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

FORM 10-Q

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

For the quarterly period ended September 30, 2018

OR

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

For the transition period from to

001-33071
(Commission File Number)

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

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

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

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

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

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

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

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

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

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

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PART I

FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

Note 1 - Summary of Business and Significant Accounting Policies

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

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

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

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

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

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

Recent Accounting Pronouncements Not Yet Adopted

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

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

Adoption of New Accounting Standards

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

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

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

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

Revenue Recognition (Topic 606) — In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), requiring an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. In April 2016, the FASB issued ASU No. 2016-10, Identifying Performance Obligations and Licensing. ASU 2016-10 provides guidance in identifying performance obligations and determining the appropriate accounting for licensing arrangements.

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

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

Change in Significant Accounting Policies

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

Revenue Recognition Policy

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Disaggregation of Revenue

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

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

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

Book-of-Business Transfers

We entered into several agreements with a broker partner, whereby the partner transferred certain of its existing Medicare plan members to us as the broker of record on the underlying policies. The first of these book-of-business transfers occurred in November 2010 and the most recent in June 2012. Total consideration paid by us for these books-of-business amounted to $13.9 million. Consideration paid for these books-of-business is included within commissions receivable in the accompanying condensed consolidated balance sheets. The consideration we paid to the broker partner was based on the discounted commissions expected to be received over the remaining life of each transferred Medicare plan member. As we receive commission payments from health insurance carriers for these plan members, we reduce commissions receivable for the discounted commissions expected to be received, with the remaining margin earned recorded to other income (expense), net in the condensed consolidated statements of comprehensive income (loss). The margin earned and recorded to other income, net

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

Incremental Costs to Obtain a Contract

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

Income Taxes

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

Impact to Previously Reported Results

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

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

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

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

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

Note 2 - Acquisition

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

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

Acquisition Consideration	
Cash paid	$15,000
Fair value of equity awards issued to GoMedigap members (1)	5,595
Estimated fair value of earnout liability	27,700
	$48,295
Allocation	
Cash and cash equivalents	$71
Commission receivable - current	4,371
Prepaid expenses and other current assets	11
Commission receivable - non-current	11,103
Property and equipment, net	174
Accounts payable	(110)
Accrued compensation and benefits	(132)
Other current liabilities	(130)
Net tangible assets acquired	15,357
Intangible assets	6,800
Goodwill	26,137
Total intangible assets acquired	32,938
Total net assets acquired	$48,295

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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Note 3 - Balance Sheet Accounts

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

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

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

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

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

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

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

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

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

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

Note 4 - Fair Value Measurements

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

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

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

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

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

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

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

Note 5 - Stockholder's Equity

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

	Shares Available for Grant
Shares available for grant December 31, 2017	1,409
Restricted stock units granted [1]	(562)
Options granted	

$	15,355		$ 15,870	
Distributor relationships, net of accumulated amortization of $387 and $294		2,213		2,306
Customer relationships, net of accumulated amortization of $564 and $429		1,336		1,471
Legacy permits, net of accumulated amortization of $37 and $28		213		222
Other, net of accumulated amortization of $49 and $43		471		157
	$	19,588	$	20,026

Amortization expense on intangible assets was $757,000 for each of the six month periods ended June 30, 2013 and 2012. The estimated aggregate future amortization expense for the intangible assets is $757,000 for the remainder of 2013 and $1,514,000 for each of the four years after 2013.

7. Due to Leucadia and its Affiliates:

On February 25, 2013, the remaining balance of $151,043,000 due to Leucadia and its affiliates was contributed by Leucadia to capital. Interest expense related to Leucadia and its affiliates was $0 and $1,290,000 for the three months ended June 30, 2013 and 2012, respectively, and $783,000 and $2,580,000 for the six months ended June 30, 2013 and 2012, respectively.

Effective March 1, 2013, the Company entered into an administrative service agreement with Leucadia. Pursuant to this agreement, Leucadia provides certain administrative, SEC, tax filing and accounting services, including providing the services of the Company's Corporate Secretary, for a monthly fee of $15,000. Administrative services fees expense was $45,000 and $60,000 for the three and six month period ended June 30, 2013, respectively.

Effective August 1, 2013, Leucadia and the Company agreed to amend the administrative service agreement to reduce the administrative services provided to the Company by Leucadia and correspondingly reduce the monthly fee from $15,000 to $4,500. The administrative services that will no longer be provided to the Company by Leucadia will be performed by the Company. The amendment also provides that the administrative services agreement will terminate in full in February 2014.

In March 2013, pursuant to the separation agreement entered into with Leucadia, Leucadia paid $14,175,000 to Crimson as a capital contribution. No additional capital contributions from Leucadia are required or anticipated to be made.

8. Debt:

In March 2013, Crimson entered into a $60,000,000 revolving credit facility with American AgCredit, FLCA, as agent for the lenders identified in the revolving credit facility, comprised of a revolving loan facility and a term revolving loan facility, which together is secured by substantially all of Crimson's assets. The revolving credit facility is for up to $10,000,000 of availability in the aggregate for a five year term, and the term revolving credit facility is for up to $50,000,000 in the aggregate. All obligations of Crimson under the revolving credit facility are collateralized by certain real property, including vineyards and certain winery facilities of Crimson, accounts receivable, inventory and intangibles. Covenants include the maintenance of specified debt and equity ratios, limitations on the incurrence of additional indebtedness, limitations on dividends and other distributions to shareholders and restrictions on certain mergers, consolidations and sales of assets. In addition to unused line fees ranging from 0.25% to 0.375%, rates for the borrowings are priced based on a performance grid tied to certain financial ratios and the London Interbank Offered Rate, and would have been 2.196% to 2.539% at June 30, 2013. The revolving credit facility can be used to fund acquisitions and working capital requirements; no amounts have been borrowed under the facility to date.

9. Revenues and Gross Profit:

The Company generates revenues from sales of wine to wholesalers and direct to consumers, sales of bulk wine and grapes, special event fees, tasting fees and retail sales. Revenues and gross profit for the three and six months ended June 30, 2013 and 2012 are as follows (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenues:				

Wholesalers	$ 9,189	$ 6,371	$ 16,666	$ 12,447
Direct to consumers	4,895	4,372	9,121	8,045
Bulk wine and grape sales, event fees and retail sales	1,137	873	1,440	1,258
	$ 15,221	$ 11,616	$ 27,227	$ 21,750
Gross profit:				
Wholesalers	$ 4,225	$ 3,209	$ 7,360	$ 6,043
Direct to consumers	3,163	2,338	5,571	4,581
Bulk wine and grape sales, event fees and retail sales	(276)	177	(200)	260
	$ 7,112	$ 5,724	$ 12,731	$ 10,884

Excise taxes of $280,000 and $195,000 for the three months ended June 30, 2013 and 2012, respectively, and $506,000 and $394,000 for the six months ended June 30, 2013 and 2012, respectively, were recognized as a reduction to wine sales.

10. Subsequent events:

Subsequent events are events or transactions that occur after the balance sheet date, but before the financial statements are available to be issued. The financial statements recognize the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the financial statements. Subsequent events have been evaluated through August 9, 2013, which is the date the financial statements were available to be issued.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Interim Operations.

Statements included in this Report may contain forward-looking statements. See “Cautionary Statement for Forward-Looking Information” below. The following should be read in conjunction with the Management’s Discussion and Analysis of Financial Condition and Results of Operations included in the 2012 Report.

Seasonality

As discussed in the 2012 Report, the wine industry in general historically experiences seasonal fluctuations in revenues and net income. Crimson typically has lower sales and net income during the first quarter and higher sales and net income during the third and fourth quarters. The Company anticipates similar trends in 2013.

Liquidity and Capital Resources

General

Crimson’s principal sources of liquidity are its available cash, funds generated from operations and its revolving credit facility. In March 2013, Crimson entered into a $60,000,000 revolving credit facility with American AgCredit, FLCA, as agent for the lenders identified in the revolving credit facility, comprised of a revolving loan facility and a term revolving loan facility, which together is secured by substantially all of Crimson’s assets. The revolving credit facility is for up to $10,000,000 of availability in the aggregate for a five year term, and the term revolving credit facility is for up to $50,000,000 in the aggregate. All obligations of Crimson under the revolving credit facility are collateralized by certain real property, including vineyards and certain winery facilities of Crimson, accounts receivable, inventory and intangibles. Covenants include the maintenance of specified debt and equity ratios, limitations on the incurrence of additional indebtedness, limitations on dividends and other distributions to shareholders and restrictions on certain mergers, consolidations and sales of assets. In addition to unused line fees ranging from 0.25% to 0.375%, rates for the borrowings are priced based on a performance grid tied to certain financial ratios and the London Interbank Offered Rate, and would have been 2.196% to 2.539% at June 30 2013. The facility can be used to fund acquisitions and working capital requirements; no amounts have been borrowed under the facility to date.

Prior to the Distribution, Crimson relied upon Leucadia for debt financing and equity contributions for all of its liquidity needs. As of February 25, 2013, the aggregate amount payable by Crimson to Leucadia and its affiliates was $151,043,000, all of which was contributed to Crimson capital prior to the Distribution. As a result, in the second quarter of 2013, Crimson did not record interest expense relating to this Leucadia financing.

In March 2013, pursuant to the separation agreement entered into with Leucadia, Leucadia paid $14,175,000 to Crimson as a capital contribution. No additional capital contributions from Leucadia are required or anticipated to be made.

As of June 30, 2013, Crimson's commitments for capital expenditures were not material. Crimson expects to spend approximately $6,000,000 for capital expenditures during 2013, of which $2,000,000 is for the expansion of the Seghesio Family Vineyards fermentation and processing capacity and $300,000 is for the increase in Chamisal Vineyard's permitted capacity. These expenditures are focused on expanding and improving our facilities for additional growth, and do not relate to required maintenance or similar costs to sustain our existing operations. The remaining $3,700,000 is for vineyard development, barrel purchases and other winery and facility improvements. Crimson expects to use its available cash and cash flows generated from operating activities to fund its capital expenditures.

Consolidated Statements of Cash Flows

Net cash provided by operating activities was $5,358,000 and $3,870,000 for the six months ended June 30, 2013 and 2012, respectively. Cash flows from operating activities improved during 2013 as compared to 2012, principally due to increased operating income, timing of payment of grape purchase payables, and a higher percentage of sales in the latter part of the six months ended June 30, 2013 as compared to 2012 as a result of distributor incentives.

Net cash provided by operating activities also reflects less interest paid to Leucadia. Interest paid to Leucadia was $122,000 and $764,000 during the six months ended June 30, 2013 and 2012, respectively.

Net cash used for investing activities was $8,307,000 and $799,000 for the six months ended June 30, 2013 and 2012, respectively. Acquisition of property, equipment and leasehold improvements increased in the first six months of 2013 as compared to the first six months of 2012, principally due to capital expenditures for capacity expansion at Seghesio Family Vineyards. Proceeds from disposals of property and equipment include $1,754,000 in 2013 from the sale of a non-strategic vineyard. In addition, $6,750,000 was used during the six months ended June 30, 2013 for investing in FDIC insured U.S. Certificates of Deposit.

Net cash provided by (used for) financing activities reflects $1,700,000 and $1,750,000 of principal payments on debt to Leucadia for the six months ended June 30, 2013 and 2012, respectively, and for 2013, the Leucadia capital contribution of $14,175,000, discussed above.

Results of Operations

Overview

The Company generates revenues from sales of wine to wholesalers and direct to consumers, sales of bulk wine and grapes, special event fees, tasting fees and retail sales. Revenues, gross profit and income from operations for the three and six months ended June, 2013 and 2012 are as follows (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenues:				
Wholesalers	$ 9,189	$ 6,371	$ 16,666	$ 12,447
Direct to consumers	4,895	4,372	9,121	8,045
Bulk wine and grape sales, event fees and retail sales	1,137	873	1,440	1,258
	$ 15,221	$ 11,616	$ 27,227	$ 21,750

Gross profit:				
Wholesalers	$ 4,225	$ 3,209	$ 7,360	$ 6,043
Direct to consumers	3,163	2,338	5,571	4,581
Bulk wine and grape sales, event fees and retail sales	(276)	177	(200)	260
	7,112	5,724	12,731	10,884
Expenses:				
Sales and marketing	2,974	2,852	5,606	5,419
General and administrative	2,839	1,838	4,846	3,586
Administrative service fees to Leucadia National Corporation	45	-	60	-
Income from operations	$ 1,254	$ 1,034	$ 2,219	$ 1,879

Crimson's wines are primarily sold to distributors, who then sell to retailers and restaurants. As permitted under federal and local regulations, Crimson has also been placing increased emphasis on generating revenue from direct sales to consumers which occur through wine clubs, at the wineries' tasting rooms and through the internet.

Direct sales to consumers are more profitable for Crimson as it is able to sell its products at a price closer to retail prices rather than the wholesale price received from distributors. From time to time Crimson may sell grapes or bulk wine, because the wine does not meet the quality standards for Crimson's products, market conditions have changed resulting in reduced demand for certain products, or because Crimson may have produced more of a particular varietal than it can use. When these sales occur they may result in a loss.

Cost of sales includes grape and bulk wine costs, whether purchased or produced from Crimson's controlled vineyards, crush costs, winemaking and processing costs, bottling, packaging, warehousing and shipping and handling costs. For vineyard produced grapes, grape costs include annual farming costs and amortization of vineyard development expenditures. For wines that age longer than one year, winemaking and processing costs continue to be incurred and capitalized to the cost of wine, which can range from 3 to 24 months. Reductions to the carrying value of inventories to estimated net realizable value are also included in costs of sales.

At June 30, 2013, wine inventory includes approximately 490,000 cases of bottled and bulk wine in various stages of the aging process. Case wine is expected to be sold over the next 12 to 24 months and generally before the release date of the next vintage.

Statement of Operations

Consolidated Operations – Three months ended June 30, 2013 and 2012

Revenues increased for the three months ended June 30, 2013 as compared to 2012 as a result of a 40.7% increase in case sales, increase in bulk wine and grape sales, offset slightly by a shift in product mix across brands and channels. Wholesale revenues increased $2,818,000 for the three months ended June 30, 2013 as compared to 2012, primarily driven by Seghesio growth of $1,699,000, and the remaining growth contributed by all other brands. Direct to consumer revenue increased $523,000 for the three months ended June 30, 2013 as compared to 2012 as a result of wine revenue increases of $365,000 in Wine Club, primarily attributable to an increase in wine club membership, offset partially by one less shipment for one brand in the second quarter of 2013 as compared to 2012. In addition, there was an overall increase in price point for wine included in shipments across all brands, $122,000 increase in Tasting Room revenue, and $134,000 increase in E-Commerce revenue, which were partially offset by a revenue decrease in Special Events, primarily due to timing. In addition, bulk wine and grape sales increased $318,000.

Gross profit increased $1,388,000 in the three months ended June 30, 2013 as compared to 2012 reflecting an increase in case wine sales and shift in product mix, partially offset by an increase in cost of goods sold per case specific to certain Seghesio wines and a decrease in shipping margin attributable to timing. In addition to change in revenues, gross profit also reflects net losses on sales of bulk wine and grapes of $460,000 and $100,000 for the three months ended June 30, 2013 and 2012, respectively.

Crimson's sales and marketing expenses have a variable component that tends to correspond to changes in sales volume. Sales and marketing expenses increased $122,000 for the three months ended June 30, 2013 as compared to 2012, which includes an increase of $100,000 in fixed cost components and $22,000 in variable cost components. Variable cost increases resulted from an increase in distributor samples, initiatives and commissions in proportion to volume, partially offset by decreased promotional costs, due to timing of planned initiatives. Fixed sales and marketing expenses increased primarily due to increased compensation of $53,000, which includes the hire of senior sales and marketing executives during the second quarter of 2012 resulting in a partial quarter of expense in 2012 compared to a full quarter in 2013, and design services primarily for label redesigning of $75,000, offset partially by a $23,000 decrease in travel.

General and administrative expenses increased $1,001,000 in the three months ended June 30, 2013 as compared to 2012, principally due to $450,000 in executive bonuses approved by Crimson's board of directors in relation to the spin-off as previously reported in the Company's public filings, $306,000 in costs for new services to satisfy standalone SEC requirements, $84,000 in other taxes related to standalone franchise tax requirements, $29,000 in contract services primarily related to technology and software support, $32,000 in property taxes, and $41,000 in insurance expense related to standalone policies.

Consolidated Operations – Six months ended June 30, 2013 and 2012

Revenues increased for the six months ended June 30, 2013 as compared to 2012 as a result of a 27.6% increase in case sales, increase in bulk wine and grape sales offset slightly by a shift in product mix across brands and channels. Wholesale revenues increased $4,219,000 for the six months ended June 30, 2013 as compared to 2012, of which $471,000 pertains to growth in the export market, primarily related to Seghesio, and $3,748,000 to domestic wholesale where all brands recognized growth. Direct to consumer revenue increased $1,076,000 for the six months ended June 30, 2013 as compared to 2012 as a result of a wine revenue increases of $877,000 in Wine Club, primarily attributable to an increase in wine club membership and an overall increase in price point for wine included in shipments across all brands, a $228,000 increase in Tasting Room revenue and a $69,000 increase in E-Commerce revenue, which were partially offset by a revenue decrease in Special Events, primarily due to timing. In addition, bulk wine and grape sales increased $214,000.

Gross profit increased $1,847,000 in the six months ended June 30, 2013 as compared to 2012 reflecting an increase in case wine sales and shift in product mix, partially offset by an increase in cost of goods sold per case specific to certain Seghesio wines and a decrease in shipping margin attributable to timing. In addition to change in revenues, gross profit also reflects net losses on sales of bulk wine and grapes of $481,000 and $145,000 for the six months ended June 30, 2013 and 2012, respectively.

Sales and marketing expenses increased $187,000 for the six months ended June 30, 2013 as compared to 2012, which include a $268,000 increase in fixed cost components offset by an $81,000 decrease in variable cost components. Variable cost decreases resulted from decreased promotional costs, due to timing of planned initiatives, partially offset by an increase in distributor samples, initiatives and commissions in proportion to volume. Fixed sales and marketing expenses increased primarily due to increased compensation of $128,000, which includes the hire of senior sales and marketing executives in the second quarter of 2012, design services primarily for label redesigning of $98,000, and travel of $78,000, of which $50,000 pertains to the wholesale domestic and export channel.

General and administrative expenses increased $1,260,000 in the six months ended June 30, 2013 as compared to 2012, principally due to $450,000 in executive bonuses approved by Crimson's board of directors in relation to the spin-off, $330,000 in costs for new services to satisfy standalone SEC requirements, $161,000 increase in accounting fees related to standalone audit and filing requirements, $76,000 in other taxes related to standalone franchise tax requirements, $67,000 in contract services primarily related to technology and software support, $65,000 in property taxes, and $61,000 in insurance expense related to standalone policies.

Interest expense reflects the costs of funds borrowed from Leucadia, which funds were contributed to Crimson capital prior to the Distribution.

Historically, Crimson has been included in the consolidated federal income tax return of Leucadia and filed a California state income tax return separate from Leucadia. Crimson has not recorded a federal or state income tax benefit for its pre-tax losses (net operating loss carryforwards), as sufficient evidence does not exist to enable Crimson to conclude that it is more likely than not that it can generate sufficient taxable income in the future to realize such benefits. As a result, Crimson carries a full valuation allowance against its net deferred tax asset. In future periods, to the extent Crimson has net operating loss carryforwards available to offset the taxes that would otherwise be due, Crimson will not record a net income tax provision for regular federal or state income taxes. As Crimson uses these net operating loss carryforwards, it will reverse a portion of its valuation allowance to income tax expense and reduce net income taxes that would otherwise be due.

During 2013, the tax provision reflects state income taxes and federal minimum income taxes, as the Company reversed a portion of the net deferred tax valuation allowance to income tax expense to offset regular federal income taxes that would otherwise have been due. During 2012, the tax provision principally reflects state income taxes, as the Company recorded a full valuation allowance for the net operating loss generated. These are the principal reasons for the differences between the effective income tax rate and the federal statutory rate.

Cautionary Statement for Forward-Looking Information

Statements included in this Report may contain forward-looking statements. Such statements may relate, but are not limited, to projections of revenues, income or loss, case sales, development expenditures and expected sources of funds related thereto, plans for growth and future operations, competition and regulation, as well as assumptions relating to the foregoing. Such forward-looking statements are made pursuant to the safe-harbor provisions of the Private Securities Litigation Reform Act of 1995.

Forward-looking statements are inherently subject to risks and uncertainties, many of which cannot be predicted or quantified. When used in this Report, the words "estimates," "expects," "anticipates," "believes," "plans," "intends" and variat of such words and similar expressions are intended to identify forward-looking statements that involve risks and uncertainties. Future events and actual results could differ materially from those set forth in, contemplated by or underlying the forward-looking statements.

Factors that could cause actual results to differ materially from any results projected, forecasted, estimated or budgeted or that may materially and adversely affect the Company's actual results include but are not limited to the following: worsening economic conditions causing a decline in estimated future cash flows; our dependence on certain key personnel; significant increases in operating costs and reduced profitability due to competition for skilled management and staff employees; our reliance on Leucadia to meet certain financial reporting requirements; our inability to establish our own financial, administrative and other support functions to operate as a stand-alone public company; various diseases, pests and weather conditions affecting the quality and quantity of grapes; our inability to grow or acquire enough fruit for our wines; significant competition adversely affecting our profitability; competition for shelf space in retail stores and for marketing focus by our independent distributors; the contamination of our wines; a reduction in consumer demand for our wines; a decrease in wine score rating by important rating organizations; climate change, or legal, regulatory or market measures to address climate change, negatively affecting our business, operations or financial performance, and water scarcity or poor quality negatively impacting our production costs and capacity; environmental issues or hazardous substances on our properties resulting in us incurring significant liabilities; our indebtedness materially affecting our financial health; changes in laws and government regulations or in the implementation and/or enforcement of government rules and regulations increasing our costs or restricting our ability to sell our products into certain markets; our inability to insure certain risks economically; being subject to litigation which may have a significant adverse effect on our consolidated financial condition or results of operations; not paying dividends currently or in the future; impairment of our intangible assets; the limited market for our common stock because our stock is not listed on any securities exchange; volatility in our common stock price; future sales of our common stock depressing the market price of our stock; public company compliance costs; loss of our status as an emerging growth company; restrictions on our ability to enter into certain transactions that could jeopardize our tax free spin-off from Leucadia; and the significant influence of certain principal stockholders. For additional information see Part I, Item 1A. Risk Factors in the 2012 Report.

Undue reliance should not be placed on forward-looking statements, which are applicable only as of the date hereof. The Company undertakes no obligation to revise or update its forward-looking statements to reflect events or circumstances that arise after the date of this Report or to reflect the occurrence of unanticipated events.

Item 3. Quantitative and Qualitative Disclosure About Market Risk.

Crimson does not currently have any exposure to financial market risk. Sales to international customers are denominated in U.S. dollars; therefore, Crimson is not exposed to market risk related to changes in foreign currency exchange rates. Prior to the Distribution, Crimson did not have any significant outstanding debt instruments other than amounts due to Leucadia; therefore, Crimson was not exposed to market risk relating to interest rates. As discussed above under Liquidity and Capital Resources, Crimson has recently entered into a revolving credit facility. Any amount borrowed is expected to bear interest at floating rates.

Item 4. Controls and Procedures.

The Company's management evaluated, with the participation of the Company's principal executive and principal financial officers, the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-

15(e) and 15d-15(e) under the Exchange Act) as of June 30, 2013. Based on their evaluation, the Company's principal executive and principal financial officers concluded that the Company's disclosure controls and procedures were effective as of June 30, 2013.

This Report does not include a report of management's assessment regarding internal control over financial reporting or an attestation report of the company's registered public accounting firm due to a transition period established by rules of the Securities and Exchange Commission for newly public companies. In addition, for so long as we qualify as an "emerging growth company" under the JOBS Act, our independent registered public accounting firm will not be required to attest to the effectiveness of our internal control over financial reporting.

There has been no change in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the Company's fiscal quarter ended June 30, 2013, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings.

From time to time, Crimson may be involved in legal proceedings in the ordinary course of its business. Crimson is not currently involved in any legal or administrative proceedings individually or together that it believes are likely to have a significant adverse effect on its business, results of operations or financial condition.

Item 1A. Risk Factors.

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our 2012 Report, which could materially affect our business, results of operations or financial condition. The risks described in our 2012 Report are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may eventually prove to materially adversely affect our business, results of operations or financial condition.

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

None

Item 3. Defaults Upon Senior Securities.

None

Item 4. Mine Safety Disclosures.

None

Item 5. Other Information.

None

Item 6. Exhibits.

2.1 Separation Agreement, dated February 1, 2013, between Crimson Wine Group, Ltd. and Leucadia National Corporation (incorporated by reference to Exhibit 2.1 to Form 8-K filed on February 25, 2013).

3.1 Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to Amendment No. 1 to Registration Statement on Form 10-12G filed on January 15, 2013).

3.2 Certificate of Amendment to Certificate of Incorporation, effective November 16, 2007 (incorporated by reference to Exhibit 3.2 to Amendment No. 1 to Registration Statement on Form 10-12G filed on January 15, 2013).

3.3 Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to Form 8-K filed on February 25, 2013).

3.4 Bylaws (incorporated by reference to Exhibit 3.4 to Amendment No. 1 to Registration Statement on Form 10-12G filed on January 15, 2013).

3.5 Amended and Restated Bylaws (incorporated by reference to Exhibit 3.2 to Form 8-K filed on February 25, 2013).

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31.1 Certification of President and Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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101 Financial statements from the Quarterly Report on Form 10-Q of Crimson Wine Group, Ltd. for the quarter ended June 30, 2013, formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Comprehensive Income (Loss), (iv) the Consolidated Statements of Changes in Equity, (v) the Consolidated Statements of Cash Flows, and (vi) the Notes to Consolidated Financial Statements.

SIGNATURES

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

		CRIMSON WINE GROUP, LTD. (Registrant)
Date: August 9, 2013	By:	/s/ Patrick M. DeLong Patrick M. DeLong Chief Financial and Operating Officer and Duly Authorized Officer

EXHIBIT INDEX

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