our marketing partners to be in non-compliance with those laws, regulations and guidelines. We also have relationships with hospital systems and pharmacy chains that utilize aspects of our platform and tools. Our relationships with these hospital systems and pharmacy chains result in the referral of a significant number of individuals to us who are interested in purchasing Medicare-related health insurance plans. If CMS or state departments of insurance were to change existing laws, regulations or guidelines, or interpret existing laws, regulations or guidelines, to prohibit these arrangements, or if hospital systems or pharmacy partners otherwise decided to no longer utilize aspects of our platform and tools, we could experience a significant decline in the number of Medicare-eligible individuals who are referred to our platforms and customer care centers, which would harm our business, operating results and financial condition.

***If commission reports we receive from carriers are inaccurate or not sent to us in a timely manner, our business and operating results could be harmed and we may not recognize trends in our membership.***

We rely on health insurance carriers to timely and accurately report the amount of commissions earned by us, and we calculate our commission rates per member, prepare our financial reports, projections and budgets and direct our marketing and other operating efforts based on the reports we receive from health insurance carriers. There have been instances where we have determined that policy cancellation data reported to us by a health insurance carrier has not been accurate. The extent to which health insurance carriers are inaccurate in their reporting of policy cancellations could cause us to change our cancellation estimates, which could adversely impact our revenues. We apply judgment and make estimates based on historical data and current trends to independently determine whether or not carriers are accurately reporting commissions due to us. Our revenue recognition policy changed in the first quarter of 2018 as a result of our adoption of Accounting Standards Update 2014-09, *Revenue from Contracts with Customers (ASC 606)*, as discussed in *Note 2 — Revenue* in the *Notes to Condensed Consolidated Financial Statements* of this report. To the extent that health insurance carriers understate or fail to accurately report the amount of commissions due to us in a timely manner or at all, our estimates of constrained LTV may be adversely impacted, which would harm our business, operating results and financial condition. In addition, any inaccuracies in the reports would adversely impact our commission revenue for future periods which is based on historical trends, including trends relating to contracted commission rates and expected health insurance plan cancellation.

We depend on health insurance carriers and others for data related to our membership. For instance, with respect to health insurance plans other than small business health insurance, health insurance carriers do not directly report member cancellations to us, resulting in the need for us to determine cancellations using payment data that carriers provide. We infer cancellations from this payment data by analyzing whether payments from members have ceased for a period of time, and we may not learn of a cancellation for several months. With respect to our small business membership, many groups notify the carrier directly with respect to increases or decreases in group size and policy cancellations. Our insurance carrier partners often do not communicate this information to us, and it often takes a significant amount of time for us to learn about small business group cancellations and changes in our membership within the group itself. We often are not made aware of policy cancellations until the time of the group's annual renewal.

After we have estimated membership for a period, we may receive information from health insurance carriers that would have impacted the estimate if we had received the information prior to the date of estimation. We may receive commission payments or other information that indicates that a member who was not included in our estimates for a prior period was in fact an active member at that time, or that a member who was included in our estimates was in fact not an active member of ours. We also reconcile information health insurance carriers provide to us and may determine that we were not historically paid commissions owed to us, which would cause us to have underestimated our membership. As a result of open enrollment periods, we may not receive information from our carriers on as timely a basis due to the significant increase in health insurance transaction volume, which could impair the accuracy of our membership estimates. Additionally, health insurance carriers may require us to return commission payments paid in a prior period due to policy cancellations for members we previously estimated as being active. For these and other reasons, including if current trends in membership cancellation are inconsistent with past cancellation trends that we use to estimate our membership or if carriers subsequently report changes to the commission payments that they previously reported to us, our actual membership could be different from our estimates, perhaps materially. If our actual membership is different from our estimates, the constrained LTV component of our revenue recognition could also be inaccurate, including as a result of an inaccurate estimate of the average amount of time our members maintain their health insurance plans.

***Our business is subject to security risks and, if we are subject to cyber-attacks, security breaches or otherwise unable to safeguard the security and privacy of confidential data, including personal health information, our business will be harmed.***

Our services involve the collection and storage of confidential and personally identifiable information of consumers and the transmission of this information to their chosen health insurance carriers and to government. For example, we collect names, addresses, Social Security and credit card numbers and protected health information such as information regarding the medical history of consumers. As a result, we are subject to various laws and regulations and contractual requirements regarding the collection, maintenance, protection, use, transmission, disclosure and disposal of sensitive personal information. We also hold a significant amount of information relating to our current and former employees. We cannot guarantee that our facilities and systems, and those of our third party service providers, will be free of security breaches, cyber-attacks, acts of vandalism, computer viruses, malware, misplaced or lost data, programming and/or human errors or other similar events. Compliance with privacy and security laws, requirements and regulations may result in cost increases due to new constraints on our business, the development of new processes, the effects of potential non-compliance by us or third party service providers, and enforcement actions. We may be required to expend significant amounts and other resources to protect against security breaches or to alleviate problems caused by security breaches. Despite our implementation of security measures, techniques used to obtain unauthorized access or to sabotage

systems change frequently. As a result, we may be unable to anticipate these techniques or to implement adequate preventative measures. Additionally, our third party service providers may cause security breaches for which we are responsible.

Any compromise or perceived compromise of our security by us or by one of our vendors could damage our reputation, cause the termination of relationships with government-run health insurance exchanges and our members, marketing partners and health insurance carriers, reduce demand for our services and subject us to significant liability and expense as well as regulatory action and lawsuits, which would harm our business, operating results and financial condition. In addition, in the event that additional data security laws are implemented, or our health insurance carrier or other partners determine to impose requirements on us relating to data security, we may not be able to timely comply with such requirements or such requirements may not be compatible with our current processes. Changing our processes could be time consuming and expensive, and failure to timely implement required changes could result in our inability to sell health insurance plans in a particular jurisdiction or for a particular health insurance carrier or subject us to liability for non-compliance, any of which would damage our business, operating results and financial condition. For instance, health insurance carriers may require us to be compliant with Payment Card Industry, or PCI, security standards in order to accept credit card information from consumers or require us to comply with privacy and security standards to do business with us at all. PCI compliance and compliance with other privacy and security standards are regularly assessed, and we may not always be compliant with the standards. If we are not in compliance, we may not be able to accept credit card information from consumers or conduct health insurance business, and our relationship with health insurance carriers could be adversely impacted or terminated, which would harm our business, operating results and financial condition.

***There are many risks associated with our operations in China.***

A portion of our operations is conducted by our subsidiary in China. Among other things, we use employees in China to maintain and update our ecommerce platform and perform certain tasks within our finance and customer care and enrollment functions. We rely on the Internet to communicate with our subsidiary in China. Our business would be harmed if our ability to communicate over the Internet with these employees failed, and we were prevented from promptly updating our software or implementing other changes to our database and systems, among other things. From time-to-time we receive inquiries from health insurance carriers relating to our operations in China and the security measures we have implemented to protect data that our employees in China may be able to access. As a part of these inquiries, we have implemented additional security measures relating to our operations in China. We may be required to implement further security measures to continue aspects of our operations in China or health insurance carriers may require us to bring aspects of our operations in China back to the United States, which could be time consuming and expensive and harm our operating results and financial condition. Health insurance carriers may also terminate our relationship due to concerns surrounding protection of data, which would harm our business, operating results and financial condition.

Our operations in China also expose us to different and unfamiliar laws, rules and regulations, including different intellectual property laws, which are not as protective of our intellectual property as the laws in the United States. United States and Chinese trade laws may also impose restrictions on the importation of programming or technology to or from the United States. We are also subject to anti-bribery and anti-corruption laws, privacy and data security laws, labor laws, tax laws, foreign exchange controls and cash repatriation restrictions in China. Compliance with these laws and regulations could cause us to incur substantial costs or require us to change our business operations in China. Violations of applicable laws and regulations could adversely affect our brand, and could result in regulatory enforcement actions and the imposition of civil or criminal penalties and fines, which would harm our business, operating results and financial condition. In addition, our business may be adversely impacted by changes in China's economic or political condition. We have recently experienced greater competition for qualified personnel in China, which has raised market salaries and increased our compensation costs related to employees in China. If competition for personnel increases further, our compensation expenses could rise considerably or, if we determine to not increase compensation levels, our ability to attract and retain qualified personnel in China may be impaired, which could harm our business, operating results and financial condition. These risks could cause us to incur increased expenses and could harm our ability to effectively and successfully manage our operations in China. Moreover, any significant or prolonged deterioration in the relationship between United States and China could adversely affect our operations in China. Certain risks and uncertainties of doing business in China are solely within the control of the Chinese government, and Chinese law regulates the scope of our foreign investments and business conducted within China. The escalation of trade tensions initiated by the current administration has increased the risk associated with our operations in China. Either the United States or the Chinese government may sever our ability to communicate with our China operations or may take actions that force us to close our operations in China. We employ a large number of our technology and content employees in China, and we have other employees in China that support our business. Any sudden disruption of our operations in China would adversely impact our business. If we are required to move aspects of our operations from China to our offices in the United States as a result of political instability, changes in laws, inquiries from health insurance carriers or for other reasons, we could incur increased expenses, and our business, operating results and financial condition could be harmed.

***Our sponsorship and advertising business may not be successful.***

We sell advertising space to health insurance carriers on our website through our sponsorship and advertising program. Our sponsorship and advertising program allows carriers to purchase advertising space in specific markets in a sponsorship area on our website. Health insurance carriers have generally determined not to spend on individual and family health insurance advertising through our sponsorship and advertising program as a result of the impact of health care reform on the profitability of their individual and family health insurance businesses. To the extent that economic conditions, health care reform or other factors impact the amount health insurance carriers are willing to pay for advertising on our ecommerce platform, our sponsorship and advertising program will be adversely impacted. Since much of our sponsorship revenue depends upon the number of applications we submit to health insurance carriers, a reduction in demand for the carrier's product (such as outside open enrollment periods) would reduce our sponsorship revenue and our business, operating results and financial condition could be harmed. The success of our sponsorship and advertising program depends on a number of other factors, including the effectiveness of the sponsorship and advertising program as a cost-effective method for carriers to obtain additional members, consumer and health insurance carrier adoption of the Internet and our ecommerce platform as a medium for the purchase and sale of health insurance, our ability to attract consumers visiting our ecommerce platform and convert those consumers into members, the existence of a relationship between us and a diverse group of carriers that offer a number of health insurance plans in the markets in which we attempt to sell advertising, the cost, benefit and brand recognition of the health insurance plan that is the subject of the advertising, the impact the advertising has on the sale of the health insurance plan that is the subject of the advertising and the effectiveness of the carrier's other means of advertising. In addition, while our practice of selling advertising is described on our ecommerce platform, it could cause consumers to perceive us as not objective, which could harm our brand and result in a decline in our health insurance sales. It also could adversely impact our relationship with health insurance carriers that do not purchase our advertising or otherwise result in accusations that we are favoring certain plans over others. As a result, our business, operating results and financial condition could be harmed.

We also develop, host and maintain carrier dedicated Medicare plan websites and may undertake other marketing and advertising initiatives through our advertising program. Our success in doing so is dependent upon the same factors that could impact our sponsorship program. In addition, since we maintain relationships with a limited number of health insurance carriers to sell their Medicare plans, our Medicare plan-related advertising revenue is concentrated in a small number of health insurance carriers and our ability to generate Medicare plan-related advertising revenue would be harmed by the termination or non-renewal of any of these relationships as well as by a reduction in the amount a health insurance carrier is willing to pay for these services. Moreover, in light of the regulations applicable to the marketing and sale of Medicare plans, and given that these regulations are often unclear, change frequently and are subject to changing interpretations, we may in the future not be permitted to sell Medicare plan-related advertising. If we are not successful in generating Medicare plan-related advertising revenue, our business operating results and financial condition could be harmed.

***We may not be able to adequately protect our intellectual property, which could harm our business and operating results.***

We believe that our intellectual property is an essential asset of our business and that our technology currently gives us a competitive advantage in the distribution of Medicare-related, individual and family and small business health insurance. We rely on a combination of copyright, trademark and trade secret laws as well as confidentiality procedures and contractual provisions to establish and protect our intellectual property rights in the United States. The efforts we have taken to protect our intellectual property may not be sufficient or effective, and our trademarks may be held invalid or unenforceable. Moreover, the law relating to intellectual property is not as developed in China, and our intellectual property rights may not be as respected in China as they are in the United States. We may not be effective in policing unauthorized use of our intellectual property, trade secrets and other confidential information, and even if we do detect violations, litigation may be necessary to enforce our intellectual property rights. Any enforcement efforts we undertake, including litigation, could be time-consuming and expensive, could divert our management's attention and may result in a court determining that our intellectual property or other rights are unenforceable. If we are not successful in cost-effectively protecting our intellectual property rights, trade secrets and confidential information, our business, operating results and financial condition could be harmed.

***We may in the future be subject to intellectual property rights claims, which are extremely costly to defend, could require us to pay significant damages and could limit our ability to use certain technologies in the future.***

There are a large number of patents, copyrights, trademarks and trade secrets applicable to the internet and technology industries and entities frequently enter into litigation based on allegations of infringement or other violations of intellectual property rights. We have received, and may in the future receive, notices that claim we have misappropriated, infringed or misused other parties' intellectual property rights, and, to the extent we gain greater visibility, we face a higher risk of being the subject of intellectual property infringement claims. There may be third-party intellectual property rights, including issued or pending patents that cover significant aspects of our technologies or business methods or that cover third-party technology that we use as a part

of our websites. Any intellectual property claim against us, with or without merit, could be time consuming, expensive to settle or litigate and could divert our management's attention and other resources. These claims also could subject us to significant liability for damages and could result in our having to stop using technology found to be in violation of a third party's rights. We might be required to seek a license for third-party intellectual property, which may not be available on reasonable terms or at all. Even if a license is available, we could be required to pay significant royalties, which would increase our operating expenses. We may also be required to develop alternative non-infringing technology, which could require significant effort and expense. If we cannot license or develop technology for any infringing aspect of our business, we would be forced to limit our services and may be unable to compete effectively. Any of these results would harm our business, operating results and financial condition.

***Any legal liability, regulatory penalties, or negative publicity for the information on our website or that we otherwise provide could harm our business and operating results.***

We provide information on our website, through our customer care centers, in our marketing materials and in other ways regarding health insurance in general and the health insurance plans we market and sell, including information relating to insurance premiums, coverage, benefits, provider networks, exclusions, limitations, availability, plan comparisons and insurance company ratings. A significant amount of both automated and manual effort is required to maintain the considerable amount of insurance plan information on our website. Separately, from time to time, we use the information provided on our website and otherwise collected by us to publish reports designed to educate consumers, facilitate public debate, and facilitate reform at the state and federal level. If the information we provide on our website, through our customer care centers, in our marketing materials or otherwise is not accurate or is construed as misleading, or if we do not properly assist individuals and businesses in purchasing health insurance, members, health insurance carriers and others could attempt to hold us liable for damages, our relationships with health insurance carriers could be terminated or impaired and regulators could attempt to subject us to penalties, revoke our licenses to transact health insurance business in a particular jurisdiction, and/or compromise the status of our licenses to transact health insurance business in other jurisdictions, which could result in our loss of our commission revenue. In the ordinary course of operating our business, we have received complaints that the information we provided was not accurate or was misleading. Although in the past we have resolved these complaints without significant financial cost or impact to our brand or reputation, we cannot guarantee that we will be able to do so in the future. Our sales of short-term health insurance plans that lack the same benefits as major medical health insurance plans may increase the risk that we receive complaints regarding our marketing and business practices due to the potential for consumer confusion between short-term health insurance and major medical health insurance. In addition, these types of claims could be time-consuming and expensive to defend, could divert our management's attention and other resources, and could cause a loss of confidence in our services. As a result, whether or not we are able to successfully resolve these claims, they could harm our business, operating results and financial condition.

In the ordinary course of our business, we have received and may continue to receive inquiries from state regulators relating to various matters. We also have become, and may in the future become, involved in litigation or claims in the ordinary course of our business, including with respect to employment-related claims such as workplace discrimination or harassment. We have, and may in the future, face claims of violations of other local, state, and federal labor or employment laws, laws and regulations relating to marketing and laws and regulations relating to the sale of insurance. If we are found to have violated laws or regulations, we could lose our relationship with health insurance carriers and be subject to various fines and penalties, including revocation of our licenses to sell insurance which would cause us to lose our commission revenue, and our business, operating results and financial condition would be materially harmed. In addition, if regulators believe our websites or marketing material are not compliant with applicable laws or regulations, we could be forced to stop using our websites, marketing material or certain aspects of them, which would harm our business, operating results and financial condition.

***Acquisitions could disrupt our business and harm our financial condition and operating results.***

We acquired Wealth, Health and Life Advisors, LLC, more commonly known as GoMedigap, in January 2018 and we may in the future acquire other businesses, products and technologies. Our ability as an organization to successfully make and integrate acquisitions is unproven. Acquisitions could require significant capital infusions and could involve many risks, including the following:

- an acquisition may negatively impact our results of operations because it will require us to incur transaction expenses, and after the transaction, may require us to incur charges and substantial debt or liabilities, may require the amortization, write down or impairment of amounts related to deferred compensation, goodwill and other intangible assets, or may cause adverse tax consequences, substantial depreciation or deferred compensation charges, such as expenses related to the change in fair value of earnout liability;
- an acquisition undertaken for strategic business purposes may negatively impact our results of operations;
- we may encounter difficulties in assimilating and integrating the business, technologies, products, personnel or operations of companies that we acquire, particularly if key personnel of the acquired company departs or decide not to work for us;

- an acquisition may disrupt our ongoing business, divert resources, increase our expenses and distract our management;
- we may be required to implement or improve internal controls, procedures and policies appropriate for a public company at a business that prior to the acquisition lacked these controls, procedures and policies;
- the acquired businesses, products or technologies may not generate sufficient revenue to offset acquisition costs or to maintain our financial results;
- we may have to issue securities to complete an acquisition, which would dilute our stockholders' ownership and could adversely affect the market price of our common stock; and
- acquisitions may involve the entry into geographic or business markets in which we have little or no prior experience.

We cannot assure you that we will be able to identify or consummate any future acquisition on favorable terms, or at all. If we do pursue an acquisition, it is possible that we may not realize the anticipated benefits from the acquisition or that the financial markets or investors will negatively view the acquisition. Even if we successfully complete an acquisition, it could harm our business, operating results and financial condition.

As part of our initiative to expand our presence in the Medicare supplement market, we acquired GoMedigap in January 2018. We may not be able to realize anticipated synergies and opportunities as a result of the acquisition, and the business may not perform as planned as a result of many of the risks and uncertainties that apply to the rest of our business. We may also encounter difficulties in integrating GoMedigap into our existing business. If anticipated synergies and opportunities are not realized, our business, operating results and financial condition would be harmed.

***Our debt obligations contain restrictions that impact our business and expose us to risks that could materially adversely affect our liquidity and financial condition.***

In September 2018, we entered into a credit agreement with Royal Bank of Canada, as administrative agent and collateral agent. This credit agreement imposes certain covenants and restrictions on our business and our ability to obtain additional financing. As of September 30, 2019, we had no outstanding principal amount under our revolving credit facility.

Among other things, the credit agreement requires the lender's consent, under certain circumstances, to:

- merge or consolidate;
- sell or transfer assets outside the ordinary course of business;
- make certain types of investments and restricted payments;
- incur additional indebtedness or guarantee indebtedness of others;
- pay dividends on our capital stock;
- enter into transactions with affiliates; and
- grant liens on our assets, subject to certain exceptions.

Our credit agreement also contains customary affirmative covenants, including covenants regarding the payment of taxes and other obligations, maintenance of insurance, reporting requirements and compliance with applicable laws and regulations. Further, the credit agreement contains a financial covenant requiring the Company to maintain a minimum level of excess availability at any time. The facility contains events of default, including, among others, non-payment defaults, inaccuracy of representations and warranties, covenant defaults, cross-defaults to other indebtedness, judgment defaults, collateral defaults, bankruptcy and insolvency defaults and a change of control default.

If we experience a decline in cash flow due to any of the factors described in this "Risk Factors" section or otherwise, we could have difficulty paying interest and principal amounts due on our indebtedness and meeting the financial covenants set forth in our loan facility. If we are unable to generate sufficient cash flow or otherwise obtain the funds necessary to make required payments under the credit facility, or if we fail to comply with the requirements of our indebtedness, we could default under our credit facility. Any default that is not cured or waived could result in the acceleration of the obligations under the credit facility, an increase in the applicable interest rate under the credit facility, and would permit our lender to exercise rights and remedies with respect to all of the collateral that is securing the credit facility, which includes substantially all of our assets. Any such default could materially adversely affect our liquidity and financial condition.

Even if we comply with all of the applicable covenants, the restrictions on the conduct of our business could materially adversely affect our business by, among other things, limiting our ability to take advantage of financings, mergers, acquisitions and other corporate opportunities that may be beneficial to the business. Even if the credit facility were terminated, additional debt we could incur in the future may subject us to similar or additional covenants, which could place restrictions on the operation of our business.

***If we fail to maintain proper and effective internal controls, our ability to produce accurate financial statements could be impaired, which could adversely affect our operating results, our ability to operate our business and our stock price.***

We have a complex business organization. Ensuring that we have adequate internal financial and accounting controls and procedures in place to help ensure that we can produce accurate financial statements on a timely basis is a costly and time-consuming effort that needs to be re-evaluated frequently and is complicated by the expansion of our business operations and changing accounting requirements. Our management, including our chief executive officer and chief financial officer, does not expect that our internal control over financial reporting will prevent all errors or all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. Over time, controls may become inadequate because changes in conditions or deterioration in the degree of compliance with policies or procedures may occur. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected. We cannot assure that significant deficiencies or material weaknesses in our internal control over financial reporting will not be identified in the future. Any failure to maintain or implement required new or improved controls, or any difficulties we encounter in their implementation, could result in significant deficiencies or material weaknesses, cause us to fail to timely meet our periodic reporting obligations, or result in material misstatements in our financial statements. Any such failure could also adversely affect the results of periodic management evaluations and annual auditor attestation reports regarding disclosure controls and the effectiveness of our internal control over financial reporting required under Section 404 of the Sarbanes-Oxley Act of 2002 and the rules promulgated thereunder. The existence of a material weakness could result in errors in our financial statements that could result in a restatement of financial statements, cause us to fail to timely meet our reporting obligations and cause investors to lose confidence in our reported financial information, leading to a decline in our stock price and potential lawsuits against us.

***Changes in our provision for income taxes or adverse outcomes resulting from examination of our income or other tax returns or changes in tax legislation could adversely affect our results.***

Our provision for income taxes is subject to volatility and could be adversely affected by earnings differing materially from our projections, changes in the valuation of our deferred tax assets and liabilities, tax effects of share-based compensation, outcomes as a result of tax examinations or by changes in tax laws, regulations, accounting principles, including accounting for uncertain tax positions, or interpretations thereof.

To the extent that our provision for income taxes is subject to volatility or adverse outcomes as a result of tax examinations, our operating results could be harmed. Significant judgment is required to determine the recognition and measurement attribute prescribed in U.S. GAAP relating to accounting for income taxes. In addition, we are subject to examinations of our income tax returns by the Internal Revenue Service, or IRS, and other tax authorities. We assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes. There may be exposure that the outcomes from these examinations will have an adverse effect on our operating results and financial condition.

***Regulation of the sale of health insurance is subject to change, and future regulations could harm our business and operating results.***

The laws and regulations governing the offer, sale and purchase of health insurance are subject to change, and future changes may be adverse to our business. For example, a long standing provision in almost all states' laws that we believe is advantageous to our business is that once health insurance premiums are set by the carrier and approved by state regulators, they are fixed and not generally subject to negotiation or discounting by insurance companies or agents. Additionally, state regulations generally prohibit carriers, agents and brokers from providing financial incentives, such as rebates, to their members in connection with the sale of health insurance. As a result, we do not currently compete with carriers or other agents and brokers on the price of the health insurance plans offered on our website. If these regulations change, we could be forced to reduce prices or provide rebates or other incentives for the health insurance plans sold through our ecommerce platform, which would harm our business, operating results and financial condition.

States have adopted and will continue to adopt new laws and regulations in response to health care reform legislation. It is difficult to predict how these new laws and regulations will impact our business, but in some cases such laws and regulations could amplify the adverse impacts of health care reform to our business, or states may adopt new requirements that adversely impact our business, operating results and financial condition. For example, certain states have adopted or are contemplating rules and regulations that would either ban the sale of short-term health insurance, limit its duration and renewability, or apply certain

aspects of the Affordable Care Act to short-term health insurance, such as the essential health benefits or requiring that short-term health insurance cover pre-existing conditions. Rules and regulations such as these could adversely impact our sale of short-term health insurance for several reasons, including because carriers may exit the market of selling short-term health insurance due to regulatory concerns, determine it is not profitable to sell the plans or increase plan premiums to a degree that reduces consumer demand for them. States may also require stronger disclosure and marketing rules governing the sale of short-term health insurance which may impact our conversion rates on the sale of short-term health insurance. Moreover, our sales outside of the health care reform open enrollment period could decline, because many individuals and families choose to purchase short-term health insurance outside of the open enrollment period given the unavailability of major medical individual and family health insurance to them. Additionally, states and the federal government may adopt laws and regulations that further impact the types of health insurance coverage available to consumers, the product features and benefits, and the role and compensation of agents and brokers in the sale of health insurance.

We are also subject to additional insurance regulatory risks because we use the Internet as a distribution platform. In many cases, it is not clear how existing insurance laws and regulations apply to Internet-related health insurance advertisements and transactions. To the extent that new laws or regulations are adopted that conflict with the way we conduct our business, or to the extent that existing laws and regulations are interpreted adversely to us, our business, operating results and financial condition would be harmed.

***If we fail to comply with the numerous state laws and regulations that are applicable to the sale of health insurance, our business and operating results could be harmed.***

The sale of health insurance is heavily regulated by each state in the United States. For instance, in addition to the impact and changes in regulations resulting from health care reform, state regulators require us to maintain a valid license in each state in which we transact health insurance business and further require that we adhere to sales, documentation and administration practices specific to that state. We must maintain our health insurance licenses to continue selling plans and to continue to receive commissions from health insurance carriers. In addition, each employee who transacts health insurance business on our behalf must maintain a valid license in one or more states. Because we do business in all 50 states and the District of Columbia, compliance with health insurance-related laws, rules and regulations is difficult and imposes significant costs on our business. Each jurisdiction's insurance department typically has the power, among other things, to:

- grant and revoke licenses to transact insurance business;
- conduct inquiries into the insurance-related activities and conduct of agents and agencies;
- require and regulate disclosure in connection with the sale and solicitation of health insurance;
- authorize how, by which personnel and under what circumstances insurance premiums can be quoted and published and an insurance policy sold;
- approve which entities can be paid commissions from carriers and the circumstances under which they may be paid;
- regulate the content of insurance-related advertisements, including web pages, and other marketing practices;
- approve policy forms, require specific benefits and benefit levels and regulate premium rates;
- impose fines and other penalties; and
- impose continuing education requirements.

Due to the complexity, periodic modification and differing interpretations of insurance laws and regulations, we may not have always been, and we may not always be, in compliance with them. New insurance laws, regulations and guidelines also may not be compatible with the sale of health insurance over the Internet or with various aspects of our platform or manner of marketing or selling health insurance plans. Failure to comply with insurance laws, regulations and guidelines or other laws and regulations applicable to our business could result in significant liability, additional department of insurance licensing requirements, required modification of our advertising and business practices, the revocation of our licenses in a particular jurisdiction, termination of our relationship with health insurance carriers, loss of commissions and/or our inability to sell health insurance plans, which could significantly increase our operating expenses, result in the loss of carrier relationships and our commission revenue and otherwise harm our business, operating results and financial condition. Moreover, an adverse regulatory action in one jurisdiction could result in penalties and adversely affect our license status, business or reputation in other jurisdictions due to the requirement that adverse regulatory actions in one jurisdiction be reported to other jurisdictions. Even if the allegations in any regulatory or other action against us are proven false, any surrounding negative publicity could harm consumer, marketing partner or health insurance carrier confidence in us, which could significantly damage our brand. Changes in insurance laws, regulations and guidelines may also be incompatible with various aspects of our business and require that we make significant modifications to our existing technology or practices, which may be costly and time-consuming to implement and could also harm our business, operating results and financial condition.

We have received, and may in the future receive, inquiries from regulators regarding our marketing and business practices and compliance with laws and regulations. We typically respond to these inquiries by explaining how we believe we are in



compliance with relevant regulations, or may modify our practices in connection with the inquiry. CMS and certain state regulators notified us in advance of and during the 2018 Medicare annual enrollment period for 2019 enrollment that certain marketing material that we were using relating to one of our websites was misleading and did not follow certain legal and regulatory requirements. We are in the process of working through the matter with the relevant regulators and have entered into a consent order with a department of insurance and received a cease and desist order from another, which we have challenged in an administrative proceeding. We also received a letter from the Committee on Energy and Commerce of the United States House of Representatives in March 2019 requesting information relating to our sale of short-term health insurance. The letter indicates that the committee is conducting oversight of short term health insurance and companies that assist consumers enroll in short term health insurance plans in light of committee concerns, including its concern relating to the understanding of consumers who purchase short term health insurance coverage. Inquiries and proceedings initiated by the government could adversely impact our health insurance licenses, require us to pay fines, require us to modify marketing and business practices, result in litigation and otherwise harm our business, operating results or financial condition.

***Government regulation of the Internet could adversely affect our business.***

The laws governing general commerce on the Internet remain unsettled and it may take years to fully determine whether and how existing laws such as those governing intellectual property, privacy and taxation apply to the Internet. In addition, the growth and development of the market for electronic commerce may prompt calls for more stringent consumer protection laws that may impose additional burdens on companies conducting business over the Internet. Any new laws or regulations or new interpretations of existing laws or regulations relating to the Internet could harm our business and we could be forced to incur substantial costs in order to comply with them, which would harm our business, operating results and financial condition.

***Our business could be harmed if we are unable to contact our consumers or market the availability of our products through specific channels.***

We use email and telephone, among other channels, to market our services to potential members and as the primary means of communicating with our existing members. The laws and regulations governing the use of emails and telephone calls for marketing purposes continue to evolve, and changes in technology, the marketplace or consumer preferences may lead to the adoption of additional laws or regulations or changes in interpretation of existing laws or regulations. If new laws or regulations are adopted, or existing laws and regulations are interpreted or enforced, to impose additional restrictions on our ability to send email or telephone messages to our members or potential members, we may not be able to communicate with them in a cost-effective manner. In addition to legal restrictions on the use of email, Internet service providers, e-mail service providers and others attempt to block the transmission of unsolicited email, commonly known as “spam.” Many Internet and e-mail service providers have relationships with organizations whose purpose it is to detect and notify the Internet and e-mail service providers of entities that the organization believes is sending unsolicited e-mail. If an Internet or e-mail service provider identifies email from us as “spam” as a result of reports from these organizations or otherwise, we can be placed on a restricted list that will block our email to members or potential members.

We use telephones to communicate with customers and prospective customers and some of these communications may be subject to the Telephone Consumer Protection Act, or TCPA, and other telemarketing laws. The TCPA and other laws, including state laws, relating to telemarketing restrict our ability to market using the telephone in certain respects. For instance, the TCPA prohibits us from using an automatic telephone dialing system to make certain telephone calls to consumers without prior express consent. We have policies in place to comply with the TCPA and other telemarketing laws. However, despite our legal compliance, we have in the past and may in the future become subject to claims that we have violated the TCPA. The TCPA provides for statutory damages of \$500 for each violation and \$1,500 for each willful violation. For instance, we have been experiencing complaints from consumers that we are violating the TCPA as a result of third parties, who are falsely indicating to consumers that they are associated with us to gain credibility in connection with their attempts to sell insurance. In the event that we are found to have violated the TCPA, our business, operating results and financial condition could be harmed. In addition, telephone carriers may block or put consumer warnings on calls originating from call centers. Consumers increasingly screen their incoming emails and telephone calls, including by using screening tools and warnings, and therefore our members or potential members may not reliably receive our emails or telephone messages. If we are unable to communicate effectively by email or telephone with our members and potential members as a result of legislation, blockage, screening technologies or otherwise, our business, operating results and financial condition would be harmed.

***Consumers depend upon third-party service providers to access our website and services, and our business and operating results could be harmed as a result of technical difficulties experienced by these service providers.***

Consumers using our website and accessing our services depend upon Internet, online and other service providers for access to our website and services. Many of these service providers have experienced significant outages, delays and other

difficulties in the past and could experience them in the future. Any significant interruption in access to our call centers or our website or increase in our website's response time as a result of these difficulties could damage our relationship with insurance carriers, marketing partners and existing and potential members and could harm our business, operating results and financial condition.

## **Risks Related to Ownership of Our Common Stock**

### ***Our actual operating results may differ significantly from our guidance.***

From time to time, we have released, and may continue to release guidance in earnings conference calls, earnings releases, or otherwise, regarding our future performance that represents our management's estimates as of the date of release. This guidance, which includes forward-looking statements, has been and will be based on projections prepared by our management. These projections are not prepared with a view toward compliance with published guidelines of the American Institute of Certified Public Accountants, and neither our registered public accountants nor any other independent expert or outside party compiles or examines the projections. Accordingly, no such person expresses any opinion or any other form of assurance with respect to the projections.

Projections are based upon a number of assumptions and estimates that, while presented with numerical specificity, are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control and are based upon specific assumptions with respect to future business decisions, some of which will change. Among these factors, the assumptions underlying our estimates of commission revenue as required by Accounting Standards Update 2014-09, *Revenue from Contracts with Customers (ASC 606)*, may vary significantly over time. We may state possible outcomes as high and low ranges. Any range we provide is not intended to imply that actual results could not fall outside of the suggested ranges. The principal reason that we release guidance is to provide a basis for our management to discuss our business outlook with analysts and investors and we may decide to suspend guidance at any time. We do not accept any responsibility for any projections or reports published by any such third parties.

Guidance is necessarily speculative in nature, and it can be expected that some or all of the assumptions underlying the guidance furnished by us will not materialize or will vary significantly from actual results. Accordingly, our guidance is only an estimate of what management believes is realizable as of the date of release. Our actual results have, and may in the future, vary from our guidance and the variations may be material. In light of the foregoing, investors are urged not to rely upon our guidance in making an investment decision regarding our common stock.

Any failure to successfully implement our operating strategy or the occurrence of any of the events or circumstances set forth in this "Risk Factors" section could result in the actual operating results being different from our guidance, and the differences may be adverse and material.

### ***The price of our common stock has been and may continue to be volatile, and the value of your investment could decline.***

The trading price of our common stock has been volatile and is likely to continue to fluctuate substantially. For the quarter ended September 30, 2019, the closing price of our common stock fluctuated from a low of \$66.79 to a high of \$110.32 per share. The trading price of our common stock depends on a number of factors, including those described in this "Risk Factors" section, many of which are beyond our control and may not be related to our operating performance. These fluctuations could cause you to lose all or part of your investment in our common stock since you might be unable to sell your shares at or above the price you paid. Factors that could cause fluctuations in the trading price of our common stock include the following:

- price and volume fluctuations in the overall stock market from time to time;
- volatility in the market prices and trading volumes of our competitors' shares, including high technology stocks, which have historically experienced high levels of volatility;
- new laws or regulations or new interpretations of existing laws or regulations applicable to our business, including developments relating to the health care industry, particularly health care reform legislation and the implementation of health care reform;
- actual or anticipated changes in our operating results or fluctuations in our operating results;
- changes in operating performance and stock market valuations of other technology companies generally, and of our competitors;
- failure of securities analysts to maintain coverage of us, changes in financial estimates by any securities analysts who follow our company, or our failure to meet these estimates or the expectations of investors;
- sales of shares of our common stock by us or our stockholders;
- announcements by us or our competitors of new products or services;
- the public's reaction to our press releases, other public announcements, and filings with the SEC;
- rumors and market speculation involving us or other companies in our industry;

- actual or anticipated developments in our business, our competitors' businesses, or the competitive landscape generally;
- our ability to control costs, including our operating expenses;
- litigation involving us, our industry or both, or investigations by regulators into our operations or those of our competitors;
- developments or disputes concerning our intellectual property or other proprietary rights;
- announced or completed acquisitions of businesses or technologies by us or our competitors;
- changes in accounting standards, policies, guidelines, interpretations, or principles;
- any significant change in our management; and
- general economic conditions and slow or negative growth of our markets.

The effect of such factors on the trading market for our stock may be enhanced by the lack of a large and established trading market for our stock. In addition, the stock market in general, and the market for technology companies in particular, have experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of those companies. Broad market and industry factors may seriously affect the market price of our common stock, regardless of our actual operating performance. Additionally, as a public company, we face the risk of shareholder lawsuits, particularly if we experience declines in the price of our common stock. In the past, following periods of volatility in the overall market and the market prices of a particular company's securities, securities class action lawsuits have often been instituted against affected companies. We have been, and may in the future be, subject to such legal actions.

*Anti-takeover provisions contained in our certificate of incorporation and bylaws, as well as provisions of Delaware law, could impair a takeover attempt.*

Our certificate of incorporation, bylaws, and Delaware law contain provisions which could have the effect of rendering more difficult, delaying, or preventing an acquisition deemed undesirable by our board of directors. Our corporate governance documents include provisions:

- creating a classified board of directors whose members serve staggered three-year terms;
- authorizing undesignated preferred stock, which could be issued by our board of directors without stockholder approval and may contain voting, liquidation, dividend, and other rights superior to our common stock;
- limiting the liability of, and providing indemnification to, our directors and officers;
- limiting the ability of our stockholders to call and bring business before special meetings;
- requiring advance notice of stockholder proposals for business to be conducted at meetings of our stockholders and for nominations of candidates for election to our board of directors;
- controlling the procedures for the conduct and scheduling of board of directors and stockholder meetings; and
- providing our board of directors with the express power to postpone previously scheduled annual meetings and to cancel previously scheduled special meetings.

These provisions, alone or together, could delay or prevent hostile takeovers and changes in control or changes in our management.

As a Delaware corporation, we are also subject to provisions of Delaware law, including Section 203 of the Delaware General Corporation law, which prevents some stockholders holding more than 15% of our outstanding common stock from engaging in certain business combinations without approval of the holders of substantially all of our outstanding common stock.

Any provision of our certificate of incorporation, bylaws or Delaware law that has the effect of delaying or deterring a change in control could limit the opportunity for our stockholders to receive a premium for their shares of our common stock, and could also affect the price that some investors are willing to pay for our common stock.

## **ITEM 6. EXHIBITS**

(a) Exhibits

Except as so indicated in Exhibits 32.1 and 32.2, the following exhibits are filed as part of, or incorporated by reference into, this quarterly report on Form 10-Q.

Exhibit Number	Description of Exhibit	Incorporation by Reference Herein	
		Form	Date
10.1	† <a href="#">First Amendment to Lease, dated August 19, 2019, between Augustine Bowers LLC and eHealthInsurance Services, Inc.</a>	Current Report on Form 8-K (File No. 001-33071)	August 21, 2019
10.2	† <a href="#">Office Lease Contract, effective as of September 1, 2019, between eHealth China (Xiamen) Technology Co., Ltd and Xiamen Software Industry Investment &amp; Development Co. Ltd.</a>	Current Report on Form 8-K (File No. 001-33071)	September 6, 2019
10.3	† <a href="#">Property Management Service Contract, effective as of September 1, 2019, between eHealth China (Xiamen) Technology Co., Ltd and Xiamen Software Industry Investment &amp; Development Co. Ltd.</a>	Current Report on Form 8-K (File No. 001-33071)	September 6, 2019
10.4	† <a href="#">Office Lease Contract, effective as of September 15, 2019, between eHealth China (Xiamen) Technology Co., Ltd and Xiamen Software Industry Investment &amp; Development Co. Ltd.</a>	Current Report on Form 8-K (File No. 001-33071)	September 6, 2019
10.5	† <a href="#">Property Management Service Contract, effective as of September 15, 2019, between eHealth China (Xiamen) Technology Co., Ltd and Xiamen Software Industry Investment &amp; Development Co. Ltd.</a>	Current Report on Form 8-K (File No. 001-33071)	September 6, 2019
31.1	† <a href="#">Certification of Scott N. Flanders, Chief Executive Officer of eHealth, Inc., pursuant to Exchange Act Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>		
31.2	† <a href="#">Certification of Derek N. Yung, Chief Financial Officer of eHealth, Inc., pursuant to Exchange Act Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>		
32.1	‡ <a href="#">Certification of Scott N. Flanders, Chief Executive Officer of eHealth, Inc., pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>		
32.2	‡ <a href="#">Certification of Derek N. Yung, Chief Financial Officer of eHealth, Inc., pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>		
101.INS	XBRL Instance Document		
101.SCH	XBRL Taxonomy Extension Schema Document		
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document		
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document		
101.LAB	XBRL Taxonomy Extension Label Linkbase Document		
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document		

† Filed herewith.

‡ Furnished herewith.

**SIGNATURES**

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

**EHEALTH, INC.**

Date: November 7, 2019

/s/ Scott N. Flanders

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Scott N. Flanders  
Chief Executive Officer

Date: November 7, 2019

/s/ Derek N. Yung

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Derek N. Yung  
Chief Financial Officer

## CERTIFICATION

I, Scott N. Flanders, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of eHealth, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2019

/s/ SCOTT N. FLANDERS

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Scott N. Flanders

Chief Executive Officer

## CERTIFICATION

I, Derek N. Yung, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of eHealth, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2019

/s/ DEREK N. YUNG

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Derek N. Yung  
Chief Financial Officer

**Certification of Chief Executive Officer, Pursuant to  
18 U.S.C. Section 1350,  
As Adopted Pursuant to  
Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report of eHealth, Inc. on Form 10-Q (the "Form 10-Q") for the quarter ended September 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Scott N. Flanders, Chief Executive Officer of eHealth, Inc., certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

- (1) The Form 10-Q, to which this certification is attached as Exhibit 32.1, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of eHealth, Inc.

/s/ SCOTT N. FLANDERS

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Scott N. Flanders  
Chief Executive Officer  
November 7, 2019

*A signed original of this written statement required by Section 906 has been provided to eHealth, Inc. and will be retained by eHealth, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.*



**Certification of Chief Financial Officer, Pursuant to  
18 U.S.C. Section 1350,  
As Adopted Pursuant to  
Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report of eHealth, Inc. on Form 10-Q (the "Form 10-Q") for the quarter ended September 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Derek N. Yung, Chief Financial Officer of eHealth, Inc., certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

- (1) The Form 10-Q, to which this certification is attached as Exhibit 32.2, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of eHealth, Inc.

/s/ DEREK N. YUNG

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Derek N. Yung  
Chief Financial Officer  
November 7, 2019

*A signed original of this written statement required by Section 906 has been provided to eHealth, Inc. and will be retained by eHealth, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.*