

## Section 1: 10-Q (10-Q)

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

**FORM 10-Q**

(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended June 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 \_\_\_\_\_

Commission File Number: 001-37415

**Evolut Health, Inc.**

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of  
incorporation or organization)

32-0454912

(I.R.S. Employer  
Identification No.)

800 N. Glebe Road , Suite 500 , Arlington , Virginia

(Address of principal executive offices)

22203

(Zip Code)

(571) 389-6000

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report.)

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

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Class A Common Stock of Evolut Health, Inc., par value \$0.01 per share	EVH	New York Stock Exchange

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 Regulation 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, 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  Accelerated filer  Non-accelerated filer

Smaller reporting company  Emerging growth company

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

As of August 5, 2019, there were 83,812,845 shares of the registrant’s Class A common stock outstanding and 706,273 shares of the registrant’s Class B common stock outstanding.

Evolent Health, Inc.  
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## Explanatory Note

In this Quarterly Report on Form 10-Q, unless the context otherwise requires, “Evolut,” the “Company,” “we,” “our” and “us” refer to Evolut Health, Inc. and its consolidated subsidiaries. Evolut Health LLC, a subsidiary of Evolut Health, Inc. through which we conduct our operations, has owned all of our operating assets and substantially all of our business since inception. Evolut Health, Inc. is a holding company and its principal asset is all of the Class A common units of Evolut Health LLC.

### FORWARD-LOOKING STATEMENTS - CAUTIONARY LANGUAGE

Certain statements made in this report and in other written or oral statements made by us or on our behalf are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 (“PSLRA”). A forward-looking statement is a statement that is not a historical fact and, without limitation, includes any statement that may predict, forecast, indicate or imply future results, performance or achievements, and may contain words like: “believe,” “anticipate,” “expect,” “estimate,” “aim,” “predict,” “potential,” “continue,” “plan,” “project,” “will,” “should,” “shall,” “may,” “might” and other words or phrases with similar meaning in connection with a discussion of future operating or financial performance. In particular, these include statements relating to future actions, trends in our businesses, prospective services, future performance or financial results and the outcome of contingencies, such as legal proceedings. We claim the protection afforded by the safe harbor for forward-looking statements provided by the PSLRA.

These statements are only predictions based on our current expectations and projections about future events. Forward-looking statements involve risks and uncertainties that may cause actual results, level of activity, performance or achievements to differ materially from the results contained in the forward-looking statements. Risks and uncertainties that may cause actual results to vary materially, some of which are described within the forward-looking statements, include, among others:

- the significant portion of revenue we derive from our largest partners, and the potential loss, termination or renegotiation of our relationship or contract with Passport or another significant partner, or multiple partners in the aggregate;
- uncertainty relating to expected future revenues from and our relationship with one of our largest customers, Passport, and the value of our pending investment in Passport, including as a result of the ongoing Medicaid request for proposal process in the Commonwealth of Kentucky;
- the structural change in the market for health care in the United States;
- uncertainty in the health care regulatory framework, including the potential impact of policy changes;
- uncertainty in the public exchange market;
- the uncertain impact of CMS waivers to Medicaid rules and changes in membership and rates;
- the uncertain impact the results of elections may have on health care laws and regulations;
- our ability to effectively manage our growth and maintain an efficient cost structure;
- our ability to offer new and innovative products and services;
- risks related to completed and future acquisitions, investments, alliances and joint ventures, including the partnership with GlobalHealth, the acquisition of assets from New Mexico Health Connections (“NMHC”), and the acquisitions of Valence Health Inc., excluding Cicerone Health Solutions, Inc. (“Valence Health”), Aldera Holdings, Inc. (“Aldera”), NCIS Holdings, Inc. (“New Century Health”), and the pending transactions with Passport, which may be difficult to integrate, divert management resources, or result in unanticipated costs or dilute our stockholders;
- our ability to consummate opportunities in our pipeline;
- certain risks and uncertainties associated with the pending Passport transaction, the acquisition of assets from NMHC and the acquisitions of Valence Health, Aldera and New Century Health, including future revenues may be less than expected, the timing and extent of new lives expected to come onto the platform may not occur as expected and the expected results of Evolut may not be impacted as anticipated;
- risks relating to our ability to maintain profitability for our and New Century Health’s performance-based contracts and products, including capitation and risk-bearing contracts;
- the growth and success of our partners, which is difficult to predict and is subject to factors outside of our control, including governmental funding reductions and other policy changes, enrollment numbers for our partners’ plans (including in Florida), premium pricing reductions, selection bias in at-risk membership and the ability to control and, if necessary, reduce health care costs;
- our ability to attract new partners and successfully capture new growth opportunities;
- the increasing number of risk-sharing arrangements we enter into with our partners;
- our ability to recover the significant upfront costs in our partner relationships;
- our ability to estimate the size of our target markets;
- our ability to maintain and enhance our reputation and brand recognition;
- consolidation in the health care industry;
- competition which could limit our ability to maintain or expand market share within our industry;
- risks related to governmental payer audits and actions, including whistleblower claims;
- our ability to partner with providers due to exclusivity provisions in our contracts;
- restrictions and penalties as a result of privacy and data protection laws;
- adequate protection of our intellectual property, including trademarks;
- any alleged infringement, misappropriation or violation of third-party proprietary rights;

- our use of “open source” software;
- our ability to protect the confidentiality of our trade secrets, know-how and other proprietary information;
- our reliance on third parties and licensed technologies;
- our ability to use, disclose, de-identify or license data and to integrate third-party technologies;
- data loss or corruption due to failures or errors in our systems and service disruptions at our data centers;
- online security risks and breaches or failures of our security measures, including with respect to privacy of health information;
- our reliance on Internet infrastructure, bandwidth providers, data center providers, other third parties and our own systems for providing services to our users;
- our reliance on third-party vendors to host and maintain our technology platform;
- our ability to contain health care costs, implement increases in premium rates on a timely basis, maintain adequate reserves for policy benefits or maintain cost effective provider agreements;
- the risk of a significant reduction in the enrollment in our health plan;
- our ability to accurately underwrite performance-based risk-bearing contracts;
- risks related to our offshore operations;
- our dependency on our key personnel, and our ability to attract, hire, integrate and retain key personnel;
- the risk of potential future goodwill and intangible asset impairment on our results of operations;
- our indebtedness and our ability to obtain additional financing;
- our ability to achieve profitability in the future;
- the requirements of being a public company;
- our adjusted results may not be representative of our future performance;
- the risk of potential future litigation;
- the impact of changes in accounting principles and guidance on our reported results;
- our holding company structure and dependence on distributions from Evolent Health LLC;
- our obligations to make payments to certain of our pre-IPO investors for certain tax benefits we may claim in the future;
- our ability to utilize benefits under the tax receivables agreement described herein;
- our ability to realize all or a portion of the tax benefits that we currently expect to result from past and future exchanges of Class B common units of Evolent Health LLC for our Class A common stock, and to utilize certain tax attributes of Evolent Health Holdings and an affiliate of TPG Global, LLC (along with its affiliates, “TPG”);
- distributions that Evolent Health LLC will be required to make to us and to the other members of Evolent Health LLC;
- our obligations to make payments under the tax receivables agreement that may be accelerated or may exceed the tax benefits we realize;
- different interests among our pre-IPO investors, or between us and our pre-IPO investors;
- the terms of agreements between us and certain of our pre-IPO investors;
- the conditional conversion feature of the 2025 Notes, which, if triggered, could require us to settle the 2025 Notes in cash;
- the impact of the accounting method for convertible debt securities that may be settled in cash;
- the potential volatility of our Class A common stock price;
- the potential decline of our Class A common stock price if a substantial number of shares are sold or become available for sale or if a large number of Class B common units are exchanged for shares of Class A common stock;
- provisions in our second amended and restated certificate of incorporation and second amended and restated by-laws and provisions of Delaware law that discourage or prevent strategic transactions, including a takeover of us;
- the ability of certain of our investors to compete with us without restrictions;
- provisions in our second amended and restated certificate of incorporation which could limit our stockholders’ ability to obtain a favorable judicial forum for disputes with us or our directors, officers or employees;
- our intention not to pay cash dividends on our Class A common stock;
- our ability to maintain effective internal control over financial reporting;
- our expectations regarding the additional management attention and costs that will be required as we have transitioned from an “emerging growth company” to a “large accelerated filer”; and
- our lack of public company operating experience.

The risks included here are not exhaustive. Although we believe the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, level of activity, performance or achievements. Our Annual Report on Form 10-K for the year ended December 31, 2018 (the “2018 Form 10-K”), this Form 10-Q and other documents filed with the SEC include additional factors that could affect our businesses and financial performance. Moreover, we operate in a rapidly changing and competitive environment. New risk factors emerge from time to time, and it is not possible for management to predict all such risk factors.

Further, it is not possible to assess the effect of all risk factors on our businesses or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results. In addition, we

disclaim any obligation to update any forward-looking statements to reflect events or circumstances that occur after the date of this report.

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

EVOLENT HEALTH, INC.  
**CONSOLIDATED BALANCE SHEETS**  
(unaudited, in thousands, except share data)

	As of June 30, 2019	As of December 31, 2018
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 92,821	\$ 228,320
Restricted cash and restricted investments	38,619	154,718
Accounts receivable, net (amounts attributable to related parties: 2019 - \$6,260; 2018 - \$8,519)	71,379	80,208
Prepaid expenses and other current assets (amounts attributable to related parties: 2019 - \$109; 2018 - \$85)	32,810	22,618
Investments, at amortized cost	4,048	—
Contract assets	1,187	2,102
Total current assets	240,864	487,966
Restricted cash and restricted investments	6,539	6,105
Investments, at amortized cost	13,084	10,010
Investments in and advances to equity method investees	59,167	6,276
Property and equipment, net	80,217	73,628
Right-of-use assets - operating	76,712	—
Customer advance for regulatory capital requirements	40,000	—
Prepaid expenses and other noncurrent assets (amounts attributable to related parties: 2019 - \$3,500; 2018 - \$2,500)	10,947	15,028
Contract assets	1,491	961
Contract cost assets	24,485	19,147
Intangible assets, net	326,586	335,036
Goodwill	772,164	768,124
Total assets	<u>\$ 1,652,256</u>	<u>\$ 1,722,281</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)</b>		
<b>Liabilities</b>		
Current liabilities:		
Accounts payable (amounts attributable to related parties: 2019 - \$3,950; 2018 - \$1,564)	28,758	146,760
Accrued liabilities (amounts attributable to related parties: 2019 - \$440; 2018 - \$798)	52,631	48,957
Operating lease liabilities - current	4,649	—
Accrued compensation and employee benefits	26,860	25,460
Deferred revenue	26,923	20,584
Reserve for claims and performance-based arrangements (amounts attributable to related parties: 2019 - \$5,894; 2018 - \$0)	33,052	27,595
Total current liabilities	172,873	269,356
Long-term debt, net of discount	225,642	221,041
Other long-term liabilities	10,423	17,090
Operating lease liabilities - noncurrent	70,796	—
Deferred tax liabilities, net	25,766	25,438
Total liabilities	<u>505,500</u>	<u>532,925</u>
<b>Commitments and Contingencies (See Note 9)</b>		
<b>Shareholders' Equity (Deficit)</b>		
Class A common stock - \$0.01 par value; 750,000,000 shares authorized as of June 30, 2019 and December 31, 2018;		
83,814,852 and 79,172,118 shares issued and outstanding as of June 30, 2019 and December 31, 2018, respectively	838	792
Class B common stock - \$0.01 par value; 100,000,000 shares authorized as of June 30, 2019 and December 31, 2018;		
706,273 and 3,190,301 shares issued and outstanding as of June 30, 2019 and December 31, 2018, respectively	7	31
Additional paid-in capital	1,158,325	1,093,174
Accumulated other comprehensive income (loss)	(147)	(182)
Retained earnings (accumulated deficit)	(28,345)	50,009
Total shareholders' equity (deficit) attributable to Evolent Health, Inc.	1,130,678	1,143,824
Non-controlling interests	16,078	45,532
Total shareholders' equity (deficit)	<u>1,146,756</u>	<u>1,189,356</u>
Total liabilities and shareholders' equity (deficit)	<u>\$ 1,652,256</u>	<u>\$ 1,722,281</u>

See accompanying Notes to Consolidated Financial Statements

**EVOLENT HEALTH, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)**  
(unaudited, in thousands, except per share data)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2019	2018	2019	2018
<b>Revenue</b>				
Transformation services <sup>(1)</sup>	\$ 1,944	\$ 8,215	\$ 5,297	\$ 14,720
Platform and operations services <sup>(1)</sup>	144,522	113,346	291,814	223,164
Premiums	45,493	22,737	92,604	46,128
Total revenue	<u>191,959</u>	<u>144,298</u>	<u>389,715</u>	<u>284,012</u>
<b>Expenses</b>				
Cost of revenue (exclusive of depreciation and amortization expenses presented separately below) <sup>(1)</sup>	108,383	69,003	225,824	140,978
Claims expenses	36,085	18,428	73,842	35,177
Selling, general and administrative expenses <sup>(1)</sup>	66,932	57,403	141,770	112,929
Depreciation and amortization expenses	15,292	10,034	29,558	19,530
(Gain) loss on disposal of assets	(9,600)	—	(9,600)	—
Change in fair value of contingent consideration and indemnification asset	100	(1,604)	200	(1,504)
Total operating expenses	<u>217,192</u>	<u>153,264</u>	<u>461,594</u>	<u>307,110</u>
Operating income (loss)	(25,233)	(8,966)	(71,879)	(23,098)
Interest income	842	878	1,902	1,950
Interest expense	(3,620)	(855)	(7,182)	(1,708)
Income (loss) from equity method investees	(1,904)	(1,275)	(2,328)	(1,406)
Other income (expense), net	(587)	78	(160)	60
Income (loss) before income taxes and non-controlling interests	(30,502)	(10,140)	(79,647)	(24,202)
Provision (benefit) for income taxes	1,398	(109)	902	(106)
Net income (loss)	(31,900)	(10,031)	(80,549)	(24,096)
Net income (loss) attributable to non-controlling interests	(285)	(115)	(2,195)	(554)
Net income (loss) attributable to Evolent Health, Inc.	<u>\$ (31,615)</u>	<u>\$ (9,916)</u>	<u>\$ (78,354)</u>	<u>\$ (23,542)</u>
<b>Earnings (Loss) Available for Common Shareholders</b>				
Basic and Diluted	\$ (31,615)	\$ (9,916)	\$ (78,354)	\$ (23,542)
<b>Earnings (Loss) per Common Share</b>				
Basic and Diluted	\$ (0.38)	\$ (0.13)	\$ (0.97)	\$ (0.31)
<b>Weighted-Average Common Shares Outstanding</b>				
Basic and Diluted	82,289	77,209	80,820	76,297
<b>Comprehensive income (loss)</b>				
Net income (loss)	\$ (31,900)	\$ (10,031)	\$ (80,549)	(24,096)
Other comprehensive income (loss), net of taxes, related to:				
Foreign currency translation adjustment	11	(148)	35	(148)
Total comprehensive income (loss)	(31,889)	(10,179)	(80,514)	(24,244)
Total comprehensive income (loss) attributable to non-controlling interests	(285)	(115)	(2,195)	(554)
Total comprehensive income (loss) attributable to Evolent Health, Inc.	<u>\$ (31,604)</u>	<u>\$ (10,064)</u>	<u>\$ (78,319)</u>	<u>\$ (23,690)</u>

<sup>(1)</sup> See Note 17 for amounts related to related parties included in these line items.

See accompanying Notes to Consolidated Financial Statements

**EVOLENT HEALTH, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(unaudited, in thousands)

	<b>For the Six Months Ended June 30,</b>	
	<b>2019</b>	<b>2018</b>
<b>Cash Flows from Operating Activities</b>		
Net income (loss)	\$ (80,549)	\$ (24,096)
Adjustments to reconcile net income (loss) to net cash and restricted cash provided by (used in) operating activities:		
(Income) loss from equity method investees	2,328	1,406
(Gain) loss on disposal of assets	(9,600)	—
Change in fair value of contingent consideration and indemnification asset	200	(1,504)
Depreciation and amortization expenses	29,558	19,530
Amortization of deferred financing costs	4,600	459
Stock-based compensation expense	9,287	8,513
Deferred tax provision (benefit)	782	(171)
Amortization of contract cost assets	2,773	1,166
Other	527	(55)
Changes in assets and liabilities, net of acquisitions:		
Accounts receivables, net and contract assets	9,891	(21,286)
Prepaid expenses and other current and noncurrent assets	(8,882)	(12,753)
Contract cost assets	(8,110)	(762)
Accounts payable	1,025	(342)
Accrued liabilities	(4,167)	6,140
Accrued compensation and employee benefits	1,394	(12,846)
Deferred revenue	6,339	8,267
Reserves for claims and performance-based arrangements	5,457	9,466
ROU operating assets	(25,350)	—
Operating lease liabilities	28,041	—
Other long-term liabilities	(4,786)	864
Net cash and restricted cash provided by (used in) operating activities	<u>(39,242)</u>	<u>(18,004)</u>
<b>Cash Flows from Investing Activities</b>		
Cash paid for asset acquisitions or business combinations	(6,000)	(11,676)
Customer advance for regulatory capital requirements	(45,400)	—
Principal repayment of implementation funding loan and regulatory capital requirements	2,830	8,000
Amount received from escrow in asset acquisition	—	500
Purchases of investments	(7,122)	—
Investments in and advances to equity method investees	(16,892)	(4,000)
Investments in internal-use software and purchases of property and equipment	(17,739)	(20,243)
Purchases of restricted investments	(493)	—
Maturities of restricted investments	—	8,043
Net cash and restricted cash provided by (used in) investing activities	<u>(90,816)</u>	<u>(19,376)</u>
<b>Cash Flows from Financing Activities</b>		
Changes in working capital balances related to claims processing on behalf of partners	(119,506)	(7,258)
Amount received from escrow in asset acquisition	500	—
Deferred financing costs related to 2025 Notes	(608)	—
Proceeds from stock option exercises	948	4,692
Taxes withheld and paid for vesting of restricted stock units	(2,405)	(1,099)
Net cash and restricted cash provided by (used in) financing activities	<u>(121,071)</u>	<u>(3,665)</u>
Effect of exchange rate on cash and cash equivalents and restricted cash	(29)	7
Net increase (decrease) in cash and cash equivalents and restricted cash	(251,158)	(41,038)
Cash and cash equivalents and restricted cash as of beginning-of-period	<u>388,325</u>	<u>295,363</u>
Cash and cash equivalents and restricted cash as of end-of-period	<u>\$ 137,167</u>	<u>\$ 254,325</u>

See accompanying Notes to Consolidated Financial Statements

**EVOLENT HEALTH, INC.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIT)**  
(unaudited, in thousands)

For the Three Months Ended June 30, 2019										
	Class A		Class B		Additional Paid-in Capital	Accum- ulated Other Comprehensive Income (Loss)	Retained Earnings (Accum- ulated Deficit)	Non- Controlling Interests	Total Equity (Deficit)	
	Common Stock		Common Stock							
	Shares	Amount	Shares	Amount						
<b>Balance as of March 31, 2019</b>	79,429	\$ 794	3,190	\$ 31	\$ 1,096,089	\$ (158)	\$ 3,270	\$ 50,100	\$ 1,150,126	
Stock-based compensation expense	—	—	—	—	4,362	—	—	—	4,362	
Exercise of stock options	93	1	—	—	822	—	—	—	823	
Restricted stock units vested, net of shares withheld for taxes	77	1	—	—	(223)	—	—	—	(222)	
Shares issued for equity-method investments and asset acquisitions	1,732	18	—	—	23,538	—	—	—	23,556	
Exchange of Class B common stock	2,484	24	(2,484)	(24)	33,946	—	—	(33,946)	—	
Foreign currency translation adjustment	—	—	—	—	—	11	—	—	11	
Net income (loss)	—	—	—	—	—	—	(31,615)	(285)	(31,900)	
Reclassification of non-controlling interests	—	—	—	—	(209)	—	—	209	—	
<b>Balance as of June 30, 2019</b>	<u>83,815</u>	<u>\$ 838</u>	<u>706</u>	<u>\$ 7</u>	<u>\$ 1,158,325</u>	<u>\$ (147)</u>	<u>\$ (28,345)</u>	<u>\$ 16,078</u>	<u>\$ 1,146,756</u>	

For the Three Months Ended June 30, 2018										
	Class A		Class B		Additional Paid-in Capital	Accum- ulated Other Comprehensive Income (Loss)	Retained Earnings (Accum- ulated Deficit)	Non- Controlling Interests	Total Equity (Deficit)	
	Common Stock		Common Stock							
	Shares	Amount	Shares	Amount						
<b>Balance as of March 31, 2018</b>	76,979	\$ 770	881	\$ 9	\$ 953,322	\$ —	\$ 89,041	\$ 11,772	\$ 1,054,914	
Stock-based compensation expense	—	—	—	—	4,718	—	—	—	4,718	
Exercise of stock options	412	4	—	—	3,227	—	—	—	3,231	
Restricted stock units vested, net of shares withheld for taxes	72	1	—	—	(300)	—	—	—	(299)	
Exchange of Class B common stock	115	1	(115)	(1)	1,529	—	—	(1,529)	—	
Settlement of indemnification asset	—	—	—	—	(1,004)	—	—	—	(1,004)	
Foreign Currency Translation Adjustment	—	—	—	—	—	(148)	—	—	(148)	
Net income (loss)	—	—	—	—	—	—	(9,916)	(115)	(10,031)	
Reclassification of non-controlling interests	—	—	—	—	(20)	—	—	20	—	
<b>Balance as of June 30, 2018</b>	<u>77,578</u>	<u>\$ 776</u>	<u>766</u>	<u>\$ 8</u>	<u>\$ 961,472</u>	<u>\$ (148)</u>	<u>\$ 79,125</u>	<u>\$ 10,148</u>	<u>\$ 1,051,381</u>	

See accompanying Notes to Consolidated Financial Statements

**EVOLENT HEALTH, INC.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIT)**  
(unaudited, in thousands)

**For the Six Months Ended June 30, 2019**

	Class A		Class B		Additional Paid-in Capital	Accum- ulated Other Comprehensive Income (Loss)	Retained Earnings (Accum- ulated Deficit)	Non- Controlling Interests	Total Equity (Deficit)
	Common Stock		Common Stock						
	Shares	Amount	Shares	Amount					
<b>Balance as of December 31, 2018</b>	79,172	\$ 792	3,190	\$ 31	\$ 1,093,174	\$ (182)	\$ 50,009	\$ 45,532	\$ 1,189,356
Stock-based compensation expense	—	—	—	—	8,515	—	—	—	8,515
Exercise of stock options	104	1	—	—	947	—	—	—	948
Restricted stock units vested, net of shares withheld for taxes	280	3	—	—	(2,408)	—	—	—	(2,405)
Class A common stock issued for Passport earn-out	43	—	—	—	800	—	—	—	800
Amount attributable to NCI from 2019 business combination	—	—	—	—	—	—	—	6,500	6,500
Shares issued for equity-method investments and asset acquisitions	1,732	18	—	—	23,538	—	—	—	23,556
Exchange of Class B common stock	2,484	24	(2,484)	(24)	33,946	—	—	(33,946)	—
Foreign currency translation adjustment	—	—	—	—	—	35	—	—	35
Net income (loss)	—	—	—	—	—	—	(78,354)	(2,195)	(80,549)
Reclassification of non-controlling interests	—	—	—	—	(187)	—	—	187	—
<b>Balance as of June 30, 2019</b>	<u>83,815</u>	<u>\$ 838</u>	<u>706</u>	<u>\$ 7</u>	<u>\$ 1,158,325</u>	<u>\$ (147)</u>	<u>\$ (28,345)</u>	<u>\$ 16,078</u>	<u>\$ 1,146,756</u>

**For the Six Months Ended June 30, 2018**

	Class A		Class B		Additional Paid-in Capital	Accum- ulated Other Comprehensive Income (Loss)	Retained Earnings (Accum- ulated Deficit)	Non- Controlling Interests	Total Equity (Deficit)
	Common Stock		Common Stock						
	Shares	Amount	Shares	Amount					
<b>Balance as of December 31, 2017</b>	74,723	\$ 747	2,654	\$ 27	\$ 924,153	\$ —	\$ 85,952	\$ 35,427	\$ 1,046,306
Cumulative-effect adjustment from adoption of ASC 606	—	—	—	—	—	—	16,715	594	17,309
Stock-based compensation expense	—	—	—	—	8,513	—	—	—	8,513
Exercise of stock options	766	8	—	—	4,684	—	—	—	4,692
Restricted stock units vested, net of shares withheld for taxes	201	2	—	—	(1,101)	—	—	—	(1,099)
Exchange of Class B common stock	1,888	19	(1,888)	(19)	25,334	—	—	(25,334)	—
Tax impact of Class B Exchanges	—	—	—	—	908	—	—	—	908
Settlement of indemnification asset	—	—	—	—	(1,004)	—	—	—	(1,004)
Foreign Currency Translation Adjustment	—	—	—	—	—	(148)	—	—	(148)
Net income (loss)	—	—	—	—	—	—	(23,542)	(554)	(24,096)
Reclassification of non-controlling interests	—	—	—	—	(15)	—	—	15	—
<b>Balance as of June 30, 2018</b>	<u>77,578</u>	<u>\$ 776</u>	<u>766</u>	<u>\$ 8</u>	<u>\$ 961,472</u>	<u>\$ (148)</u>	<u>\$ 79,125</u>	<u>\$ 10,148</u>	<u>\$ 1,051,381</u>

See accompanying Notes to Consolidated Financial Statements

**EVOLENT HEALTH, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**1. Organization**

Evolut Health, Inc. was incorporated in December 2014 in the state of Delaware and is a managed care services firm that supports leading health systems and physician organizations in their migration toward value-based care and population health management. The Company operates through two segments. The Company's services segment ("Services") provides our customers, who we refer to as partners, with a population health management platform, integrated data and analytics capabilities, claims processing services, pharmacy benefit management, specialty care management services and comprehensive health plan administration services. Together these services enable health systems to manage patient health in a more cost-effective manner. The Company's contracts are structured as a combination of advisory fees, monthly member service fees, percentage of plan premiums and shared medical savings arrangements. The Company's wholly-owned subsidiary, True Health New Mexico, Inc. ("True Health") operates as a separate segment and is a commercial health plan we operate in New Mexico that focuses on small and large businesses. The Company's headquarters is located in Arlington, Virginia.

As of June 30, 2019, Evolut Health, Inc. owns 99.2% of Evolut Health LLC, holds 100% of the voting rights, is the sole managing member and controls its operations. Therefore, the financial results of Evolut Health LLC have been consolidated in the financial statements of Evolut Health, Inc.

Since its inception, the Company has incurred losses from operations. As of June 30, 2019, the Company had cash and cash equivalents of \$92.8 million. The Company believes it has sufficient liquidity for the next 12 months as of the date the financial statements were available to be issued.

**2. Basis of Presentation, Summary of Significant Accounting Policies and Change in Accounting Principle**

**Basis of Presentation**

In our opinion, the accompanying unaudited interim consolidated financial statements include all adjustments, consisting of normal recurring adjustments, which are necessary to fairly state our financial position, results of operations, and cash flows. The consolidated balance sheet at December 31, 2018, has been derived from audited financial statements as of that date. The interim consolidated results of operations are not necessarily indicative of the results that may occur for the full fiscal year. Certain footnote disclosures normally included in financial statements prepared in accordance with United States of America generally accepted accounting principles ("GAAP") have been omitted pursuant to instructions, rules, and regulations prescribed by the United States Securities and Exchange Commission ("SEC"). The disclosures provided herein should be read in conjunction with the audited financial statements and notes thereto included in our 2018 Form 10-K.

**Summary of Significant Accounting Policies**

Certain GAAP policies that significantly affect the determination of our financial position, results of operations and cash flows, are summarized below.

*Accounting Estimates and Assumptions*

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions affecting the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenue and expenses for the reporting period. Those estimates are inherently subject to change and actual results could differ from those estimates. In the accompanying consolidated financial statements, estimates are used for, but not limited to, the valuation of assets (including intangibles and long-lived assets), liabilities (including IBNR), consideration related to business combinations and asset acquisitions, revenue recognition (including variable consideration), estimated selling prices for performance obligations in contracts with multiple performance obligations, reserves for claims and performance-based arrangements, contingent payments, allowance for doubtful accounts, depreciable lives of assets, impairment of long-lived assets (including equity method investments), stock-based compensation, deferred income taxes and valuation allowance, contingent liabilities, valuation of intangible assets (including goodwill), purchase price allocation in taxable stock transactions and useful lives of intangible assets.

## *Principles of Consolidation*

The consolidated financial statements include the accounts of Evolent Health, Inc. and its subsidiaries. All inter-company accounts and transactions are eliminated in consolidation.

## *Operating Segments*

Operating segments are defined as components of a business that may recognize revenue and incur expenses for which discrete financial information is available that is evaluated, on a regular basis, by the chief operating decision maker (“CODM”) to decide how to allocate resources and assess performance. The Company operates through two segments: (1) Services, and (2) True Health. Our Services segment consists of our technology-enabled value-based care services, specialty care management services and comprehensive health plan administration services. Our True Health segment consists of a commercial health plan we operate in New Mexico that focuses on small and large businesses. See Note 18 for a discussion of our operating results by segment.

## *Revenue Recognition*

Our Services segment derives revenue from two sources: (1) transformation services and (2) platform and operations services. Transformation services consist of implementation services whereby we assist the customer in launching its population health or health plan strategy. In certain cases, transformation services can also include revenue associated with our support of certain one-time wind-down activities for clients who are exiting a line of business or population. Platform and operations services generally include multi-year arrangements with customers to provide various population health, health plan operations, specialty care management (through performance-based arrangements) and claims processing services on an ongoing basis, as well as transition or run-out services to customers receiving primarily third-party administration (“TPA”) services. Revenue is recognized when control of the services is transferred to our customers.

We use the following 5-step model, outlined in Accounting Standards Codification (“ASC”) Topic 606, *Revenue from Contracts with Customers* (“ASC 606”), to determine revenue recognition for our Services segment from our contracts with customers:

- Identify the contract(s) with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to performance obligations
- Recognize revenue when (or as) the entity satisfies a performance obligation

Our True Health segment derives revenue from premiums that are earned over the terms of the related insurance policies. True Health also derives revenue from reinsurance premiums assumed from NMHC under the terms of the reinsurance agreement (as defined in Note 9). The portion of premiums that will be earned in the future or are received prior to the effectiveness of the policy are deferred and reported as premiums received in advance. These amounts are generally classified as short-term deferred revenue on our consolidated balance sheets.

See Note 5 for further discussion of our policies related to revenue recognition.

## *Leases*

As discussed in Note 3, we adopted Accounting Standards Update (“ASU”) 2016-02 effective January 1, 2019. The following reflects our updated policy for leases.

The Company enters into various office space, data center, and equipment lease agreements in conducting its normal business operations. At the inception of any contract, the Company evaluates the agreement to determine whether the contract contains a lease. If the contract contains a lease, the Company then evaluates the term and whether the lease is an operating or finance lease. Most leases include one or more options to renew or may have a termination option. The Company determines whether these options are reasonably certain to be exercised at the inception of the lease. The rent expense is recognized on a straight-line basis in the consolidated statements of operations and comprehensive income (loss) over the term of the lease. Leases with an initial term of 12 months or less are not recorded on the balance sheet.

As most of our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. We use the implicit rate when readily determinable. Further, the Company treats all lease and non-lease components as a single combined lease component for all classes of underlying assets.

The Company also enters into sublease agreements for some of its leased office space. Rental income attributable to subleases is immaterial and is offset against rent expense over the terms of the respective leases.

Refer to Note 10 for additional lease disclosures.

#### *Restricted Cash and Restricted Investments*

Restricted cash and restricted investments include cash and investments used to collateralize various contractual obligations (in thousands) as follows:

	<b>As of June 30, 2019</b>	<b>As of December 31, 2018</b>
Collateral for letters of credit for facility leases <sup>(1)</sup>	\$ 3,610	\$ 3,710
Collateral with financial institutions <sup>(2)</sup>	37,876	34,142
Claims processing services <sup>(3)</sup>	2,933	122,439
Other	739	532
<b>Total restricted cash and restricted investments</b>	<b>45,158</b>	<b>160,823</b>
<b>Current restricted investments</b>	<b>702</b>	<b>211</b>
<b>Current restricted cash</b>	<b>37,917</b>	<b>154,507</b>
<b>Total current restricted cash and restricted investments</b>	<b>38,619</b>	<b>154,718</b>
<b>Noncurrent restricted investments</b>	<b>110</b>	<b>607</b>
<b>Noncurrent restricted cash</b>	<b>6,429</b>	<b>5,498</b>
<b>Total noncurrent restricted cash and restricted investments</b>	<b>\$ 6,539</b>	<b>\$ 6,105</b>

<sup>(1)</sup> Represents restricted cash related to collateral for letters of credit required in conjunction with lease agreements. See Note 9 for further discussion of our lease commitments.

<sup>(2)</sup> Represents collateral held with financial institutions for risk-sharing and other arrangements. As of June 30, 2019, and December 31, 2018, approximately \$35.0 million and \$31.2 million of the collateral amount was in a trust account and invested in a money market fund. The amounts invested in money market funds are considered restricted cash and are carried at fair value, which approximates cost. See Note 16 for discussion of our fair value measurement and Note 9 for discussion of our risk-sharing arrangements. As of June 30, 2019, and December 31, 2018, approximately \$2.9 million of the collateral amount was held in FDIC participating bank accounts, primarily related to letters of credit.

<sup>(3)</sup> Represents cash held by Evolent related to claims processing services on behalf of partners. These are pass-through amounts and can fluctuate materially from period to period depending on the timing of when the claims are processed.

The following table provides a reconciliation of cash and cash equivalents and restricted cash reported within the consolidated balance sheets that sum to the total of the same such amounts shown in the statements of cash flows.

	<b>As of June 30,</b>	
	<b>2019</b>	<b>2018</b>
Cash and cash equivalents	\$ 92,821	\$ 197,983
Restricted cash and restricted investments	45,158	57,054
Restricted investments included in restricted cash and restricted investments	(812)	(712)
<b>Total cash and cash equivalents and restricted cash shown in the consolidated statements of cash flows</b>	<b>\$ 137,167</b>	<b>\$ 254,325</b>

#### *Notes Receivable*

Notes receivable are carried at the face amount of each note plus accrued interest receivable, less received payments. The Company does not typically carry notes receivable in the course of its regular business, but contributed \$40.0 million in the form of an advance for regulatory capital requirements (the "Passport Note") under an agreement with Passport, a current customer, entered into during the second quarter of 2019. The Passport Note carries a fixed interest rate of 6.5% per annum and is required to be repaid, plus accrued interest, in a single payment on July 1, 2025, the maturity date, or earlier, subject to regulatory approval. The Passport Note is required

to be repaid out of surplus in excess of Passport's obligations to its policyholders, claimant and beneficiary claims and all other creditors. As of June 30, 2019, the outstanding principal balance of the Passport Note was \$40.0 million, excluding approximately \$0.1 million of accrued interest.

#### *Business Combinations*

Companies acquired during each reporting period are reflected in the results of the Company effective from their respective dates of acquisition through the end of the reporting period. The Company allocates the fair value of purchase consideration to the assets acquired and liabilities assumed based on their estimated fair values at the acquisition date. Our estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable and, as a result, actual results may differ from estimates. Critical estimates used to value certain identifiable assets include, but are not limited to, expected long-term revenues, future expected operating expenses, cost of capital, and appropriate discount rates.

The excess of the fair value of purchase consideration over the fair value of the assets acquired and liabilities assumed in the acquired entity is recorded as goodwill. Goodwill is assigned to the reporting unit that benefits from the synergies arising from the business combination. If the Company obtains new information about facts and circumstances that existed as of the acquisition date during the measurement period, which may be up to one year from the acquisition date, the Company may record adjustments to the assets acquired and liabilities assumed, with the corresponding offset to goodwill. Upon the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to the Company's consolidated statements of operations and comprehensive income (loss).

For contingent consideration recorded as a liability, the Company initially measures the amount at fair value as of the acquisition date and adjusts the liability, if needed, to fair value at each reporting period. Changes in the fair value of contingent consideration, other than measurement period adjustments, are recognized as operating income or expense. Acquisition-related expenses and post-acquisition restructuring costs are recognized separately from the business combination and are expensed as incurred.

#### *Goodwill*

We recognize the excess of the purchase price, plus the fair value of any non-controlling interests in the acquiree, over the fair value of identifiable net assets acquired as goodwill. Goodwill is not amortized, but is reviewed at least annually for indications of impairment, with consideration given to financial performance and other relevant factors. We perform impairment tests of goodwill at a reporting unit level, which is consistent with the way management evaluates our business. The Company has three reporting units: Legacy Services, New Century Health and True Health. Our annual goodwill impairment review occurs during the fourth quarter of each year. In interim periods between annual goodwill reviews, we also evaluate qualitative factors that could cause us to believe that it is more likely than not that the estimated fair value of each of our reporting units may be lower than the carrying value and trigger a quantitative assessment, including, but not limited to (i) macroeconomic conditions, (ii) industry and market considerations, (iii) our overall financial performance, including an analysis of our current and projected cash flows, revenues and earnings, (iv) a sustained decrease in share price and (v) other relevant entity-specific events including changes in management, strategy, partners, or litigation.

If the Company determines that it is more likely than not that the fair value of a reporting unit is below the carrying amount, a quantitative goodwill assessment is required. In the quantitative evaluation, the fair value of the relevant reporting unit is determined and compared to the carrying value. If the fair value estimate of the relevant the reporting unit is greater than its carrying value, then the goodwill of the reporting unit is considered not impaired and no further action is required. If the fair value estimate of the relevant the reporting unit is less than its carrying value, goodwill is considered impaired for the amount by which the carrying amount exceeds the reporting unit's fair value and a charge is reported in impairment of goodwill on our Consolidated Statements of Operations and Comprehensive Income (Loss).

#### *Intangible Assets, Net*

Identified intangible assets are recorded at their estimated fair values at the date of acquisition and are amortized over their respective estimated useful lives using a method of amortization that reflects the pattern in which the economic benefits of the intangible assets are used. Information regarding the determination and allocation of the fair value of recently acquired assets and liabilities is further described within Note 4.

The following summarizes the estimated useful lives by asset classification:

Corporate trade name	10-20 years
Customer relationships	10-25 years
Technology	5 years
Provider network contracts	5 years

Intangible assets are reviewed for impairment if circumstances indicate the Company may not be able to recover the asset's carrying value. The Company evaluates recoverability by determining whether the undiscounted cash flows expected to result from the use and eventual disposition of that asset or group exceed the carrying value at the evaluation date. If the undiscounted cash flows are not sufficient to cover the carrying value, the Company measures an impairment loss as the excess of the carrying amount of the long-lived asset or group over its fair value. See Note 7 for additional discussion regarding our intangible assets.

#### *Reserves for claims and performance-based arrangements*

Reserves for claims and performance-based arrangements for our Services and True Health segments reflect estimates of payments under performance-based arrangements and the ultimate cost of claims that have been incurred but not reported, including expected development on reported claims, those that have been reported but not yet paid (reported claims in process), and other medical care expenses and services payable that are primarily comprised of accruals for incentives and other amounts payable to health care professionals and facilities. Reserves for claims and performance-based arrangements also reflect estimated amounts owed to NMHC under a reinsurance agreement as discussed further in Note 9. The Company uses actuarial principles and assumptions that are consistently applied in each reporting period and recognizes the actuarial best estimate of the ultimate liability along with a margin for adverse deviation. This approach is consistent with actuarial standards of practice that the liabilities be adequate under moderately adverse conditions.

The process of estimating reserves involves a considerable degree of judgment by the Company and, as of any given date, is inherently uncertain. The methods for making such estimates and for establishing the resulting liability are continually reviewed, and adjustments are reflected in current results of operations in the period in which they are identified as experience develops or new information becomes known. See Note 19 for additional discussion regarding our reserves for claims and performance-based arrangements.

#### *Foreign Currency*

The Company formed a subsidiary in India during the first quarter of 2018. The functional currency of our international subsidiary is the Indian Rupee. We translate the financial statements of this subsidiary to U.S. dollars using month-end rates of exchange for assets and liabilities, and monthly average rates of exchange for revenue and expenses. Translation gains and losses are recorded in accumulated other comprehensive income (loss) as a component of shareholders' equity. Foreign currency translation gains and losses did not have a material impact on our consolidated statements of operations and comprehensive income (loss) for the three and six months ended June 30, 2019 and 2018.

### **3. Recently Issued Accounting Standards**

#### **Adoption of New Accounting Standards**

In February 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-02, *Leases*, in order to establish the principles to report transparent and economically neutral information about the assets and liabilities that arise from leases. This update introduces a new standard on accounting for leases, including a lessee model that brings most leases on the balance sheet. The new standard also aligns many of the underlying principles of the new lessor model with those in ASC 606. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. In July 2018, the FASB issued ASU 2018-11, which is intended to make targeted improvements to ASU 2016-02. The amendments in ASU 2018-11 provide entities with an additional (and optional) transition method to adopt the new leases standard using an effective date method rather than the earliest comparative period. The requirements of ASU 2018-11 are effective on the same date as the requirements of ASU 2016-02. We adopted ASU 2016-02 as of January 1, 2019, using the modified retrospective approach. Further, we elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allowed us to carry forward the historical lease classification. Adoption of the new standard resulted in the recording of additional right-of-use assets and lease liabilities of approximately \$51.4 million and \$47.4 million, respectively, on our consolidated balance sheet as of January 1, 2019. The standard had no impact on our results of operations.

In August 2018, the FASB issued ASU 2018-15, *Intangibles-Goodwill and Other-Internal Use Software: Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Services Contract*. The amendments in this ASU align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The update is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted, including adoption in any interim period. The amendments in this update should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. We adopted the requirements of ASU 2018-15 effective January 1, 2019. There was no material impact to our consolidated balance sheets or results of operations as of or for the three and six months ended June 30, 2019.

#### **Future Adoption of New Accounting Standards**

In July 2019, the FASB issued ASU 2019-07, *Codification Updates to SEC Sections - Amendments to SEC Paragraphs Pursuant to SEC Final Rule Releases No. 33-10532, Disclosure Update and Simplification, and Nos. 33-10231 and 33-10442, Investment Company Reporting Modernization and Miscellaneous Updates (SEC Update)*. ASU 2019-07 clarifies or improves the disclosure and presentation requirements of a variety of codification topics by aligning them with the SEC's regulations, thereby eliminating redundancies and making the codification easier to apply. We do not expect the disclosure and presentation amendments included in ASU 2019-07, which are to be applied prospectively, to have a material impact on our consolidated financial statements and related disclosures.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments*. With respect to assets measured at amortized cost, such as held-to-maturity assets, the update requires presentation of the amortized cost net of a credit loss allowance. The update eliminates the probable initial recognition threshold that was previously required prior to recognizing a credit loss on financial instruments. The credit loss estimate can now reflect an entity's current estimate of all future expected credit losses as opposed to the previous standard, when an entity only considered past events and current conditions. With respect to available for sale debt securities, the update requires that credit losses be presented as an allowance rather than as a write-down. The update is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted as of the fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. We intend to adopt the requirements of this standard effective January 1, 2020, and are currently evaluating the impact of the adoption on our financial condition and results of operations.

## **4. Transactions**

### **Business Combinations**

#### *New Century Health*

On October 1, 2018, the Company completed its acquisition of New Century Health, including 100% of the voting equity interests. New Century Health is a technology-enabled, specialty care management company focused primarily on cancer and cardiac care and its assets include a proprietary technology platform which brings together clinical capabilities, pharmacy management and physician engagement to assist New Century Health's customers in managing the large and complex specialties of cancer and cardiac care. We expect that the transaction will allow Evolent to enhance its clinical capabilities and enable it to offer a more integrated set of services to its current provider partners.

Total merger consideration, net of cash on hand and certain closing adjustments, was \$205.1 million, based on the closing price of the Company's Class A common stock on the NYSE on October 1, 2018. The merger consideration consisted of \$118.7 million of cash consideration, 3.1 million shares of Evolent Health LLC's Class B common units and an equal number of the Company's Class B common stock and an earn-out of up to \$11.4 million, fair valued at \$3.2 million as of October 1, 2018. The merger agreement includes an earn-out of up to \$20.0 million, \$11.4 million of which is payable to the former owners of New Century Health and \$8.6 million of which is payable to former employees of New Century Health that became employees of the Company. The amount payable to the former owners of New Century Health is considered merger consideration. The amount payable to the former employees of New Century Health requires continued employment with the Company and is therefore considered post-combination compensation expense. See Note 16 for additional information regarding the fair value determination of the earn-out consideration. The Evolent Health LLC Class B common units, together with a corresponding number of the Company's Class B common stock, can be exchanged for an equivalent number of the Company's Class A common stock, and were valued at \$83.2 million using the closing price of the Company's Class A common stock on the NYSE on October 1, 2018.

As a result of the Class B common stock issued for the New Century Health transaction, the Company's ownership in Evolent Health LLC decreased from 99.0% to 95.3%, immediately following the acquisition. The Company incurred approximately \$1.6 million of transaction costs related to the New Century Health transaction during 2018, which are recorded within "Selling, general and

administrative expenses” on our consolidated statements of operations and comprehensive income (loss). The Company accounted for the transaction as a business combination using the acquisition method of accounting.

The purchase price was allocated to the assets acquired and liabilities assumed based on their estimated fair values as of October 1, 2018, as follows (in thousands):

<b>Purchase consideration:</b>	
Cash	\$ 124,652
Fair value of Class B common stock issued	83,173
Fair value of contingent consideration	3,200
Total consideration	<u>\$ 211,025</u>
<b>Tangible assets acquired:</b>	
Cash and cash equivalents	\$ 5,963
Accounts receivable	5,559
Prepaid expenses and other current assets	7,901
Property and equipment	381
Other noncurrent assets	148
<b>Identifiable intangible assets acquired:</b>	
Customer relationships	72,500
Technology	27,000
Corporate trade name	4,300
Provider network contracts	9,600
<b>Liabilities assumed:</b>	
Accounts payable	1,167
Accrued liabilities	1,494
Accrued compensation and employee benefits	3,966
Reserves for claims and performance-based arrangements	18,631
Deferred tax liabilities	24,041
Other long-term liabilities	6,138
<b>Goodwill</b>	<u>133,110</u>
Net assets acquired	<u>\$ 211,025</u>

The fair value of the receivables acquired, as shown in the table above, approximates the gross contractual amounts and is expected to be collectible in full. Identifiable intangible assets associated with customer relationships will be amortized on a straight-line basis over their preliminary estimated useful lives of 15 years. Identifiable intangible assets associated with technology, corporate trade name and provider network contracts will be amortized on a straight-line basis over their preliminary estimated useful lives of 5, 10 and 5 years, respectively. The customer relationships are primarily attributable to long-term existing contracts with current customers. The technology consists of a clinical rules engine portal, data warehouse and claims system that New Century Health uses to provide services to its customers. The corporate trade name reflects the value that the New Century Health brand name carries in the market. The provider network contracts represents the established provider network that New Century Health relies on to provide services to its customers. The fair value of the intangible assets was determined using the income approach, the relief from royalty approach and the cost approach. The income approach estimates fair value for an asset based on the present value of cash flows projected to be generated by the asset. Projected cash flows are discounted at a required rate of return that reflects the relative risk of achieving the cash flows and the time value of money. The relief from royalty approach estimates the fair value of an asset by calculating how much an entity would have to spend to lease a similar asset. The cost approach estimates the fair value of an asset by determining the amount that would be required currently to replace the service capacity of an asset. Goodwill is calculated as the difference between the acquisition date fair value of the total consideration and the fair value of the net assets acquired and represents the future economic benefits that we expect to achieve as a result of the acquisition. The goodwill is attributable primarily to cross-selling opportunities and the acquired assembled workforce and was all allocated to the Services segment. Goodwill is considered to be an indefinite lived asset.

The merger was structured as a tax-free reorganization and therefore the Company received carryover basis in the assets and liabilities acquired; accordingly, the Company recognized net deferred tax liabilities associated with the difference between the book basis and the tax basis for the assets and liabilities acquired. The goodwill is not deductible for tax purposes.

The amounts above reflect management's preliminary estimate of the fair value of the tangible and intangible assets acquired and liabilities assumed based on a valuation performed using currently available information. Any necessary adjustments will be finalized within one year from the date of acquisition.

#### *New Mexico Health Connections*

On January 2, 2018, the Company, through its wholly-owned subsidiary, True Health, completed its previously announced acquisition of assets related to NMHC's commercial, small and large group business. The assets include a health plan management services organization with a leadership team and employee base with experience working locally with providers to run NMHC's suite of preventive, disease and care management programs. The Company paid cash consideration of \$10.3 million in connection with the acquisition. This acquisition is expected to allow the Company to leverage its platform to support a value-based, provider-centric model of care in New Mexico.

The Company commenced operations of the commercial health plan and began reporting the results of True Health as a new reportable segment during the first quarter of 2018. See Note 18 for further information about the Company's segments. At the time of the acquisition, the Company also entered into a managed services agreement ("MSA") with NMHC to support its ongoing business. During the fourth quarter of 2017, the Company also entered into a reinsurance agreement with NMHC to provide balance sheet support. See Note 9 for further discussion of the reinsurance agreement. The MSA and reinsurance agreement were considered separate transactions and accounted for outside of the business combination. Therefore, there is no allocation of purchase price to these agreements at fair value.

The Company incurred approximately \$1.2 million in transaction costs related to the NHMC transaction, materially all of which were recorded within "Selling, general and administrative expenses" on our consolidated statements of operations and comprehensive income (loss) for the year ended December 31, 2017. The transaction was accounted for as a business combination using the acquisition method of accounting.

The purchase price was allocated to the assets acquired and liabilities assumed based on their estimated fair values as of January 2, 2018, as follows (in thousands):

<b>Purchase consideration</b>	
Cash paid to NMHC	\$ 10,000
Cash paid to escrow agent	252
Total consideration	<u>\$ 10,252</u>
<b>Identifiable intangible assets acquired and liabilities assumed</b>	
Customer relationships	\$ 2,700
Provider network contracts	2,300
Above market lease	(100)
Accrued compensation and employee benefits	(474)
<b>Goodwill</b>	<u>5,826</u>
Net assets acquired	<u>\$ 10,252</u>

Identifiable intangible assets associated with customer relationships and provider network contracts will be amortized on a straight-line basis over their estimated useful lives of 15 and 5 years, respectively. The customer relationships represent existing contracts in place to provide health plan services to a number of large and small group customers throughout the state of New Mexico. The provider network contracts represent a network of hospitals and physicians to service the health plan customers. The fair value of the customer relationship intangible asset was primarily determined using the income approach. The income approach estimates fair value for an asset based on the present value of cash flows projected to be generated by the asset. Projected cash flows are discounted at a required rate of return that reflects the relative risk of achieving the cash flows and the time value of money. The fair value of the provider network intangible asset was primarily determined using the cost approach. The cost approach estimates the fair value for an asset based on the amount it would cost to replace the asset. Goodwill is calculated as the difference between the acquisition date fair value of the total consideration and the fair value of the net assets acquired, and represents the future economic benefits that we expect to achieve as a result of the acquisition. Goodwill associated with the acquisition of assets from NMHC is allocated entirely to the

True Health segment. The goodwill is attributable primarily to the acquired workforce and expected cost synergies, none of which qualify for recognition as a separate intangible asset. Goodwill is considered an indefinite-lived asset. The transaction is an asset acquisition for tax purposes, and as such the tax-basis in the acquired assets is equal to the book-basis fair value calculated and is recorded at the True Health legal entity. Therefore, no opening balance sheet deferred tax liability was recorded. The amount of goodwill determined for tax purposes is deductible.

The amounts above reflect management's estimate of the fair value of the tangible and intangible assets acquired and liabilities assumed based on a valuation performed using information available at the date of the transaction.

True Health is a separate segment, and its results of operations are provided in Note 18 - Segment Reporting.

*Pro Forma Financial Information (Unaudited)*

The unaudited pro forma consolidated statements of operations presented below gives effect to the New Century Health and True Health transactions as if they took place on January 1, 2017. The following pro forma information includes adjustments to:

- Remove transaction costs related to the New Century Health transaction of \$1.6 million recorded during 2018 and reclassify such amounts to 2017;
- Record amortization expenses related to intangible assets beginning on January 1, 2017, for intangibles acquired as part of the New Century Health and True Health transactions;
- Record revenue and expenses related to the NMHC MSA beginning January 1, 2017;
- Record stock-based compensation expense beginning on January 1, 2017, for equity awards granted as part of the New Century Health transaction; and
- Record the issuance of Class B common shares as part of the New Century Health transaction as of January 1, 2017.

This pro forma data is presented for informational purposes only and does not purport to be indicative of the results of future operations or of the results that would have occurred had the transactions described above occurred in the specified prior periods. The pro forma adjustments are based on available information and assumptions that the Company believes are reasonable to reflect the impact of these transactions on the Company's historical financial information on a pro forma basis (in thousands, except per share data).

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2019	2018	2019	2018
Revenue	\$ 191,959	\$ 189,572	\$ 389,715	\$ 374,203
Net income (loss)	(31,900)	(10,427)	(80,549)	(25,312)
Net income (loss) attributable to non-controlling interests	(415)	(511)	(2,075)	(1,446)
Net income (loss) attributable to Evolent Health, Inc.	(31,485)	(9,916)	(78,474)	(23,866)
Net income (loss) per Common Share available to common shareholders				
Basic and Diluted	\$ (0.38)	\$ (0.13)	\$ (0.97)	\$ (0.31)

**Securities Offerings and Sales**

Under exchange agreements we entered into at the time of our IPO and as part of the New Century Health acquisition, we granted TPG, The Advisory Board Company ("The Advisory Board") and Ptolemy Capital, LLC ("Ptolemy Capital") (together, the "Investor Stockholders") and certain former owners of New Century Health (the "New Century Health Class B Members") an exchange right that allows receipt of newly-issued shares of the Company's Class A common stock in exchange (a "Class B Exchange") for an equal number of shares of the Company's Class B common stock (which are subsequently canceled) and an equal number of Evolent Health LLC's Class B common units ("Class B units"). Class B units received by the Company from relevant Investor Stockholders and New Century Health Class B Members are simultaneously exchanged for an equivalent number of Class A units of Evolent Health LLC, and Evolent Health LLC cancels the Class B units it receives in the Class B Exchange. The cancellation of the Class B units results in an increase in the Company's economic interest in Evolent Health LLC.

*2018 Private Sales*

In March 2018, The Advisory Board sold 3.0 million shares of the Company's Class A common stock in a private sale (the "March 2018 Private Sale"). The shares sold in the March 2018 Private Sale consisted of 1.2 million existing shares of the Company's Class A

common stock owned by The Advisory Board and 1.8 million newly-issued shares of the Company's Class A common stock received by The Advisory Board pursuant to a Class B Exchange for all of its outstanding shares of the Company's Class B common stock and Class B units. The Company did not receive any proceeds from the March 2018 Private Sale. Subsequent to this Class B Exchange, in June 2018, The Advisory Board sold all of their remaining shares of the Company's Class A common stock and no longer owns any shares of our Class A common stock, Class B common stock or Class B units held by the Advisory Board at the time of the IPO.

As a result of this Class B Exchange and Evolent Health LLC's cancellation of the Class B units during the March 2018 Private Sale, the Company's economic interest in Evolent Health LLC increased from 96.6% to 98.9% immediately following the March 2018 Private Sale, and, accordingly, we reclassified a portion of our non-controlling interests into shareholders' equity attributable to Evolent Health, Inc.

In November 2018, TPG sold 0.8 million shares of the Company's Class A common stock in a number of private sales (the "November 2018 Private Sales"). The shares sold in the November 2018 Private Sales consisted of 0.1 million existing shares of the Company's Class A common stock owned by TPG and 0.7 million newly-issued shares of the Company's Class A common stock received by TPG pursuant to Class B Exchanges. The Company did not receive any proceeds from the November 2018 Private Sales. These sales represented all of TPG's remaining equity interest in the Company and TPG no longer owns any of the shares of the Company's Class A common stock, Class B common stock or Evolent Health LLC Class B common units held by TPG at the time of the IPO.

As a result of these Class B Exchanges and Evolent Health LLC's cancellation of the Class B common units during the November 2018 Private Sales, the Company's economic interest in Evolent Health LLC increased from 95.3% to 96.1% immediately following the November 2018 Private Sales, and, accordingly, we reclassified a portion of our non-controlling interests into shareholders' equity attributable to Evolent Health, Inc.

The Company's economic interest in Evolent Health LLC will increase, if further Class B Exchanges occur.

## **5. Revenue Recognition**

Our Services segment derives revenue from two sources: (1) transformation services and (2) platform and operations services.

### *Transformation Services Revenue*

Transformation services consist of implementation services whereby we assist the customer in launching its population health or health plan strategy. In certain cases, transformation services can also include revenue associated with our support of certain one-time wind-down activities for clients who are exiting a line of business or population. The transformation services are usually completed within 12 months. We generally receive a fixed fee for transformation services and recognize revenue over time using an input method based on hours incurred compared to the total estimated hours required to satisfy our performance obligation.

### *Platform and Operations Services Revenue*

Platform and operations services generally include multi-year arrangements with customers to provide various population health, health plan operations, specialty care management (through performance-based arrangements) and claims processing services on an ongoing basis, as well as transition or run-out services to customers receiving primarily TPA services. Our performance obligation in these arrangements is to provide an integrated suite of services, including access to our platform that is customized to meet the specialized needs of our customers and members. Generally, we will apply the series guidance to the performance obligation as we have determined that each time increment is distinct. We primarily utilize a variable fee structure for these services that typically include a monthly payment that is calculated based on a specified per member per month rate, multiplied by the number of members that our partners are managing under a value-based care arrangement or a percentage of plan premiums. Our arrangements may also include other variable fees related to service level agreements, shared medical savings arrangements and other performance measures. Variable consideration is estimated using the most likely amount based on our historical experience and best judgment at the time. Due to the nature of our arrangements, certain estimates may be constrained if it is probable that a significant reversal of revenue will occur when the uncertainty is resolved. We recognize revenue for platform and operations services over time using the time elapsed output method. Fixed consideration is recognized ratably over the contract term. In accordance with the series guidance, we allocate variable consideration to the period to which the fees relate.

### *Contracts with Multiple Performance Obligations*

Our contracts with customers may contain multiple performance obligations, primarily when the customer has requested both transformation services and platform and operations services as these services are distinct from one another. When a contract has multiple performance obligations, we allocate the transaction price to each performance obligation based on the relative standalone

selling price using the expected cost margin approach. This approach requires estimates regarding both the level of effort it will take to satisfy the performance obligation as well as fees that will be received under the variable pricing model. We also take into consideration customer demographics, current market conditions, the scope of services and our overall pricing strategy and objectives when determining the standalone selling price.

#### *Principal vs Agent*

We occasionally use third parties to assist in satisfying our performance obligations. In order to determine whether we are the principal or agent in the arrangement, we review each third-party relationship on a contract by contract basis. We are an agent when our role is to arrange for another entity to provide the services to the customer. In these instances, we do not control the service before it is provided and recognize revenue on a net basis. We are the principal when we control the good or service prior to transferring control to the customer. We recognize revenue on a gross basis when we are the principal in the arrangement.

#### **Disaggregation of Revenue**

The following table represents Evolent's Services segment revenue disaggregated by revenue type (in thousands), excluding revenues from our True Health segment and from our downside risk sharing arrangements through our insurance subsidiary, which are accounted for under ASC 944, *Financial Services-Insurance*.

	<b>For the Three Months Ended June 30,</b>		<b>For the Six Months Ended June 30,</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
<b>Services Revenue</b>				
Transformation services	\$ 1,944	\$ 8,215	\$ 5,297	\$ 14,720
Platform and operations services	143,631	110,836	290,887	219,284

#### **Transaction Price Allocated to the Remaining Performance Obligations**

For contracts with a term that is greater than one year, we have allocated approximately \$100.4 million of transaction price to performance obligations that are unsatisfied or partially unsatisfied as of June 30, 2019. We do not include variable consideration that is allocated entirely to a wholly unsatisfied performance obligation accounted for under the series guidance in the calculation. As a result, the balance represents the value of the fixed consideration in our long-term contracts that we expect will be recognized as revenue in a future period and excludes the majority of our platform and operations revenue, which is primarily derived based on variable consideration as discussed in Note 2. We expect to recognize revenue on approximately 37% and 79% of these remaining performance obligations by December 31, 2019, and December 31, 2020, respectively, with the remaining balance to be recognized thereafter. However, because our existing contracts may be canceled or renegotiated including for reasons outside our control, the amount of this revenue that we actually receive may be less than this estimate and the timing of recognition may not be as expected.

#### **Contract Balances**

Contract balances consist of accounts receivable, contract assets and deferred revenue. Contract assets are recorded when the right to consideration for services is conditional on something other than the passage of time. Contract assets relating to unbilled receivables are transferred to accounts receivable when the right to consideration becomes unconditional. We classify contract assets as current or noncurrent based on the timing of our rights to the unconditional payments. Our contract assets are generally classified as current and recorded within "Contract assets" on our consolidated balance sheets. Our current accounts receivable are classified within "Accounts receivable, net" on our consolidated balance sheets and our noncurrent accounts receivable are classified within "Prepaid expenses and other noncurrent assets" on our consolidated balance sheets.

Deferred revenue includes advance customer payments and billings in excess of revenue recognized. We classify deferred revenue as current or noncurrent based on the timing of when we expect to recognize revenue. Our current deferred revenue is recorded within "Deferred revenue" on our consolidated balance sheets, and noncurrent deferred revenue is recorded within "Other long-term liabilities" on our consolidated balance sheets.

The following table provides information about receivables, contract assets and deferred revenue from contracts with customers (in thousands):

	As of June 30, 2019	As of December 31, 2018
Short-term receivables <sup>(1)</sup>	\$ 69,522	\$ 78,380
Long-term receivables <sup>(1)</sup>	6,550	6,550
Short-term contract assets	1,187	2,102
Long-term contract assets	1,491	961
Short-term deferred revenue	26,923	20,584
Long-term deferred revenue	256	1,502

<sup>(1)</sup> Excludes pharmacy claims receivable and premiums receivable

Changes in contract assets and deferred revenue for the six months ended June 30, 2019, were as follows (in thousands):

<b>Contract assets</b>	
Balance as of beginning-of-period	\$ 3,063
Reclass to receivables, as the right to consideration becomes unconditional	(1,482)
Contract assets recognized, net of reclass to receivables	1,097
Balance as of end-of-period	<u>\$ 2,678</u>
<b>Deferred revenue</b>	
Balance as of beginning-of-period	\$ 22,086
Reclass to revenue, as a result of performance obligations satisfied	(12,714)
Cash received in advance of satisfaction of performance obligations	17,807
Balance as of end-of-period	<u>\$ 27,179</u>

The amount of revenue recognized during the three and six months ended June 30, 2019, from performance obligations satisfied (or partially satisfied) in previous periods was immaterial.

#### Contract Cost Assets

Certain bonuses and commissions earned by our sales team are considered incremental costs of obtaining a contract with a customer that we expect to be recoverable. The capitalized contract acquisition costs are classified as noncurrent assets and recorded within "Contract cost assets" on our consolidated balance sheets. Amortization expense is recorded within "Selling, general and administrative expenses" on the accompanying consolidated statements of operations and comprehensive income (loss). As of June 30, 2019, and December 31, 2018, the Company had \$2.8 million and \$1.5 million of contract acquisition cost assets, net of accumulated amortization. The Company recorded amortization expense of \$0.1 million and \$0.2 million for the three and six months ended June 30, 2019, respectively, and less than \$0.1 million for the three and six months ended June 30, 2018.

In our platform and operations arrangements, we incur certain costs related to the implementation of our platform before we begin to satisfy our performance obligation to the customer. The costs, which we expect to recover, are considered costs to fulfill a contract. Our contract fulfillment costs primarily include our employee labor costs and third-party vendor costs. The capitalized contract fulfillment costs are classified as noncurrent and recorded within "Contract cost assets" on our consolidated balance sheets. Amortization expense is recorded within "Cost of revenue" on the accompanying consolidated statements of operations and comprehensive income (loss). As of June 30, 2019, and December 31, 2018, the Company had \$21.7 million and \$17.6 million of contract fulfillment cost assets, net of accumulated amortization. The Company recorded amortization expense of \$1.4 million and \$2.6 million for the three and six months ended June 30, 2019, respectively, and \$0.5 million and \$1.0 million for the three and six months ended June 30, 2018, respectively.

These costs are deferred and then amortized on a straight-line basis over a period of benefit that we have determined to be five years. The period of benefit was based on our technology, the nature of our customer arrangements and other factors.

## 6. Property and Equipment, Net

The following summarizes our property and equipment (in thousands):

	As of June 30, 2019	As of December 31, 2018
Computer hardware	\$ 11,131	\$ 10,421
Furniture and equipment	3,255	3,187
Internal-use software development costs	98,523	81,640
Leasehold improvements	9,945	10,118
Total property and equipment	122,854	105,366
Accumulated depreciation and amortization	(42,637)	(31,738)
Total property and equipment, net	<u>\$ 80,217</u>	<u>\$ 73,628</u>

The Company capitalized \$8.2 million and \$16.9 million of internal-use software development costs for the three and six months ended June 30, 2019, respectively, and \$7.6 million and \$18.1 million for the three and six months ended June 30, 2018, respectively. The net book value of capitalized internal-use software development costs was \$71.1 million and \$62.8 million as of June 30, 2019, and December 31, 2018, respectively.

Depreciation expense related to property and equipment was \$5.7 million and \$10.9 million for the three and six months ended June 30, 2019, of which amortization expense related to capitalized internal-use software development costs was \$4.5 million and \$8.6 million, respectively. Depreciation expense related to property and equipment was \$3.9 million and \$7.5 million for the three and six months ended June 30, 2018, of which amortization expense related to capitalized internal-use software development costs was \$2.9 million and \$5.4 million, respectively.

## 7. Goodwill and Intangible Assets, Net

### Goodwill

Goodwill has an estimated indefinite life and is not amortized; rather, it is reviewed for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable.

The Company has three reporting units: Legacy Services, New Century Health and True Health. Our annual goodwill impairment review occurs during the fourth quarter of each fiscal year. In interim periods between annual goodwill reviews, we also evaluate qualitative factors that could cause us to believe the estimated fair value of each of our reporting units may be lower than the carrying value and trigger a quantitative assessment, including, but not limited to (i) macroeconomic conditions, (ii) industry and market considerations, (iii) our overall financial performance, including an analysis of our current and projected cash flows, revenues and earnings, (iv) a sustained decrease in share price and (v) other relevant entity-specific events including changes in management, strategy, partners, or litigation.

During the second quarter of 2019, the price of our Class A common stock declined significantly. The average closing price per share of our Class A common stock for the months of May and June decreased by 25.8% compared to the average closing price for the period from January to April. We considered whether the stock price decline represented a triggering event for interim goodwill impairment testing and determined that the decline in our stock price does not impact the medium-term and long-term projections of our cash flow generation and, accordingly, our estimates of the fair value of our reporting units. Therefore, we did not perform a quantitative goodwill assessment and no impairment was noted as of June 30, 2019. However, any long-term decline in stock price could result in future goodwill impairment charges.

The following tables summarize the changes in the carrying amount of goodwill, by reportable segment, for the periods presented (in thousands):

**For the Six Months Ended June 30, 2019**

	Services	True Health	Consolidated
Balance as of beginning-of-period <sup>(1)</sup>	\$ 762,419	\$ 5,705	\$ 768,124
Goodwill Acquired	3,429	—	3,429
Measurement period adjustments <sup>(2)</sup>	596	—	596
Foreign currency translation	15	—	15
Balance as of end-of-period	<u>\$ 766,459</u>	<u>\$ 5,705</u>	<u>\$ 772,164</u>

<sup>(1)</sup> Net of cumulative inception to date impairment of \$160.6 million.

<sup>(2)</sup> Measurement period adjustments related to transactions completed during the fourth quarter of 2018.

**For the Year Ended December 31, 2018**

	Services	True Health	Consolidated
Balance as of beginning-of-period <sup>(1)</sup>	\$ 628,186	\$ —	\$ 628,186
Goodwill Acquired <sup>(2)</sup>	134,343	5,826	140,169
Measurement period adjustments <sup>(3)</sup>	4	(121)	(117)
Foreign currency translation <sup>(4)</sup>	(114)	—	(114)
Balance as of end-of-period	<u>\$ 762,419</u>	<u>\$ 5,705</u>	<u>\$ 768,124</u>

<sup>(1)</sup> Net of cumulative inception to date impairment of \$160.6 million.

<sup>(2)</sup> Goodwill acquired primarily as a result of the New Century Health and True Health transactions, as discussed in Note 4.

<sup>(3)</sup> Measurement period adjustments related to transactions completed during the first quarter of 2018.

<sup>(4)</sup> Foreign currency translation related to a transaction completed during the first quarter of 2018.

*Intangible Assets, Net*

Details of our intangible assets (in thousands) are presented below:

**As of June 30, 2019**

	Weighted- Average Remaining Useful Life	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
Corporate trade name	14.7	\$ 23,300	\$ 4,201	\$ 19,099
Customer relationships	17.3	291,519	36,967	254,552
Technology	2.5	82,922	40,761	42,161
Below market lease, net	3.6	4,097	3,093	1,004
Provider network contracts	4.1	11,900	2,130	9,770
Total		<u>\$ 413,738</u>	<u>\$ 87,152</u>	<u>\$ 326,586</u>

**As of December 31, 2018**

	Weighted- Average Remaining Useful Life	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
Corporate trade name	15.2	\$ 23,300	\$ 3,511	\$ 19,789
Customer relationships	18.1	281,219	29,184	252,035
Technology	3.0	82,922	31,764	51,158
Below market lease, net	4.0	4,097	3,003	1,094
Provider network contracts	4.6	11,900	940	10,960
Total		<u>\$ 403,438</u>	<u>\$ 68,402</u>	<u>\$ 335,036</u>

Amortization expense related to intangible assets was \$9.6 million and \$18.7 million for the three and six months ended June 30, 2019, respectively, and \$6.0 million and \$11.9 million for the three and six months ended June 30, 2018, respectively.

Future estimated amortization of intangible assets (in thousands) as of June 30, 2019, is as follows:

2019	\$	18,774
2020		33,309
2021		29,173
2022		25,292
2023		22,528
Thereafter		197,510
Total	\$	<u>326,586</u>

Intangible assets are reviewed for impairment if circumstances indicate the Company may not be able to recover the assets' carrying value. We did not identify any circumstances during the six months ended June 30, 2019, that would require an impairment test for our intangible assets.

## 8. Long-term Debt

### 2025 Notes

In October 2018, the Company issued \$172.5 million aggregate principal amount of its 1.50% Convertible Senior Notes due 2025 in a private placement to qualified institutional buyers within the meaning of Rule 144A under the Securities Act of 1933, as amended. The 2025 Notes were issued at par for net proceeds of \$166.6 million. We incurred \$5.9 million of debt issuance costs in connection with the 2025 Notes. The closing of the private placement of \$150.0 million aggregate principal amount of the 2025 Notes occurred on October 22, 2018, and the Company completed the offering and sale of an additional \$22.5 million aggregate principal amount of the 2025 Notes on October 24, 2018, pursuant to the initial purchasers' exercise in full of their option to purchase additional notes.

Holders of the 2025 Notes are entitled to cash interest payments, which are payable semiannually in arrears on April 15 and October 15 of each year, beginning on April 15, 2019, at a rate equal to 1.50% per annum. The Company recorded interest expense of \$0.7 million and \$1.3 million related to the 2025 Notes for the three and six months ended June 30, 2019, respectively. The 2025 Notes will mature on October 15, 2025, unless earlier repurchased, redeemed or converted in accordance with their terms prior to such date.

Prior to the close of business on the business day immediately preceding April 15, 2025, the 2025 Notes will be convertible at the option of the holders only upon the satisfaction of certain conditions, as described in the indenture, dated as of October 22, 2018, between the Company and U.S. Bank National Association, as trustee. At any time on or after April 15, 2025, until the close of business on the business day immediately preceding the maturity date, holders may convert, at their option, all or any portion of their notes at the conversion rate.

The 2025 Notes will be convertible at an initial conversion rate of 29.9135 shares of Class A common stock per \$1,000 principal amount of notes, which is equivalent to an initial conversion price of approximately \$33.43 per share of the Company's Class A common stock. In the aggregate, the 2025 Notes are initially convertible into 5.2 million shares of the Company's Class A common stock (excluding any shares issuable by the Company upon a conversion in connection with a make-whole fundamental change or a notice of redemption as described in the governing indenture). The conversion rate may be adjusted under certain circumstances. The 2025 Notes are convertible, in multiples of \$1,000 principal amount, at the option of the holders at any time prior to the close of business on the business day immediately preceding the maturity date. Upon conversion, the Company will pay or deliver, as the case may be, cash or shares of the Company's Class A common stock, or a combination of cash and shares of the Company's Class A common stock, at the Company's election.

The option to settle the 2025 Notes in cash or shares of the Company's Class A common stock, or a combination of cash and shares of the Company's Class A common stock, at the Company's election, resulted in a bifurcation of the carrying value of the 2025 Notes into a debt component and an equity component. The debt component was determined to be \$100.7 million, before issuance costs, based on the fair value of a nonconvertible debt instrument with the same term. The equity component was determined to be \$71.8 million, before issuance costs, and was recorded within additional paid-in capital. The equity component is the difference between the aggregate principal amount of the debt and the debt component. Issuance costs of \$5.9 million are also allocated to the debt and equity components in proportion to the allocation of proceeds. Of the \$5.9 million in issuance costs, \$3.4 million of issuance costs is allocated to the debt component which, along with the equity component of \$71.8 million, will be amortized to non-cash interest expense using the effective interest method over the contractual term of the 2025 Notes. The equity component recorded within

additional paid-in capital will not be remeasured as long as it meets the conditions for equity classification. For the three and six months ended June 30, 2019, the Company recorded \$2.1 million and \$4.1 million, respectively, in non-cash interest expense related to the amortization of the debt discount and the issuance costs allocated to the debt component.

Holders of the 2025 Notes may require the Company to repurchase all or part of their notes upon the occurrence of a fundamental change at a price equal to 100.0% of the principal amount of the notes being repurchased, plus any accrued and unpaid interest to, but excluding, the fundamental change repurchase date. The Company may not redeem the 2025 Notes prior to October 20, 2022. The Company may redeem for cash all or any portion of the 2025 Notes, at its option, on or after October 20, 2022, if the last reported sale price of the Company's Class A common stock has been at least 130.0% of the conversion price then in effect for at least 20 trading days (whether or not consecutive) during any 30 consecutive trading day period (including the last trading day of such period) ending on, and including, the trading day immediately preceding the date on which the Company provides notice of redemption, at a redemption price equal to 100.0% of the principal amount of the notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date.

#### *2021 Notes*

In December 2016, the Company issued \$125.0 million aggregate principal amount of its 2.00% Convertible Senior Notes due 2021 (the "2021 Notes") in a private placement to qualified institutional buyers within the meaning of Rule 144A under the Securities Act of 1933, as amended. The 2021 Notes were issued at par for net proceeds of \$120.4 million. We incurred \$4.6 million of debt issuance costs in connection with the 2021 Notes, which we are amortizing to non-cash interest expense using the straight-line method over the contractual term of the 2021 Notes, since this method was not materially different from the effective interest method. The closing of the private placement of the 2021 Notes occurred on December 5, 2016.

Holders of the 2021 Notes are entitled to cash interest payments, which are payable semiannually in arrears on June 1 and December 1 of each year, beginning on June 1, 2017, at a rate equal to 2.00% per annum. The 2021 Notes will mature on December 1, 2021, unless earlier repurchased or converted in accordance with their terms prior to such date. In addition, holders of the 2021 Notes may require the Company to repurchase their 2021 Notes upon the occurrence of a fundamental change at a price equal to 100.0% of the principal amount of the 2021 Notes being repurchased, plus any accrued and unpaid interest. Upon maturity, and at the option of the holders of the 2021 Notes, the principal amount of the notes may be settled via shares of the Company's Class A common stock. For the three and six months ended June 30, 2019 and 2018, the Company recorded approximately \$0.6 million and \$1.2 million, of interest expense, respectively. For the three and six months ended June 30, 2019, the Company recorded \$0.3 million and \$0.5 million of non-cash interest expense related to the amortization of deferred financing costs, respectively. For the three and six months ended June 30, 2018, the Company recorded \$0.2 million and \$0.5 million of non-cash interest expense related to the amortization of deferred financing costs, respectively.

The 2021 Notes are convertible into shares of the Company's Class A common stock, based on an initial conversion rate of 41.6082 shares of Class A common stock per \$1,000 principal amount of the 2021 Notes, which is equivalent to an initial conversion price of approximately \$24.03 per share of the Company's Class A common stock. In the aggregate, the 2021 Notes are initially convertible into 5.2 million shares of the Company's Class A common stock (excluding any shares issuable by the Company upon a conversion in connection with a make-whole provision upon a fundamental change under the indenture between Evolent Health, Inc. and U.S. Bank National Association, as trustee, related to the 2.00% convertible senior notes due 2021, dated as of December 5, 2016).

The 2021 Notes are convertible, in multiples of \$1,000 principal amount, at the option of the holders at any time prior to the close of business on the business day immediately preceding the maturity date. Upon conversion, we will deliver for each \$1,000 principal amount of notes converted a number of shares of our Class A common stock equal to the applicable conversion rate (together with a cash payment in lieu of delivering any fractional share) on the third business day following the relevant conversion date.

#### *Convertible Senior Notes Carrying Value*

The 2025 Notes and 2021 Notes are recorded on our accompanying unaudited interim consolidated balance sheets at their net carrying values of \$102.9 million and \$122.8 million, respectively, as of June 30, 2019. However, the 2025 Notes and 2021 Notes are privately traded by qualified institutional buyers (within the meaning of Rule 144A under the Securities Act of 1933, as amended) and their fair values as of June 30, 2019, were \$114.1 million and \$106.3 million, respectively, based on traded prices on June 28, 2019, and June 24, 2019, respectively, which are Level 2 inputs. The fair values of the 2025 Notes and 2021 Notes as of December 31, 2018, were \$158.8 million and \$133.6 million, respectively, based on traded prices on December 28, 2018, and December 26, 2018, respectively, which are Level 2 inputs. The 2025 Notes and 2021 Notes also have embedded conversion options and contingent interest provisions, which have not been recorded as separate financial instruments.

The following table summarizes the carrying value of the long-term debt (in thousands):

	As of June 30, 2019	As of December 31, 2018
<b>2025 Notes</b>		
Carrying value	\$ 102,871	\$ 98,730
Unamortized debt discount and issuance costs allocated to debt	69,629	73,770
Principal amount	<u>\$ 172,500</u>	<u>\$ 172,500</u>
Remaining amortization period (years)	6.3	6.8
<b>2021 Notes</b>		
Carrying value	\$ 122,771	\$ 122,311
Unamortized issuance costs	2,229	2,689
Principal amount	<u>\$ 125,000</u>	<u>\$ 125,000</u>
Remaining amortization period (years)	2.4	2.9

## 9. Commitments and Contingencies

### Commitments

#### *Commitments to Equity-Method Investees*

The Company has contractual arrangements with certain equity-method investees that will require the Company to provide operating capital and reserve support in the form of debt financing of up to \$11.0 million as of June 30, 2019 and December 31, 2018, in accordance with the Company's contribution agreements with certain equity-method investees. These obligations are outside of the Company's control and payment could be requested during 2019.

#### *Letter of Credit*

During the first quarter of 2017, the Company entered into an agreement to provide a letter of credit, for up to \$5.0 million, to assist a customer in demonstrating adequate reserves to the customer's state regulatory authorities. The letter of credit was effective from September 30, 2017, through June 30, 2019, and carried a quarterly facility rental fee of 0.8% per annum on the amount of the outstanding balance. The letter of credit terminated on June 30, 2019. The letter of credit was presented at the face amount plus accrued facility rental fee, less received payments. There were no outstanding balances related to this letter of credit as of June 30, 2019, or December 31, 2018.

#### *Lease Commitments*

The Company enters into various office space, data center, and equipment lease agreements in conducting its normal business operations. In connection with certain office space lease agreements, the Company is required to maintain \$3.6 million in letters of credit and, as such, held \$3.6 million in restricted cash and restricted investments as collateral for the letters of credit as of June 30, 2019. Refer to Note 10 for additional discussion regarding leases.

#### *Indemnifications*

The Company's customer agreements generally include a provision by which the Company agrees to defend its partners against third-party claims (a) for death, bodily injury, or damage to personal property caused by Company negligence or willful misconduct, (b) by former or current Company employees arising from such managed service agreements, (c) for intellectual property infringement under specified conditions and (d) for Company violation of applicable laws, and to indemnify them against any damages and costs awarded in connection with such claims. To date, the Company has not incurred any material costs as a result of such indemnities and has not accrued any liabilities related to such obligations in the accompanying consolidated financial statements.

During the second quarter of 2019, the Company and Passport, a current customer (collectively the "Indemnitors"), pursuant to a state requirement of all participating Medicaid Managed Care Organizations, entered into an Indemnity Agreement (the "Indemnity Agreement"), with an insurance company (the "Surety"). The Surety issued a performance bond in the amount of \$25.0 million to secure the customer's performance under a contract to provide Medicaid Managed Care Services for the benefit of a third party (the

“Beneficiary”). Pursuant to the Indemnity Agreement, the Indemnitors are jointly and severally liable to the Surety in the maximum amount of the bond, plus certain costs of the Surety, in the event of losses arising under the bond. The bond’s effective date is July 1, 2019, and expiry date is June 30, 2020. To date, the Company has not incurred any material costs as a result of the Indemnity Agreement and has not accrued any liabilities related to it in the accompanying consolidated financial statements.

#### *Pre-IPO Investor Registration Rights Agreement*

We entered into a registration rights agreement with The Advisory Board, the University of Pittsburgh Medical Center (“UPMC”), TPG and another investor to register for sale under the Securities Act of 1933, as amended, shares of our Class A common stock, including those delivered in exchange for Class B common stock and Class B common units. Subject to certain conditions and limitations, this agreement provides these investors with certain demand, piggyback and shelf registration rights. The registration rights granted under the registration rights agreement will terminate upon the date the holders of shares that are a party thereto no longer hold any such shares that are entitled to registration rights. Pursuant to our contractual obligations under this agreement, we filed a registration statement on Form S-3 with the SEC on July 28, 2016, which was declared effective on August 12, 2016.

We will pay all expenses relating to any demand, piggyback or shelf registration, other than underwriting discounts and commissions and any transfer taxes, subject to specified conditions and limitations. The registration rights agreement includes customary indemnification provisions, including indemnification of the participating holders of shares of Class A common stock and their directors, officers and employees by us for any losses, claims, damages or liabilities in respect thereof and expenses to which such holders may become subject under the Securities Act of 1933, as amended, state law or otherwise. We did not incur any expenses related to secondary offerings or other sales of shares by our Investor Stockholders for the three and six months ended June 30, 2019 and 2018.

#### *Momentum Registration Rights Agreement*

On May 24, 2019, in connection with the GlobalHealth transaction, the Company entered into a registration rights agreement with Momentum Health Holdings, LLC (“MHG”), which granted certain registration rights to MHG as a holder of shares of the Company’s Class A common stock. Pursuant to our contractual obligations under this agreement, we filed a resale prospectus supplement in respect of the registrable shares on May 28, 2019.

The Company will pay certain costs and expenses, other than any underwriting discounts and commissions, in connection with the relevant resale registration statement. The amount of expenses recognized during the three and six months ended June 30, 2019, related to the resale registration statement was immaterial.

#### *Guarantees*

As part of our strategy to support certain of our partners in the Next Generation Accountable Care Program, we entered into upside and downside risk sharing arrangements. Our downside risk-sharing arrangements are limited to our fees and are executed through our wholly-owned captive insurance company. To satisfy the capital requirements of our captive insurance entity as well as state insurance regulators, Evolent entered into letters of credit of \$35.0 million as of June 30, 2019, to secure potential losses related to insurance services. This amount is in excess of our actuarial assessment of loss.

#### *Reinsurance Agreements*

During the fourth quarter of 2017, the Company had entered into a 15-month, \$10.0 million capital-only reinsurance agreement with NMHC, expiring on December 31, 2018. The purpose of the capital-only reinsurance was to provide balance sheet support to NMHC. There was no uncertainty to the outcome of the agreement as there was no transfer of underwriting risk to Evolent or True Health, and neither Evolent nor True Health was at risk for any cash payments on behalf of NMHC. As a result, this agreement did not qualify for reinsurance accounting. The Company recorded a quarterly fee of approximately \$0.2 million as non-operating income on its consolidated statements of operations and comprehensive income (loss) and maintained \$10.0 million within “Restricted Cash and Restricted Investments” on its consolidated balance sheets for the duration of the reinsurance agreement.

During the fourth quarter of 2018, the Company terminated its prior reinsurance agreement with NMHC and entered into a 15-month quota-share reinsurance agreement with NMHC (“Reinsurance Agreement”). Under the terms of the reinsurance agreement, NMHC will cede 90% of its gross premiums to the Company and the Company will indemnify NMHC for 90% of its claims liability. The maximum amount of exposure to the Company is capped at 105% of premiums ceded to the Company by NMHC. The reinsurance agreement qualified for reinsurance accounting due to the deemed risk transfer and, as such, the Company will record the full amount of the gross reinsurance premiums and claims assumed by the Company within “Premiums” and “Claims Expenses,” respectively, and record claims-related administrative expenses within “Selling, general and administrative expenses” on our consolidated statements of operations and comprehensive income (loss) from the legal effective date of the reinsurance agreement. Amounts owed to NMHC

under the reinsurance agreement are recorded within “Reserves for claims and performance-based arrangements” on our consolidated balance sheets. Amounts owed by NMHC under the reinsurance agreement are recorded within “Accounts receivable, net” on our consolidated balance sheets.

The following table summarizes premiums and claims assumed under the reinsurance agreement for the six months ended June 30, 2019 (in thousands):

Reinsurance premiums assumed	\$ 48,828
Claims assumed	41,424
Claims-related administrative expenses	<u>8,219</u>
Increase (decrease) in reserves for claims and performance-based arrangements attributable to the Reinsurance Agreement	815
Reserves for claims and performance-based arrangements attributable to the Reinsurance Agreement at the beginning of the period	1,243
Reinsurance payments	<u>1,235</u>
(Receivables) Payables for claims and performance-based arrangements attributable to the Reinsurance Agreement at the end of the period	<u>\$ 823</u>

#### *UPMC Reseller Agreement*

The Company and UPMC are parties to a reseller, services and non-competition agreement, dated August 31, 2011, which was amended and restated by the parties on June 27, 2013 (as amended through the date hereof, the “UPMC Reseller Agreement”). Under the terms of the UPMC Reseller Agreement, UPMC has appointed the Company as a non-exclusive reseller of certain services, subject to certain conditions and limitations specified in the UPMC Reseller Agreement. In consideration for the Company’s obligations under the UPMC Reseller Agreement and subject to certain conditions described therein, UPMC has agreed not to sell certain products and services directly to a defined list of 20 of the Company’s customers.

#### **Contingencies**

##### *Tax Receivables Agreement*

In connection with the offering reorganization at the time of our initial public offering, the Company entered into the Tax Receivables Agreement (the “TRA”) with certain of its investors, which provides for the payment by the Company to these investors of 85% of the amount of the tax benefits, if any, that the Company is deemed to realize as a result of increases in our tax basis related to exchanges of Class B common units as well as tax benefits attributable to the future utilization of pre-IPO NOLs. These payment obligations are obligations of the Company. For purposes of the TRA, the benefit deemed realized by the Company will be computed by comparing its actual income tax liability to the amount of such taxes that the Company would have been required to pay had there been no increase to the tax basis of the assets of the Company as a result of the exchanges or had the Company had no NOL carryforward balance. The actual amount and timing of any payments under the TRA will vary depending upon a number of factors, including:

- the timing of the exchanges and the price of the Class A shares at the time of the transaction, triggering a tax basis increase in the Company’s asset and a corresponding benefit to be realized under the TRA; and
- the amount and timing of our taxable income - the Company will be required to pay 85% of the tax savings as and when realized, if any. If the Company does not have taxable income, it will not be required to make payments under the TRA for that taxable year because no tax savings were actually realized.

Due to the items noted above, and the fact that Evolent Health, Inc. is in a full valuation allowance position such that the deferred tax assets related to the Company’s historical pre-IPO losses and tax basis increase benefit from exchanges have not been realized, the Company has not recorded a liability pursuant to the TRA.

## Litigation Matters

We are engaged from time to time in certain legal disputes arising in the ordinary course of business, including employment claims. When the likelihood of a loss contingency becomes probable and the amount of the loss can be reasonably estimated, we accrue a liability for the loss contingency. We continue to review accruals and adjust them to reflect ongoing negotiations, settlements, rulings, advice of legal counsel, and other relevant information. To the extent new information is obtained, and our views on the probable outcomes of claims, suits, assessments, investigations or legal proceedings change, changes in our accrued liabilities would be recorded in the period in which such determination is made. The Company is not aware of any legal proceedings or claims as of June 30, 2019, that the Company believes will have, individually or in the aggregate, a material adverse effect on the Company's financial position or result of operations.

## Credit and Concentration Risk

The Company is subject to significant concentrations of credit risk related to cash and cash equivalents and accounts receivable. As of June 30, 2019, approximately 69.0% of our \$137.2 million of cash and cash equivalents (including restricted cash) were held in bank deposits with FDIC participating banks, approximately 29.7% were held in money market funds and 1.3% were held in international banks. While the Company maintains its cash and cash equivalents with financial institutions with high credit ratings, it often maintains these deposits in federally insured financial institutions in excess of federally insured limits. The Company has not experienced any realized losses on cash and cash equivalents to date.

The Company is also subject to significant concentration of accounts receivable risk as a substantial portion of our trade accounts receivable is derived from a small number of our partners. The following table summarizes those partners who represented at least 10.0% of our trade accounts receivable for the periods presented:

	<b>As of June 30, 2019</b>	<b>As of December 31, 2018</b>
Customer C	20.3%	23.3%
Customer D	15.3%	*

In addition, the Company is subject to significant concentration of revenue risk as a substantial portion of our revenue is derived from a small number of contractual relationships with our operating partners.

The following table summarizes those partners who represented at least 10.0% of our revenue for the periods presented:

	<b>For the Three Months Ended June 30,</b>		<b>For the Six Months Ended June 30,</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Customer A	13.2%	*	13.6%	*
Customer B	13.2%	18.0%	13.1%	19.0%
Customer C	*	10.0%	*	10.3%

\* Represents less than 10.0% of the respective balance

## 10. Leases

The Company enters into various office space, data center, and equipment lease agreements in conducting its normal business operations. At the inception of any contract, the Company evaluates the agreement to determine whether the contract contains a lease. If the contract contains a lease, the Company then evaluates the term and whether the lease is an operating or finance lease. Most leases include one or more options to renew or may have a termination option. The Company determines whether these options are reasonably certain to be exercised or not at the inception of the lease. The rent expense is recognized on a straight-line basis in the consolidated statements of operations and comprehensive income (loss) over the term of the lease. Leases with an initial term or 12 months or less are not recorded on our consolidated balance sheets.

As most of our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. We use the implicit rate when readily determinable. Further, the Company treats all lease and non-lease components as a single combined lease component for all classes of underlying assets.

The Company also enters into sublease agreements for some of its leased office space. Rental income attributable to subleases is offset against rent expense over the terms of the respective leases.

The following table summarizes the components of our lease expense (in thousands):

	<b>For the Three Months Ended June 30, 2019</b>	<b>For the Six Months Ended June 30, 2019</b>
Operating lease cost	\$ 3,838	\$ 7,119
Variable lease cost	1,121	2,576
<b>Total lease cost</b>	<b>\$ 4,959</b>	<b>\$ 9,695</b>

As discussed in Note 3, the Company adopted ASU 2016-02 effective January 1, 2019, which resulted in accounting for leases under ASC 842. Prior to the adoption, we accounted for leases under ASC 840. In accordance with ASC 840, rent expense, net of sublease income, on operating leases was \$3.5 million and \$6.8 million for the three and six months ended June 30, 2018, respectively.

Maturity of lease liabilities (in thousands) as of June 30, 2019, is as follows:

	<b>Operating lease expense (1)</b>
2019	\$ 4,289
2020	10,404
2021	10,503
2022	9,389
2023	9,283
2024 and thereafter	61,156
<b>Total lease payments</b>	<b>105,024</b>
Less:	
Interest	29,579
<b>Present value of lease liabilities</b>	<b>75,445</b>

<sup>(1)</sup> We have additional operating lease agreements for office space that have not yet commenced as of June 30, 2019. The minimum lease payments for those leases are \$8.59 million and the leases will commence throughout the remainder of 2019.

Our weighted-average discount rate and our weighted-remaining lease terms (in years) are as follows:

	<b>As of June 30, 2019</b>
Weighted average discount rate	6.25%
Weighted average remaining lease term	10.0

## 11. Earnings (Loss) Per Common Share

The following table sets forth the computation of basic and diluted earnings per share available for common stockholders (in thousands, except per share data):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2019	2018	2019	2018
	Net income (loss)	\$ (31,900)	\$ (10,031)	\$ (80,549)
Less:				
Net income (loss) attributable to non-controlling interests	(285)	(115)	(2,195)	(554)
Net income (loss) available for common shareholders <sup>(1) (2)</sup>	\$ (31,615)	\$ (9,916)	\$ (78,354)	\$ (23,542)
Weighted-average common shares outstanding <sup>(2) (3)</sup>	82,289	77,209	80,820	76,297
<b>Earnings (Loss) per Common Share</b>				
Basic	\$ (0.38)	\$ (0.13)	\$ (0.97)	\$ (0.31)
Diluted	(0.38)	(0.13)	(0.97)	(0.31)

<sup>(1)</sup> For periods of net loss, net income (loss) available for common shareholders is the same for both basic and diluted purposes.

<sup>(2)</sup> Each Class B common unit of Evolent Health LLC can be exchanged (together with a corresponding number of shares of our Class B common stock) for one share of our Class A common stock. As holders exchange their Class B common shares for Class A common shares, our interest in Evolent Health LLC will increase. Therefore, shares of our Class B common stock are not considered dilutive shares for the purposes of calculating our diluted earnings (loss) per common share as related adjustment to net income (loss) available for common shareholders would equally offset the additional shares, resulting in the same earnings (loss) per common share.

<sup>(3)</sup> For periods of net loss, shares used in the earnings (loss) per common share calculation represent basic shares as using diluted shares would be anti-dilutive.

Anti-dilutive shares (in thousands) excluded from the calculation of weighted-average common shares presented above are presented below:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2019	2018	2019	2018
	Exchangeable Class B common stock	1,080	862	2,129
Restricted stock units ("RSUs"), performance-based RSUs and leveraged stock units ("LSUs")	985	938	1,014	784
Stock options and performance-based stock options	1,495	2,591	1,729	2,378
Convertible senior notes	10,361	5,201	10,361	5,201
Total	13,921	9,592	15,233	9,861

## 12. Stock-based Compensation

Total compensation expense by award type and line item in our consolidated financial statements was as follows (in thousands):

Award Type	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2019	2018	2019	2018
	Stock options	\$ 903	\$ 2,639	\$ 2,263
Performance-based stock options	112	111	222	221
RSUs	2,630	1,968	5,060	3,422
Performance-based RSUs	388	—	772	—
LSUs	717	—	970	—
Total	<u>\$ 4,750</u>	<u>\$ 4,718</u>	<u>\$ 9,287</u>	<u>\$ 8,513</u>

  

Line Item	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2019	2018	2019	2018
	Cost of revenue	\$ 891	\$ 438	\$ 1,682
Selling, general and administrative expenses	3,859	4,280	7,605	7,759
Total	<u>\$ 4,750</u>	<u>\$ 4,718</u>	<u>\$ 9,287</u>	<u>\$ 8,513</u>

No stock-based compensation in the totals above was capitalized as software development costs for the three and six months ended June 30, 2019 and 2018, respectively.

Stock-based awards were granted as follows (in thousands):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2019	2018	2019	2018
	Stock options	18	89	399
RSUs	17	85	518	838
LSUs	—	—	720	—

## 13. Income Taxes

For interim periods, we recognize an income tax provision (benefit) based on our estimated annual effective tax rate expected for the full year. Provision (benefit) for income tax (in thousands) and effective tax rates for the three and six months ended June 30, 2019, and June 30, 2018, were as follows:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2019	2018	2019	2018
	Provision (benefit) for income taxes	\$ 1,398	\$ (109)	\$ 902
Effective tax rate	(4.6)%	1.1%	(1.1)%	0.4%

The Company recorded a provision for income taxes of approximately \$0.9 million on a pre-tax loss from continuing operations of approximately \$79.6 million for the six months ended June 30, 2019, which resulted in a tax rate of approximately (1.1)%. This tax rate is based on an estimated annual effective tax rate of 1.2%. The Company recorded a discrete tax provision expense of \$2.0 million primarily due to the \$9.6 million non-cash gain on disposal of assets recognized for financial reporting purposes upon contribution of True Health Indiana, Inc. to GlobalHealth (as defined below), treated as a tax-deferred transaction. Comparatively, the Company recorded a tax benefit for income taxes of approximately \$(0.1) million on a pre-tax loss from continuing operations of approximately \$24.2 million for the six months ended June 30, 2018, which resulted in a tax rate of approximately 0.4%.

The difference between our effective tax rate and our statutory rate is primarily due to the \$2.0 million income tax expense recorded as a discrete item in connection with the non-cash gain on disposal of assets related to True Health Indiana, as well as certain permanent items which include, but are not limited to, income attributable to the non-controlling interest, the impact of certain tax deduction limits related to meals and entertainment, employee compensation and other permanent nondeductible expenses. Furthermore, as of June 30, 2019, with the exception of our corporate subsidiaries, the Company maintained a full valuation allowance recorded against its net deferred tax assets, except for certain indefinite-lived components as part of the outside basis difference in our partnership interest in Evolent Health LLC.

As of December 31, 2018, the Company had unrecognized tax benefits of \$0.9 million that, if recognized, would not affect the effective tax rate. As of June 30, 2019, there are no changes to the unrecognized tax benefits. The Company is not currently subject to income tax audits in any U.S., state, or foreign jurisdictions for any tax year, with the exception of New Century Health's examination by the State of California for 2015-2017.

#### *Tax Receivables Agreement*

In connection with the Offering Reorganization, the Company entered into the TRA with certain of its investors, which provides for the payment by the Company to these investors of 85% of the amount of the tax benefits, if any, that the Company is deemed to realize as a result of increases in our tax basis related to exchanges of Class B common units as well as tax benefits attributable to the future utilization of pre-IPO NOLs. See Note 9 above for discussion of our TRA.

#### **14. Investments in and Advances to Equity Method Investees**

The Company has entered into joint venture agreements with various entities. On May 24, 2019, we completed the acquisition of an approximately 43% ownership interest in Momentum Health Group, LLC ("MHG"), the sole owner of Momentum Health Acquisition, Inc. ("MHA"), which is the sole owner of GlobalHealth Holdings, LLC ("GHH"), which is the sole owner of GlobalHealth, Inc., a health maintenance organization based in the State of Oklahoma that offers, among other things, Medicare Advantage products in the State of Oklahoma. At closing, we contributed approximately \$15.0 million in cash and 1,577,841 shares of our Class A common stock to MHG, together with certain of our other assets in the form of True Health Indiana, Inc., the Company's Medicare Advantage line of business, including the provider contracts, to GlobalHealth. The Company recognized \$9.6 million non-cash gain on disposal of assets upon the contribution. We also recognized a short-term contingent consideration liability of \$5.9 million related to the transaction. At the time of the transaction, our economic interest in GlobalHealth was approximately 43% and our voting interest was approximately 29%. As of June 30, 2019, the Company's economic and voting interests remained unchanged from these amounts.

As of June 30, 2019, the Company's economic and voting interests in its joint venture arrangements ranged between 4% and 43%. As of December 31, 2018, the Company's economic and voting interests in these entities ranged between 4% and 40%. The Company determined that it has significant influence over these entities, but that it does not have control over any of the entities, including GlobalHealth. Accordingly, the investments are accounted for under the equity method of accounting and the Company is allocated its proportional share of the entities' earnings and losses for each reporting period. The Company's proportional share of the losses from these investments was approximately \$1.9 million and \$2.3 million for the three and six months ended June 30, 2019, respectively, and \$1.3 million and \$1.4 million for the three and six months ended June 30, 2018, respectively.

The Company signed services agreements with certain of the aforementioned entities to provide certain management, operational and support services to help manage elements of their service offerings. Revenues related to these services agreements was \$11.0 million and \$18.1 million for the three and six months ended June 30, 2019, respectively, and \$0.8 million for the three and six months ended June 30, 2018.

#### **15. Non-controlling Interests**

As discussed in Note 1, Evolent Health, Inc. does not own 100% of the economic interests of Evolent Health LLC. The Company's ownership percentage changes with the issuance of Class A common stock and Class B Exchanges. Following is a description of events that resulted in changes to the Company's ownership percentage during the six months ended June 30, 2019 and the year ended December 31, 2018.

During the second quarter of 2019, certain holders of Class B units executed Class B Exchanges. These Class B Exchanges resulted in the issuance of 2.5 million shares of the Company's Class A common stock. As a result of these Class B Exchanges and Evolent Health LLC's cancellation of the related Class B units, the Company's economic interest in Evolent Health LLC increased from 96.1% to 99.1% immediately following the final Class B Exchange during the quarter, and, accordingly, we reclassified a portion of our non-controlling interests into shareholders' equity attributable to Evolent Health, Inc.

In May 2019, the Company issued 1.6 million Class A common shares as part of the consideration for the GlobalHealth transaction. For each share of Class A common stock issued by Evolent Health, Inc., the Company received a corresponding Class A common unit from Evolent Health LLC. As a result of the Class A common units (and corresponding Class A common shares) issued as part of the GlobalHealth transaction, the Company's economic interest in Evolent Health LLC increased from 99.1% to 99.2%, immediately following the transaction.

## 2018

The Company completed the March 2018 Private Sale during March 2018. The shares sold in the March 2018 Private Sale consisted of 1.2 million existing shares of the Company's Class A common stock owned and held by The Advisory Board and 1.8 million newly-issued shares of the Company's Class A common stock received by The Advisory Board pursuant to a Class B Exchange.

As a result of this Class B Exchange and Evolent Health LLC's cancellation of the Class B units during the March 2018 Private Sale, the Company's economic interest in Evolent Health LLC increased from 96.6% to 98.9% immediately following the March 2018 Private Sale, and, accordingly, we reclassified a portion of our non-controlling interests into shareholders' equity attributable to Evolent Health, Inc.

Also, during the year ended December 31, 2018, the Company issued 3.1 million shares of Evolent Health LLC's Class B common units and an equal number of the Company's Class B common shares as part of the consideration for the New Century Health transaction. The Class B common units, together with a corresponding number of shares of the Company's Class B common stock, can be exchanged for an equivalent number of shares of the Company's Class A common stock. As a result of the Class B common units (and corresponding Class B common shares) issued as part of the New Century Health transaction, the Company's economic interest in Evolent Health LLC decreased from 99.0% to 95.3%, immediately following the acquisition.

In addition, the Company completed the November 2018 Private Sales during 2018. The shares sold in the November 2018 Private Sales consisted of 0.1 million existing shares of the Company's Class A common stock owned by TPG and 0.7 million newly-issued shares of the Company's Class A common stock received by TPG pursuant to Class B Exchanges. As a result of these Class B Exchanges and Evolent Health LLC's cancellation of the Class B common units during the November 2018 Private Sales, the Company's economic interest in Evolent Health LLC increased from 95.3% to 96.1% immediately following the November 2018 Private Sales.

As of June 30, 2019, and December 31, 2018, we owned 99.2% and 96.1%, respectively, of the economic interests in Evolent Health LLC. See Note 4 for further discussion of our business combinations and securities offerings.

Changes in non-controlling interests (in thousands) for the periods presented were as follows:

	For the Three Months Ended		For the Six Months Ended	
	June 30,		June 30,	
	2019	2018	2019	2018
Non-controlling interests as of beginning-of-period	\$ 50,100	\$ 11,772	\$ 45,532	\$ 35,427
Cumulative-effect adjustment from adoption of new accounting principle	—	—	—	594
Decrease in non-controlling interests as a result of Class B Exchanges	(33,946)	(1,529)	(33,946)	(25,334)
Amount attributable to NCI from 2019 business combination	—	—	6,500	—
Net income (loss) attributable to non-controlling interests	(285)	(115)	(2,195)	(554)
Reclassification of non-controlling interests	209	20	187	15
Non-controlling interests as of end-of-period	\$ 16,078	\$ 10,148	\$ 16,078	\$ 10,148

## 16. Fair Value Measurement

GAAP defines fair value as the price that would be received from the sale of an asset or paid to transfer a liability (an exit price) assuming an orderly transaction in the most advantageous market at the measurement date. GAAP also establishes a hierarchical disclosure framework which prioritizes and ranks the level of observability of inputs used in measuring fair value. These tiers include:

- Level 1 - inputs to the valuation methodology are quoted prices available in active markets for identical instruments as of the reporting date;
- Level 2 - inputs to the valuation methodology are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date and the fair value can be determined through the use of models or other valuation methodologies; and
- Level 3 - inputs to the valuation methodology are unobservable inputs in situations where there is little or no market activity for the asset or liability.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the particular asset or liability being measured.

### Recurring Fair Value Measurements

In accordance with GAAP, certain assets and liabilities are required to be recorded at fair value on a recurring basis. The following table summarizes the Company's assets and liabilities measured at fair value on a recurring basis (in thousands):

	As of June 30, 2019			
	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Cash and cash equivalents (1)	\$ 5,756	\$ —	\$ —	\$ 5,756
Restricted cash and restricted investments (1)	34,957	—	—	34,957
<b>Total</b>	<b>\$ 40,713</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 40,713</b>
<b>Liabilities</b>				
Contingent consideration (2)	—	—	14,100	14,100

	As of December 31, 2018			
	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Cash and cash equivalents (1)	\$ 11,391	\$ —	\$ —	\$ 11,391
Restricted cash and restricted investments (1)	31,226	—	—	31,226
<b>Total</b>	<b>\$ 42,617</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 42,617</b>
<b>Liabilities</b>				
Contingent consideration (2)	—	—	8,800	8,800

<sup>(1)</sup> Represents the cash and cash equivalents and restricted cash and restricted investments that were held in money market funds as of June 30, 2019, and December 31, 2018, as presented in the tables above.

<sup>(2)</sup> Represents the contingent earn-out consideration related to the University Health Care, Inc. d/b/a Passport Health Plan ("Passport") and the New Century Health acquisitions, as well as contingent consideration for the GlobalHealth transaction, as described below. As of June 30, 2019, \$5.0 million was attributable to Passport, \$3.2 million was attributable to New Century Health, and \$5.9 million was attributable to GlobalHealth. As of December 31, 2018, \$5.6 million was attributable to Passport and \$3.2 million was attributable to New Century Health.

The Company recognizes any transfers between levels within the hierarchy as of the beginning of the reporting period. There were no transfers between fair value levels for the three and six month periods ended June 30, 2019 and 2018, respectively.

In the absence of observable market prices, the fair value is based on the best information available and involves a significant degree of judgment, taking into consideration a combination of internal and external factors, including the appropriate risk adjustments for non-performance and liquidity risks.

The strategic alliance with Passport includes a provision for additional equity consideration contingent upon the Company obtaining new third-party Medicaid business in future periods. The fair value of the contingent equity consideration was estimated based on the real options approach, a form of the income approach, which estimated the probability of the Company achieving future revenues under the agreement. The significant unobservable inputs used in the fair value measurement of the Passport contingent consideration are the five-year risk-adjusted recurring revenue compound annual growth rate (“CAGR”) and the applicable discount rate. A significant increase in the assumed five-year risk-adjusted recurring revenue CAGR projection or decrease in discount rate in isolation would result in a significantly higher fair value of the contingent consideration.

The acquisition of New Century Health includes an earn-out of up to \$11.4 million, contingent upon New Century Health achieving certain levels of operating results during 2019. The fair value of the earn-out was estimated based on the real options approach, a form of the income approach, which estimated the probability of New Century Health achieving certain levels of operating results during 2019. The significant unobservable inputs used in the fair value measurement of the New Century Health earn-out are the risk neutral probabilities that the 2019 operating results for New Century Health are sufficient to either exceed the minimum earn-out threshold or meet the earn-out target cap. A significant increase in either one of these metrics, in isolation, would result in a significantly higher fair value of the contingent consideration. Refer to Note 4 for additional discussion of the New Century Health transaction.

The GlobalHealth transaction includes a provision for additional consideration contingent upon the Company’s future share price. The fair value of the contingent consideration was estimated based on the average closing market price of the common stock following the announcement of the transaction. The significant unobservable input used in the fair value measurement of GlobalHealth contingent consideration is the share price period. A significant change in the share price period, would result in a significantly higher fair value of the contingent consideration.

The changes in our contingent consideration, measured at fair value, for which the Company uses Level 3 inputs to determine fair value are as follows (in thousands):

	For the Three Months Ended		For the Six Months Ended	
	June 30,		June 30,	
	2019	2018	2019	2018
Balance as of beginning-of-period	\$ 8,100	\$ 8,800	\$ 8,800	\$ 8,700
Additions <sup>(1)</sup>	5,900	—	5,900	—
Settlements	—	—	(800)	—
Realized and unrealized (gains) losses, net	100	(600)	200	(500)
Balance as of end-of-period	<u>\$ 14,100</u>	<u>\$ 8,200</u>	<u>\$ 14,100</u>	<u>\$ 8,200</u>

<sup>(1)</sup> Addition is related to the GlobalHealth transaction.

The following table summarizes the fair value (in thousands), valuation techniques and significant unobservable inputs of our Level 3 fair value measurements as of the periods presented:

	As of June 30, 2019			
	Fair Value	Valuation Technique	Significant Unobservable Inputs	Assumption or Input Ranges
<b>Passport contingent consideration</b>				
	\$ 5,000	Real options approach	Risk-adjusted recurring revenue CAGR	103.9% <sup>(1)</sup>
			Discount rate	5.5% - 6.5%
<b>New Century Health contingent consideration</b>				
	\$ 3,200	Real options approach	Risk-neutral probability exceeds threshold	39.0% <sup>(2)</sup>
			Risk-neutral probability meets earn-out cap	24.0% <sup>(2)</sup>
<b>GlobalHealth contingent consideration</b>				
	\$ 5,900	Management estimate	Stock price period	May - June 2019

**As of December 31, 2018**

	<b>Fair Value</b>	<b>Valuation Technique</b>	<b>Significant Unobservable Inputs</b>	<b>Assumption or Input Ranges</b>
<b>Passport contingent</b>				
consideration	\$ 5,600	Real options approach	Risk-adjusted recurring revenue CAGR	103.9% <sup>(1)</sup>
			Discount rate	5.5% - 6.5%
<b>New Century Health</b>				
contingent consideration	\$ 3,200	Real options approach	Risk-neutral probability exceeds threshold	39.0% <sup>(2)</sup>
			Risk-neutral probability meets earn-out cap	24.0% <sup>(2)</sup>

<sup>(1)</sup> The risk-adjusted recurring revenue CAGR is calculated over the five-year period 2017-2021. Given that there was no recurring revenue in 2016 and 2017, the calculation of the 2017 and 2018 growth rates is based on theoretical 2016 and 2017 recurring revenue of \$1.0 million, resulting in a higher growth rate. The risk-adjusted recurring revenue CAGR from 2019-2021 is 68.3%.

<sup>(2)</sup> These amounts represent 1) the probability that New Century Health will achieve at least the minimum level of operating results in 2019 to earn any contingent consideration (39.0%) and 2) the probability that New Century Health will achieve 2019 operating results in excess of the maximum amount of contingent consideration payable (24.0%). The risk-neutral probability rates were determined by projecting theoretical 2019 operating results using a simulation with one million trials.

#### **Nonrecurring Fair Value Measurements**

In addition to the assets and liabilities that are recorded at fair value on a recurring basis, the Company records certain assets and liabilities at fair value on a nonrecurring basis as required by GAAP. Generally, assets are recorded at fair value on a nonrecurring basis as a result of impairment charges. This includes assets and liabilities recorded in business combinations or asset acquisitions, goodwill, intangible assets, property, plant and equipment, held-to-maturity investments and equity method investments. While not carried at fair value on a recurring basis, these items are continually monitored for indicators of impairment that would indicate current carrying value is greater than fair value. In those situations, the assets are considered impaired and written down to current fair value. See Notes 4, 5, 6, 7, 14 and 20 for further discussion of assets measured at fair value on a nonrecurring basis.

#### **Other Fair Value Disclosures**

The carrying amounts of cash and cash equivalents (those not held in a money market fund), restricted cash, receivables, prepaid expenses, accounts payable, accrued liabilities and accrued compensation approximate their fair values because of the relatively short-term maturities of these items and financial instruments.

See Note 8 for information regarding the fair value of the 2025 Notes and the 2021 Notes.

#### **17. Related Parties**

The entities described below are considered related parties and the balances and/or transactions with them are reported in our consolidated financial statements.

As discussed in Note 14, the Company has economic interests in several entities that are accounted for under the equity method of accounting. The Company has allocated its proportional share of the investees' earnings and losses each reporting period. In addition, Evolent has entered into services agreements with certain of the entities to provide certain management, operational and support services to help the entities manage elements of their service offerings. Revenues related to these services agreements was \$11.0 million and \$18.1 million for the three and six months ended June 30, 2019, respectively, and \$0.8 million for the three and six months ended June 30, 2018.

The Company also works closely with UPMC, one of its founding investors. The Company's relationship with UPMC is a subcontractor relationship where UPMC has agreed to execute certain tasks (primarily TPA services) relating to certain customer commitments. We also conduct business with a company in which UPMC holds a significant equity interest.

The following table presents revenues and expenses attributable to our related parties (in thousands):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2019	2018	2019	2018
<b>Revenue</b>				
Transformation services	\$ 41	\$ 748	\$ 1,200	\$ 780
Platform and operations services	16,874	7,601	29,818	14,892
<b>Expenses</b>				
Cost of revenue (exclusive of depreciation and amortization expenses)	6,657	1,262	14,487	4,452
Selling, general and administrative expenses	386	280	542	379

## 18. Segment Reporting

We define our reportable segments based on the way the chief operating decision maker (“CODM”), currently the chief executive officer, manages the operations for purposes of allocating resources and assessing performance. We classify our operations into two reportable segments as follows:

- Services, which consists of our technology-enabled value-based care services, specialty care management services and comprehensive health plan administration services; and
- True Health, which consists of a commercial health plan we operate in New Mexico that focuses on small and large businesses.

In the ordinary course of business, our reportable segments enter into transactions with one another. While intersegment transactions are treated like third-party transactions to determine segment performance, the revenues and expenses recognized by the segment that is the counterparty to the transaction are eliminated in consolidation and do not affect consolidated results.

The CODM uses Adjusted EBITDA as the relevant segment performance measure to evaluate the performance of the segments and allocate resources.

Adjusted EBITDA is a segment performance financial measure that offers a useful view of the overall operation of our businesses and may be different than similarly-titled segment performance financial measures used by other companies.

Adjusted EBITDA is the sum of Services Adjusted EBITDA and True Health Adjusted EBITDA and is defined as EBITDA (net income (loss) attributable to Evolent Health, Inc. before interest income, interest expense, (provision) benefit for income taxes, depreciation and amortization expenses), adjusted to exclude income (loss) from equity method investees, gain (loss) on disposal of assets, changes in fair value of contingent consideration and indemnification asset, other income (expense), net, net (income) loss attributable to non-controlling interests, ASC 606 transition adjustments, purchase accounting adjustments, stock-based compensation expenses, severance costs, amortization of contract cost assets recorded as a result of a one-time ASC 606 transition adjustment, transaction costs related to acquisitions and business combinations, and other one-time adjustments. When Adjusted EBITDA is discussed in this report, the most directly comparable GAAP financial measure is net income (loss) attributable to Evolent Health, Inc.

Management considers Adjusted EBITDA to be the appropriate metric to evaluate and compare the ongoing operating performance of our segments on a consistent basis across reporting periods as it eliminates the effect of items which are not indicative of each segment's core operating performance.

The following tables present our segment information (in thousands):

	<u>Services</u>	<u>True Health</u>	<u>Intersegment Eliminations</u>	<u>Consolidated</u>
<b>Revenue</b>				
<b>Three Months Ended June 30, 2019</b>				
Services:				
Transformation services	\$ 1,944	\$ —	\$ —	\$ 1,944
Platform and operations	147,599	—	(3,077)	144,522
Services revenue	149,543	—	(3,077)	146,466
True Health:				
Premiums	—	45,764	(271)	45,493
Total revenue	<u>\$ 149,543</u>	<u>\$ 45,764</u>	<u>\$ (3,348)</u>	<u>\$ 191,959</u>

<b>Three Months Ended June 30, 2018</b>				
Services:				
Transformation services	\$ 8,215	\$ —	\$ —	\$ 8,215
Platform and operations	116,961	—	(3,615)	113,346
Services revenue	125,176	—	(3,615)	121,561
True Health:				
Premiums	—	22,939	(202)	22,737
Total revenue	<u>\$ 125,176</u>	<u>\$ 22,939</u>	<u>\$ (3,817)</u>	<u>\$ 144,298</u>

	<u>Services</u>	<u>True Health</u>	<u>Segments Total</u>
<b>Three Months Ended June 30, 2019</b>			
Adjusted EBITDA	\$ (8,797)	\$ 1,123	\$ (7,674)
<b>Three Months Ended June 30, 2018</b>			
Adjusted EBITDA	\$ 5,643	\$ (758)	\$ 4,885

<u>Revenue</u>	<u>Intersegment</u>			
	<u>Services</u>	<u>True Health</u>	<u>Eliminations</u>	<u>Consolidated</u>
<b>Six Months Ended June 30, 2019</b>				
Services:				
Transformation services	\$ 5,297	\$ —	\$ —	\$ 5,297
Platform and operations	297,949	—	(6,135)	291,814
Services revenue	303,246	—	(6,135)	297,111
True Health:				
Premiums	—	93,140	(536)	92,604
Total revenue	\$ 303,246	\$ 93,140	\$ (6,671)	\$ 389,715

**Six Months Ended June 30, 2018**

Services:				
Transformation services	\$ 14,720	\$ —	\$ —	\$ 14,720
Platform and operations	230,576	—	(7,412)	223,164
Services revenue	245,296	—	(7,412)	237,884
True Health:				
Premiums	—	46,524	(396)	46,128
Total revenue	\$ 245,296	\$ 46,524	\$ (7,808)	\$ 284,012

	<u>Segments</u>		
	<u>Services</u>	<u>True Health</u>	<u>Total</u>
<b>Six Months Ended June 30, 2019</b>			
Adjusted EBITDA	\$ (24,296)	\$ 1,844	\$ (22,452)
<b>Six Months Ended June 30, 2018</b>			
Adjusted EBITDA	\$ 12,609	\$ 189	\$ 12,798

The following table presents our reconciliation of segments total Adjusted EBITDA to net income (loss) attributable to Evolent Health, Inc. (in thousands):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2019	2018	2019	2018
<b>Net Income (Loss) Attributable to Evolent Health, Inc.</b>	\$ (31,615)	\$ (9,916)	\$ (78,354)	\$ (23,542)
Less:				
Interest income	842	878	1,902	1,950
Interest expense	(3,620)	(855)	(7,182)	(1,708)
(Provision) benefit for income taxes	(1,398)	109	(902)	106
Depreciation and amortization expenses	(15,292)	(10,034)	(29,558)	(19,530)
Income (loss) from equity method investees	(1,904)	(1,275)	(2,328)	(1,406)
Gain (loss) on disposal of assets	9,600	—	9,600	—
Change in fair value of contingent consideration and indemnification asset	(100)	1,604	(200)	1,504
Other income (expense), net	(587)	78	(160)	60
Net (income) loss attributable to non-controlling interests	285	115	2,195	554
ASC 606 transition adjustments	—	—	—	(4,498)
Purchase accounting adjustments	(165)	(216)	(761)	(433)
Stock-based compensation expense	(4,750)	(4,718)	(9,287)	(8,513)
Severance costs	(3,881)	105	(14,483)	(1,489)
Amortization of contract cost assets	(776)	(578)	(1,552)	(1,139)
Transaction costs	(2,195)	(14)	(3,186)	(1,798)
<b>Adjusted EBITDA</b>	<u>\$ (7,674)</u>	<u>\$ 4,885</u>	<u>\$ (22,452)</u>	<u>\$ 12,798</u>

Asset information by segment is not a key measure of performance used by the CODM. Accordingly, we have not disclosed asset information by segment.

#### 19. Reserves for Claims and Performance-Based Arrangements

The Company maintains reserves for its liabilities related to payments to providers and pharmacies under performance-based arrangements related to its specialty care management services. The Company also maintains reserves for claims incurred but not paid related to its capitation arrangement and for its health plan, True Health, in New Mexico.

Reserves for claims and performance-based arrangements reflect estimates of the ultimate cost of claims that have been incurred but not reported, including expected development on reported claims, those that have been reported but not yet paid (reported claims in process), and other medical care expenses and services payable that are primarily comprised of accruals for incentives and other amounts payable to health care professionals and facilities. Reserves for claims and performance-based arrangements also reflect estimated amounts owed to NMHC under the reinsurance agreement, as discussed further in Note 9.

The Company uses actuarial principles and assumptions that are consistently applied each reporting period and recognizes the actuarial best estimate of the ultimate liability along with a margin for adverse deviation. This approach is consistent with actuarial standards of practice that the liabilities be adequate under moderately adverse conditions.

This liability predominately consists of incurred but not reported amounts and reported claims in process including expected development on reported claims. The liability, for reserves related to its specialty care management services and True Health, is primarily calculated using "completion factors" developed by comparing the claim incurred date to the date claims were paid. Completion factors are impacted by several key items including changes in: 1) electronic (auto-adjudication) versus manual claim processing, 2) provider claims submission rates, 3) membership and 4) the mix of products.

The Company's policy, for reserves related to its specialty care management services and True Health, is to use historical completion factors combined with an analysis of current trends and operational factors to develop current estimates of completion factors. The

Company estimates the liability for claims incurred in each month by applying the current estimates of completion factors to the current paid claims data. This approach implicitly assumes that historical completion rates will be a useful indicator for the current period.

For more recent months, the Company expects to rely more heavily on medical cost trend analysis that reflects expected claim payment patterns and other relevant operational considerations, or authorization analysis. Medical cost trend is primarily impacted by medical service utilization and unit costs that are affected by changes in the level and mix of medical benefits offered, including inpatient, outpatient and pharmacy, the impact of copays and deductibles, changes in provider practices and changes in consumer demographics and consumption behavior. Authorization analysis projects costs on an authorization-level basis and also accounts for the impact of copays and deductibles, unit cost and historic discontinuation rates for treatment.

For each reporting period, the Company compares key assumptions used to establish the reserves for claims and performance-based arrangements to actual experience. When actual experience differs from these assumptions, reserves for claims and performance-based arrangements are adjusted through current period net income. Additionally, the Company evaluates expected future developments and emerging trends that may impact key assumptions. The process used to determine this liability requires the Company to make critical accounting estimates that involve considerable judgment, reflecting the variability inherent in forecasting future claim payments. These estimates are highly sensitive to changes in the Company's key assumptions, specifically completion factors and medical cost trends.

For reserves related to the Company's capitation arrangement, the liability is calculated based on the budgeted medical loss ratio as historical data and completion patterns are not credible.

Activity in reserves for claims and performance-based arrangements was as follows (in thousands):

	For the Six Months Ended June 30,					
	2019			2018		
	Services (1)	True Health	Consolidated	Services (1)	True Health	Consolidated
Beginning balance	\$ 17,715	\$ 9,880	\$ 27,595	\$ —	\$ —	\$ —
<b>Incurred costs related to:</b>						
Current year	88,261	73,359	161,620	—	35,177	35,177
Prior years	244	483	727	—	—	—
Total incurred	88,505	73,842	162,347	—	35,177	35,177
<b>Paid costs related to:</b>						
Current year	73,781	26,473	100,254	—	25,711	25,711
Prior years	7,837	8,003	15,840	—	—	—
Total paid	81,618	34,476	116,094	—	25,711	25,711
Other adjustments (2)	(187)	(40,609)	(40,796)	—	—	—
Change during the year	6,700	(1,243)	5,457	—	9,466	9,466
Ending balance	\$ 24,415	\$ 8,637	\$ 33,052	\$ —	\$ 9,466	\$ 9,466

<sup>(1)</sup> Costs related the Company's capitation arrangement as well as costs incurred to provide specialty care management services are recorded within cost of revenue in our consolidated statements of operations and comprehensive income (loss).

<sup>(2)</sup> Other adjustments to reserves for claims and performance-based arrangements for Services reflect changes in accrual for amounts payable to facilities and amounts owed to our payer partners for claims paid on our behalf. Other adjustments related to the True Health segment represent premiums received less administrative expenses related to the reinsurance agreement. Refer to Note 9 for additional information about the reinsurance agreement.

## 20. Investments

Our investments are classified as held-to-maturity as we have both the intent and ability to hold the investments until their individual maturities. The amortized cost, gross unrealized gains and losses, and fair value of our investments as measured using Level 2 inputs as of the periods indicated below (in thousands) were as follows:

**As of June 30, 2019**

	<b>Gross</b>		<b>Gross</b>	
	<b>Amortized Cost</b>	<b>Unrealized Gains</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>
U.S. Treasury bills	\$ 12,248	\$ 329	\$ —	\$ 12,577
Corporate bonds	1,704	70	—	1,774
Other CMOs	2,584	45	—	2,629
Yankees	596	34	—	630
<b>Total investments</b>	<b>\$ 17,132</b>	<b>\$ 478</b>	<b>\$ —</b>	<b>\$ 17,610</b>

**As of December 31, 2018**

	<b>Gross</b>		<b>Gross</b>	
	<b>Amortized Cost</b>	<b>Unrealized Gains</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>
U.S. Treasury bills	\$ 7,982	\$ 120	\$ —	\$ 8,102
Corporate bonds	887	17	—	904
Other CMOs	545	6	—	551
Yankees	596	11	—	607
<b>Total investments</b>	<b>\$ 10,010</b>	<b>\$ 154</b>	<b>\$ —</b>	<b>\$ 10,164</b>

The amortized cost and fair value of our investments by contractual maturities as of the periods indicated below (in thousands) were as follows:

	<b>As of June 30, 2019</b>		<b>As of December 31, 2018</b>	
	<b>Amortized Cost</b>	<b>Fair Value</b>	<b>Amortized Cost</b>	<b>Fair Value</b>
Due in one year or less	\$ 4,048	\$ 4,057	\$ —	\$ —
Due after one year through five years	13,084	13,553	9,666	9,813
Due after five years through ten years	—	—	344	351
<b>Total</b>	<b>\$ 17,132</b>	<b>\$ 17,610</b>	<b>\$ 10,010</b>	<b>\$ 10,164</b>

When a held-to-maturity investment is in an unrealized loss position, we assess whether or not we expect to recover the entire cost basis of security, based on our best estimate of the present value of cash flows expected to be collected from the debt security. Factors considered in our analysis include the reasons for the unrealized loss position, the severity and duration of the unrealized loss position, credit worthiness and forecasted performance of the investee. In cases where the estimated present value of future cash flows is less than our cost basis, we recognize an other than temporary impairment and write the investment down to its fair value. The new cost basis would not be changed for subsequent recoveries in fair value.

We did not hold any securities that were in an unrealized loss position as of June 30, 2019 or December 31, 2018.

## 21. Supplemental Cash Flow Information

The following represents supplemental disclosure of cash flow information and non-cash investing and financing activities (in thousands):

	For the Six Months Ended June 30,	
	2019	2018
<i>Supplemental disclosure of cash flow information</i>		
Operating cash flows from operating leases	\$ 6,542	\$ —
Leased assets obtained in exchange for new operating lease liabilities	30,181	—
<i>Non-cash investing and financing activities</i>		
Accrued property and equipment purchases	\$ 166	\$ 875
Class A common stock issued for payment of Passport earn-out	800	—
Increase to goodwill from measurement period adjustments related to business combinations	596	128
Consideration for asset acquisitions or business combinations	16,000	500
Settlement of escrow related to asset acquisition	—	2,519
Settlement of indemnification asset	—	1,004
<i>Effects of Class B Exchanges</i>		
Decrease in non-controlling interests as a result of Class B Exchanges	33,946	25,334
Decrease in deferred tax liability as a result of securities offerings	—	908

## 22. Subsequent Events

On August 8, 2019, a purported shareholder of the Company filed a putative class action complaint against the Company, Frank Williams and Nicholas McGrane. The case, captioned Plymouth County Retirement System v. Evolent Health, Inc., Frank Williams, and Nicholas McGrane, was filed in the United States District Court, Eastern District of Virginia, Alexandria Division. The complaint seeks unspecified remedies under the Securities Exchange Act of 1934. As of the date of this filing, the complaint has not been formally served on the Company, Mr. Williams or Mr. McGrane. Based on our brief preliminary review, the Company believes the case is without merit and intends to vigorously defend against these claims. The outcome of any litigation is uncertain, and at this early stage, the Company is currently unable to assess the probability of loss or estimate a range of potential loss, if any, associated with this lawsuit.

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

The following Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”) is intended to help the reader understand the Company’s financial condition and results of operations. The MD&A is provided as a supplement to, and should be read in conjunction with, our consolidated financial statements and the accompanying notes to consolidated financial statements (“Notes”) presented in “Part I - Item 1. Financial Statements” of this Form 10-Q; our 2018 Form 10-K, including the sections entitled “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations”; and our current reports on Form 8-K filed in 2018.

### INTRODUCTION

#### *Background and Recent Events*

Evolent Health, Inc. is a holding company whose principal asset is all of the Class A common units it holds in Evolent Health LLC, and its only business is to act as sole managing member of Evolent Health LLC. Substantially all of our operations are conducted through Evolent Health LLC and its consolidated subsidiaries. The financial results of Evolent Health LLC are consolidated in the financial statements of Evolent Health, Inc.

#### **Transactions**

##### *GlobalHealth*

On May 24, 2019, we completed the acquisition of an approximately 43% ownership interest in Momentum Health Group, LLC (“MHG”), the sole owner of Momentum Health Acquisition, Inc. (“MHA”), which is the sole owner of GlobalHealth Holdings, LLC (“GHH”), which is the sole owner of GlobalHealth, Inc., a health maintenance organization based in the State of Oklahoma that offers, among other things, Medicare Advantage products in the State of Oklahoma. At closing, we contributed approximately \$15.0 million in cash and 1,577,841 shares of our Class A common stock to MHG, together with certain of our other assets in the form of True Health Indiana, Inc., the Company’s Medicare Advantage line of business, including the provider contracts, to GlobalHealth. The Company recognized \$9.6 million non-cash gain on disposal of assets upon the contribution. We also recognized a short-term contingent consideration liability of \$5.9 million related to the transaction. At the time of the transaction, our economic interest in GlobalHealth was approximately 43% and our voting interest was approximately 29%. As of June 30, 2019, the Company’s economic and voting interests remained unchanged from these amounts. Pursuant to a security holders’ agreement among MHG and certain equity holders of MHG party thereto, we hold customary governance rights in MHG for a minority investor, including the right to appoint two of seven directors to MHG’s board of directors.

The Company determined that it has significant influence over the entity, but that it does not have control over the entity. Accordingly, the investment is accounted for under the equity method of accounting and the Company is allocated its proportional share of the entity’s earnings and losses for each reporting period. The Company also entered into services agreements with GlobalHealth to provide certain management, operational and support services to help manage elements of their service offerings.

##### *Passport*

On May 28, 2019, University Health Care, Inc., d/b/a Passport Health Plan, a Kentucky nonprofit corporation (“Passport”), Passport Health Solutions, LLC, a Kentucky nonprofit limited liability company and subsidiary of Passport (“PHS I”), the Company and Justify Holdings, Inc., a Kentucky corporation and a subsidiary of the Company (the “Passport Buyer”), entered into an Asset Purchase Agreement (the “Passport Asset Purchase Agreement”), pursuant to which Passport Buyer will acquire substantially all of the assets and will assume substantially all of the liabilities of Passport and PHS I for \$70.0 million in cash and the issuance of a 30% equity interest in the Passport Buyer to the following provider sponsors of Passport: the University of Louisville, the University of Louisville Physicians, the University Medical Center, the Jewish Heritage Fund for Excellence, Norton Healthcare, Inc. and the Louisville/Jefferson County Primary Care Association (collectively, the “Sponsors”).

The consummation of the transactions contemplated by the Passport Asset Purchase Agreement is subject to certain customary and regulatory closing conditions, including the receipt of certain federal and state regulatory approvals. In July 2019, the Kentucky Attorney General cleared the transactions. We currently expect the transactions to close in the fourth quarter of 2019, subject to the satisfaction of all closing conditions.

In connection with the execution of the Passport Asset Purchase Agreement, Evolent Health LLC and Passport entered into an amendment to the existing management services agreement to expand the services provided thereunder to include additional administrative functions, as well as the oncology and cardiovascular services of New Century Health. In connection with the consummation of the transactions contemplated by the Passport Asset Purchase Agreement, the Sponsors, the Passport Buyer and a

subsidiary of the Company expect to enter into a shareholders' agreement that provides for the governance of the Passport Buyer following the closing, and certain other rights between the parties thereto. The shareholders agreement will provide that written consent of majority holders is required for certain significant governance and operational matters, including the appointment, removal or replacement of the Passport Buyer's chief executive officer, the approval of the annual budget, and other significant matters.

The Passport Asset Purchase Agreement also contains obligations on the part of the Company to provide capital support to Passport following the execution of the Asset Purchase Agreement to the extent necessary to satisfy regulatory capital requirements. On June 18, 2019, we contributed \$40.0 million in the form of an advance for regulatory capital requirements under an agreement with Passport (the "Passport Note"). The Passport Note carries a fixed interest rate of 6.5% per annum and is required to be repaid, plus accrued interest, in a single payment on July 1, 2025, the maturity date, or earlier, subject to regulatory approval. The Passport Note is required to be repaid out of surplus in excess of Passport's obligations to its policyholders, claimant and beneficiary claims and all other creditors. Additionally, on June 6, 2019, the Company and Passport entered into an Indemnity Agreement (the "Passport Indemnity Agreement"), with an insurance company (the "Surety"). The Surety issued a performance bond in the amount of \$25.0 million to secure Passport's performance under its Medicaid contract with the Kentucky Cabinet of Health and Family Services ("CHFS"). Pursuant to the Indemnity Agreement, the Company and Passport are jointly and severally liable to the Surety in the maximum amount of the bond, plus certain costs of the Surety, in the event of losses arising under the bond. The bond's expiry date is June 30, 2020.

Passport is currently one of five Medicaid-managed care organizations serving the Commonwealth of Kentucky. Passport's current five-year contract to provide managed care for Medicaid expires on June 30, 2020. Passport recently submitted a proposal to continue providing managed care for Medicaid in the Commonwealth of Kentucky through June 30, 2025 in response to the ongoing "request for proposal" process (the "RFP") of the CHFS. We expect the outcome of the RFP to have a material impact on our revenue from our management services agreement with Passport (or, following the closing, Passport Buyer) beyond the current contract period. In the event that Passport is not awarded a contract under the RFP, we expect that we will not receive any material revenue under our management services agreement from Passport (or, following the closing, Passport Buyer) subsequent to June 30, 2020. Consummation of the transactions contemplated by the Passport Asset Purchase Agreement is not conditioned on the award of a contract with CHFS under the RFP.

In the event that Passport is awarded a new Medicaid contract, the Sponsors have a put option to sell their remaining ownership to the Company for \$60.0 million. Similarly, in the event that Passport is awarded a new Medicaid contract, the Company has a call option to acquire the Sponsors' remaining ownership for \$60.0 million. The put option and the call option are exercisable at any time during the 60-day period following the "go-live date" (expected to be July 1, 2020) of Passport's new Medicaid contract with CHFS. In the event that Passport is not awarded a new Medicaid contract with CHFS, the Company is required to acquire the Sponsors' remaining ownership for an additional \$20.0 million within 12 months following the expiration of Passport's current Medicaid contract.

### ***Business Overview***

We are a market leader in the new era of health care delivery and payment, in which leading health systems and physician organizations, which we refer to as providers, are taking on increasing clinical and financial responsibility for the populations they serve. We provide integrated, technology-enabled services to our national network of leading health systems, physician organizations and national and regional payers across Medicare, Medicaid and commercial markets. By partnering with providers to accelerate their path to value-based care, we enable our provider partners to expand their market opportunity, diversify their revenue streams, grow market share and improve the quality of the care they provide.

We believe we are pioneers in enabling health systems to succeed in value-based payment models. We were founded in 2011 by members of our management team, UPMC, an integrated delivery system based in Pittsburgh, Pennsylvania, and The Advisory Board, to enable providers to pursue a value-based business model and evolve their competitive position and market opportunity. We consider value-based care to be the necessary convergence of health care payment and delivery. We believe the pace of this convergence is accelerating, driven by price pressure in traditional FFS health care, a market environment that is incentivizing value-based care models and innovation in data and technology. We believe providers are positioned to lead this transition to value-based care because of their control over large portions of health care delivery costs, their primary position with consumers and their strong local brand.

We manage our operations and allocate resources across two reportable segments, our Services segment and our True Health Segment. The Company's Services segment provides our customers, who we refer to as partners, with technology-enabled value-based care services, specialty care management services and comprehensive health plan administration services. Together these services enable health systems to manage patient health in a more cost-effective manner. The Company's contracts are structured as a combination of advisory fees, monthly member service fees, percentage of plan premiums and shared medical savings arrangements. Our True Health segment consists of a commercial health plan we operate in New Mexico that focuses on small and large businesses. All of our revenue is recognized in the United States and substantially all of our long-lived assets are located in the United States.

### ***Services***

Our Services segment includes three types of services designed to help our partners manage patient health in a more cost-effective manner: (1) value-based care services, (2) specialty care management services and (3) comprehensive health plan administration services. Our partners engage us to provide one type of service, or multiple types of services, depending on specific needs.

Core elements of our value-based care services include: (1) Identifi®, our proprietary technology system that aggregates and analyzes data, manages care workflows and engages patients, (2) population health performance, which supports the delivery of patient-centric cost effective care, (3) delivery network alignment, comprising the development of high performance delivery networks and (4) integrated cost and revenue management solutions including PBM and patient risk scoring.

Our specialty care management services support a broad range of specialty care delivery stakeholders during their transition from fee-for-service to value-based care, independent of their stage of maturation and specific market dynamics. We focus on the oncology and cardiology markets with the objective of helping providers and payers deliver higher quality, more affordable care and we provide comprehensive quality management, including diagnostics and treatment, for oncology and hematology patients.

Our comprehensive health plan administration services help providers assemble the complete infrastructure required to operate, manage and capitalize on a variety of financial and administrative management services, such as health plan services, risk management, analytics and reporting and leadership and management.

A large portion of our Services revenue is derived from our multi-year contracts, which are linked to the number of members that our partners are managing under our agreements. This variable pricing model depends on the population being served as well as the number of services and technology applications that our partners utilize to advance their value-based care strategies and the number of members they are able to attract over time. In certain instances, we participate alongside our partners in risk-sharing arrangements whereby we share in a portion of the upside and downside performance of the value strategy. We expect to grow with current partners as they increase membership in their existing value-based operations, through expanding the number of services we provide to our existing partners, by adding new partners and by capturing value through risk-sharing arrangements.

As of June 30, 2019, our Services business had over 35 operating partners, and a significant portion of our revenue is concentrated with one partner. For the six months ended June 30, 2019, and the year ended December 31, 2018, our revenue from Passport accounted for 13.1% and 17.5% of our total revenue, respectively, and our receivables from Passport accounted for 2.6% and 6.9% of our accounts receivable as of June 30, 2019, and December 31, 2018, respectively.

We believe our Services business model provides strong visibility and aligns our partners' incentives with our own. We believe we are in the early stages of capitalizing on these aligned operating partnerships. We believe our health system partners' current value-based care arrangements represent a small portion of the health system's total revenue each year. We believe the proportion of value-based care related revenues to total health system revenues will continue to grow, driven by continued price pressure in FFS, new government payment programs, growth in consumer-focused insurance programs, such as Medicare Advantage and managed Medicaid, and innovation in data and technology. Our Services business model benefits from scale, as we leverage our purpose-built technology-enabled solutions and centralized resources in conjunction with the growth of our partners' membership base. While our absolute investment in our centralized resources and technologies will increase over time, we expect it will decrease as a percentage of revenue as we are able to scale this investment across a broader group of partners. Over time, we expect to see a shift away from our traditional fee-for-service provider sponsored health plan business toward different service arrangements and opportunities.

#### ***True Health***

True Health is a physician-led health plan in New Mexico available through the commercial market for employer-sponsored health coverage. On January 2, 2018, Evolent acquired certain assets from New Mexico Health Connections - one of the first Consumer Operated and Oriented Plans established following the implementation of the ACA - including a commercial plan and health plan management services organization. The acquired assets were contributed to a new entity, True Health New Mexico, Inc., a wholly-owned subsidiary of Evolent. Our True Health segment derives revenue from premiums earned over the terms of the related insurance policies. True Health also derives revenue from reinsurance premiums assumed from NMHC under the terms of the reinsurance agreement.

Our True Health segment operates a commercial health plan in New Mexico. We believe True Health provides an opportunity for us to leverage our Services offerings to support True Health and transform the health plan into a value-based provider-centric model of care. True Health's largest partner, New Mexico Health Connections, comprised 13.6% of our revenue for the six months ended June 30, 2019.

We have incurred operating losses since our inception, as we have invested heavily in resources to support our growth. We intend to continue to invest aggressively in the success of our partners, expand our geographic footprint and further develop our capabilities, including through acquisitions and other investments. We also expect to continue to incur operating losses for the foreseeable future.

and may need to raise additional capital through equity and debt financings in order to fund our operations. Additional funds may not be available on terms favorable to us or at all. If we are unable to achieve our revenue growth and cost management objectives, we may not be able to achieve profitability. As of the date the financial statements were available to be issued, we believe we have sufficient liquidity for the next 12 months.

### ***Critical Accounting Policies and Estimates***

The MD&A included in our 2018 Form 10-K contains a detailed discussion of our critical accounting policies and estimates. There have been no material changes to our critical accounting policies and estimates since our 2018 Form 10-K, except as discussed below. See “Item 1. Financial Statements - Note 2” in this Form 10-Q for a summary of our significant accounting policies and see “Item 1. Financial Statements - Note 3” in this Form 10-Q for information regarding the Company’s adoption of new accounting standards.

In February 2016, the FASB issued ASU 2016-02, *Leases*, in order to establish the principles to report transparent and economically neutral information about the assets and liabilities that arise from leases. This update introduces a new standard on accounting for leases, including a lessee model that brings most leases on the balance sheet. The new standard also aligns many of the underlying principles of the new lessor model with those in ASC 606. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. In July 2018, the FASB issued ASU 2018-11, which is intended to make targeted improvements to ASU 2016-02. The amendments in ASU 2018-11 provide entities with an additional (and optional) transition method to adopt the new leases standard using an effective date method rather than the earliest comparative period. The requirements of ASU 2018-11 are effective on the same date as the requirements of ASU 2016-02. We adopted ASU No. 2016-02, as of January 1, 2019, using the modified retrospective approach. Further, we elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allowed us to carry forward the historical lease classification. Adoption of the new standard resulted in the recording of additional right-of-use assets and lease liabilities of approximately \$51.4 million and \$47.4 million, respectively, on our consolidated balance sheets as of January 1, 2019. The standard had no impact on our results of operations.

### **RESULTS OF OPERATIONS**

Evolent Health, Inc. is a holding company and its principal asset is all of the Class A common units in Evolent Health LLC, which has owned all of our operating assets and substantially all of our business since inception. The financial results of Evolent Health LLC are consolidated in the financial statements of Evolent Health, Inc.

#### **Key Components of our Results of Operations**

##### *Revenue*

Our Services segment derives revenue from two sources: (1) transformation services and (2) platform and operations services. We collect a fixed fee from our partners during the transformation phase and revenue is recognized over time using an input method based on hours incurred compared to the total estimated house required to satisfy our performance obligation. In the case of implementation revenues tied to certain health plan services activities, such revenue is deferred and amortized over the life of the contract. Transformation revenue can fluctuate based on both the timing of when contracts are executed with partners, the scope of the delivery and the timing of work being performed.

During the platform and operations phase, our revenue structure shifts to a primarily variable fee structure which typically includes a monthly payment that is calculated based on a specified rate, or per member per month, multiplied by the number of members that our partners are managing under a value-based care arrangement or a percentage of plan premiums. We recognize revenue for platforms and operations services over time using the time elapsed output method. Fixed consideration is recognized ratably over the contract term. In accordance with the series guidance, we allocate variable consideration to the period to which the fees relate. The platform and operations agreements often include other variable fees including service level agreements, shared medical savings arrangements and other performance measures. Variable consideration is estimated using the most likely amount, however we do not estimate variable consideration at contract inception if the variable fees will be allocated entirely to the platform and operations services performance obligation. In some cases, we are required to estimate revenue using the most likely amount that we believe we are entitled to receive. All estimates are based on historical experience and the Company’s best judgment at the time to the extent the Company believes it is probable that a significant reversal of revenue recognized will not occur. Due to the nature of our arrangements certain estimates may be constrained until the uncertainty is further resolved.

Our platform and operations revenue may vary based on the nature of the population, the timing of new populations transitioning to our platform and the type of services being utilized by our partners. After a specified period, certain of our platform and operations contracts are terminable for convenience by our partners after a notice period has passed and the partner has paid a termination fee. We

also have arrangements with multiple performance obligations (including both transformation and platform and operations components) and we allocate the transaction price to each performance obligation based on each unit's relative selling price.

Our True Health segment derives revenue from premiums that are earned over the terms of the related insurance policies. True Health also derives revenue from reinsurance premiums assumed from NMHC under the terms of the reinsurance agreement. The portion of premiums that will be earned in the future or are received prior to the effectiveness of the policy are deferred and reported as premiums received in advance.

In the ordinary course of business, our reportable segments enter into transactions with one another. While intersegment transactions are treated like third-party transactions to determine segment performance, the revenues and expenses recognized by the segment that is the counterparty to the transaction are eliminated in consolidation and do not affect consolidated results.

#### *Cost of Revenue (exclusive of depreciation and amortization)*

Our cost of revenue includes direct expenses and shared resources that perform services in direct support of clients. Costs consist primarily of employee-related expenses (including compensation, benefits and stock-based compensation), expenses for TPA support and other services, as well as other professional fees. In certain cases, our cost of revenue also includes claims and capitation payments to providers and payments for pharmaceutical treatments through performance-based arrangements.

#### *Claims Expenses*

Our claims expenses consist of the direct medical expenses incurred by our True Health segment, including expenses incurred related to the reinsurance agreement. Claims expenses are recognized in the period in which services are provided and include amounts that have been paid by us through the reporting date, as well as estimated medical claims and benefits payable for costs that have been incurred but not paid by us as of the reporting date. Claims expenses include, among other items, fee-for-service claims, pharmacy benefits, various other related medical costs and expenses related to our reinsurance agreement. We use judgment to determine the appropriate assumptions for determining the required estimates.

#### *Selling, general and administrative expenses*

Our selling, general and administrative expenses consist of employee-related expenses (including compensation, benefits and stock-based compensation) for selling and marketing, corporate development, finance, legal, human resources, corporate information technology, professional fees and other corporate expenses associated with these functional areas. Selling, general and administrative expenses also include costs associated with our centralized infrastructure and research and development activities to support our network development capabilities, claims processing services, including PBM administration, technology infrastructure, clinical program development and data analytics.

#### *Depreciation and amortization expense*

Depreciation and amortization expenses consist of the amortization of intangible assets associated with the step up in fair value of Evolent Health LLC's assets and liabilities for the Offering Reorganization, amortization of intangible assets recorded as part of our various business combinations and asset acquisitions and depreciation of property and equipment, including the amortization of capitalized software.

**Evolent Health, Inc. Consolidated Results**

(in thousands)	For the Three Months Ended June 30,		Change Over Prior Period		For the Six Months Ended June 30,		Change Over Prior Period	
	2019	2018	\$	%	2019	2018	\$	%
<b>Revenue</b>								
Services:								
Transformation services	\$ 1,944	\$ 8,215	\$ (6,271)	(76.3)%	\$ 5,297	\$ 14,720	\$ (9,423)	(64.0)%
Platform and operations services	144,522	113,346	31,176	27.5%	291,814	223,164	68,650	30.8%
Total Services	146,466	121,561	24,905	20.5%	297,111	237,884	59,227	24.9%
True Health:								
Premiums	45,493	22,737	22,756	100.1%	92,604	46,128	46,476	100.8%
Total revenue	191,959	144,298	47,661	33.0%	389,715	284,012	105,703	37.2%
<b>Expenses</b>								
Cost of revenue (exclusive of depreciation and amortization expenses presented separately below)								
	108,383	69,003	39,380	57.1%	225,824	140,978	84,846	60.2%
Claims expenses	36,085	18,428	17,657	95.8%	73,842	35,177	38,665	109.9%
Selling, general and administrative expenses								
	66,932	57,403	9,529	16.6%	141,770	112,929	28,841	25.5%
Depreciation and amortization expenses								
	15,292	10,034	5,258	52.4%	29,558	19,530	10,028	51.3%
(Gain) loss on disposal of assets	(9,600)	—	(9,600)	—%	(9,600)	—	(9,600)	—%
Change in fair value of contingent consideration and indemnification asset								
	100	(1,604)	1,704	(106.2)%	200	(1,504)	1,704	(113.3)%
Total operating expenses	217,192	153,264	63,928	41.7%	461,594	307,110	154,484	50.3%
Operating income (loss)	<u>\$ (25,233)</u>	<u>\$ (8,966)</u>	<u>\$ (16,267)</u>	(181.4)%	<u>\$ (71,879)</u>	<u>\$ (23,098)</u>	<u>\$ (48,781)</u>	(211.2)%
Transformation services revenue as a % of total revenue								
	1.0%	5.7%			1.4%	5.2%		
Platform and operations services revenue as a % of total revenue								
	75.3%	78.5%			74.9%	78.6%		
Premiums as a % of total revenue								
	23.7%	15.8%			23.8%	16.2%		
Cost of revenue as a % of Services revenue								
	74.0%	56.8%			76.0%	59.3%		
Claims expenses as a % of premiums								
	79.3%	81.0%			79.7%	76.3%		
Selling, general and administrative expenses as a % of total revenue								
	34.9%	39.8%			36.4%	39.8%		

**Comparison of the Operating Results for the Three Months Ended June 30, 2019 to 2018**
*Revenue*

Total revenue increased by \$47.7 million, or 33.0%, to \$192.0 million for the three months ended June 30, 2019, as compared to the same period in 2018.

Transformation services revenue decreased by \$6.3 million, or 76.3%, to \$1.9 million for the three months ended June 30, 2019, as compared to the same period in 2018, due primarily to the fact that our offering has become more product-oriented, thereby resulting in lower average transformation services revenue per newly added partner. As a result, we expect future transformation services revenue to decrease as a percentage of total revenue. Transformation services revenue accounted for 1.0% and 5.7% of our total revenue for the three months ended June 30, 2019, and 2018, respectively.

Platform and operations services revenue accounted for 75.3% and 78.5% of our total revenue for the three months ended June 30, 2019 and 2018, respectively. Platform and operations services revenue increased by \$31.2 million, or 27.5%, to \$144.5 million for the three months ended June 30, 2019, as compared to the same period in 2018, primarily as a result of additional revenue from our acquisition of New Century Health during the fourth quarter of 2018, an increase in our average PMPM fee and an aggregate enrollment growth of 14.4% in lives on platform. We ended the quarter with over 35 operating partners compared to over 30 as of June 30, 2018.

Premiums increased by \$22.8 million, or 100.1%, to \$45.5 million, for the three months ended June 30, 2019, as compared to the same period in 2018. The increase is primarily attributable to the quota-share reinsurance agreement with NMHC signed in the fourth quarter of 2018. Under this reinsurance agreement, NMHC cedes 90% of its gross premiums to the Company and the Company indemnifies NMHC for 90% of its claims liability. The agreement qualified for reinsurance accounting due to the deemed risk transfer, and therefore we recorded the gross premiums assumed on our consolidated statements of operations and comprehensive income (loss). Refer to "Part I - Item 1. Financial Statements - Note 9" in this Form 10-Q for further discussion of the reinsurance agreement. Premiums accounted for 23.7% and 15.8% of our total revenue for the three months ended June 30, 2019, and 2018, respectively. We expect future premiums revenue to decrease as a percentage of total revenue.

#### *Cost of Revenue*

Cost of revenue increased by \$39.4 million, or 57.1%, to \$108.4 million for the three months ended June 30, 2019, as compared to the same period in 2018. Cost of revenue increased by approximately \$50.4 million period over period as a result of business combinations completed during 2018, additional payments related to performance-based arrangements and increased personnel costs to support our growing customer base and service offerings. Approximately \$0.9 million and \$0.4 million of total personnel costs were attributable to stock-based compensation expense for the three months ended June 30, 2019 and 2018, respectively. Our professional fees decreased by \$2.3 million, due to the nature and timing of our projects. Additionally, our technology services, TPA fees and other costs decreased by \$8.7 million period over period. Cost of revenue represented 74.0% and 56.8% of total Services revenue for the three months ended June 30, 2019 and 2018, respectively. Our cost of revenue as a percent of total Services revenue increased year over year as a result of the New Century Health acquisition. Going forward, we expect it to decline as we achieve additional scale and efficiencies, subject to the composition of our growth.

#### *Claims Expenses*

Claims expenses attributable to our True Health segment increased by \$17.7 million, or 95.8%, to \$36.1 million for the three months ended June 30, 2019, as compared to the same period in 2018. Claims expenses consist of claims paid during the period and the change in reserve for incurred but unreported claims. The increase is primarily attributable to the quota-share reinsurance agreement with NMHC signed in the fourth quarter of 2018. Claims expenses represented 79.3% and 81.0% of premiums for the three months ended June 30, 2019 and 2018, respectively. We expect future claims expenses to remain relatively consistent as a percentage of premiums revenue.

#### *Selling, General and Administrative Expenses*

Selling, general and administrative expenses increased by \$9.5 million, or 16.6%, to \$66.9 million for the three months ended June 30, 2019, as compared to the same period in 2018. During the three months ended June 30, 2019, we incurred additional selling, general and administrative expenses due partially to growth in our business resulting from business combinations completed in 2018. Technology costs, personnel costs and lease costs increased by \$0.7 million, \$2.2 million and \$1.2 million, respectively, period over period, as a result of the growing customer base and service offerings. Approximately \$3.9 million and \$4.3 million of total personnel costs were attributable to stock-based compensation expense for the three months ended June 30, 2019 and 2018, respectively. Ceded expenses under the reinsurance agreement were \$3.9 million for the three months ended June 30, 2019, as compared to zero in the prior period. Our professional fees decreased by \$0.1 million, and legal fees and other costs increased by \$0.2 million and \$1.4 million, respectively, due to the nature and timing of our projects. One-time transaction, transition and severance costs accounted for approximately \$6.0 million and \$0.1 million of total selling, general and administrative expenses for the three months ended June 30, 2019 and 2018, respectively. Selling, general and administrative expenses represented 34.9% and 39.8% of total revenue for the three months ended June 30, 2019 and 2018, respectively. While our selling, general and administrative expenses are expected to grow as our business grows, we expect them to continue to decrease as a percentage of our total revenue over the long term.

### *Depreciation and Amortization Expenses*

Depreciation and amortization expenses increased \$5.3 million, or 52.4%, to \$15.3 million for the three months ended June 30, 2019, as compared to the same period in 2018. The increase was due primarily to additional depreciation and amortization expenses related to assets acquired through business combinations and asset acquisitions subsequent to the second quarter of 2018 and the increase in amortization expense for internal-use software. We expect depreciation and amortization expenses to increase in future periods as we continue to capitalize internal-use software and amortize intangible assets resulting from asset acquisitions and business combinations (including possible future transactions).

### *(Gain) loss on disposal of assets*

On May 24, 2019, the Company entered into a joint venture arrangement in respect of GlobalHealth. The Company determined that it has significant influence over the entity, but that it does not have control over the entity. Accordingly, the investment is accounted for under the equity method of accounting and the Company is allocated its proportional share of the entity's earnings and losses for each reporting period. In Q2 2019, we recorded a non-cash gain on disposal of assets of \$9.6 million upon the contribution of True Health Indiana, Inc. to GlobalHealth.

### *Change in fair value of contingent consideration and indemnification asset*

We recorded a loss from change in fair value of contingent consideration and indemnification asset of \$0.1 million for the three months ended June 30, 2019, as compared to a gain of \$1.6 million for the same period in 2018. This variance is the result of changes in the fair values of a mark-to-market contingent liability and a mark-to-market indemnification asset, both of which were acquired as a result of business combinations during 2016. The indemnification asset was settled during the second quarter of 2018. There were no significant changes to the underlying fair value assumptions during the three months ended June 30, 2019, and therefore we only recorded an adjustment to reflect the passage of time. See "Part I - Item 1. Financial Statements - Note 16" in this Form 10-Q for further details regarding the fair value of our mark-to-market contingent liability.

## **Comparison of the Operating Results for the Six Months Ended June 30, 2019 to 2018**

### *Revenue*

Total revenue increased by \$105.7 million, or 37.2%, to \$389.7 million for the six months ended June 30, 2019, as compared to the same period in 2018.

Transformation services revenue decreased by \$9.4 million, or 64.0%, to \$5.3 million for the six months ended June 30, 2019, as compared to the same period in 2018, due primarily to the fact that our offering has become more product-oriented, thereby resulting in lower average transformation services revenue per newly added partner. As a result, we expect future transformation services revenue to decrease as a percentage of total revenue. Transformation services revenue accounted for 1.4% and 5.2% of our total revenue for the six months ended June 30, 2019, and 2018, respectively.

Platform and operations services revenue accounted for 74.9% and 78.6% of our total revenue for the six months ended June 30, 2019 and 2018, respectively. Platform and operations services revenue increased by \$68.7 million, or 30.8%, to \$291.8 million for the six months ended June 30, 2019, as compared to the same period in 2018, primarily as a result of additional revenue from our acquisition of New Century Health during the fourth quarter of 2018, an increase in our average PMPM fee and an aggregate enrollment growth of 14.4% in lives on platform. We ended the quarter with over 35 operating partners compared to over 30 as of June 30, 2018.

Premiums increased by \$46.5 million, or 100.8%, to \$92.6 million, for the six months ended June 30, 2019, as compared to the same period in 2018. The increase is primarily attributable to the quota-share reinsurance agreement with NMHC signed in the fourth quarter of 2018. Under this reinsurance agreement, NMHC cedes 90% of its gross premiums to the Company and the Company indemnifies NMHC for 90% of its claims liability. The agreement qualified for reinsurance accounting due to the deemed risk transfer, and therefore we recorded the gross premiums assumed on our consolidated statements of operations and comprehensive income (loss). Refer to "Part I - Item 1. Financial Statements - Note 9" in this Form 10-Q for further discussion of the reinsurance agreement. Premiums accounted for 23.8% and 16.2% of our total revenue for the six months ended June 30, 2019, and 2018, respectively. We expect future premiums revenue to decrease as a percentage of total revenue.

### *Cost of Revenue*

Cost of revenue increased by \$84.8 million, or 60.2%, to \$225.8 million for the six months ended June 30, 2019, as compared to the same period in 2018. Cost of revenue increased by approximately \$97.9 million period over period as a result of business combinations completed during 2018, additional payments related to performance-based arrangements and increased personnel costs

to support our growing customer base and service offerings. Approximately \$1.7 million and \$0.8 million of total personnel costs were attributable to stock-based compensation expense for the six months ended June 30, 2019 and 2018, respectively. Our professional fees decreased by \$2.6 million, due to the nature and timing of our projects. Additionally, our technology services, TPA fees and other costs decreased by \$10.5 million period over period. Cost of revenue represented 76.0% and 59.3% of total Services revenue for the six months ended June 30, 2019 and 2018, respectively. Our cost of revenue as a percent of total Services revenue increased year over year as a result of the New Century Health acquisition. Going forward, we expect it to decline as we achieve additional scale and efficiencies, subject to the composition of our growth.

#### *Claims Expenses*

Claims expenses attributable to our True Health segment increased by \$38.7 million, or 109.9%, to \$73.8 million for the six months ended June 30, 2019, as compared to the same period in 2018. Claims expenses consist of claims paid during the period and the change in reserve for incurred but unreported claims. The increase is primarily attributable to the quota-share reinsurance agreement with NMHC signed in the fourth quarter of 2018. Claims expenses represented 79.7% and 76.3% of premiums for the six months ended June 30, 2019 and 2018, respectively. We expect future claims expenses to remain relatively consistent as a percentage of premiums revenue.

#### *Selling, General and Administrative Expenses*

Selling, general and administrative expenses increased by \$28.8 million, or 25.5%, to \$141.8 million for the six months ended June 30, 2019, as compared to the same period in 2018. During the six months ended June 30, 2019, we incurred additional selling, general and administrative expenses due partially to growth in our business resulting from business combinations completed in 2018. Technology costs, personnel costs and lease costs increased by \$2.5 million, \$15.8 million and \$2.6 million, respectively, period over period, as a result of the growing customer base and service offerings. Approximately \$7.6 million and \$7.8 million of total personnel costs were attributable to stock-based compensation expense for the six months ended June 30, 2019 and 2018, respectively. Ceded expenses under the reinsurance agreement were \$8.2 million for the six months ended June 30, 2019, as compared to zero in the prior period. Our professional fees decreased by \$1.3 million, legal fees and other costs increased by \$0.3 million and \$0.7 million, respectively, due to the nature and timing of our projects. One-time transaction, transition and severance costs accounted for approximately \$17.6 million and \$2.7 million of total selling, general and administrative expenses for the six months ended June 30, 2019 and 2018, respectively. Selling, general and administrative expenses represented 36.4% and 39.8% of total revenue for the six months ended June 30, 2019 and 2018, respectively. While our selling, general and administrative expenses are expected to grow as our business grows, we expect them to continue to decrease as a percentage of our total revenue over the long term.

#### *Depreciation and Amortization Expenses*

Depreciation and amortization expenses increased \$10.0 million, or 51.3%, to \$29.6 million for the six months ended June 30, 2019, as compared to the same period in 2018. The increase was due primarily to additional depreciation and amortization expenses related to assets acquired through business combinations and asset acquisitions subsequent to the first quarter of 2018 and the increase in amortization expense for internal-use software. We expect depreciation and amortization expenses to increase in future periods as we continue to capitalize internal-use software and amortize intangible assets resulting from asset acquisitions and business combinations (including possible future transactions).

#### *(Gain) loss on disposal of assets*

On May 24, 2019, the Company entered into a joint venture arrangement in respect of GlobalHealth. The Company determined that it has significant influence over the entity, but that it does not have control over it. Accordingly, the investment is accounted for under the equity method of accounting and the Company is allocated its proportional share of the entity's earnings and losses for each reporting period. During the six months ended June 30, 2019, we recorded a non-cash gain on disposal of assets of \$9.6 million upon the contribution of True Health Indiana, Inc. to GlobalHealth.

#### *Change in fair value of contingent consideration and indemnification asset*

We recorded a loss from change in fair value of contingent consideration and indemnification asset of \$0.2 million for the six months ended June 30, 2019, as compared to a gain of \$1.5 million for the same period in 2018. This variance is the result of changes in the fair values of a mark-to-market contingent liability and a mark-to-market indemnification asset, both of which were acquired as a result of business combinations during 2016. The indemnification asset was settled during the second quarter of 2018. There were no significant changes to the underlying fair value assumptions during the six months ended June 30, 2019, and therefore we only recorded an adjustment to reflect the passage of time. See "Part I - Item 1. Financial Statements - Note 16" in this Form 10-Q for further details regarding the fair value of our mark-to-market contingent liability.

## Discussion of Non-Operating Results

### *Interest income*

Interest income consists of interest from investing cash in money market funds, interest from both our short-term and long-term investments, interest earned on the capital-only reinsurance agreement with NMHC and interest from the Implementation Loan and Passport Note. We recorded interest income of \$0.8 million and \$1.9 million for the three and six months ended June 30, 2019, respectively, and \$0.9 million and \$2.0 million for the three and six months ended June 30, 2018, respectively.

### *Interest expense*

Our interest expense is primarily attributable to our 2021 Notes and 2025 Notes. The Company issued its 2021 Notes in December 2016. Holders of the 2021 Notes are entitled to cash interest payments, which are payable semiannually in arrears on June 1 and December 1 of each year, beginning on June 1, 2017, at a rate equal to 2.00% per annum. In addition, we incurred \$4.6 million of debt issuance costs in connection with the 2021 Notes, which we are amortizing to non-cash interest expense using the straight-line method over the contractual term of the 2021 Notes. The Company issued its 2025 Notes in October 2018. Holders of the 2025 Notes are entitled to cash interest payments, which are payable semiannually in arrears on April 15 and October 15 of each year, beginning on April 15, 2019, at a rate equal to 1.50% per annum. The 2025 Notes contain a cash conversion option, which resulted in a debt discount of \$71.8 million, allocated to equity. The amount allocated to equity, along with \$3.4 million of issuance costs, will be amortized to non-cash interest expense using the effective interest method over the contractual term of the 2025 Notes.

We recorded interest expense (including amortization of deferred financing costs) of approximately \$3.7 million and \$7.1 million related to our 2021 Notes and 2025 Notes for the three and six months ended June 30, 2019, respectively, and \$0.9 million and \$1.7 million for the three and six months ended June 30, 2018, respectively. See "Part I - Item 1. Financial Statements - Note 8" in this Form 10-Q for further details of our 2021 Notes and 2025 Notes.

### *Income (loss) from equity method investees*

The Company has acquired economic interests in several entities that are accounted for under the equity method of accounting. The Company is allocated its proportional share of the investees' earnings and losses each reporting period. The Company's proportional share of the losses from these investments was approximately \$1.9 million and \$2.3 million for the three and six months ended June 30, 2019, respectively, and \$1.3 million and \$1.4 million for the three and six months ended June 30, 2018, respectively. The equity method investments are further discussed at "Part I - Item 1. Financial Statements - Note 14" in this Form 10-Q.

### *Provision (benefit) for income taxes*

The Company recorded \$1.4 million and \$0.9 million in income tax expense for the three and six months ended June 30, 2019, respectively, which resulted in effective tax rates of (4.6)% and (1.1)%, respectively. The Company recorded \$(0.1) million in income tax benefit for the three and six months ended June 30, 2018, respectively, which resulted in effective tax rates of 1.1% and 0.4%, respectively. The difference between our effective tax rate and our statutory rate is primarily due to the \$2.0 million income tax expense recorded as a discrete item in connection with the non-cash gain on disposal of assets related to True Health Indiana, as well as certain permanent items which include, but are not limited to, income attributable to the non-controlling interest, the impact of certain tax deduction limits related to meals and entertainment, employee compensation and other permanent nondeductible expenses. In addition, as of June 30, 2019, with the exception of our corporate subsidiaries, the Company maintains a full valuation allowance recorded against its net deferred tax assets, except for certain indefinite-lived components as part of the outside basis difference in our partnership interest in Evolent Health LLC.

### *Net income (loss) attributable to non-controlling interests*

We consolidate the results of Evolent Health LLC as we have 100% of the voting rights of the entity; however, as of June 30, 2019 and June 30, 2018, we owned 99.2% and 99.0% of the economic rights of the results of operations of Evolent Health LLC, respectively, and, therefore, eliminated the non-controlling interest from our results of operations. For the three and six months ended June 30, 2019, our results reflect net losses of \$0.3 million and \$2.2 million, respectively, attributable to non-controlling interests, which represents 1.1% and 3.1% of the operating losses of Evolent Health Inc. For the three and six months ended June 30, 2018, our results reflect net losses of \$0.1 million and \$0.6 million, respectively, attributable to non-controlling interests, which represents 1.3% and 2.4% of the operating losses of Evolent Health Inc.

The Company's economic interest in Evolent Health LLC increased as compared to the prior period as a result of the Class B Exchanges during the second quarter of 2019, Class B Exchanges in connection with the November 2018 Private Sale and the issuance of shares of Class A common stock in conjunction with the GlobalHealth joint venture, option exercises and RSU vests since

the prior period. The Company's economic interest in Evolent Health LLC decreased during 2018 as a result of the issuance of Class B common units and Class B common stock as part of the acquisition for New Century Health.

## REVIEW OF CONSOLIDATED FINANCIAL CONDITION

### Liquidity and Capital Resources

Since its inception, the Company has incurred operating losses and net cash outflows from operations. The Company incurred operating losses of \$71.9 million and \$23.1 million for the six months ended June 30, 2019 and 2018, respectively. Net cash and restricted cash used in operating activities was \$39.2 million and \$18.0 million for the six months ended June 30, 2019 and 2018, respectively. As of June 30, 2019, the Company had \$92.8 million of cash and cash equivalents and \$45.2 million in restricted cash and restricted investments.

We believe our current cash, cash equivalents and other sources of liquidity will be sufficient to meet our working capital and capital expenditure requirements for at least the next twelve months as of the date the financial statements were available to be issued. Our future capital requirements will depend on many factors, including our rate of revenue growth, the expansion of our sales and marketing activities and the timing and extent of our spending to support our acquisition and investment efforts and expansion into other markets. We may also seek to invest in, or acquire complementary businesses, applications or technologies.

#### Cash Flows

The following summary of cash flows (in thousands) has been derived from our financial statements included in "Item 1. Financial Statements":

	<b>For the Six Months Ended June 30,</b>	
	<b>2019</b>	<b>2018</b>
Net cash and restricted cash provided by (used in) operating activities	\$ (39,242)	\$ (18,004)
Net cash and restricted cash provided by (used in) investing activities	(90,816)	(19,376)
Net cash and restricted cash provided by (used in) financing activities	(121,071)	(3,665)

#### Operating Activities

Cash flows used in operating activities of \$39.2 million for the six months ended June 30, 2019, were due primarily to our net loss of \$80.5 million, partially offset by non-cash items, including depreciation and amortization expenses of \$29.6 million, stock-based compensation expense of \$9.3 million and amortization of deferred financing costs and contract costs assets of \$7.4 million, as well as non-cash gain on disposal of assets of \$9.6 million. Our operating cash outflows were affected by the timing of our customer and vendor payments. Increases in prepaid expenses, contract cost assets and right-of-use operating assets, combined with a decrease in accrued liabilities and other long-term liabilities, contributed approximately \$51.3 million to our cash outflows. Those cash outflows were offset by increases in accounts payable, accrued compensation and employee benefits, reserves for claims and performance-based arrangements, deferred revenue and operating lease liabilities, combined with a decrease in accounts receivable and contract assets, of approximately \$52.1 million.

Cash flows used in operating activities of \$18.0 million for the six months ended June 30, 2018, were due primarily to our net loss of \$24.1 million, partially offset by non-cash items, including depreciation and amortization expenses of \$19.5 million and stock-based compensation expense of \$8.5 million. Our operating cash outflows were affected by the timing of our customer and vendor payments. Decreases in accrued compensation and employee benefits, combined with increases in accounts receivable and prepaid expenses, contributed approximately \$46.7 million to our cash outflows. Those cash outflows were partially offset by increases in accrued liabilities, deferred revenue and claims reserves of approximately \$23.9 million.

#### Investing Activities

Cash flows used in investing activities of \$90.8 million for the six months ended June 30, 2019, were primarily attributable to purchases of property and equipment of \$17.7 million, cash paid for asset acquisitions, business combinations and equity method investments of \$22.9 million, amounts advanced to satisfy regulatory capital requirements of \$45.4 million and purchases of investments of \$7.1 million, partially offset by a customer's repayment of advance to satisfy regulatory capital requirements of \$2.8 million.

Cash flows used in investing activities of \$19.4 million for the six months ended June 30, 2018, were primarily attributable to

purchases of property and equipment of \$20.2 million and cash paid for asset acquisitions, business combinations and equity method investments of \$15.7 million. Those cash outflows were offset by maturities of restricted investments of \$8.0 million and a principle repayment of an implementation loan of \$8.0 million.

#### Financing Activities

Cash flows used in financing activities of approximately \$121.1 million for the six months ended June 30, 2019, were primarily related to a decrease of \$119.5 million in the amount of restricted cash held on behalf of our partners for claims processing services. These are pass-through amounts and can fluctuate materially from period to period depending on the timing of when the claims are processed. There was an additional cash outflow of approximately \$2.4 million related to taxes withheld and paid for vests of restricted stock units, partially offset by approximately \$0.9 million as a result of proceeds from stock options exercises.

Cash flows used in financing activities of approximately \$3.7 million for the six months ended June 30, 2018, were primarily related to a decrease of \$7.3 million in the amount of restricted cash held on behalf of our partners for claims processing services. These are pass-through amounts and can fluctuate materially from period to period depending on the timing of when the claims are processed. This decrease was offset by approximately \$3.6 million as a result of proceeds from stock options exercises, net of taxes withheld and paid for vests of restricted stock units.

#### *Contractual Obligations*

Our contractual obligations (in thousands) as of June 30, 2019, were as follows:

	<u>2019</u>	<u>2020-2021</u>	<u>2022-2023</u>	<u>Thereafter</u>	<u>Total</u>
Operating leases for facilities	\$ 4,450	\$ 22,240	\$ 20,073	\$ 66,852	\$ 113,615
Contingent loan commitments	11,000	—	—	—	11,000
Purchase obligations related to vendor contracts	4,199	2,157	—	—	6,356
Convertible debt interest payments	2,539	10,187	5,165	5,101	22,992
Convertible debt principal repayment	—	125,000	—	172,500	297,500
Total	<u>\$ 22,188</u>	<u>\$ 159,584</u>	<u>\$ 25,238</u>	<u>\$ 244,453</u>	<u>\$ 451,463</u>

During the six months ended June 30, 2019, there were no material changes outside the ordinary course of business to our contractual obligations from the information provided in Item 7 of the Company's Annual Report on Form 10-K for the year ended December 31, 2018.

#### *Restricted Cash and Restricted Investments*

Restricted cash and restricted investments of \$45.2 million is carried at cost and includes cash held on behalf of other entities for pharmacy and claims management services of \$2.9 million, collateral for letters of credit required as security deposits for facility leases of \$3.6 million, amounts held with financial institutions for risk-sharing arrangements and line of credit deposits of \$37.9 million and other restricted balances as of June 30, 2019. Restricted investments are stated at amortized cost. See "Part I - Item 1. Financial Statements - Note 2" in this Form 10-Q for further details of the Company's restricted cash and restricted investments balances.

#### *Uses of Capital*

Our principal uses of cash are in the operation and expansion of our business and the pursuit of strategic acquisitions. The Company does not anticipate paying a cash dividend on our Class A common stock in the foreseeable future.

### **OTHER MATTERS**

#### *Off-balance Sheet Arrangements*

Through June 30, 2019, the Company had not entered into any off-balance sheet arrangements and did not have any material holdings in variable interest entities.

#### *Related Party Transactions*

In the ordinary course of business, we enter into transactions with related parties, including our partner and pre-IPO investor, UPMC. Information regarding transactions and amounts with related parties is discussed in "Part I - Item 1. Financial Statements - Note 17" in this Form 10-Q as well as under the heading "Certain Relationships and Related Party Transactions" in our proxy statement on Schedule 14A filed with the SEC on April 30, 2019.

### *Other Factors Affecting Our Business*

In general, our business is subject to a changing social, economic, legal, legislative and regulatory environment. Although the eventual effect on us of the changing environment in which we operate remains uncertain, these factors and others could have a material effect on our results of operations, liquidity and capital resources. Factors that could cause actual results to differ materially from those set forth in this section are described in “Part I - Item 1A. Risk Factors” in our 2018 Form 10-K and “Part II - Item 1A Risk Factors” and “Forward-Looking Statements – Cautionary Language” in this Form 10-Q.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

We are exposed to market risks in the ordinary course of our business. Market risk represents the risk of loss that may impact our financial position due to adverse changes in financial market prices and rates.

#### *Interest Rate Risk*

As of June 30, 2019, cash and cash equivalents and restricted cash and restricted investments was \$138.0 million, which consisted primarily of bank deposits with FDIC participating banks of \$94.6 million, bank deposits in international banks of \$1.8 million, cash equivalents deposited in a money-market fund of \$40.7 million and \$0.8 million of restricted investments that are classified as held-to-maturity investments. In addition, we have investments of \$17.1 million, which are classified as held-to-maturity investments.

Changes in interest rates affect the interest earned on our cash and cash equivalents (including restricted cash). Our investments (including restricted investments) are classified as held-to-maturity and therefore are not subject to interest rate risk. We do not enter into investments for trading or speculative purposes and have not used any derivative financial instruments to manage our interest rate risk exposure.

As of June 30, 2019, we had \$225.6 million, net of deferred offering costs and cash conversion discounts, of aggregate principal amount of convertible notes outstanding, which are fixed rate instruments. Therefore, our results of operations are not subject to fluctuations in interest rates relating to our convertible notes.

#### *Foreign Currency Exchange Risk*

Beginning in 2018, we have foreign currency risks related to our revenue and operating expenses denominated in currencies other than the U.S. dollar, primarily the Indian Rupee. In general, we are a net payor of currencies other than the U.S. dollar. Accordingly, changes in exchange rates, and in particular a strengthening of the U.S. dollar, may, in the future, negatively affect our operating results as expressed in U.S. dollars. At this time, we have not entered into, but, in the future, we may enter into, derivatives or other financial instruments in an attempt to hedge our foreign currency exchange risk. It is difficult to predict the effect hedging activities would have on our results of operations. Foreign currency translation had an immaterial impact on our results of operations for the three and six months ended June 30, 2019 and 2018.

#### *Inflation Risk*

We do not believe that inflation has had a material effect on our business, financial condition or results of operations. If our costs were to become subject to significant inflationary pressures, we may not be able to fully offset such higher costs through price increases. Our inability or failure to do so could harm our business, financial condition and results of operations.

#### *Equity Market Risk*

We have exposure to equity market risk related to the potential exchange of our Class B common shares. Pursuant to and subject to the terms of exchange agreements we entered into in connection with our IPO and our acquisition of New Century Health, and the third amended and restated LLC agreement of Evolent Health LLC, certain holders of our Class B common shares may at any time and from time to time exchange their Class B common shares, together with an equal number of Class B common units of Evolent Health LLC, for shares of our Class A common stock on a one-for-one basis. A decision to exchange these shares may be, in part, driven by equity market conditions and, more specifically, the price of our Class A common stock. An exchange of our Class B common shares would:

- Increase our ownership in our consolidated operating subsidiary, Evolent Health LLC. See “Part I - Item 1. Financial Statements - Note 15” in this Form 10-Q for additional information;
- Increase the number of outstanding shares of our Class A common stock. See “Part I - Item 1. Financial Statements - Note 11” in this Form 10-Q for information relating to potentially dilutive securities and the impact on our historical earnings per share; and

- Increase our tax basis in our share of Evolent Health LLC's tangible and intangible assets and possibly subject us to payments under the TRA agreement. See "Part I - Item 1. Financial Statements - Note 13" in this Form 10-Q for further information on tax matters related to the exchange of Class B common shares.

For example, as discussed in "Part I - Item 1. Financial Statements - Note 15", 0.7 million shares of the Company's Class A common stock were issued to TPG pursuant to Class B Exchanges relating to multiple private sales during November 2018. As a result of these Class B Exchanges and Evolent Health LLC's cancellation of its Class B common units triggered by the November 2018 Private Sales, the Company's economic interest in Evolent Health LLC increased from 95.3% to 96.1% immediately following the November 2018 Private Sales.

#### **Item 4. Controls and Procedures**

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

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) 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 such evaluation, our principal executive officer and principal financial officer have concluded that, as of June 30, 2019, our disclosure controls and procedures were effective.

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

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

## **PART II – OTHER INFORMATION**

#### **Item 1. Legal Proceedings**

Information regarding reportable legal proceedings is contained within "Part I – Item 1. Financial Statements - Note 9" of this Form 10-Q.

#### **Item 1A. Risk Factors**

Part I, Item 1A. "Risk Factors" in our 2018 Form 10-K, and other documents filed with the SEC include discussions of our risk factors. There have been no material changes from the risk factors described in our 2018 Form 10-K for the quarterly period ended June 30, 2019, except as discussed below.

*We derive a significant portion of our revenues from our largest partners. The loss, termination or renegotiation of our relationship or contract with Passport or another significant partner, or multiple partners in the aggregate, could negatively impact our results.*

Historically, we have relied on a limited number of partners for a substantial portion of our total revenue and accounts receivable. Our largest partner in terms of accounts receivable, Cook County Health and Hospitals System (Illinois), comprised 20.3% and 23.3% of such total amount as of June 30, 2019, and December 31, 2018, respectively. One of our largest partners, Passport, comprised 13.1% and 17.5% of our revenue for the six months ended June 30, 2019, and for 2018, respectively. As described in more detail in Part I - Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations in this Form 10-Q, in May 2019, we entered into an asset purchase agreement pursuant to which we will acquire substantially all of the assets and assume substantially all of the liabilities of Passport, subject to certain closing conditions and receipt of regulatory approvals. The sudden loss of any of our partners, including Passport, or the renegotiation of any of our partner contracts, could adversely affect our operating results.

In the ordinary course of business, we engage in active discussions and renegotiations with our partners in respect of the services we provide and the terms of our partner agreements, including our fees. As our partners' businesses respond to market dynamics and financial pressures, and as our partners make strategic business decisions in respect of the lines of business they pursue and programs in which they participate, certain of our partners have, and we expect that in the future additional partners will, from time to time, seek to renegotiate or terminate their agreements with us. These discussions and future discussions could result in reductions to the fees and changes to the scope of services contemplated by our original partner contracts and consequently could negatively impact our revenues, business and prospects.

Because we rely on a limited number of partners for a significant portion of our revenues, we depend on the creditworthiness of

these partners. Our partners are subject to a number of risks including reductions in payment rates from governmental payers, higher than expected health care costs and lack of predictability of financial results when entering new lines of business, particularly with high-risk populations, such as plans established under the ACA and Aged, Blind and Disabled Medicaid. If the financial condition of our partners declines, our credit risk could increase. Should one or more of our significant partners, including Passport, declare bankruptcy, be declared insolvent or otherwise be restricted by state or federal laws or regulation from continuing in some or all of their operations, this could adversely affect our ongoing revenues, the collectability of our accounts receivable and affect our bad debt reserves and net income (loss).

Although we have long-term contracts with many partners, these contracts may be terminated before their term expires for various reasons, such as changes in the regulatory landscape and poor performance by us, subject to certain conditions. For example, after a specified period, certain of these contracts are terminable for convenience by our partners after a notice period has passed and the partner has paid a termination fee. Certain of our contracts are terminable immediately upon the occurrence of certain events. For example, some of our contracts may be terminated by the partner if we fail to achieve target performance metrics over a specified period. Certain of our contracts may be terminated by the partner immediately following repeated failures by us to provide specified levels of service over periods ranging from six months to more than a year. Certain of our contracts may be terminated immediately by the partner if we lose applicable licenses, go bankrupt, lose our liability insurance or receive an exclusion, suspension or debarment from state or federal government authorities. Additionally, if a partner, including Passport, were to lose applicable licenses, fail to be awarded or otherwise be disqualified as a provider under key governmental contracts (including state Medicaid awards) through competitive bidding processes or otherwise, go bankrupt, lose liability insurance, become insolvent, file for bankruptcy or receive an exclusion, suspension or debarment from state or federal government authorities, our contract with such partner could in effect be terminated. In addition, certain of our contracts may be terminated immediately if we become insolvent or file for bankruptcy. If any of our contracts with our partners is terminated, we may not be able to recover all fees due under the terminated contract, which may adversely affect our operating results. In addition, certain of our contracts provide that if we fail to meet specified implementation targets, the contracts will terminate and we will be subject to financial penalties. Separately, the contracts of New Century Health typically run for one-year terms. While they typically contain year-to-year renewal provisions, we cannot assure that any or all of these contracts will be renewed in any particular year. We expect that future contracts will contain similar provisions to those described in this paragraph.

*If Passport is not awarded a contract under the ongoing Medicaid request for proposal process in the Commonwealth of Kentucky, we will not receive revenue from Passport subsequent to June 30, 2020 and the value of our pending investment in Passport will be negatively impacted.*

One of our largest partners in terms of revenue, Passport, comprised and 13.1% and 17.5% of our revenue for the six months ended June 30, 2019, and for 2018, respectively. Recent changes in the way the state of Kentucky distributes federal Medicaid benefits have had a significant negative impact on Passport. On May 28, 2019, we entered into an asset purchase agreement to acquire substantially all of the assets and assume substantially all of the liabilities of Passport, subject to customary closing conditions including receipt of regulatory approvals, for \$70.0 million in cash and the issuance of a 30% equity interest (in the entity through which we will hold our ownership interest) to the current owners of Passport. Passport is currently one of five Medicaid managed care organizations serving the Commonwealth of Kentucky under a contract to provide managed care for Medicaid expiring on June 30, 2020. Passport recently submitted a proposal to continue providing managed care for Medicaid in the Commonwealth of Kentucky through June 30, 2025 in response to the ongoing "request for proposal" process (the "RFP") of the Kentucky Cabinet of Health and Family Services ("CHFS").

We are unable to predict the outcome of the RFP or the ongoing solvency of Passport. The recent rate reductions, the result of the ongoing RFP process and surrounding publicity could result in reduced enrollment for Passport, provider disruption and reputational impact for both Passport and the Company. If Passport were to become insolvent or cease to operate, we would no longer receive fees from Passport. As a result, the ongoing situation and the ultimate resolution thereof could negatively impact our business, financial condition and results of operations, as well as the prospects for the value of our pending investment in Passport. We expect the outcome of the RFP to have a material impact on our revenue from our management services agreement with Passport beyond the current contract period. In the event that Passport is not awarded a contract under the RFP, we expect that we will not receive any material revenue under our management services agreement from Passport subsequent to June 30, 2020, and the value of our pending investment in Passport will be negatively impacted. Consummation of the transactions contemplated by the Passport Asset Purchase Agreement is not conditioned on award of a contract with CHFS under the RFP. In the event that Passport is not awarded a new Medicaid contract with CHFS, the Company will be required to acquire the Sponsors' remaining ownership for an additional \$20.0 million within 12 months following the expiration of Passport's current Medicaid contract.

*We have made and may make acquisitions, investments and alliances and joint ventures, including the completed acquisitions of New Century Health and assets from NMHC and the pending transactions with Passport, which may be difficult to integrate, divert*

*management resources, result in unanticipated costs or dilute our stockholders.*

Part of our business strategy is to acquire or invest in companies, businesses, products or technologies that complement our current products and services, enhance our market coverage or technical capabilities or offer growth opportunities. This may include acquiring or investing in companies, businesses, products or technologies that are tangential to our current business and in which we have limited or no prior operating experience, which was the case in our acquisition of assets from NMHC. That and other acquisitions, investments, alliances or joint ventures, including the recent acquisition of New Century Health and the pending transactions with Passport, could result in new, material risks to our results of operations, financial condition, business and prospects. These new risks could include increased variability in revenues and prospects associated with various risk sharing arrangements.

Consistent with our business strategy, we continuously evaluate, and are currently in the process of evaluating, potential acquisition targets and investments. However, there can be no assurance that any of these potential acquisitions or investments will be consummated. For example, in May 2019, we entered into an asset purchase agreement pursuant to which we will acquire 70% of equity interest in Passport, subject to customary closing conditions including receipt of certain regulatory approvals. Although we currently expect the pending transactions under the Passport asset purchase agreement to close in the fourth quarter of 2019, we cannot assure you that the transactions will close at that time or at all.

The recently completed acquisitions of New Century Health and assets from NMHC, the pending transactions with Passport, as well as other acquisitions, investments and alliances, could pose numerous risks to our business which could negatively impact our financial condition and results of operations, including:

- difficulty integrating the purchased operations, products or technologies;
- substantial unanticipated integration costs, delays and challenges that may arise in integration;
- assimilation of the acquired businesses, which may divert significant management attention and financial resources from our other operations and could disrupt our ongoing business;
- the loss of key customers who are in turn subject to risks and financial dislocation in their businesses;
- the loss of key employees, particularly those of the acquired operations;
- difficulty retaining or developing the acquired business' customers;
- adverse effects on our existing business relationships with customers, suppliers, other partners, standing with regulators;
- challenges related to the integration and operation of businesses that operate in new geographic areas and new markets or lines of business;
- unanticipated financial losses in the acquired business, including the risk of higher than expected health care costs;
- failure to realize the potential cost savings or other financial benefits or the strategic benefits of the acquisitions, including failure to consummate any proposed or contemplated transaction; and
- liabilities, including acquired litigation, and expenses from the acquired businesses for contractual disputes with customers and other third parties, infringement of intellectual property rights, data privacy violations or other claims and failure to obtain indemnification for such liabilities or claims, and distraction of our personnel in connection with any related proceedings.

We may be unable to integrate the operations, products, technologies or personnel gained through our completed and pending acquisitions or integrate or complete any other such transaction without a material adverse effect on our business, financial condition and results of operations. Transaction agreements may impose limitations on our ability, or the ability of the business to be acquired, to conduct business. Events outside our control, including operating changes or regulatory changes, could also adversely affect our ability to realize anticipated revenues, synergies, benefits and cost savings. In addition, revenues of acquired businesses or companies, prior to and after consummation of a transaction, may be less than expected. Counterparties in transactions may have contracts with customers and other business partners which may require consents from these parties in connection with a transaction. If these consents cannot be obtained, the Company may suffer a loss of potential future revenue and may lose rights that are material to its business and the business of any combined company. Any such disruptions could limit our ability to achieve the anticipated benefits of the transaction. Any integration may be unpredictable, or subject to delays or changed circumstances, and we and any targets may not perform in accordance with our expectations.

We have also entered into a number of joint ventures, including a newly established joint venture relating to GlobalHealth, an Oklahoma-based health maintenance organization. Conflicts or disagreements between us and any joint venture partner may negatively impact the benefits expected to be achieved by the joint venture or may ultimately threaten the ability of such joint venture to continue. We are also subject to additional risks and uncertainties because we may be dependent upon and subject to the liability, losses or reputational damage relating to joint venture partners that are not entirely under our control.

In connection with these acquisitions, investments, alliances or joint ventures, we could incur significant costs, debt, amortization expenses related to intangible assets or large and immediate write-offs or other impairments or charges, assume liabilities or issue

stock that would dilute our current stockholders' ownership. In the case of our pending transactions with Passport, are obligated to provide capital support to Passport to the extent necessary for regulatory capital. Pursuant to this obligation we were required to contribute \$40.0 million as an advance, and we may be required to make similar payments pursuant to this obligation or under similar provisions in the future. In connection with the Passport transactions, we have also entered into an indemnity agreement pursuant to which we are jointly and severally liable with Passport in respect of Passport's obligations under a \$25.0 million surety bond. In addition, as part of the closing consideration for the New Century Health acquisition, we issued 3.1 million Class B common units of Evolent Health LLC, which, together with an equal number of shares of our Class B common stock, are exchangeable for shares of our Class A common stock, and we issued 1.6 million shares to Momentum Health Group, LLC, in connection with our investment in GlobalHealth. In addition, the market price for our Class A common stock could also be affected, following the consummation of any other transaction, by factors that have not historically affected the market price for our Class A common stock.

*Our revenues and the growth of our business rely, in part, on the growth and success of our partners and certain revenues from our engagements, which are difficult to predict and are subject to factors outside of our control, including governmental funding reductions and other policy changes.*

We enter into agreements with our partners under which a significant portion of our fees are variable, including fees which are dependent upon the number of members that are covered by our partners' health care plans each month, expansion of our partners and the services that we provide, as well as performance-based metrics. The number of members covered by a partner's health care plan is often impacted by factors outside of our control, such as the actions of our partner or third parties. In addition, ongoing payment of fees by our partners could be negatively impacted by the general financial condition of our partners. Accordingly, revenue under these agreements is unpredictable. If the number of members covered by one or more of our partners' plans were to be reduced by a material amount, or if member enrollment numbers in new plans are lower than expected, which has been the case with our Florida Medicaid partners, such decrease would lead to a decrease in our expected revenue, which could harm our business, financial condition and results of operations. In addition, growth forecasts of our partners are subject to significant uncertainty and are based on assumptions and estimates that may prove to be inaccurate. Even if the markets in which our partners compete meet the size estimates and growth forecasted, their health plan membership could fail to grow at similar rates, if at all. In addition, a portion of the revenue under certain of our service contracts is tied to the partners' continued participation in specified payer programs over which we have no control. If a partner ceases to participate or is disqualified from participation in any such program, this would lead to a decrease in our expected revenue under the relevant contract. Further, if certain of our partners are not awarded contracts (or renewals of contracts) under, or are disqualified from participating in, relevant government-sponsored programs, our revenues could be negatively impacted.

In addition, the transition to value-based care may be challenging for our partners. For example, fully capitated or other provider risk arrangements have had a history of financial challenges for providers. Our partners may also have difficulty in value-based care if premium pricing is under pressure or if they incur selection bias in the health plans under which they assume risk and in so doing the premium, capitation amount or other risk-sharing arrangement they undertake does not adequately reflect the health status of the membership. Our partners may choose not to continue to capitalize affiliated health plans or subsidize losses to their reimbursement rates. Furthermore, revenue under our partner contracts may differ from our projections because of the termination of the contract for cause or at specified life cycle events, or because of fee reductions that are occasionally agreed to after the contract is initially signed.

Our partners derive a substantial portion of their revenue from third-party private and federal and state governmental payers, including Medicaid programs. Revenue under certain of our agreements could be negatively impacted as a result of governmental funding reductions impacting government-sponsored programs, changes in reimbursement rates, and premium pricing reductions, as well as the inability of our partners to control and, if necessary, reduce health care costs, all of which are out of our control. Because certain of our partners' revenues are highly reliant on third-party payer reimbursement funding rates and mechanisms, overall reductions of rates from such payers could adversely impact the liquidity of our partners, resulting in their inability to make payments to us on agreed payment terms. See Part I, Item 1A. "Risk Factors" - "The health care regulatory and political framework is uncertain and evolving" in our 2018 Form 10-K for additional information.

*We have recorded a significant amount of goodwill, and we may never realize the full value of our intangible assets, causing us to record impairments that may negatively affect our results of operations.*

The Company has three reporting units: Legacy Services, New Century Health and True Health. Our total assets include substantial goodwill. At December 31, 2018, we had \$768.1 million of goodwill on our Consolidated Balance Sheets. Goodwill is not amortized, but is reviewed at least annually for indications of impairment, with consideration given to financial performance and other relevant factors.

While our annual goodwill impairment test is conducted on October 31, we have processes to monitor for interim triggering events. Under GAAP, we review our goodwill for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Factors that may be considered a change in circumstances indicating that the carrying value of our goodwill may not be recoverable include macroeconomic conditions, industry and market considerations, our overall financial performance including an analysis of our current and projected cash flows, revenue and earnings, a sustained decrease in our share price and other relevant entity-specific events including changes in strategy, customers or litigation.

A detailed discussion of our impairment testing is included in "Part II - Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies and Estimates." Subsequent to our 2015 annual impairment testing in the fourth quarter of 2015, our Class A common stock price declined significantly, reaching our historic low in the first quarter of 2016. During the three months ended March 31, 2016, our Class A common stock traded between \$8.48 and \$12.32, or an average Class A common stock price of \$10.33 compared to an average Class A common stock price of \$19.51 and \$14.73 during the three-month periods ended September 30, 2015, and December 31, 2015, respectively. A sustained decline in our Class A common stock price and the resulting impact on our market capitalization is one of several qualitative factors we consider each quarter when evaluating whether events or changes in circumstances indicate it is more likely than not that a potential goodwill impairment exists. We concluded that the further decline in Class A common stock price observed during the first quarter of 2016 did represent a sustained decline and that triggering events occurred during this period requiring an interim goodwill impairment test as of March 31, 2016, ultimately resulting in an impairment charge of \$160.6 million. In addition, following our 2017 annual goodwill review, we concluded that a sustained decline in the average closing price per share of our Class A common stock was an indicator that our goodwill might be impaired and we performed a quantitative goodwill impairment test as of December 14, 2017. However, we determined that fair value was greater than carrying value and goodwill was not impaired as of December 14, 2017.

During the second quarter of 2019, the price of our Class A common stock declined significantly. The average closing price per share of our Class A common stock for the months of May and June decreased by 25.8% compared to the average closing price for the period from January to April. We considered whether the stock price decline represented a triggering event for interim goodwill impairment testing and determined that the decline in our stock price does not impact the medium-term and long-term projections of our cash flow generation and, accordingly, our estimates of the fair value of our reporting units. Therefore, we did not perform a quantitative goodwill assessment and no impairment was noted as of June 30, 2019. However, if our Class A common stock price decline sustains or if other indications of impairment exist, we may be required to recognize additional impairments in the future as a result of market conditions or other factors related to our performance, including changes in our forecasted results, investment strategy or interest rates. In particular, a continued or sustained decline in our stock price together with an impact to our medium-term or long-term cash flow projections as a result of Passport failing to be awarded a contract under the ongoing RFP process or otherwise, could result in an impairment. Any further impairment charges that we record in the future could be material to our results of operations.

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

On June 18, 2019, we issued 154,026 shares of the Company's Class A common stock in connection with the acquisition of The Accountable Care Organization Ltd. The issuance of the equity consideration was exempt from registration under the Securities Act in reliance upon Section 4(a)(2) and Rule 506(b) of the Securities Act as a transaction by an issuer not involving a public offering. The shares of Class A common stock issued as equity consideration are restricted securities for purposes of Rule 144 under the Securities Act. We determined that the purchasers of shares of Class A common stock in the transaction were accredited investors. The Company did not engage in a general solicitation or advertising with regard to the issuance and contribution of the Class A common stock issued in connection with the transaction.

#### **Item 3. Defaults Upon Senior Securities**

Not applicable.

#### **Item 4. Mine Safety Disclosures**

Not applicable.

#### **Item 5. Other Information**

Not applicable.

Item 6. Exhibits

**EVOLENT HEALTH, INC.**  
**Exhibit Index for the Report on Form 10-Q**  
**For the Quarter Ended June 30, 2019**

<a href="#"><u>2.1*</u></a>	<a href="#"><u>Agreement and Plan of Merger, dated September 7, 2018, by and among Evolent Health, Inc., Evolent Health LLC, Element Merger Sub, Inc., NCIS Holdings, Inc. and New Century Investment, LLC, in the capacity set forth therein, filed as Exhibit 2.1 to the Company's Report on Form 8-K filed with the SEC on September 12, 2018, and incorporated herein by reference</u></a>
<a href="#"><u>2.2*</u></a>	<a href="#"><u>Agreement and Plan of Merger, dated July 12, 2016, by and among Evolent Health, Inc., Electra Merger Sub, LLC, Valence Health, Inc. and North Bridge Growth Management Company LLC and Philip Kamp, in their capacity as securityholders' representative, filed as Exhibit 2.1 to the Company's Report on Form 8-K filed with the SEC on July 14, 2016, and incorporated herein by reference</u></a>
<a href="#"><u>2.3*</u></a>	<a href="#"><u>First Amendment to Agreement and Plan of Merger, dated October 3, 2016, by and among Evolent Health, Inc., Electra Merger Sub, LLC, Valence Health, Inc. and North Bridge Growth Management Company LLC and Philip Kamp, in their capacity as securityholders' representative, filed as Exhibit 2.2 to the Company's Report on Form 8-K filed with the SEC on October 3, 2016, and incorporated herein by reference</u></a>
<a href="#"><u>2.4*</u></a>	<a href="#"><u>Asset Purchase Agreement, dated May 28, 2019, by and among University Health Care, Inc., d/b/a Passport Health Plan, Passport Health Solutions, LLC, Evolent Health, Inc. and Justify Holdings, Inc.</u></a>
<a href="#"><u>4.1</u></a>	<a href="#"><u>Registration Rights Agreement, dated May 24, 2019, by and between Evolent Health, Inc. and Momentum Health Group, LLC, filed as Exhibit 4.1 to the Company's Report on Form 8-K filed with the SEC on May 28, 2019</u></a>
<a href="#"><u>31.1</u></a>	<a href="#"><u>Certification of the Chief Executive Officer pursuant to section 302 of the Sarbanes-Oxley Act of 2002</u></a>
<a href="#"><u>31.2</u></a>	<a href="#"><u>Certification of the Chief Financial Officer pursuant to section 302 of the Sarbanes-Oxley Act of 2002</u></a>
<a href="#"><u>32.1</u></a>	<a href="#"><u>Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u></a>
<a href="#"><u>32.2</u></a>	<a href="#"><u>Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u></a>
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
*	The Company agrees to furnish supplementally to the SEC a copy of any omitted schedule or exhibit upon the request of the SEC in accordance with Item 601(b)(2) of Regulation S-K.



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***Annexes***

Annex A - Defined Terms

**ASSET PURCHASE AGREEMENT**

This Asset Purchase Agreement (this "Agreement"), made and entered into as of May 28, 2019, is by and between University Health Care, Inc., d/b/a Passport Health Plan, a Kentucky nonprofit corporation ("Passport"), Passport Health Solutions, LLC, a Kentucky nonprofit limited liability company ("PHS I," and together with Passport, the "Seller"), Justify Holdings, Inc., a Kentucky corporation ("Buyer"), and Evolent Health, Inc. ("Evolent"). Capitalized terms used herein are defined as set forth in Annex A, attached hereto. Buyer, Seller, and Evolent are sometimes referred to herein individually as a "Party" and jointly as the "Parties."

**RECITALS**

- A. Seller operates a business that administers and delivers Medicaid managed care benefits in the Commonwealth of Kentucky through contracts with the Kentucky Cabinet for Health and Family Services ("CHFS"), and a business that administers and delivers managed care benefits in the Commonwealth of Kentucky through a Dual Eligible Special Needs Plans contract with CMS (collectively, the "Business").
- B. As a result of, amongst other things, Seller's need for additional capital and Seller's desire to maintain the Business and not wind it down, Seller has determined that it is in the best interest of its Sponsors, its members and the Commonwealth of Kentucky, and in the furtherance of its overall charitable purposes and the proper administration of its charitable assets, to consider strategic alternatives for the ownership and operation of the Business and the ownership of the Acquired Assets (as defined herein), including the sale of the Acquired Assets to a qualified owner and operator that will continue the Business' operations primarily in Louisville, Kentucky.
- C. Evolent, through its subsidiaries, provides administrative and management services for the Business pursuant that certain Services Agreement, dated as of December 16, 2015, between Evolent Health LLC and Passport, as amended from time to time (as amended, the "Services Agreement").
- D. Each Party desires that Seller sell, convey, transfer and assign to Buyer, and that Buyer purchase, acquire and accept from Seller substantially all of the assets of Seller related to the Business, and that Buyer assume certain liabilities of Seller related thereto, all upon and subject to the terms herein.
- E. The Parties also believe that a transaction in which the Buyer acquires the Acquired Assets will allow the Buyer, working with the Sponsors to: (i) further the clinical integration of healthcare delivery platforms in the communities served by the Sponsors; (ii) allow for an increase in the efficiency of the delivery of healthcare services in the Commonwealth of Kentucky; and (iii) sustain and enhance, in particular, the mission of the University of Louisville to further research in medicine, dentistry, nursing and public health matters for the greater good.

**AGREEMENT**

In consideration of the foregoing and the representations, warranties, covenants and agreements in this Agreement and other good and valuable consideration, the receipt and adequacy of which is hereby acknowledged, each Party hereby agrees as follows:

**Article I.**  
**PURCHASE OF ASSETS**

**Section 1.1 Acquired Assets.** Upon the terms and subject to the conditions set forth in this Agreement, at the Closing, Seller shall sell, convey, assign, transfer and deliver to Buyer, and Buyer shall purchase and acquire from Seller, free and clear of any Encumbrances, all of Seller's right, title and interest to the Acquired Assets. "Acquired Assets" means all assets, properties, rights, claims, business operations, franchises and privileges of Seller used or held for use in the Business of every kind and nature whatsoever (tangible, intangible or mixed) and wherever located, except that Acquired Assets does not mean any Excluded Asset. Without limiting the generality of the foregoing, the Acquired Assets include the following as of the Closing Date:

(a) all goodwill with respect to the Business;

(b) all of the Intellectual Property rights of Seller, including Seller's Intellectual Property rights in (i) the Records related to the Medicaid Contract, the D-SNP Contract and the Business (for the avoidance of doubt, other than the Excluded Records), including all customer, Enrollee, supplier and service provider lists, all employee records (to the extent permitted by applicable Legal Requirements) and Provider records, and similar information used in Seller's performance of the Medicaid Contract, the D-SNP Contract and/or the Business, all other contact information, mailing lists and similar files, (ii) Seller's trade names and trademarks and any variation or forms thereof and (iii) those IP Licenses included in the Assumed Contracts;

(c) all rights and interests in the Medicaid Contract, the D-SNP Contract, the Services Agreement and all other Contracts, including (i) each Seller Real Property Lease, and (ii) each Contract with a Provider (each a "Provider Contract", and collectively, the Contracts referred to in this Section 1.1(c), the "Assumed Contracts");

(d) all rights to provide services to Enrollees in Seller's health plans comprising the Business and any other individuals who would be default-assigned to Seller's health plans from and after the Closing Date if Seller retained the right to serve Enrollees after the Closing, and the corresponding right to receive revenues (and bonuses) payable by payors with respect to such Enrollees (and other individuals);

(e) all rights with respect to the submission by Passport of a response to the Medicaid RFP and any award to Passport pursuant to the Medicaid RFP, including any right Passport might have to enter into a 2020 Medicaid Contract arising out of a Medicaid RFP award;

(f) all personal property, furniture, fixtures, improvements, vehicles and equipment located on any leased real property and all other furniture, fixtures, vehicles and equipment, including computer and telecommunications hardware and software and information technology systems;

(g) all inventory, finished goods, raw materials, work in progress, packaging, supplies, parts and other inventories;

(h) all accounts or notes receivable or any other consideration, all rights to payments due or becoming due to Seller under any Assumed Contract, and any security, claim, remedy or other right related to any of the foregoing;

(i) all other debts owing to Seller, all prepaid expenses, advances and deposits in Seller's possession, all payments in transit to Seller, and all refunds or rebates that may now or hereafter be determined to be owed to Seller;

(j) all Governmental Authorizations to the extent transferrable pursuant to applicable Legal Requirements and all accreditations to the extent transferable;

(k) all rights to any security deposit with respect to any Seller Real Property Lease;

(l) all rights to income, royalties, damages and payments due at or after Closing and all other rights with respect thereto to the extent related to any Acquired Assets;

(m) all causes of action, demands, judgments, claims (including insurance claims), indemnity rights or other rights of Seller relating to the Acquired Assets or arising under express or implied warranties from suppliers with respect to any Acquired Asset, including, without limitation, any pertaining to the Assumed Contracts, to the fullest extent permitted by applicable Legal Requirement;

(n) all assets constituting statutory capital and surplus, including cash and cash equivalents in excess of reserves for Taxes not yet due and payable and, following the payment of such Taxes, all cash and cash equivalents in excess of Taxes paid, any bonds, stock and other securities, and any surplus notes issued pursuant to Section 5.15 and outstanding on the Closing Date;

(o) the Owned Real Property, together with all covenants, rights, options, easements, hereditaments, appurtenances and privileges thereto and all Improvements and the economic incentives associated therewith; and

(p) all rights of Seller under any insurance policy maintained for the benefit of the Business.

**Section 1.2 Excluded Assets.** Notwithstanding anything herein to the contrary, the following assets are not intended by the Parties to be a part of the transaction contemplated hereunder, are excluded from the Acquired Assets, and are to be retained by Seller (the "Excluded Assets"):

(a) all minute books and Sponsor records and seals of Seller, all other documents relating to the organization and existence of Seller, all Tax Returns and Tax Records of Seller (collectively, the "Excluded Records");

(b) all Tax-related identification numbers of Seller;

(c) all Tax refunds of Seller from Governmental Authorities with respect to any Pre-Closing Tax Period;

(d) all bank accounts, cash accounts, investment accounts, deposit accounts, lockboxes and other similar accounts of Seller;

(e) all of Passport's ownership interest in the Passport Subsidiaries or any other Person (excluding marketable securities included in regulatory capital);

(f) all Governmental Authorizations and accreditations to the extent not transferable, including any DOI license held by Passport; and

(g) all rights of Seller under this Agreement or any other Contract executed or delivered by or on behalf of Seller in connection with the transactions contemplated under this Agreement.

**Section 1.3 Assumed Liabilities.** Upon the terms and subject to the conditions set forth in this Agreement, at the Closing, Buyer shall assume and agree to pay, perform and discharge when due all of the Liabilities of Seller arising out of or relating to the Business or the Acquired Assets, other than the Excluded Liabilities (collectively, the "Assumed Liabilities").

**Section 1.4 Excluded Liabilities.** Except for the Assumed Liabilities, Buyer will not assume or become obligated with respect to any other Liability of Seller of any nature whatsoever, and Seller shall retain and shall pay, discharge and perform any Liability of Seller that is not an Assumed Liability (the "Excluded Liabilities"). Excluded Liability means each Liability of Seller that is not an Assumed Liability which shall consist of the following:

(a) any liabilities of Seller arising or incurred in connection with Seller's negotiation, preparation and performance of this Agreement, the other ancillary documents and the transactions contemplated hereby and thereby, including fees and expenses of counsel, accountants and other professional advisers of Seller and any Transaction Expenses prior to the Effective Time and any indemnification obligations of Seller hereunder;

(b) any liability owed to Newbridge Development, LLC under that certain Real Estate Purchase Agreement dated April 18, 2017;

(c) any liability of Seller for a breach or default of an Assumed Contract occurring prior to Closing which breach or default does not arise out of or result from an act or omission of Evolent, Evolent's Affiliates or any Designated Employee or an act or omission by Seller in reliance on advice of Evolent, any Evolent Affiliate or any Designated Employee;

(d) any liability for Taxes of Seller; and

(e) any liabilities relating to or arising out of the Excluded Assets.

**Section 1.5 Unassignable Contracts.** Seller shall use commercially reasonable efforts to obtain, prior to Closing, all consents and approvals required to the assignment of the Assumed Contracts to Buyer effective as of the Effective Time. Notwithstanding anything herein to the contrary, if (a) any Assumed Contract is not capable of being sold, conveyed, transferred, novated or assigned in the absence of the approval, consent or waiver of any other Person (without breaching, violating, defaulting under, conflicting with, giving rise to or creating any right to accelerate, increase, terminate, modify or cancel any material right or obligation or creating any Encumbrance under, such Assumed Contract) and (b) all necessary approvals, consents or waivers of any such other Person (including any party to such Assumed Contract) have not been obtained at or before Closing, then (i) at Closing and effective as of the Effective Time, Buyer will assume and agree to pay, perform and satisfy when due, and indemnify Seller against, the liabilities of Seller under such Assumed Contract (but not such Assumed Contract itself) to the extent that such Liabilities would otherwise be an Assumed Liability, (ii) the rights and benefits of Seller under such Assumed Contract or resulting therefrom (but not such Assumed Contract itself), to the extent that such rights and benefits would otherwise be an Acquired Asset, at Closing and effective as of the Effective Time will be sold, conveyed, transferred and assigned to Buyer and (iii) after Closing and effective as of the Effective Time, Seller will use its commercially reasonable efforts to cooperate with Buyer obtain such necessary approvals, consents or waivers (provided that Seller will not be required to make any payment or offer or grant any accommodation, financial or otherwise, to any third party to obtain any such approval, consent or waiver) and will promptly execute all documents reasonably requested to complete such sale, conveyance, transfer and assignment of such Assumed Contract to Buyer (to the extent stated

in any other Section herein) if such approvals, consents or waivers are obtained.

### **Section 1.6 Purchase Price.**

(a) Consideration. In consideration for the Acquired Assets, Buyer shall (i) pay the Cash Purchase Price in cash in accordance with this Agreement, (ii) shall issue to Seller 30 shares of common stock of Buyer (the “Equity Consideration”), par value \$0.01 per share (“Buyer Common Stock”) and (iii) assume the Assumed Liabilities (the foregoing (i)-(iii), is referred to herein as the “Purchase Price”).

(b) Closing Cash Payments and Issuance of Equity Consideration.

(i) At or prior to Closing, Evolent or its Affiliates shall deposit cash in Buyer sufficient to pay the Cash Purchase Price.

(ii) At the Closing, Buyer shall pay, or shall cause to be paid, by wire transfer of immediately available funds, the Cash Purchase Price as follows:

1. on behalf of Seller, to the Persons owed Transaction Expenses as directed by Seller and pursuant to releases and invoices, in each case, in a form and substance reasonably satisfactory to Buyer; and
2. an aggregate amount equal to (A) the Cash Purchase Price minus (b) the Transaction Expenses paid by Buyer on behalf of Seller pursuant to Section 1.6(b)(ii), which amount shall be deposited into one (1) or more accounts as designated by Seller by written notice to Buyer not less than three (3) Business Days prior to the Closing Date; and

(iii) At the Closing, Buyer shall issue to Seller the Equity Consideration, which, following such issuance, will immediately be distributed to the Sponsors as set forth on Exhibit 1.6(b)(iii).

**Section 1.7 Allocation.** Within thirty (30) days after the Closing, Buyer shall provide Seller with a proposed allocation of the Purchase Price prepared in accordance with Section 1060 of the Code, applicable Treasury Regulations and IRS Form 8594, *Asset Acquisition Statement Under Section 1060*. Buyer’s proposed allocation shall be deemed final unless Seller shall have been notified by Buyer in writing of any disagreement with Buyer’s proposed allocation within ten (10) days of receiving Buyer’s proposed allocation. The Parties shall make consistent use of the final Purchase Price allocation for all Tax purposes and in any Tax Returns filed with the Internal Revenue Service in respect thereof, including IRS Form 8594.

## **Article II.**

### **REPRESENTATIONS AND WARRANTIES OF SELLER**

Except as set forth in Seller Disclosure Schedules, Seller represents and warrants to Buyer and Evolent as of the date hereof and, with respect to Seller Fundamental Representations, as of the Closing as follows:

**Section 2.1 Organization and Good Standing.** Passport is a Kentucky nonprofit corporation. Passport is duly organized, validly existing and in good standing under the laws of Kentucky and has the corporate power and authority to own, operate or hold under lease its properties and assets and to carry on its business and operations as presently conducted. Each Passport Subsidiary is a nonprofit Kentucky limited liability company. Each Passport Subsidiary is duly organized, validly existing and in good standing under the laws of Kentucky and has the limited liability company power and authority to own, operate or hold under lease its properties and assets and to carry on its business and operations as presently conducted. Seller has caused true, complete and correct copies of its governing documents, as in effect as of the Closing Date, to be delivered to Buyer.

**Section 2.2 Authority; No Conflict.** Seller has the full corporate power and authority to enter into, and to perform its obligations under this Agreement and any other agreement to be entered into by Seller in connection with the transactions contemplated hereby. The execution, delivery and performance of this Agreement by Seller and any other agreement to be entered into by Seller in connection with the transactions contemplated hereby have been duly and properly authorized by proper corporate action in accordance with applicable Legal Requirements and its Organizational Documents. This Agreement constitutes (and any other agreement to be entered into by Seller in connection with the transactions contemplated hereby will constitute) the lawful, valid and legally binding obligation of Seller, enforceable against it in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency or other laws of general application affecting the enforcement of creditors’ rights and by general equitable principles. Except as set forth on Schedule 2.2, the execution, delivery and performance of this Agreement and any other agreement to be entered into by Seller in connection with the transactions contemplated hereby will not: (i) violate or conflict with any material provision of, constitute a default or breach of any material contract, lease, agreement, indenture, mortgage, pledge, sublease, option, assignment, permit, license, approval or other commitment to which Seller is a party or is subject to or by which Seller is bound, or any Order; (ii) result in the acceleration or mandatory prepayment of any Indebtedness of Seller; or (iii) result in the creation of any Encumbrance of any kind or the termination or acceleration of any Indebtedness or other obligation of Seller, as such as would not be material to the Business. Except with respect to the Required Permits and Governmental Approvals, no approval, authorization, registration, notice, consent, order or other action of or filing with any Governmental Authority, is required for the execution and delivery by Seller of this Agreement or any other agreement to be entered into by Seller in connection with the transactions contemplated hereby or the consummation by Seller of the transactions contemplated or required hereby or thereby.

**Section 2.3 Financial Statements.** Seller has delivered to Buyer true and correct copies of the audited statements of admitted assets, liabilities, and capital and surplus, revenue and expenses, changes in capital and surplus, and cash flows of Seller for each the three (3) years ended December 31, 2018 and interim, unaudited statements of admitted assets, liabilities, and capital and surplus, revenue and expenses, changes in capital and surplus, and cash flows for the quarter ended March 31, 2019 (the “Balance Sheet Date” and collectively, the foregoing financial statements are referred to herein as the “Seller Financial Statements”). The Seller Financial Statements were prepared from and are in accordance with the books and records of Seller and present fairly and accurately in all material respects the financial position of Seller, except for the items currently being reviewed by the DOI that are listed on Schedule 2.3, and the results of its operations at the dates and for the periods indicated and have been prepared in conformity with SAP, applied consistently for the periods specified. Except as set forth on Schedule 2.3, Seller has not made any material changes to its accounting methods or practices since the Balance Sheet Date.

**Section 2.4 Subsidiaries.** Passport is the sole member of PHS I, PHS II and Passport Health Plan Foundation, Inc. Except as provided above, Seller does not have an ownership interest in any other Subsidiary or the right to acquire an ownership interest in any Person other than Buyer, pursuant to this Agreement.

### **Section 2.5 Assets.**

(a) Except as set forth on Schedule 2.5, Seller owns good and transferable title to all of its assets, free and clear of any Encumbrances.

(b) All of the assets of Seller are in normal repair and working order, ordinary wear and tear excepted. Such assets are suitable for the purpose for which they are presently used. The Acquired Assets (other than the Excluded Assets) constitute all assets of Seller used or held for use in the Business.

(c) PHS II owns no assets related to the operation of the Business.

**Section 2.6 Taxes.** Except as disclosed on Schedule 2.6:

(a) Seller has filed all federal, state and local Tax Returns required to be filed by it (all of which are true and correct in all material respects) and has duly paid or made provision for the payment of all Taxes (including any interest or penalties and amounts due state unemployment authorities) that are due and payable to the appropriate Governmental Authorities. Seller has withheld proper and accurate amounts from its employees' compensation in compliance with all withholding and similar provisions of the Code, including employee withholding and social security Taxes, and all other applicable Legal Requirements. No deficiencies for any of such Taxes have been asserted or, to the Knowledge of Seller, threatened against Seller, and no audit or other Proceeding on or in respect of any such Tax Returns is currently under way, or to the Knowledge of Seller, is threatened. There are no outstanding agreements by Seller for the extension of time for the assessment of any such Taxes. There are no Encumbrances on any of the assets of Seller in respect of Taxes.

(b) Seller is a tax-exempt organization under Section 501(c)(3) of the Code, and is not a "private foundation" within the meaning of Section 509(a) of the Code. The Internal Revenue Service has not taken, or to the Knowledge of Seller, proposed to take, any action to revoke the tax-exempt status of Seller, and has not announced, or to the Knowledge of Seller proposed to announce, that Seller is a "private foundation" within the meaning of Section 509(a) of the Code.

**Section 2.7 Employees and Employee Benefits.**

(a) Schedule 2.7(a) sets forth the following information (to the extent applicable) with respect to Seller's employees ("Seller Employees") as of the date set forth therein, including each Seller Employee on leave of absence or layoff status: name, employer, job title, and salary and projected target bonus for the fiscal year ended 2019.

(b) Schedule 2.7(b) sets forth an accurate, correct and complete list of all "employee welfare benefit plans" (as defined in Section 3(1) of ERISA), "employee pension benefit plans" (as defined in Section 3(2) of ERISA), and all other employee benefit plans, programs and arrangements, whether funded or unfunded, qualified or nonqualified, that are maintained or contributed to by Seller for the benefit of the Seller Employees (collectively, "Seller Benefit Plans").

(c) Except as disclosed on Schedule 2.7(c), Seller does not maintain, contribute to or have any liability or potential liability under (or with respect to) any "defined benefit plan" (as defined in Section 3(35) of ERISA), or any "multiemployer plan" (as defined in Section 3(37) of ERISA). No Acquired Assets are subject to any Encumbrance under ERISA or the Code regarding, relating to or resulting from the operation of a Seller Benefit Plan.

(d) All contributions to, and payments from, Seller Benefit Plans required to be made in accordance with the terms of Seller Benefit Plans and applicable Legal Requirements have been or will be timely made. Except as disclosed on Schedule 2.7(d), no Seller Benefit Plan is subject to the funding rules of Section 302 of ERISA or Section 412 of the Code.

(e) Except as disclosed on Schedule 2.7(e), all Seller Benefit Plans (and all related trust agreements or annuity contracts or any funding instruments) comply currently, and have complied in the past, both as to form and operation, in all material respects, and have been administered in all material respects in accordance with the provisions of ERISA, where applicable, and with the Code and all other applicable Legal Requirements. Except as disclosed on Schedule 2.7(e), Seller Benefit Plans that are pension benefit plans intended to be tax-qualified under Section 401(a) of the Code have received determination letters from the Internal Revenue Service to the effect that such Seller Benefit Plans are qualified and exempt from Federal income taxes under Sections 401(a) and 501(a), respectively, of the Code, and no such determination letter has been revoked, nor has revocation been, to the Knowledge of Seller, threatened or, in the case of a prototype or volume submitter plan, are relying on the opinion letter of the volume submitter or prototype plan sponsor.

(f) All reports, returns and similar documents with respect to Seller Benefit Plans required to be filed by Seller with any Governmental Authority or distributed to Seller Benefit Plan participants have been duly and timely filed or distributed. To the Knowledge of Seller, there are no investigations by any Governmental Authority, termination Proceedings or other claims (except claims for benefits payable in the normal operation of Seller Benefit Plans), suits or other Proceedings against or involving any Seller Benefit Plan or asserting any rights or claims to benefits under any Seller Benefit Plan that could give rise to any material liability of Seller, nor is Seller aware of any facts that could reasonably be expected to give rise to any material liability of Seller in the event of any such investigation, claim, suit or Proceeding.

(g) Each Seller Benefit Plan that is subject to the health care continuation requirements of Part 6 of Subtitle I of ERISA or Section 4980B of the Code ("COBRA") has been administered in material compliance with such requirements. Except as disclosed on Schedule 2.7(g), no Seller Benefit Plan provides medical benefits to any current or future retired or terminated employee (or any dependent thereof) of Seller, other than as required pursuant to COBRA.

(h) To the Knowledge of Seller, no "prohibited transaction" (as defined in Section 4975 of the Code or Section 406 of ERISA) has occurred that involves the assets of any Seller Benefit Plan and that could subject Seller, or any of its employees, or a trustee, administrator or other fiduciary of any trusts created under any Seller Benefit Plan to the Tax or penalty on prohibited transactions imposed by Section 4975 of the Code or the sanctions imposed under Title I of ERISA.

(i) Except as set forth in Schedule 2.7(i), Seller is not a party to any labor contract, collective bargaining agreement, letter of understanding or any other arrangement, formal or informal, with any labor union or organization that obligates Seller to compensate the Seller Employees at prevailing rates or union scale, nor are any of the Seller Employees represented by any labor union or organization. Except as set forth in Schedule 2.7(i), there is no pending or, to the Knowledge of Seller, threatened labor dispute, work stoppage, unfair labor practice complaint, strike, administrative or court Proceeding or Order related to any of the foregoing, between Seller and any of their present or former employees (or a union), and Seller has no Knowledge of any facts that could reasonably be expected to give rise to the same. Except as set forth in Schedule 2.7(i), there is no pending or, to the Knowledge of Seller, threatened material Proceeding (except claims for benefits payable in the normal operation of Seller Benefit Plans) between Seller and any of the Seller Employees, and Seller has no Knowledge of facts that could reasonably be expected to give rise to any such Proceeding.

**Section 2.8 Licenses, Permits and Approvals.** Except as set forth on Schedule 2.8, Seller holds material all licenses, permits, certificates, accreditations, consents and approvals that are required from any Governmental Authority or accrediting body to conduct its business and operations as the same are currently being conducted (the "Seller Licenses and Permits"). Each of the Seller Licenses and Permits is in full force and effect, and Seller has not received a notice from any Governmental Authority or accrediting body concerning the revocation, termination, restriction or suspension of any of the Seller Licenses and Permits, and, to the Knowledge of Seller, no such action has been threatened against Seller.

**Section 2.9 Legal Proceedings, Orders.**

(a) Except as set forth in Schedule 2.9(a), there are no Proceedings pending (i) by or against Seller or otherwise that relate to the Business and are outside the Ordinary Course of Business or may have a Seller Material Adverse Effect, or (ii) by or against Seller that challenge, or that may have the effect of preventing, delaying, making illegal or otherwise interfering with, the transactions contemplated hereby. To the Knowledge of Seller, no such Proceeding has been threatened, and no event has

occurred or circumstance exists that may give rise to or serve as a basis for the commencement of any such Proceeding.

(b) There are no Orders outstanding against Seller (i) that have had or are reasonably likely to have a Seller Material Adverse Effect; or (ii) that challenge, or that may have the effect of preventing, delaying, making illegal or otherwise interfering with, the transactions contemplated hereby. To the Knowledge of Seller, no such Order has been threatened, and no event has occurred or circumstance exists that may give rise to or serve as a basis for the commencement of any such Order.

#### **Section 2.10 Compliance with Legal Requirements; Governmental Authorizations.**

(a) Seller is in material compliance with all applicable Legal Requirements and Orders with respect to the ownership and use of the Acquired Assets or otherwise applicable to Seller.

(b) Except as set forth on Schedule 2.10(b), since January 1, 2018, (i) Seller has not received any notice from any Governmental Authority or an authorized contractor or representative thereof that alleges or asserts any material noncompliance (or that Seller is under investigation or the subject of any inquiry by any such Governmental Authority for such alleged material noncompliance) with any applicable Legal Requirements (including, without limitation, applicable Health Care Laws) or Orders, and (ii) Seller has not entered into any agreement or settlement with any Governmental Authority with respect to any actual or alleged material noncompliance with any applicable Legal Requirements (including, without limitation, applicable Health Care Laws) and applicable Orders. For the avoidance of doubt, Schedule 2.10(b) shall not include correspondence around corrective action plans received by Seller in the Ordinary Course of Business.

(c) Seller meets the requirements for participation in, and receipt of payment from, if applicable, the Programs in which it currently participates and is in material compliance with the terms and conditions of all Contracts between Seller and any Governmental Authority related to a Program. No Passport Subsidiary participates in any Program.

(d) Since January 1, 2016, neither Seller nor, to the Knowledge of Seller, any of their respective officers, directors or employees: (i) has been or is currently suspended, excluded or debarred from contracting with any Governmental Authority or from participating in any Program or is subject to any pending or threatened Proceeding by any Governmental Authority that could result in such suspension, exclusion, or debarment, (ii) has been assessed a civil monetary penalty under the Federal Civil Monetary Penalties Law (42 U.S.C. § 1320a-7a) or any regulation promulgated thereunder; (iii) is or has been a party to a corporate integrity agreement or settlement with the Office of the Inspector General of the U.S. Department of Health and Human Services or the U.S. Department of Justice; or (iv) has been convicted of any criminal offense relating, directly or indirectly, to the delivery of any item or service reimbursable under any Program.

(e) Seller maintains compliance programs designed to meet the requirements of applicable Health Care Laws and applicable compliance program guidance issued by the Office of the Inspector General of the U.S. Department of Health and Human Services.

(f) Except as set forth on Schedule 2.10(f), or as otherwise disclosed to Buyer, neither Seller nor, to the Knowledge of Seller, any of the Seller Employees has committed a violation of federal or state laws regulating health care fraud, including but not limited to the federal Anti-Kickback Law, 42 U.S.C. § 1320a-7b, the Stark I and II Laws, 42 U.S.C. § 1395nn, as amended, and the False Claims Act, 31 U.S.C. § 3729, et seq. Seller is, and at all times since January 1, 2016 has been in material compliance with the requirements of HIPAA as of the applicable effective times for such requirements, and Seller has not received any written, or to the Knowledge of the Seller, oral complaint from any Person regarding Seller's or any of Seller's respective agents, employees or contractors' uses or disclosures of, or security practices or security incidents regarding, individually identifiable health related information in violation of applicable Legal Requirements; and (iv) except as set forth on Schedule 2.10(f), with regard to individually identifiable health information, there have not been any breaches of Seller's computer systems requiring notification to any individuals, customers, Governmental Authorities or the media.

**Section 2.11 Insurance.** Schedule 2.11 sets forth the insurance policies Seller currently maintains with respect to risks associated with its business. Such policies are in full force and effect, and Seller has paid or accrued (to the extent not due and payable) all premiums due, and has otherwise performed in all material respects all of its obligations under, each such policy of insurance.

#### **Section 2.12 Contracts; No Defaults.**

(a) Schedule 2.12(a) lists each of the following Contracts (each a "Material Contract"), including the name of the counterparty to such Contract and the date thereof (and, in the case of any oral or unwritten Contracts, provides a description of the material terms thereof) and organized in a manner consistent with subsections set forth below:

(i) any Contract (other than any Contract with a Provider or Enrollee) involving payments by or to Seller of at least (i) two hundred fifty thousand dollars (\$250,000) during any twelve (12) month period, or (ii) two hundred fifty thousand dollars (\$250,000) in the aggregate;

(ii) any Contract with a Material Vendor;

(iii) any Contract with a Top Provider;

(iv) any joint venture, partnership or other similar agreement involving co-investment with a third party to which Seller is a party;

(v) any Contract involving the sale of any assets of Seller outside of the Ordinary Course of Business, or the acquisition of any assets of any Person by Seller outside of the Ordinary Course of Business, in any business combination transaction (whether by merger, sale of stock, sale of assets or otherwise) under which obligations of any party thereto remain outstanding;

(vi) any note, indenture, loan agreement, credit agreement, security agreement, financing agreement, or other evidence of Indebtedness, any guarantee made by Seller in favor of any Person guaranteeing obligations of such Person, or any letter of credit issued for the account of Seller;

(vii) any Contract relating to employment or consulting, including all severance agreements, restrictive covenant agreements, employment agreements and consultant agreements and contracts involving leased employees, independent contractors, management services, or support services;

(viii) any Contract with any Governmental Authority;

(ix) any collective bargaining agreement or contract with any labor union;

(x) any lease for or with respect to real property;

(xi) any IP License;

- (xii) any Contract with a Sponsor or any Affiliate of any Sponsor;
- (xiii) each third party administrative Contract;
- (xiv) any reinsurance, coinsurance or retrocession Contract or other Contract involving shared risk arrangements;
- (xv) any Contract with any licensed producer or broker relating to the sale of any health plans offered by Seller;
- (xvi) any Contract that limits the ability of Seller from engaging or competing in any line of business or that provides for any most favored nation provision or equivalent preferential terms (including any provider network agreements), right of first refusal, exclusivity or similar obligations;
- (xvii) any Contract (A) for the administration or management of pharmacy benefits and (B) with a pharmacy or pharmacy company; and
- (xviii) any other Contract that is otherwise material to the Business.

For the avoidance of doubt, no business associate agreement will be considered a Material Contract.

(b) Each Material Contract is valid and binding and in full force and effect. Neither Seller nor, to the Knowledge of Seller, any other party to any Material Contract, is or since January 1, 2019 has been, in breach or default in any material respect under any Material Contract, and, since January 1, 2018, Seller has not given to, or received from, any other party to any Material Contract, any notice or communication (whether written or oral) regarding any actual or alleged breach of or default under any Material Contract by Seller, or any other party to such Material Contract. There are no renegotiations or, to the Knowledge of Seller, outstanding rights to negotiate, any amount to be paid or payable to or by Seller under any Assumed Contract other than with respect to non-material amounts in the Ordinary Course of Business, and no Person has made a written demand for such negotiations. Seller has not released or waived any of its material rights under any Material Contract, which release or waiver remains in effect. True and complete copies of each of the Assumed Contracts have been delivered to Buyer.

### **Section 2.13 Intellectual Property.**

(a) Seller exclusively owns (beneficially, and of record where applicable) all right, title and interest in and to or has the valid and enforceable right to use pursuant to a valid and enforceable agreement, in each case free and clear of all Encumbrances, all material Intellectual Property used or held for use in the Business (the "Seller Intellectual Property"). The Seller Intellectual Property is not subject to any outstanding Order, contract or Proceeding adversely affecting or that could adversely affect Buyer's use thereof or rights thereto and to the Knowledge of Seller, and is valid, enforceable and subsisting. Except as provided in Schedule 2.13, Seller has not granted to any Person or authorized any Person to retain any rights in any Seller Intellectual Property.

(b) To the Knowledge of Seller, the Seller Intellectual Property has not been infringed upon, misappropriated, diluted or otherwise violated and is not infringing upon, misappropriating, diluting or otherwise violating, the Intellectual Property rights of any third party. There is no litigation, objection, claim or other Proceeding pending, asserted or threatened in writing against Seller concerning the ownership, validity, registrability, enforceability, infringement, misappropriation, violation or use of, or licensed right to use the Seller Intellectual Property.

(c) Seller has taken all reasonably necessary actions to maintain the confidentiality, secrecy and value of the Confidential Information and Trade Secrets of Seller included in the Seller Intellectual Property, if any, and neither have been used by or disclosed to any third party, to the Knowledge of Seller, except pursuant to valid and enforceable non-disclosure agreement with commercially reasonable protections of the Confidential Information and Trade Secrets made available to such Person. To the Knowledge of Seller, there has not been any breach by any third party of any confidentiality obligation to Seller with respect to the Confidential Information and Trade Secrets included in the Seller Intellectual Property.

(d) Neither this Agreement nor the transactions contemplated by this Agreement, including the assignment to Buyer of any Assumed Contracts relating to Seller Intellectual Property, will result in (i) Seller granting to any third party any right with respect to any Seller Intellectual Property; (ii) Buyer or its Affiliates being bound by, or subject to, any non-compete or other restriction on the operation or scope of its business; or (iii) Buyer or its Affiliates being obligated to pay any royalties or other amounts to any Person in excess of those payable by Seller prior to the Closing Date. The consummation of the transactions contemplated by this Agreement will not result in the loss of any ownership rights of Seller (or Buyer after the Closing Date) in any Seller Intellectual Property or result in the breach or termination of any Contract to which Seller is a party with respect to any Seller Intellectual Property. The transfer of any data or information collected by or on behalf of Seller in connection with any product and service (including any database thereof) requires no consent from any client, customer, user, employee of Buyer or other Person other than such consent as may be required by Legal Requirements.

(e) Seller is in compliance in all material respects with the obligations under any agreement pursuant to which Seller has obtained the right to use any third party Software, including Open Source Software, and Seller has purchased a sufficient number of seat licenses for the Software used or held for use by Seller in the Ordinary Course Of Business.

**Section 2.14 No Undisclosed Liabilities.** To the Knowledge of Seller, Seller does not have any Liabilities that are not shown or provided for in the most recent unaudited financial statements included in the Seller Financial Statements, except for (i) Liabilities that have arisen since the Balance Sheet Date in the in Ordinary Course of Business or (ii) as contemplated by this Agreement or (iii) Liabilities set forth on Schedule 2.14. Except as set forth on Schedule 2.14, Seller does not have any Indebtedness.

**Section 2.15 Absence of Certain Changes and Events.** Except as set forth on Schedule 2.15, during the period from and after the Balance Sheet Date and prior to the date hereof, Seller has operated its business in the Ordinary Course Of Business, and there has not been: (i) any change in the financial condition, assets, liabilities, properties or results of operations of the business of Seller which has had a Seller Material Adverse Effect; (ii) any damage, destruction or loss, whether or not covered by insurance, which has had, in the aggregate, a Seller Material Adverse Effect; (iii) any disposition by Seller of any property, rights or other assets owned by or employed in the Business except in the Ordinary Course of Business; (iv) any amendment or early termination of any Contract which has had or could have a Seller Material Adverse Effect; (v) any event or condition of any character which has had or could have a Seller Material Adverse Effect; (vi) any increase in the base compensation of, or bonuses or other compensation to (including without limitation, any severance, change in control, retention or termination pay to) any of its officers or employees outside the Ordinary Course Of Business; or (vii) any adoption of, amendment to or increase in the payments or benefits under, any Seller Benefit Plan outside of the Ordinary Course Of Business; or (viii) any agreement to do any of the foregoing.

**Section 2.16 Brokers or Finders.** Neither Passport or any Passport Subsidiary nor, to the Knowledge of Seller, any of their respective officers, directors, employees, agents or Affiliates has incurred any liability for brokerage or finders' fees or agents' commissions or other similar payment in connection with the transactions contemplated hereby.

### **Section 2.17 Real Property.**

(a) Schedule 2.17(a) sets forth a (i) correct legal description, street address and tax parcel identification number of each parcel of real property owned by Seller (the "Owned Real Property") and (ii) list of all real property leases to which Seller is a party (whether as a (sub)lessor, (sub)lessee, guarantor or otherwise) (the "Seller Real Property Leases"), street address, approximate rentable square footage, monthly rent, expiration date and any renewal options with respect to the Seller Real Property Leases (such real property in (i) and (ii), the "Real Property"). Except for the Owned Real Property and Seller Real Property Leases identified in Schedule 2.17(a), Seller does not own any interest (fee, leasehold or otherwise) in any real property and Seller has not entered into any leases, arrangements, licenses or other agreements relating to the use, occupancy, sale, option, disposition or alienation of all or any portion of the Owned Real Property. Except as set forth in Schedule 2.17(a), Seller enjoys peaceful and undisturbed possession of the Real Property.

(b) Except as set forth in Schedule 2.17(b), Seller owns good, marketable and indefeasible title to the Owned Real Property, and a valid leasehold interest in the leased Real Property, free and clear of any Encumbrances.

(c) To Seller's Knowledge, the use of the Real Property by Seller for the purposes for which it is currently being used, conforms in all material respects to all applicable public and private restrictions, fire, safety, zoning and building laws and ordinances, laws relating to the disabled, and other applicable Legal Requirements. There are no pending or, to the Knowledge of Seller, threatened, eminent domain, condemnation, zoning, or other Proceedings affecting the Real Property that would result in the taking of all or any part of such Real Property or that would prevent or hinder the continued use of such Real Property as currently used in the conduct of the Business.

(d) Except as set forth on Schedule 2.17(d), all buildings, structures, fixtures and other improvements located thereon (including, without limitation, any and all plumbing, air conditioning, heating, ventilating, mechanical, electrical and other utilities and other utility systems, landscaping, sidewalks, construction in progress, security devices, signs and lighting fixtures) (collectively, the "Improvements") located on the Real Property are, to Seller's Knowledge, in material compliance with all applicable Legal Requirements (including those pertaining to public and private restrictions, fire, safety, zoning and building laws and ordinances, and laws relating to the disabled). All Improvements are adequately maintained or are in good operating condition and repair in all material respects for the requirements of the Business, ordinary wear and tear excepted.

(e) True and complete copies of (i) all deeds or leases, as the case may be, existing title insurance policies, surveys, appraisals, specifications and plans of or pertaining to each parcel of Real Property and the Improvements thereon and (ii) all instruments, agreements and other documents evidencing, creating or constituting any Encumbrances with respect to the Real Property, that are in Seller's possession or control have been delivered to Buyer.

(f) To Seller's Knowledge, Seller is and has been in compliance respects with all Environmental Laws, and does not have any Liabilities under any Environmental Laws with respect to any properties and assets (whether real, personal, or mixed) in which Seller (or any predecessors thereof) has or had an interest (or otherwise in connection with Seller's past or current operation of the Business). Seller has not received at any time any citation, notice or other communication from any Governmental Authority regarding any alleged, actual or potential violation by Seller of any Environmental Law, or any alleged, actual or potential obligation by Seller to undertake or bear the cost of any liabilities under any Environmental Law.

**Section 2.18 Disclosure.** No representation or warranty or other statement made by Seller in this Agreement or the certificate to be delivered by Seller pursuant to this Agreement contains an untrue statement of a material fact or omits to state a material fact necessary to make the statements contained herein or therein not misleading.

### **Section 2.19 Material Vendors and Top Providers.**

(a) Schedule 2.19(a) sets forth a true and complete list of each of the top ten (10) vendors of Seller, by volume based on payments made by Seller to such vendor, for the fiscal year ended 2018 and year to date through March 31, 2019 (collectively, the "Material Vendors"), together with the amount spent by Seller with respect to each such vendor for each such period.

(b) Schedule 2.19(b) sets forth a true and complete list of each of Provider with respect to which Seller attributed total spend in excess of ten million dollars (\$10,000,000) for the fiscal year ended 2018 (collectively, the "Top Providers"), together with the amount spent by Seller with respect to each such Provider for such period.

(c) Except as set forth in Schedule 2.19(c), during the period from January 1, 2018 to the date hereof, no Material Vendor or Top Provider (i) has provided Seller any notice or communication terminating, suspending, or reducing, or specifying an intention to terminate, suspend or reduce in the future, or otherwise reflecting a material change in, the business relationship between such Material Vendor or Top Provider, as applicable, and Seller, or (ii) has cancelled or otherwise terminated any Contract.

### **Section 2.20 Securities Laws Matters.**

(a) The Buyer Common Stock to be issued to Passport hereunder is being acquired for the account of Passport for the purpose of investment and not with a view to the resale or distribution thereof except as described in Section 1.7.

(b) (i) Passport is familiar with the business to be conducted by Buyer, taking into account the consummation of the transactions contemplated hereby; (ii) Passport and its representatives have had the opportunity to ask questions and receive answers from representatives of Buyer concerning the business, financial condition and prospects of Buyer, and the Buyer Common Stock to be issued hereunder; and (iii) Passport has received any additional information concerning Buyer that Seller has requested.

(c) Passport is an "accredited investor" as such term is defined in Rule 501 of Regulation D under the Securities Act, and has such knowledge and experience in financial and business matters that Seller is capable of evaluating the merits and risks of the acquisition of the Buyer Common Stock to be issued to Passport hereunder.

(d) Passport acknowledges and agrees that any shares of Buyer Common Stock issuable to Passport hereunder are "restricted securities" as defined in Rule 144 adopted under the Securities Act and cannot be resold without registration under the Securities Act or under an exemption from registration.

**Article IV.**  
**REPRESENTATIONS AND WARRANTIES OF BUYER AND EVOLENT**

Except as set forth in the Buyer Disclosure Schedules, Buyer and Evolent, jointly and severally, represent and warrant to Seller as of the date hereof and, with respect to Buyer Fundamental Representations, as of the Closing as follows:

**Section 4.1 Organization and Good Standing.** Buyer is a Kentucky business corporation and Evolent is a Delaware corporation. Each of Buyer and Evolent is duly organized, validly existing and in good standing under the laws of its state of formation, and has the limited liability company power and authority to own, operate or hold under lease its properties and assets and to carry on its business and operations as presently conducted. Each of Buyer and Evolent has caused true, complete and correct copies of its certificate of formation and operating agreement, as in effect as of the date hereof, to be delivered to Seller. The authorized capital stock of Buyer consists of 1,000 shares of Buyer Common Stock, of which 70 shares are issued and outstanding and owned by EH Holding Company, Inc.

**Section 4.2 Authority, No Conflict.** Each of Buyer and Evolent has the full limited liability or corporate power and authority to enter into, and to perform its obligations under this Agreement and any other agreement to be entered into by Buyer or Evolent in connection with the transactions contemplated hereby. The execution, delivery and performance of this Agreement by each of Buyer and Evolent and any other agreement to be entered into by Buyer or Evolent in connection with the transactions contemplated hereby, and the issuance of Buyer Common Stock as Equity Consideration at the Closing, has been duly and properly authorized by proper corporate action in accordance with applicable Legal Requirements and its Organizational Documents, and the Equity Consideration, when issued at the Closing in accordance with this Agreement, shall constitute duly authorized and validly issued shares of Buyer Common Stock, fully paid and nonassessable, and free and clear of any preemptive rights or other Encumbrances, and represent 30% of the shares of capital stock of Buyer then outstanding. This Agreement constitutes (and any other agreement to be entered into by Buyer or Evolent in connection with the transactions contemplated hereby will constitute) the lawful, valid and legally binding obligation of Buyer or Evolent, as applicable, enforceable against Buyer or Evolent, as applicable, in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency or other laws of general application affecting the enforcement of creditors' rights and by general equitable principles. The execution, delivery and performance of this Agreement and any other agreement to be entered into by Buyer or Evolent in connection with the transactions contemplated hereby will not: (i) violate or conflict with any material provision of, constitute a default or breach of any material contract, lease, agreement, indenture, mortgage, pledge, sublease, option, assignment, permit, license, approval or other commitment to which Buyer or Evolent is a party or is subject or by which Buyer or Evolent is bound, or any Order; (ii) result in the acceleration or mandatory prepayment of any Indebtedness of Buyer or Evolent; or (iii) result in the creation of any Encumbrance of any kind or the termination or acceleration of any Indebtedness or other obligation of Buyer or Evolent. Except with respect to the Required Permits and Governmental Approvals, no approval, authorization, registration, notice, consent, order or other action of or filing with any Person, including any Governmental Authority, is required for the execution and delivery by Buyer or Evolent of this Agreement or any other agreement to be entered into by Buyer or Evolent in connection with the transactions contemplated hereby or the consummation by Buyer of the transactions contemplated or required hereby or thereby.

**Section 4.3 Employee Benefit Plans.**

(a) Schedule 4.3(a) sets forth an accurate, correct and complete list of all "employee welfare benefit plans" (as defined in Section 3(1) of ERISA), "employee pension benefit plans" (as defined in Section 3(2) of ERISA), and all other employee benefit plans, programs and arrangements, whether funded or unfunded, qualified or nonqualified, that are maintained or contributed to by Buyer that are available for the benefit of the Transferred Employees (collectively, "Buyer Benefit Plans").

(b) Except as disclosed on Schedule 4.3(b), Buyer does not maintain, contribute to or have any liability or potential liability under (or with respect to) any "defined benefit plan" (as defined in Section 3(35) of ERISA), or any "multiemployer plan" (as defined in Section 3(37) of ERISA). No assets of Buyer are subject to any Encumbrance under ERISA or the Code regarding, relating to or resulting from the operation of a Buyer Benefit Plan.

(c) All contributions to, and payments from, Buyer Benefit Plans required to be made in accordance with the terms of Buyer Benefit Plans and applicable Legal Requirements have been or will be timely made. Except as disclosed on Schedule 4.3(c), no Buyer Benefit Plan is subject to the funding rules of Section 302 of ERISA or Section 412 of the Code.

(d) Except as disclosed on Schedule 4.3(d), all Buyer Benefit Plans (and all related trust agreements or annuity contracts or any funding instruments) comply currently, and have complied in the past, both as to form and operation, and have been administered in accordance with the provisions of ERISA, where applicable, and with the Code and all other applicable Legal Requirements. Except as disclosed on Schedule 4.3(d), Buyer Benefit Plans that are pension benefit plans intended to be tax-qualified under Section 401(a) of the Code have received determination letters from the Internal Revenue Service to the effect that such Buyer Benefit Plans are qualified and exempt from Federal income taxes under Sections 401(a) and 501(a), respectively, of the Code, and no such determination letter has been revoked, nor has revocation been, to the Knowledge of Buyer, threatened or, in the case of a prototype or volume submitter plan, are relying on the opinion letter of the volume submitter or prototype plan sponsor.

(e) All reports, returns and similar documents with respect to Buyer Benefit Plans required to be filed by Buyer with any Governmental Authority or distributed to Buyer Benefit Plan participants have been duly and timely filed or distributed. To the Knowledge of Buyer, there are no investigations by any Governmental Authority, termination Proceedings or other claims (except claims for benefits payable in the normal operation of Buyer Benefit Plans), suits or other Proceedings against or involving any Buyer Benefit Plan or asserting any rights or claims to benefits under any Buyer Benefit Plan that could give rise to any material liability of Buyer, nor is Buyer aware of any facts that could reasonably be expected to give rise to any material liability of Buyer in the event of any such investigation, claim, suit or Proceeding.

(f) Each Buyer Benefit Plan that is subject COBRA has been administered in material compliance with such requirements. Except as disclosed on Schedule 4.3(f), no Buyer Benefit Plan provides medical benefits to any current or future retired or terminated employee (or any dependent thereof) of Buyer, other than as required pursuant to COBRA.

(g) To the Knowledge of Buyer, no "prohibited transaction" (as defined in Section 4975 of the Code or Section 406 of ERISA) has occurred that involves the assets of any Buyer Benefit Plan and that could subject Buyer, or any of its employees, or a trustee, administrator or other fiduciary of any trusts created under any Buyer Benefit Plan to the Tax or penalty on prohibited transactions imposed by Section 4975 of the Code or the sanctions imposed under Title I of ERISA.

**Section 4.4 Brokers or Finders.** Neither Buyer nor any of its respective officers, directors, employees, agents or Affiliates has incurred any liability for brokerage or finders' fees or agents' commissions or other similar payment in connection with the transactions contemplated hereby.

**Section 4.5 Consummation of Transactions.** Neither Evolent nor Buyer knows of any fact or circumstance involving the operation or financial condition of Evolent or any of its Affiliates that would prevent Evolent and Buyer from consummating the transactions contemplated by this Agreement or from promptly obtaining the Permits, consents or approvals necessary for the consummation of the transactions contemplated by this Agreement.

**Section 4.6 No Outside Reliance.** Notwithstanding anything contained in Article II or any other provision hereof, each of Evolent and Buyer acknowledges and agrees that neither Seller nor any of its Affiliates, nor any of its or their respective directors, officers, employees, agents or representatives, has made, or is making, any representation or warranty whatsoever, express or implied, beyond those expressly given in Article II, including any implied warranty or representation as to condition, merchantability, suitability or fitness for a particular purpose or trade as to any of the Acquired Assets. Each of Evolent and Buyer hereby disclaims any such other express or implied representations or warranties, whether at law or in equity, including as to the accuracy or completeness of, or reasonableness of any assumptions underlying any estimates, projections and forecasts set forth in, any information, documents or materials regarding Seller or the Business (including any pro forma financial information, supplemental data or financial projections or other forward-looking statements) furnished or made available to Evolent or Buyer and their representatives in any “data rooms,” presentations or in any other form in expectation of, or in connection with, the transactions contemplated hereby.

**Section 4.7 Disclosure.** No representation or warranty or other statement made by Buyer in this Agreement or the certificate to be delivered by Buyer pursuant to this Agreement contains an untrue statement of a material fact or omits to state a material fact necessary to make the statements contained herein or therein not misleading.

## **Article V. CERTAIN COVENANTS**

**Section 5.1 Certain Actions to Close Transactions.** Subject to the terms of this Agreement, each Party will use its commercially reasonable efforts to fulfill, and to cause to be satisfied, the conditions in Article VI (but with no obligation to waive any such condition) and to consummate and effect the transactions contemplated herein, including to cooperate with and assist each other in all reasonable respects in connection with the foregoing.

**Section 5.2 Buyer’s Covenant to Qualify; Seller’s Covenant to Assist.** Buyer shall take all commercially reasonable steps reasonably necessary to accept Seller’s assignment of the Medicaid Contract and the D-SNP Contract, or to enter into a new Contract with CHFS and CMS that replaces and supersedes the Medicaid Contract and the D-SNP Contract, respectively, and in either case to obtain in connection therewith an assignment and novation agreement whereby Buyer will assume the obligations of Seller as successor in interest to Seller. Without limiting the generality of the foregoing, such qualification shall include Buyer obtaining a certificate of authority from the DOI, as required by applicable Legal Requirements. Seller shall cooperate with Buyer’s efforts and provide its commercially reasonable efforts to facilitate Buyer’s efforts to obtain any such qualification.

(a) Promptly after the date hereof, (i) each Party shall use commercially reasonable efforts to obtain the Required Permits and Governmental Approvals; and (ii) Seller shall use commercially reasonable efforts to make all notifications or filings contemplated by Section 2.2. Promptly after the date hereof, each of the Parties shall provide any required notices to, and make any other required filings with, all Governmental Authorities required to consummate the transactions contemplated hereby, including any notifications and filings required to be filed with the DOI, CHFS, the Commonwealth of Kentucky or CMS. In addition, the Parties shall cooperate and shall use reasonable best efforts to file required notification and report forms under the HSR Act with the Federal Trade Commission (the “FTC”) and the U.S. Department of Justice (the “DOJ”) as promptly as practicable following the date hereof (but in no event later than three (3) Business Days from and after the date hereof), shall use reasonable best efforts to obtain early termination of the waiting period under the HSR Act, and shall respond as promptly as practicable to all requests or inquiries received from the FTC or DOJ for additional documentation or information. Each Party will be responsible for its own costs and expenses (other than filing fees, which Evolent or Buyer will pay) associated with any HSR Act filing. Subject to applicable Legal Requirements, upon request of any Governmental Authority, each Party shall promptly provide such Governmental Authority with any additional information and documentary material that may reasonably be requested by such Governmental Authority in connection with the transactions contemplated hereby.

(b) Subject to applicable Legal Requirements, all analyses, appearances, meetings, discussions, presentations, memoranda, briefs, filings, notifications, arguments, and proposals made by or on behalf of Seller to or before any Governmental Authority or the staff or regulators of any Governmental Authority, in connection with the Agreement shall be disclosed to Buyer in advance of any filing, submission or attendance, it being the intent that Seller will consult and cooperate with Buyer, and consider in good faith the views of Buyer, in connection with any such analyses, appearances, meetings, discussions, presentations, memoranda, briefs, filings, notifications, arguments, and proposals. Subject to applicable Legal Requirements, Seller shall give notice to Buyer with respect to any meeting, discussion, appearance or contact with any Governmental Authority or the staff or regulators of any Governmental Authority in connection with the Agreement, with such notice being sufficient to provide Buyer with the opportunity to attend and participate in such meeting, discussion, appearance or contact.

(c) Nothing herein shall be construed to require Buyer or any of its Affiliates to (i) hold separate, divest, or agree to hold separate or divest, any of their businesses, services, products or assets or to take any other actions that reasonably would be expected to impair the operation of their respective businesses (including following the Closing), (ii) litigate, pursue or defend against any Proceeding (including any temporary restraining order or preliminary injunction) challenging the transactions contemplated by this Agreement, (iii) agree to any material modification or waiver of the terms and conditions of this Agreement, (iv) agree to any expenditure of funds by Buyer for a purpose unrelated to the operation of Buyer’s operation of the Business following Closing in accordance with applicable Legal Requirements, or (v) to agree to any burdensome condition with respect to the conduct by Buyer of the Business following Closing.

(d) Notwithstanding anything to the contrary in this Agreement, nothing contained in this Agreement shall give Buyer, directly or indirectly, the right to control or direct the operations of the Business of Seller prior to the Closing. Prior to the Closing, Seller shall exercise, consistent with the terms and conditions of this Agreement, complete control and supervision over the operations of such Business consistent with Legal Requirements.

**Section 5.3 Further Assurances.** If after Closing any further action is necessary, proper or desirable to carry out any purpose of this Agreement, then each Party will take such further action (including the execution and delivery of further documents) as any other Party reasonably requests to carry out such purpose. The foregoing will be at the expense of such requesting Party, except to the extent such requesting Party is entitled to indemnification therefor or to the extent this Agreement otherwise allocates such expense to any other Party.

**Section 5.4 Post-Closing Cooperation.** The Parties shall cooperate in good faith after Closing to ensure that, subject to the mutual agreement of the Parties, any assets or Contracts that should have been identified as Acquired Assets, or liabilities that should have been identified as Assumed Liabilities, shall be included as part of this Agreement, including through the amendment of the appropriate schedules and exhibits delivered as of the Closing Date.

**Section 5.5 Items to Proper Party.** After Closing, each Party will promptly deliver to the proper Party any mail or other communications, monies, checks or other instruments of payment received by such Party that belong to such other Party or to which such other Party is entitled. After the Closing Date, Buyer shall promptly forward to Seller any invoices, bills, notices, claims or requests for payments it receives relating to any Excluded Liabilities and Seller shall timely pay and satisfy, or contest in its discretion, such obligations.

**Section 5.6 Access and Information; Confidentiality.**

(a) Subject to compliance with applicable Legal Requirements, from and after the date hereof until the earlier of the Closing Date or the termination of this

Agreement in accordance with its terms, upon reasonable advance notice from Buyer to Seller, the Seller shall provide to the Buyer and its authorized representatives reasonable access, during normal business hours, to the Real Property, premises, books, records, key personnel, properties, systems, Providers, payors, customers, suppliers, documents, data and contracts of or pertaining to Seller. Between the date hereof and the Closing Date, Seller will permit Buyer's transition planning team both remote access and on-site access at Seller's offices and to Seller's personnel, data and information technology systems during normal business hours for purposes of planning the transition of the Business, and Seller will use commercially reasonable efforts to cooperate with and facilitate such transition planning and related matters as promptly as practicable and in any event in time to ensure a smooth and timely transition of the business in accordance with Buyer's direction on the Closing Date, consistent with the terms of applicable Legal Requirements. Without limiting the foregoing, from the date hereof until the earlier of the Closing Date or the termination of this Agreement in accordance with its terms, Seller shall (or shall use its commercially reasonable efforts to cause its vendors to) (i) furnish Buyer and its authorized representatives with such financial, operating and other data and information as Buyer or any of its authorized representatives may reasonably request (and in a format reasonably requested by Buyer) related to (A) the Business as operated following the date hereof and prior to the Closing or (B) the Acquired Assets; (ii) use commercially reasonable efforts to provide Buyer (X) sufficiently in advance of Closing, copies of such information (and in a format reasonably requested by Buyer) as is reasonably requested by Buyer and its authorized representatives in order for Buyer to assume operations of the Business on the Closing Date for the transition of Enrollees and continuity of care, and (Y) copies of such other information (and in a format reasonably requested by Buyer) as is necessary for the operation, ownership and management of the Acquired Assets or which is otherwise reasonably requested by Buyer, and which Seller is permitted by applicable Legal Requirements to provide or which is required or necessary to be provided to Buyer by to any Governmental Authority, including any such information as may be required to permit Buyer to satisfy its obligations to any Governmental Authority following the Closing, including the DOI, CHFS, and any third party accreditation or review organization. Without limiting the generality of the foregoing, during the period between the date hereof and until the earlier of the Closing Date or the termination of this Agreement in accordance with its terms, Seller shall deliver to Buyer within thirty (30) days after the end of each month a copy of the unaudited balance sheet, income statement and statement of cash flows for Seller for such month prepared in a manner and containing information consistent with current practices and consistent with the representations set forth in Section 2.3.

(b) Buyer and Evolent, on the one hand, and Seller, on the other, shall not, without the prior written consent of the other party, disclose any Confidential Information of such other party in any manner whatsoever, in whole or in part. The receiving party shall not, without the prior written consent of the disclosing party, use any Confidential Information for any purpose other than evaluating the transactions contemplated hereby or fulfilling its obligations hereunder or otherwise pursuant to any pre-existing contractual arrangement. Each receiving party agrees to transmit the Confidential Information only to its representatives, consultants, employees and professional advisors who need to know the Confidential Information in order to fulfill such party's obligations in connection with the transactions contemplated hereby. In any event, each party will be responsible for any breach of this Section 5.6(b) by any of its representatives, consultants, employees and professional advisors.

(c) In the event that the receiving party or its representatives are required to disclose any Confidential Information by law, regulation or the rules of any applicable securities exchange, or in a Proceeding, by an applicable securities exchange or on advice of counsel, the receiving party agrees to give the disclosing party prompt notice of such requirement and will cooperate with the disclosing party if the disclosing party desires to seek a protective order. If, absent the entry of a protective order, the receiving party or its representatives are, in the opinion of counsel to such party, legally compelled to disclose such Confidential Information, the receiving party may disclose such information to the persons and to the extent required without liability under this Agreement and such party agrees to cooperate with the disclosing party's reasonable commercial requests, at the disclosing party's expense, in its efforts to obtain reliable assurances that confidential treatment will be accorded to such Confidential Information.

(d) Notwithstanding anything contained herein to the contrary, effective as of the Closing, all Confidential Information of Seller included in the Acquired Assets or otherwise related to the Business will be deemed to be "Confidential Information" of Buyer and will be subject to the protections set forth herein for the benefit of Buyer.

**Section 5.7 Exclusivity.** From the execution of this Agreement until the Closing or earlier termination of this Agreement in accordance with its terms, Seller agrees that it will not, and will cause each of its Affiliates, directors, officers, managers, employees, agents, consultants, lenders, financing sources, advisors or other representatives, including legal counsel, accountants and financial advisors, not to, directly or indirectly (a) solicit, initiate or encourage any inquiry, proposal, offer or contact from any Person (other than Buyer and its Affiliates and representatives) relating to any transaction involving (i) the sale of any equity or any assets (other than in the Ordinary Course of Business) of Seller, (ii) any acquisition, divestiture, merger, equity exchange, consolidation, redemption, financing or similar transaction involving Seller or any or (iii) any similar sale or acquisition transaction or business combination involving Seller (in each case, an "Acquisition Proposal"), or (b) participate in any discussion or negotiation regarding, or furnish any information with respect to, or assist or facilitate in any manner, any Acquisition Proposal or any attempt to make an Acquisition Proposal. Seller shall immediately cease, and cause to be terminated, any and all contacts, discussions and negotiations with third parties regarding any of the foregoing, and Seller will notify Buyer immediately if any Person makes any proposal, offer, inquiry or contact related to an Acquisition Proposal and provide Buyer with the details thereof (including the Person making such offer, inquiry or contact and a copy of all written communication in connection therewith) and their response thereto.

#### **Section 5.8 Conduct of Business Prior to the Closing.**

(a) In furtherance of the transactions contemplated hereby, Evolent Health LLC and Passport are entering into the Eleventh Amendment of the Services Agreement concurrently with the Parties' execution of this Agreement. Notwithstanding anything herein to the contrary, from and after the date hereof until the earlier of the Closing or the termination of this Agreement in accordance with its terms, except (i) as set forth in Schedule 5.8(a), (ii) as consented to in writing by Buyer, (iii) as required by applicable Legal Requirements, and (iv) with respect to matters subject to and services performed by Evolent pursuant to the Services Agreement, as amended, Seller shall use commercially reasonable efforts to: (A) preserve intact Seller's present business organization, (B) preserve Seller's relationships with Providers, Enrollees, payors, licensors, suppliers, developers, contractors and others to whom it has material contractual obligations or material business dealings or relations, (C) keep available the services of the employees of Seller or Persons (including independent contractors and leased employees) otherwise servicing the Business, and (D) comply in all material respects with all applicable Legal Requirements and Contracts.

(b) Without limiting the generality of Section 5.8(a), and except (i) as otherwise expressly contemplated in this Agreement; (ii) as set forth in Schedule 5.8(b), (iii) as consented to in writing by Buyer, (iv) as required by applicable Legal Requirements or (v) with respect to matters subject to the Services Agreement, from and after the date hereof until the earlier of the Closing or the termination of this Agreement in accordance with its terms, Seller shall not do any of the following:

(i) amend or otherwise change its Organizational Documents;

(ii) not take or initiate any action that would reasonably be expected to result in any material change in Seller's premium or other revenues, claims or other costs, or relations with any Governmental Authority or any of its Enrollees, Providers, payors, employees, agents, underwriters or others, that would result in an adverse effect on the financial condition and results of operations of the Business;

(iii) merge or consolidate with any business or any corporation, partnership, limited liability company, association or other business organization or division thereof; acquire any corporation, partnership, limited liability company, other business organization or division thereof or any assets;

- (iv) sell, lease, license or otherwise transfer any material assets or properties, other than in the Ordinary Course of Business;
- (v) adopt a plan of complete or partial liquidation, dissolution, merger, consolidation or recapitalization of Seller;
- (vi) incur any Indebtedness;
- (vii) enter into, materially amend, renew, or terminate (other than upon expiration or for cause) an Assumed Contract or Material Contract or any Contract entered into after the date hereof that would have been required to be set forth in Schedule 2.12 if entered into prior to the date hereof or take or initiate any action that would reasonably be expected to result in any Person accelerating, terminating, modifying or cancelling any such Contract;
- (viii) cancel, compromise, waive or release any material rights under an Assumed Contract;
- (ix) authorize, or make any commitment with respect to, capital expenditures that are, in the aggregate, in excess of \$25,000 for Seller or fail to make any capital expenditure budgeted for by Seller;
- (x) increase or agree to or announce any increase in the compensation payable or to become payable by Seller to the Seller Employees, grant any severance or termination pay to, or enter into any employment or severance agreements with any Seller Employee, enter into any collective bargaining arrangement, or establish, adopt, enter into or amend any Seller Benefit Plan, except as required by applicable Legal Requirements or by the IRS in connection with a determination on the qualified status of such Seller Benefit Plan;
- (xi) make any change in any method of accounting or accounting practice or policy, or institute any change to internal controls over financial reporting, except as required by SAP, generally accepted accounting principles or this Agreement;
- (xii) accelerate the collection of accounts receivable or delay or defer the payment of insurance claims, accrued liabilities, accounts payable, expenses or other items; or
- (xiii) enter into any Contract or understanding to do any of the foregoing.

(c) The Parties acknowledge that the Medicaid RFP has been issued and that the deadline for submitting a proposal pursuant to the Medicaid RFP is, as of the date hereof, set at July 5, 2019. Passport and Evolent agree, and Evolent agrees to cause Evolent Health LLC to, consult and cooperate with one another in the preparation and timely submission of a response to the Medicaid RFP by Passport and in connection with the processing of Passport's response to the Medicaid RFP by CHFS. The Parties agree that, at the Effective Time, all obligations of Passport under or in connection with its submission of a response to the Medicaid RFP and any award to Passport pursuant to the Medicaid RFP, including any 2020 Medicaid Contract arising out of any such Medicaid RFP award, shall constitute Assumed Liabilities under and for all purposes of this Agreement. In the event Passport receives the Medicaid RFP award, Passport shall consult and cooperate with Evolent, Evolent Health LLC and Buyer to obtain all consents and approvals required for Buyer to succeed to any and all rights of Passport to enter into the 2020 Medicaid Contract and with respect to its response to the Medicaid RFP and the Medicaid RFP award.

#### **Section 5.9 Employees.**

(a) Subject to applicable Legal Requirements, Buyer shall offer employment to the Seller Employees then employed by Seller, on an at-will basis (such employees to whom Buyer elects to offer employment and whom accept such employment are referred to herein as the "Transferred Employees"). The employment by Buyer of any Transferred Employee may be made through an Affiliate of Buyer.

(b) On the Closing Date, Seller shall terminate the employment of all Seller Employees and Buyer shall be responsible for (i) the payment of all wages and other remuneration due to Seller's employees with respect to their services as employees of Seller through the Closing Date, including but not limited to, any and all accrued compensation and benefits arising from any salary, wage, benefits, bonus, vacation, sick leave, continuing medical education leave, paid-time off, insurance, employment tax or similar liability of Seller to any employee or other similar person or entity allocable to services performed prior to the Closing Date; and (ii) the payment of any termination or severance payments and the provision of health plan continuation coverage (including all administrative and notice obligations) under COBRA, or any other Legal Requirement, with respect to employees of Seller whose employment with Seller is terminated on or prior to the Closing Date, including, for the avoidance of doubt, any employees who are not hired by Buyer and any of Seller's employees who remain eligible and elect continuation coverage pursuant to COBRA under the Seller Benefit Plans; all of which shall constitute Assumed Liabilities. Upon the Closing, Buyer will provide the severance benefits to any employees of the Seller whose employment is terminated on the Closing Date as described in Schedule 5.9(b) and, following the Closing Date, in accordance with Buyer's policies. For the avoidance of doubt, the obligation to institute and pay the severance benefits as described in Schedule 5.9(b) will become binding obligations on and enforceable against Buyer at the Effective Time. Any liability of Seller for any claims made or incurred by its employees and their beneficiaries under the Seller Benefit Plans shall constitute an Assumed Liability. Seller shall make or cause to be made on behalf of all the employees of Seller all contributions due to be made under each Seller Benefit Plan for all periods prior to the Closing Date. Additionally, Seller shall take such actions as are necessary to make, or cause each Seller Benefit Plan to make, appropriate distributions to all the employees of Seller that are required to be made prior to the Closing Date in accordance with such Seller Benefit Plan and applicable Legal Requirements. Seller shall coordinate and cooperate with Buyer in the transition of all Seller Benefit Plans to Buyer and/or establishment of reciprocal Benefit Plans by Buyer to the extent permitted by applicable Legal Requirement and the terms Seller Benefit Plans and Buyer's benefit plans.

(c) Buyer (or any Affiliate of Buyer) shall provide the Transferred Employees with employee benefits comparable to the employee benefits provided by Seller at the Effective Time with no lapse in coverage to the extent practicable under the arrangements Buyer or its Affiliates can reasonably establish and maintain. If the Buyer (or its Affiliate) is unable to establish and maintain such arrangements, Buyer (or its Affiliate) shall provide the Transferred Employees with such employee benefits as are consistent with the benefits generally offered to employees of Buyer and its Affiliates. Buyer (or its Affiliate) will maintain the location of the Transferred Employees in Louisville, Kentucky for the term of the Services Agreement.

(d) Buyer and Evolent acknowledge and agree that the provisions of this Section 5.9 are designed to ensure that Seller is not required to give notice to Seller Employees under the Worker Adjustment and Retraining Notification Act (the "WARN Act") or under any comparable state law in connection with the transactions contemplated by this Agreement. Accordingly, Buyer and Evolent each agrees to indemnify, defend and hold harmless Seller from any liability which Seller may incur under the WARN Act or under comparable state law.

**Section 5.10 Public Announcements.** Unless otherwise required by applicable Legal Requirements or stock exchange requirements (based upon the reasonable advice of counsel), no Party shall make any public announcements in respect of this Agreement or the transactions contemplated thereby or otherwise communicate with any news media without the prior written consent of the other Party (which consent shall not be unreasonably withheld, conditioned or delayed). Promptly following the execution of this Agreement, Seller and Buyer may issue a press release, in each case, in a form mutually agreed to by Seller and Buyer announcing the execution of this Agreement. Thereafter, Seller and Buyer hereby agrees to (a) obtain prior approval (which approval shall not be

unreasonably withheld, conditioned or delayed) from the other Party prior to issuing any press release or otherwise making any public statement with respect to this Agreement or the terms hereof and (b) provide to the other Party for review and approval (which approval shall not be unreasonably withheld, conditioned, or delayed) a copy of any such press release or statement, and shall not issue any such press release or make any such public statement prior to such consultation, review and approval by the other party, unless in any such case required by applicable Legal Requirements or securities exchange rules or regulations. Prior to Closing and subject to applicable Legal Requirements, the Parties will consult with each other concerning the means by which any employee, Provider, customer or supplier of Seller or any other Person having any business relationship with the Seller will be informed of the transactions contemplated by this Agreement.

**Section 5.11 Post-Closing Access; Preservation of Records.** From and after the Closing, Seller and Buyer agree that each of them shall preserve and keep, or cause to be kept, the pre-Closing Records held by them or their Affiliates relating to the Business for a period equal to the greater of (a) seven (7) years from the Closing Date or (b) such period required by applicable Legal Requirements, and shall cause such Records and, in the case of Buyer, personnel to be available during regular business hours to the other as may be reasonably required in connection with: (i) investigating, settling, preparing for the defense or prosecution of, defending or prosecuting any Proceeding by or before any court or other Governmental Authority; (ii) preparing reports to Governmental Authorities; (iii) preparing and delivering any accounting or other statement provided for under this Agreement or otherwise in order to enable Seller and Buyer to comply with their respective obligations under this Agreement and each other agreement, document or instrument contemplated hereby or thereby; (iv) preparing Tax Returns or responding to or disputing any Tax inquiry, audit or assessment; provided; or (v) any other commercially reasonable purpose; provided, however, that such access does not unreasonably interfere with normal operations of the Person providing access to the same and shall occur during normal business hours upon reasonable notice, shall be subject to restrictions under applicable Legal Requirements and shall not require disclosure of information subject to attorney-client privilege so long as, in the case of disclosure by Seller and Buyer, such Party has taken reasonable steps to permit inspection of or to disclose such information on a basis that does not compromise such Party's privileges with respect thereto. In furtherance of and subject to the foregoing, Seller shall furnish, and cause its Affiliates to furnish and use commercially reasonable efforts to cause its vendors to furnish to Buyer and its representatives such financial and operating data and other information of Seller in Seller's and its Affiliates' possession (or otherwise reasonably attainable by Seller from its vendors) reasonably requested by Buyer relating to the Business (other than any such information included in the Acquired Assets), in each case as Buyer may reasonably request. Without limiting but subject to the foregoing, Seller shall provide Buyer with access to such information and Records of Seller (and, at Buyer's expense, in a format reasonably requested by Buyer) as is in the possession of Seller or its Affiliates and either (A) is necessary for the operation, ownership and management of the Acquired Assets and which Seller is permitted by applicable Legal Requirements to provide and which is required to be provided to Buyer by any Governmental Authority or (B) is required to permit Buyer to satisfy its obligations to any Governmental Authority following the Closing, including any third party accreditation or review organization, which shall be provided promptly after any reasonable request therefor by Buyer.

**Section 5.12 Notification and Effect of Certain Matters.**

(a) From time to time prior to Closing, Seller shall have the right to supplement or amend the Seller Disclosure Schedules with respect to any matter hereafter arising or of which Seller becomes aware after the date hereof (each a "Schedule Supplement"), and each such Schedule Supplement shall be deemed to be incorporated into and to supplement and amend, and constitute a part of, the Seller Disclosure Schedules as of the Closing Date; provided, however, that:

(i) if, in Evolent's reasonable determination the information disclosed in a Schedule Supplement, individually or in the aggregate with information disclosed in Schedule Supplements previously delivered, constitutes or relates to something that has had or will have a Seller Material Adverse Effect, or

(ii) if the information disclosed in a Schedule Supplement should have been disclosed in the Seller Disclosure Schedules delivered at the time this Agreement was executed and the failure to do so resulted in the representations and warranties of Seller contained in Article II not being true and correct in all material respects as of the date hereof,

then Evolent shall have the right to terminate this Agreement for failure to satisfy the condition set forth in Section 7.1(a) exercisable on or before the earlier of three (3) Business Days after its receipt of a Schedule Supplement or the Closing Date.

(b) Subject to Section 5.12(a), if any Party becomes aware prior to Closing of any event, fact or condition or non-occurrence of any event, fact or condition that may constitute a breach of any representation, warranty, covenant or agreement of such Party set out in this Agreement, then such Party will promptly provide the other Parties with a written description of such fact or condition; provided, however, that (i) except as otherwise provided in Section 5.12(a), no information provided to a Party pursuant to this Section 5.12 shall affect right of such Party to terminate this Agreement pursuant to Article IX for failure to satisfy a condition set forth in in Article VII and (ii) any information provided to a Party pursuant to this Section 5.12 shall not be the basis for any indemnification claim pursuant to Article VIII.

(c) Seller shall promptly deliver to Buyer, any review, audit, Proceeding or investigation report, notice or correspondence issued by any Person with respect to Seller that occurs between the date hereof and the Closing.

(d) Notwithstanding anything in this Agreement to the contrary, the Parties agree no inaccuracy in or failure to perform and representation, warrant, covenant or agreement of Seller will constitute a breach thereof to the extent that it, directly or indirectly, arises out of or results from the failure of Evolent or any of its Affiliates to perform its obligations under any Contract with Seller, any act or omission by or at the direction of any Designated Employee, or any act or omission by Seller pursuant to any written agreement with or with the written consent of Evolent or its Affiliates..

**Section 5.13 Assistance with SEC Filings.** In order to assist with any potential future SEC filing requirements or disclosures in future SEC filings of Evolent or its Affiliates, following the date hereof and continuing after the Closing, Seller shall (and shall cause its representatives to) provide such cooperation and information as Evolent may reasonably request in connection with such filing requirements, including, without limitation, cooperating with Evolent in its efforts to comply with Rule 3-05 of Regulation S-X.

**Section 5.14 Branding.** Immediately following the Closing, (A) Seller shall (i) cease doing business as "Passport Health Plan" and "Passport Advantage", and (ii) terminate its Certificates of Assumed Name relating to the use of such names; (B) Buyer may (i) conduct business under the name of, or otherwise use, "Passport Health Plan" or "Passport Advantage", and (ii) submit its own Certificates of Assumed Name relating to the use of such names.

**Section 5.15 Capital Commitment.**

(a) Within 10 Business Days of the date hereof and upon the written request of Passport, Evolent shall cause an Affiliate of Evolent to issue a surplus note, in the form attached hereto as Exhibit 5.15, to Passport in an amount not to exceed \$20,000,000 in principal.

(b) If, following a final determination by the DOI of admitted assets included in Seller's risk-based capital for the year ended December 31, 2018, Passport's risk-based capital is determined by the DOI to be below the Authorized Control Level RBC, then upon written request of Seller, Evolent shall cause an Affiliate of Evolent to issue a surplus note, in the form attached hereto as Exhibit 5.15, to Passport in an amount in principal not to exceed the amount necessary for Passport to meet the Authorized Control Level RBC.

(c) In addition to the surplus note to be provided pursuant to Section 5.15(a), if, prior to Closing, Passport submits or will submit a response to the Medicaid

RFP, then, upon the written request of Passport, Evolent shall cause an Affiliate of Evolent to issue a surplus note, in the form attached hereto as Exhibit 5.15, to Passport in an amount in principal necessary for Passport to meet the Medicaid RFP requirements prior to such submission and for the performance of the 2020 Medicaid Contract if awarded to Passport pursuant to the Medicaid RFP.

(d) Upon mutual agreement by Passport and Evolent, Evolent may substitute additional forms of capital support in place of any surplus note so long as such support is included as an admitted asset for purposes of determining risk-based capital. Any such surplus notes issued pursuant to this Section 5.15 will constitute at Closing Assumed Contracts and any other type of capital support shall be deemed an Acquired Asset at Closing. Furthermore, the Parties acknowledge and agree that the form of surplus note is subject to prior approval by the DOI. The Parties shall amend the form of surplus note attached hereto as Exhibit 5.15 as may be required by the DOI and applicable Legal Requirements.

**Section 5.16 West Louisville Development.** The Parties acknowledge that the Owned Real Property was acquired by Seller for the purpose of constructing and developing a headquarters building, wellness campus and supporting parking structure on several parcels of real property located on West Broadway in Louisville, Kentucky between 18th and 21st Streets, with the Business to lease approximately 140,000 square feet in a building to be constructed and located at 1800, 1824 and 1912 West Broadway, in Louisville, Kentucky. Prior to Closing, Evolent and Buyer desire to seek and secure a commitment from a third party buyer to purchase the Owned Real Property on terms and conditions pursuant to which such third party buyer would continue to pursue and to exercise commercially reasonable efforts to accomplish that development project and for Buyer to relocate the principal office of the Business being acquired pursuant to this Agreement to the headquarters building located in that development, as contemplated by that certain letter of intent, dated September 17, 2018, between Evolent Health LLC and PHS I. Seller agrees to cooperate with Evolent and Buyer in such efforts prior to Closing and, in that regard, to exercise commercially reasonable efforts to take actions reasonably requested by Evolent and Buyer and reasonably necessary to accomplish the same, it being agreed that Seller shall not be required to incur any additional liabilities in connection therewith.

**Section 5.17 Tail Insurance.** Prior to the Closing, Seller shall obtain "tail" insurance policies for each Seller insurance policy that is a "claims-made" policy, with respect to all matters occurring prior to Closing naming Buyer as an additional insured, which tail insurance shall be of unlimited duration and contain terms and conditions no less advantageous than are contained in such current insurance policy and shall cover each Person covered by such policy as of immediately prior to Closing. All premiums and costs incurred with respect to such tail insurance coverage shall be deemed Transaction Expenses.

## Article VI. CLOSING AND CLOSING DELIVERIES

**Section 6.1 Closing.** Subject to any earlier termination hereof, closing of the transactions contemplated herein ("Closing") will take place by exchange of electronic signatures on (assuming the satisfaction or waiver of all conditions to the obligations of the Parties to consummate such transactions (other than conditions that by their nature are to be satisfied at Closing, but subject to the satisfaction or waiver of such conditions at Closing)) on a date that is mutually agreed upon, in writing, by Evolent and Passport but in any case, unless otherwise agreed in writing by Evolent and Passport, such date shall not be more than thirty (30) days after notification of award of contract under the Medicaid RFP to any managed care organization or the termination of the Medicaid RFP without any award (the actual date Closing occurs being the "Closing Date"). Closing will be effective as of 12:01 a.m. local time in Louisville, Kentucky on the Closing Date (the "Effective Time"). To the extent the Parties agree, documents may be delivered at Closing by facsimile or other electronic means, and (except as so agreed) the receiving Party may rely on the receipt of such documents so delivered as if the original had been received.

**Section 6.2 Closing Deliveries by Seller.** At Closing, Seller will deliver, or cause to be delivered, to Buyer, the following:

- (a) a Bill of Sale, Assignment and Assumption Agreement in the form attached hereto as Exhibit 6.2(a) dated the Closing Date (the "Bill of Sale") and duly executed by Seller;
- (b) a certificate from Seller dated as of the Closing Date, in accordance with Treasury Regulation Section 1.1445-2(b), certifying that such Person is not a foreign person;
- (c) a certificate of the Secretary or other authorized officer of Seller, dated as of the Closing Date, certifying as to the resolutions or actions of Seller's board of directors or other governing body approving the execution and delivery of this Agreement and each other agreement contemplated hereby to which such Person is a party and the consummation of the transactions contemplated hereby, and certifying to the incumbency of the officer of Seller executing this Agreement and any other documents being executed in connection with the consummation of the transactions contemplated hereby and thereby;
- (d) the certificates of incorporation (or similar Organizational Documents) of Seller and (certified by the Kentucky Secretary of State) and a certificate of good standing from the Commonwealth of Kentucky and each other jurisdiction in which Seller is qualified to do business, each dated within ten (10) Business Days prior to the Closing Date;
- (e) evidence of the release of any Encumbrances upon the Acquired Assets, in form and substance reasonably satisfactory to Buyer;
- (f) the Shareholders' Agreement of Buyer, in the form attached hereto as Exhibit 6.2(f) (the "Shareholders Agreement"), duly executed by each Sponsor;
- (g) a trademark assignment agreement with respect to any registered Trademarks owned by Seller (the "Trademark Assignment Agreement"), duly executed by Seller and in a form and substance reasonably acceptable to Buyer;
- (h) all instruments of title and documents reasonably requested by Buyer's title company to issue a title policy for the Owned Real Property, in each case, in a form and substance reasonably acceptable to Buyer and Seller; and
- (i) such other agreements, documents and certificates required to be delivered by Seller pursuant to this Agreement.

**Section 6.3 Closing Deliveries by Buyer and Evolent.** At Closing, Buyer and Evolent will deliver, or cause to be delivered, to Seller (or as Passport or this Agreement otherwise directs), the following:

- (a) the Bill of Sale and Shareholders Agreement and Trademark Assignment Agreement, duly executed by Buyer;
- (b) a certificate of the Secretary or other authorized officer of Buyer and Evolent, dated as of the Closing Date, certifying as to the resolutions or actions of Buyer's and Evolent's board of directors approving the execution and delivery of this Agreement and each other agreement contemplated hereby to which such Person is a party and the consummation of the transactions contemplated hereby and thereby, and certifying to the incumbency of the officers of Buyer or Evolent executing this Agreement and any other documents being executed in connection with the consummation of the transactions contemplated hereby;

- (c) stock certificates representing the Equity Consideration to be issued to each Sponsor;
- (d) an amendment to the Services Agreement, between Evolent Health LLC and Buyer (as successor in interest to Passport), in the form attached hereto as Exhibit 6.3(e);
- (e) the Shareholders Agreement, duly executed by EH Holding Company, Inc.; and
- (f) such other agreements, documents and certificates required to be delivered by the Buyer or Evolent pursuant to this Agreement.

**Article VII.**  
**CONDITIONS TO OBLIGATIONS TO CLOSE**

**Section 7.1 Conditions to Obligation of Buyer and Evolent to Close.** The obligation of Buyer and Evolent to effect the closing of the transactions contemplated herein is subject to the satisfaction at Closing of all of the following conditions, any one or more of which may be waived by Evolent, in Evolent's sole discretion:

(a) **Accuracy of Representations and Warranties.** Each representation and warranty of Seller in Article II (disregarding any materiality or Seller Material Adverse Effect qualifications) shall be true and correct as of the date hereof and each of the Seller Fundamental Representations shall be true and correct as of the Closing Date as if made on the Closing Date (or, in each case, if any such representation and warranty is expressly stated to have been made as of a specific date, then, for such representation and warranty, as of such specific date), without giving effect to any supplement to the Seller Disclosure Schedules, except for any failure of any such representation and warranty to be true and correct that does not have a Seller Material Adverse Effect.

(b) **Observance and Performance.** Seller shall have performed and complied with, in all material respects, all covenants and agreements required by this Agreement to be performed and complied with by Seller on or before the Closing Date.

(c) **Officer's Certificate.** Seller will have delivered to Buyer a certificate from a duly authorized officer of Seller, dated the Closing Date and executed by such officer.

(d) **Delivery of Other Items.** Seller will have delivered (or caused to be delivered) to Buyer each of the other items contemplated to be so delivered by this Agreement, including each item listed in Section 6.2.

(e) **No Legal Actions.** No Governmental Authority of competent jurisdiction will have instituted any Proceeding to restrain, prohibit or otherwise challenge the legality or validity of the transactions contemplated herein that has not been dismissed or otherwise resolved in a manner that does not materially and adversely affect the transactions contemplated herein and no injunction, order or decree of any Governmental Authority will be in effect that restrains or prohibits the acquisition of the Acquired Assets or the consummation of the other transactions contemplated herein.

(f) **Required Permits and other Governmental Approvals.** Buyer and Seller, as applicable, will have obtained the Required Permits and Governmental Approvals, in each case in a form and substance reasonably satisfactory to Buyer and Seller, as applicable.

(g) **HSR Act.** The applicable waiting period under the HSR Act must have expired or been terminated.

(h) **Owned Real Property.** Buyer shall have received a title policy, a survey and a Phase I environmental assessment with respect to the Owned Real Property, in each case, in a form and substance satisfactory to Buyer.

**Section 7.2 Conditions to Obligation of Seller to Close.** The obligation of Seller to effect the closing of the transactions contemplated herein is subject to the satisfaction at or before Closing of all of the following conditions, any one or more of which may be waived by Passport, in the Passport's sole discretion:

(a) **Accuracy of Representations and Warranties.** Each of the representations and warranties of Evolent and Buyer in Article IV of this Agreement (disregarding any materiality qualifications) must be true and correct as of the date hereof and each of the Buyer Fundamental Representations must be true and correct as of the Closing Date as if made on the Closing Date, without giving effect to any supplement to the Buyer Disclosure Schedules, except for any failure of any such representation and warranty to be true and correct as would not reasonably be expected to have a material adverse effect on Buyer's and Evolent's ability to consummate the transactions contemplated hereby.

(b) **Observance and Performance.** Buyer will have performed and complied with, in all material respects, all covenants and agreements required by this Agreement to be performed and complied with by Buyer on or before the Closing Date.

(c) **Officer's Certificate.** Buyer will have delivered to Seller a certificate of a duly authorized officer of Buyer, dated the Closing Date and executed by such officer.

(d) **Required Permits and Governmental Approvals.** Buyer and Seller, as applicable, will have obtained the Required Permits and Governmental Approvals, in each case in a form and substance reasonably satisfactory to Buyer and Seller, as applicable.

(e) **Delivery of Other Items.** Buyer will have delivered (or caused to be delivered) to Seller each of the other items contemplated to be so delivered by this Agreement, including each item listed in Section 6.3.

(f) **No Legal Actions.** No Governmental Authority of competent jurisdiction will have instituted any Proceeding to restrain, prohibit or otherwise challenge the legality or validity of the transactions contemplated herein that has not been dismissed or otherwise resolved in a manner that does not materially and adversely affect the transactions contemplated herein and no injunction, order or decree of any Governmental Authority will be in effect that restrains or prohibits the acquisition of the Acquired Assets or the consummation of the other transactions contemplated herein.

(g) **HSR Act.** The applicable waiting period under the HSR Act must have expired or been terminated.

**Article VIII.**  
**INDEMNIFICATION**

**Section 8.1 Survival.** All representations, warranties, covenants, and obligations in this Agreement, the Schedules attached hereto, the certificates delivered pursuant to Article VII, and any other certificate or document delivered pursuant to this Agreement will survive the Closing and the consummation of the transactions contemplated hereby, subject to Section 5.12, Section 8.5, Section 8.6, Section 8.7 and Section 8.10.

**Section 8.2 Indemnification and Reimbursement By Seller.** From and after the Closing, subject to Section 5.12 and the other provisions of this Article VIII, Seller shall indemnify and hold harmless the Buyer and Evolent and their respective Affiliates, officers, directors, stockholders, employees, representatives and agents (collectively, the “Buyer Indemnified Persons”), and shall reimburse the Buyer Indemnified Persons, for any loss, Proceeding, liability, claim, damage or expense (including costs of investigation and defense and reasonable attorneys’ fees and expenses), whether or not involving a third-party claim (collectively, “Damages”), arising, directly or indirectly, from or in connection with:

(a) any breach of any representation or warranty made by Seller in this Agreement, or any certificate delivered by Seller at Closing pursuant to this Agreement, other than a breach arising out of or resulting from (i) the failure of Evolent or any of its Affiliates to perform its obligations under any Contract with Seller or (ii) an acts or omissions of any Designated Employees;

(b) any breach of any covenant or agreement contained in this Agreement to be performed or complied with by Seller, other than a breach arising out of or resulting from the failure of Evolent or any of its Affiliates to perform its obligations under any Contract with Seller;

(c) any Excluded Liabilities and any Indebtedness of Seller;

(d) any Pre-Closing Taxes; and

(e) any brokerage or finder’s fees or commissions or similar payments based upon any agreement or understanding alleged to have been made by any Person with Seller (or any Person acting on its behalf) in connection with the transactions contemplated hereby.

### **Section 8.3 [Reserved]**

**Section 8.4 Indemnification and Reimbursement by Evolent and Buyer.** From and after the Closing, subject to Section 5.12 and the other provisions of this Article VIII, Buyer and Evolent shall, jointly and severally, indemnify and hold harmless Seller and the Sponsors and their respective Affiliates, officers, directors, stockholders, employees, representatives and agents (collectively, the “Seller Indemnified Persons”), and shall reimburse the Seller Indemnified Persons for any Damages arising, directly or indirectly, from or in connection with:

(a) any breach of any representation or warranty made by Buyer in this Agreement, or any certificate delivered by Buyer and Evolent at Closing pursuant to this Agreement;

(b) any breach of any covenant or agreement contained in this Agreement to be performed or complied with by Evolent or Buyer;

(c) any Assumed Liabilities; and

(d) any brokerage or finder’s fees or commissions or similar payments based upon any agreement or understanding alleged to have been made by any such Person with Buyer (or any Person acting on its behalf) in connection with the transactions contemplated hereby.

**Section 8.5 Limitations on Indemnification by Seller.** Notwithstanding anything contained herein to the contrary, the obligation of Seller to indemnify the Buyer Indemnified Persons pursuant to Section 8.2 is subject to the following limitations and qualifications:

(a) Seller will have no indemnification liability under Section 8.2(a) until the total amount of Damages incurred by the Buyer Indemnified Persons hereunder exceeds \$350,000 (the “Basket”), in which case Seller will be responsible for the full amount of the Damages, including the Basket.

(b) The maximum indemnification liability of Seller under Section 8.2 will be \$3,500,000 (the “Cap”).

(c) Any Damages payable to any Buyer Indemnified Person under Section 8.2(a) shall be paid, collected and satisfied solely by (i) set-off (pro rata) against the purchase price payable upon exercise of the Call Right or the Put Right, as defined and provided for in the Shareholders Agreement, (ii) set-off (pro rata) against the purchase price payable in connection with the mandatory repurchase provided for in Section 4(b)(i) of the Shareholders Agreement, or (iii) by the claw back (pro rata) of Buyer Common Stock from the Sponsors, which such shares of Buyer Common Stock shall be valued in accordance with the applicable valuation attributed to such shares in Section 4(b) of the Shareholders Agreement (i.e., based on a \$20,000,000 or \$60,000,000 valuation depending on the circumstances set forth therein). Prior to the exercise of the foregoing rights, such Damages shall be finally determined (by mutual agreement of the Parties or pursuant to a final, non-appealable court order).

(d) The limitations set forth in clauses (a) and (b) and (c) of this Section 8.5 shall not apply to breaches of Sections 2.1, 2.2, 2.5(a), and 2.6 (the “Seller Fundamental Representations”).

(e) Nothing contained herein (including Section 8.5(a) and 8.5(b)) shall limit or restrict any Buyer Indemnified Person’s right to maintain or recover any amounts in connection with any action or claim based upon any intentional misstatement, fraudulent misrepresentation or deceit.

**Section 8.6 Limitations on Indemnification by the Buyer Parties.** Notwithstanding anything contained herein to the contrary, the obligation of the Buyer Parties to indemnify Seller Indemnified Persons pursuant to Section 8.4 is subject to the following limitations and qualifications:

(a) the Buyer Parties will have no indemnification liability under Section 8.4(a) until the total amount of Damages incurred by Seller Indemnified Persons hereunder exceeds the Basket, in which case Buyer will be responsible for the full amount of the Damages, including the Basket.

(b) The maximum indemnification liability of Buyer under Section 8.4(a) will be the Cap.

(c) The limitations set forth in clauses (a) and (b) of this Section 8.6 shall not apply to breaches of Sections 4.1, 4.2 and 4.3 (the “Buyer Fundamental Representations”).

(d) Nothing contained herein (including Section 8.6(a) and 8.6(b)) shall limit or restrict any Seller Indemnified Person’s right to maintain or recover any amounts in connection with any action or claim based upon intentional misstatement, fraudulent misrepresentation or deceit.

### **Section 8.7 Time Limitations.**

(a) Seller will have no indemnification liability for the breach of any representation or warranty set forth in Article II, or breach of any covenant to be performed by Seller prior to the Closing, unless on or before the first anniversary of the Closing Date, Buyer notifies Seller of a claim specifying the factual basis of that claim in reasonable detail to the extent then known by Buyer; provided, however, that any claim with respect to a breach of any Seller Fundamental Representation may be made by Buyer until the expiration of the applicable statute of limitations.

(b) Buyer will have no indemnification liability for the breach of any representation or warranty set forth in Article IV, or breach of any covenant to be performed by Buyer prior to the Closing, unless on or before the first anniversary of the Closing Date, Seller notifies Buyer of a claim specifying the factual basis of that claim in reasonable detail to the extent then known by Seller; provided, however, that any claim with respect to a breach of any Buyer Fundamental Representation may be made until the expiration of the applicable statute of limitations.

(c) All other claims for indemnification shall survive indefinitely.

### **Section 8.8 Third-Party Claims.**

(a) Promptly after receipt by a Person entitled to indemnity under Section 8.2 or 8.4 (an “Indemnified Person”) of notice of the assertion of any claim against any Indemnified Person by a third party (a “Third-Party Claim”), such Indemnified Person shall give prompt notice to the Person obligated to indemnify under such section (an “Indemnifying Person”) of the assertion of such Third-Party Claim, provided that the failure to promptly notify the Indemnifying Person will not relieve the Indemnifying Person of any liability that it may have to any Indemnified Person, except to the extent that the Indemnifying Person demonstrates that the defense of such Third-Party Claim is prejudiced by the Indemnified Person’s failure to give such notice.

(b) If an Indemnified Person gives notice to the Indemnifying Person pursuant to Section 8.8(a) of the assertion of a Third-Party Claim, the Indemnifying Person shall be entitled to participate in the defense of such Third-Party Claim and, to the extent that it wishes (unless (i) the Indemnifying Person is also a Person against whom the Third-Party Claim is made and the Indemnified Person determines in good faith that joint representation would be inappropriate or (ii) the Indemnifying Person fails to provide reasonable assurance to the Indemnified Person of its financial capacity to defend such Third-Party Claim and provide indemnification with respect to such Third-Party Claim), to assume the defense of such Third-Party Claim with counsel satisfactory to the Indemnified Person. After notice from the Indemnifying Person to the Indemnified Person of its election to assume the defense of such Third-Party Claim, the Indemnifying Person shall not, so long as it diligently conducts such defense, be liable to the Indemnified Person under this Article VIII for any fees of other counsel or any other expenses with respect to the defense of such Third-Party Claim, in each case subsequently incurred by the Indemnified Person in connection with the defense of such Third-Party Claim, other than reasonable costs of investigation. If the Indemnifying Person assumes the defense of a Third-Party Claim, (i) such assumption will conclusively establish for purposes of this Agreement that the claims made in that Third-Party Claim are within the scope of and subject to indemnification, (ii) no compromise or settlement of such Third-Party Claims may be effected by the Indemnifying Person without the Indemnified Person’s consent unless (A) there is no finding or admission of any violation of any Legal Requirement or any violation of the rights of any Person; (B) the sole relief provided is monetary damages that are paid in full by the Indemnifying Person; and (iii) the Indemnified Person shall have no liability with respect to any compromise or settlement of such Third-Party Claims effected without its consent. If notice is given to an Indemnifying Person of the assertion of any Third-Party Claim and the Indemnifying Person does not, within ten days after the Indemnified Person’s notice is given, give notice to the Indemnified Person of its election to assume the defense of such Third-Party Claim, the Indemnifying Person will be bound by any determination made in such Third-Party Claim or any compromise or settlement effected by the Indemnified Person.

(c) Notwithstanding the foregoing, if an Indemnified Person determines in good faith that there is a reasonable probability that a Third-Party Claim may adversely affect it or its Affiliates other than as a result of monetary damages for which it would be entitled to indemnification under this Agreement the Indemnified Person may, by notice to the Indemnifying Person, assume the exclusive right to defend, compromise or settle such Third-Party Claim, but the Indemnifying Person will not be bound by any determination of any Third-Party Claim so defended for the purposes of this Agreement or any compromise or settlement effected without its consent (which may not be unreasonably withheld, conditioned or delayed).

(d) With respect to any Third-Party Claim subject to indemnification under this Article VIII: (i) both the Indemnified Person and the Indemnifying Person, as the case may be, shall keep the other Person fully informed in all material respects of the status of such Third-Party Claim and any related proceedings at all stages thereof where such Person is not represented by its own counsel, and (ii) the Parties agree to render to each other such assistance as they may reasonably require of each other and to cooperate in good faith with each other to ensure the proper and adequate defense of any Third-Party Claim.

**Section 8.9 Procedure For Indemnification – Other Claims.** A claim for indemnification for any matter not involving a Third-Party Claim may be asserted by notice to the party from whom indemnification is sought.

**Section 8.10 Exclusive Remedy.** Except for the remedies of specific performance or injunctive or other equitable relief, the indemnification provisions of this Article VIII will constitute the sole and exclusive post-closing remedy available to any Party (and any Seller Indemnified Person or Buyer Indemnified Person, insofar as such person has any rights hereunder) for any claim arising out of this Agreement or the transactions contemplated hereby.

**Section 8.11 Treatment of Indemnification Payments.** Any payments made pursuant to the indemnification obligations arising under this Agreement shall be treated as an adjustment to the Purchase Price for all Tax purposes.

**Section 8.12 Materiality.** Solely for purposes of this Article VIII, when determining the amount of Damages of a Seller Indemnified Person or Buyer Indemnified Person arising out of, relating to or resulting from a breach or inaccuracy of any representation or warranty contained in this Agreement (but, for the avoidance of doubt, not for determining whether a breach or inaccuracy of any representation or warranty has occurred), all references to “Seller Material Adverse Effect,” “material,” “in all material respects” and other materiality qualifiers shall be disregarded.

## **Article IX. TERMINATION**

**Section 9.1 Termination Events.** By written notice given prior to or at the Closing, subject to Section 9.2, this Agreement may be terminated as follows:

(a) subject to Section 5.12, by Evolent, in the event a material breach of this Agreement has been committed by Seller and such breach has not been waived in writing by Evolent;

(b) by Passport, in the event a material breach of this Agreement has been committed by either of Buyer or Evolent, and such breach has not been waived in writing by Passport;

(c) by either Evolent or Passport, if any Order of any Governmental Authority of competent jurisdiction permanently restraining, enjoining or otherwise preventing the consummation of the transactions contemplated hereby has been issued and becomes final and non-appealable;

(d) by mutual written consent of Evolent and Passport;

(e) by Passport if the Closing has not occurred on or before the date that is 30 days from the date of the announcement by CHFS or the Kentucky Finance and Administration Cabinet of an award under the Medicaid RFP; or

(f) by Evolent or Passport, if the Closing has not occurred on or before December 31, 2019 or such later date as the parties may agree upon in writing, unless the terminating party is in material breach of this Agreement.

**Section 9.2 Effect of Termination.** Each party's right of termination under Section 9.1 is in addition to any other rights it may have under this Agreement or otherwise, and the exercise of such right of termination will not be an election of remedies. If the Agreement is terminated pursuant to Section 9.1, all obligations of the parties under this Agreement will terminate, except that the obligations in Section 5.6 and 5.10, this Article IX and Article X will survive; provided, however, that termination of this Agreement will not relieve any party hereto of any liability for damages resulting from any intentional breach by such party of this Agreement.

## **Article X. GENERAL PROVISIONS**

**Section 10.1 Expenses.** Except as set forth above or as otherwise expressly provided in this Agreement, each party to this Agreement shall bear its respective expenses incurred in connection with the preparation, execution, and performance of this Agreement and the transactions contemplated hereby, including all fees and expenses of its representatives.

**Section 10.2 Assignment; No Third Party Beneficiaries.** No Party may assign any of its rights or delegate any of its obligations under this Agreement without the prior written consent of the other Party. Subject to the preceding sentence, this Agreement will apply to, be binding in all respects upon, and inure to the benefit of the successors and permitted assigns of the Parties. Nothing in this Agreement will be construed to give any Person other than the parties to this Agreement any legal or equitable right under or with respect to this Agreement or any provision of this Agreement, except as provided in Section 5.9(b) (the provisions of which are intended to benefit employees and former employees of Seller), and except such rights as will inure to a successor or permitted assignee pursuant to this Section 10.2 and except with respect to any Seller Indemnified Person or Buyer Indemnified Person.

**Section 10.3 Notices.** All notices, requests and other communications to any party hereunder shall be in writing (including facsimile transmission and electronic mail ("e-mail") transmission, so long as a receipt of such e-mail is requested and received) and shall be given,

If to Seller: c/o Passport Health Plan  
5100 Commerce Crossings Drive  
Louisville, KY 40229  
Attn: Chief Executive Officer  
Email: PHPCCompliance@passporthealthplan.com

with a copy, which will not constitute notice to Seller, to:

Wyatt, Tarrant & Combs, LLP  
500 West Jefferson Street, Suite 2800  
Louisville, Kentucky 40202  
Attn: Michael N. Fine  
Email: mfine@wyattfirm.com

If to Buyer or Evolent: Evolent Health LLC  
800 N. Glebe Road, Suite 500  
Arlington, Virginia 22203  
Attention: Jonathan Weinberg, General Counsel  
E-mail: jweinberg@evolenthealth.com

with a copy, which will not constitute notice to Buyer or Evolent, to:

Bass, Berry & Sims PLC  
150 Third Avenue South, Suite 2800  
Nashville, Tennessee 37201  
Attention: Angela Humphreys  
E-mail: ahumphreys@bassberry.com

or such other address or facsimile number as such Party may hereafter specify for the purpose by notice to the other Party hereto. All such notices, requests and other communications shall be deemed received on the date of receipt by the recipient thereof if received prior to 5:00 p.m. in the place of receipt and such day is a Business Day in the place of receipt. Otherwise, any such notice, request or communication shall be deemed not to have been received until the next succeeding Business Day in the place of receipt.

**Section 10.4 Waiver.** Neither the failure nor any delay by any Party in exercising any right under this Agreement or the documents referred to in this Agreement will operate as a waiver of such right, and no single or partial exercise of any such right will preclude any other or further exercise of such right or the exercise of any other right.

**Section 10.5 Entire Agreement; Modification.** This Agreement (together with the Annexes, Schedules and Exhibits attached to this Agreement and the other documents delivered pursuant to this Agreement) constitutes the entire agreement among the Parties and supersedes all prior agreements, whether written or oral, between the Parties with respect to the subject matter hereof and thereof. This Agreement may not be amended except by a written agreement signed by each of the Parties.

**Section 10.6 Severability.** If any provision of this Agreement is held to be invalid or unenforceable for any reason, such provision shall be ineffective to the extent of such invalidity or unenforceability; provided, however, that the remaining provisions will continue in full force and effect without being impaired or invalidated in any way unless such invalid or unenforceable provision or clause is so significant as to materially affect the expectations of Buyer and Seller regarding this Agreement. Otherwise, any invalid or unenforceable provision shall be replaced by Buyer and Seller with a valid provision which most closely

approximates the intent and economic effect of the invalid or unenforceable provision.

**Section 10.7 Headings; Construction.** The headings of Articles and Sections in this Agreement are provided for convenience only and will not affect its construction or interpretation. All Annexes, Exhibits and Schedules to this Agreement are incorporated into and constitute an integral part of this Agreement as if fully set forth herein. The statements in the Disclosure Schedules, and those in any supplement thereto, relate only to the representations and warranties in the Section of this Agreement to which they expressly relate and not to any other representation or warranty in this Agreement. All words used in this Agreement will be construed to be of such gender or number as the context requires. The word “including” shall be read as “including but not limited to” and otherwise shall be considered illustrative and non-limiting. All references to dollars or “\$” in this Agreement will be to U.S. dollars. The language used in the Agreement will be construed, in all cases, according to its fair meaning, and not for or against any party hereto. The Parties acknowledge that each Party has reviewed this Agreement and that rules of construction to the effect that any ambiguities are to be resolved against the drafting Party will not be available in the interpretation of this Agreement.

**Section 10.8 Governing Law.** This Agreement, and any claims that arise out of or result from this Agreement, shall be governed by and construed in accordance with the laws of the Commonwealth of Kentucky without regard to any applicable conflicts of laws. Any action or proceeding seeking to enforce any provision of, or based on any right arising out of, the transactions contemplated by this Agreement must be brought against any of the Parties in a federal or state court located in Jefferson County, Kentucky.

**Section 10.9 Execution of Agreement; Counterparts.** This Agreement may be executed in one or more counterparts, each of which will be deemed to be an original copy of this Agreement and all of which, when taken together, will be deemed to constitute one and the same agreement. The exchange of copies of this Agreement and of signature pages by facsimile, or by .pdf or similar imaging transmission, will constitute effective execution and delivery of this Agreement as to the Parties and may be used in lieu of the original Agreement for all purposes. Signatures of the Parties transmitted by facsimile, or by .pdf or similar imaging transmission, will be deemed to be their original signatures for any purpose whatsoever.

**Section 10.10 Consent to Assignment.** Anything contained herein to the contrary notwithstanding, this Agreement shall not constitute an agreement to assign any Assumed Contract, claim or other right if the assignment or attempted assignment thereof without the consent of another Person would (i) constitute a breach thereof or in any material way affect the rights of Seller thereunder; (ii) be ineffective or render the Assumed Contract void or voidable, or (iii) materially affect Seller’s rights thereunder so that Buyer would not in fact receive all such rights.

**Section 10.11 Enforcement of Agreement.** The Parties acknowledge and agree that irreparable damage would occur in the event any of the provisions of this Agreement are not performed in accordance with their specific terms and that any breach of this Agreement could not be adequately compensated by monetary damages. Accordingly, each Party agrees that, in addition to any other right or remedy to which each Party may be entitled, at law or in equity, each Party will be entitled to enforce any provision of this Agreement by a decree of specific performance and to temporary, preliminary and permanent injunctive relief to prevent breaches or threatened breaches of the provisions of this Agreement, without posting any bond or other undertaking.

**Section 10.12 Disclosure Schedules.** The Parties agree that any reference in a particular Section of either the Seller Disclosure Schedule or the Buyer Disclosure Schedule shall only be deemed to be an exception to (or, as applicable, a disclosure for purposes of) the representations and warranties (or covenants, as applicable) of the relevant Party that are contained in the corresponding Section of this Agreement regardless of whether such representation, warranty or covenant specifically references such particular Section of the Seller Disclosure Schedule or the Buyer Disclosure Schedule (as applicable). Each of Seller and Buyer is entitled to include references in any Section of the Seller Disclosure Schedule or the Buyer Disclosure Schedule (respectively) to any items disclosed in any other Section of the Seller Disclosure Schedule or the Buyer Disclosure Schedule (respectively).

**Section 10.13 Guarantees.**

(a) Evolent hereby unconditionally and absolutely guarantees, as a guaranty of payment, performance and observation, and not merely as a guaranty of collection, the prompt payment, performance and observation by Buyer of each and every obligation, covenant and agreement of Buyer arising out of this Agreement. The obligation of Evolent under this Section 10.13(a) is a continuing guaranty and shall remain in effect and shall survive the Closing, and the obligations of Evolent shall not be affected, modified or impaired upon the happening from time to time of any of the following events, whether or not with notice or consent of Evolent: (a) the compromise, settlement, release, change, modification or amendment of any or all of the obligations, duties, covenants or agreements of any party under this Agreement; or (b) the extension of the time for performance or payment of money pursuant to this Agreement, or of the time for performance of any other obligations, covenants or agreements under or arising out of this Agreement.

[remainder of page intentionally left blank]

IN WITNESS WHEREOF, the Parties have executed this Agreement as of the date first written above.

**Seller:**  
**University Health Care, Inc.**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Its: \_\_\_\_\_

**Passport Health Solutions, LLC**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Its: \_\_\_\_\_

**Buyer:**  
**Justify Holdings, Inc.**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Its: \_\_\_\_\_

**Evolent:**  
**Evolent Health, Inc.**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Its: \_\_\_\_\_

## ANNEX A

Capitalized terms used herein are defined in the provisions of the Agreement set forth below:

### Defined Term

Agreement  
Acquired Assets  
Acquisition Proposal  
Assumed Liabilities  
Assumed Contracts  
Balance Sheet Date  
Basket  
Bill of Sale  
Business  
Buyer  
Buyer Benefit Plans  
Buyer Common Stock  
Buyer Fundamental Representations  
Buyer Indemnified Persons  
Cap  
CHFS  
Closing  
Closing Date  
COBRA  
Damages  
DOJ  
Effective Time  
Equity Consideration  
Evolut  
Excluded Assets  
Excluded Liabilities  
FTC  
Improvements  
Indemnified Person  
Indemnifying Person  
Material Contract  
Material Vendors  
Materiality Qualifiers  
Medicaid RFP  
Owned Real Property  
Party  
Passport

### Section

First Paragraph  
Section 1.1  
Section 5.7  
Section 1.3  
Section 1.1  
Section 2.3  
Section 8.5(a)  
Section 6.2(a)  
Recitals  
First Paragraph  
Section 4.3(a)  
Section 1.6(a)  
Section 8.6(c)  
Section 8.2  
Section 8.5(b)  
Recitals  
Section 6.1  
Section 6.1  
Section 2.7(g)  
Section 8.2  
Section 5.2(b)  
Section 6.1  
Section 1.6(a)  
First Paragraph  
Section 1.2  
Section 1.4  
Section 5.2(b)  
Section 2.17(d)  
Section 8.8(a)  
Section 8.8(a)  
Section 2.12(a)  
Section 2.19(a)  
Section 8.12  
Section 5.8(c)  
Section 2.17(a)  
First Paragraph  
First Paragraph

<u>Defined Term</u>	<u>Section</u>
PHS I	First Paragraph
Provider Contract	Section 1.1
Purchase Price	Section 1.6(a)
Real Property	Section 2.17(a)
Schedule Supplement	Section 5.12(a)
Seller	First Paragraph
Seller Benefit Plans	Section 2.7(b)
Seller Employees	Section 2.7(a)
Seller Financial Statements	Section 2.3
Seller Fundamental Representations	Section 8.5(c)
Seller Indemnified Persons	Section 8.4
Seller Intellectual Property	Section 2.13(a)
Seller Licenses and Permits	Section 2.8
Seller Real Property Leases	Section 2.17(a)
Services Agreement	Recitals
Shareholders Agreement	Section 6.2(f)
Trademark Assignment Agreement	Section 6.2(i)
Transferred Employees	Section 5.9
Third-Party Claim	Section 8.8(a)
Top Provider	Section 2.19
WARN Act	Section 5.9(c)

For purposes of this Agreement, the following terms and variations thereof have the meanings specified or referred to in this Annex A:

“2020 Medicaid Contract” means any Medicaid contract to be entered into between Passport and CHFS that is awarded to Passport pursuant to the Medicaid RFP (if any).

“Affiliate” means, with respect to any Person, any Person directly or indirectly controlling, controlled by or under common control with such Person.

“Authorized Control Level RBC” has the meaning set forth in KRS § 304.380-070 and 806 KAR 38:100.

“Business Day” means any day other than Saturday or Sunday or any other day which banks in New York are permitted or required to be closed.

“Buyer Disclosure Schedules” means the disclosure schedules delivered by Buyer that qualify the representations and warranties of Buyer in Article IV and attached to this Agreement.

“Cash Purchase Price” means \$70,000,000.

“CMS” means the U.S. Department of Health and Human Services Centers for Medicare & Medicaid Services.

“Code” means the Internal Revenue Code of 1986, as amended.

“Company Action Level RBC” has the meaning set forth in KRS § 304.380-070 and 806 KAR 38:100.

“Confidential Information” means any proprietary or confidential information relating to the business or affairs of Seller, the Sponsors, Evolent or Buyer or their respective Subsidiaries, as applicable (whether or not such information is embodied in writing or other physical form), including, without limitation, information relating to: (i) marketing or distribution data, (ii) business methods, plans and efforts, (iii) personnel data, (iv) the identity of, or courses of dealings or contracts with, actual or potential business relations, (v) financial statements or other financial information, (vi) computer databases, software programs and information relating to the nature of the hardware or software and how such hardware or software is used in combination or alone, (vii) servicing methods, equipment, programs, analyses or profit margins, and (viii) information received by such party from a third party subject to the terms of a confidentiality, non-disclosure or similar agreement or with the reasonable expectation that such information would be treated as confidential or proprietary information. Notwithstanding the foregoing, Confidential Information will exclude information that is: (a) generally available to the public other than as a result of improper disclosure by the receiving party, (b) reasonably believed by the receiving party to have been lawfully obtained by the receiving party from a third party under no obligation of confidentiality, (c) independently developed by the receiving party without any use of the Confidential Information, (d) previously known to, developed by or in the possession of the receiving party at the time of receipt thereof from the disclosing party, or (e) approved in writing by the disclosing party for disclosure. Failure to mark information as confidential or proprietary will not adversely affect its status as Confidential Information.

“Contract” means any contract, agreement, purchase order, warranty or guarantee, license, use agreement, lease (whether for real estate, a capital lease, an operating lease or other any designation that permits the use of any property—real, personal, intellectual, tangible, intangible or mixed—without transferring the title to the property), instrument or note, in each case that creates a legally binding obligation, and in each case whether oral or written, to which Seller is a party or by which it or its properties and assets is otherwise bound.

“Designated Employee” means any employee of Seller who has been designated by Evolent or Evolent Health LLC in accordance with the Services Agreement or otherwise in writing to Seller for hiring by Seller.

“DOI” means the Kentucky Department of Insurance.

“D-SNP Contract” means Passport’s current Dual Eligible Special Needs Plans contract with CMS , as amended, supplemented and renewed from time to time, pursuant to which Passport operates the Business of administering and delivering managed care benefits in the Commonwealth of Kentucky.

“Encumbrance” means any charge, claim, equitable interest, lien, encumbrance, option, pledge, security interest, mortgage, encroachment, easement or restriction of any kind other than liens for taxes not yet due and payable and inchoate liens.

“Enrollees” mean individuals who are properly enrolled in a Medicaid managed care plan or D-SNP plan offered by Passport.

“Environmental Laws” means all domestic or foreign federal, state, local and municipal Legal Requirements concerning pollution or the protection of the environment (including, without limitation, soil, air, water and groundwater) or human health.

“ERISA” means the Employee Retirement Income Security Act of 1974, as amended.

“Governmental Authority” means any domestic or foreign federal, state, provincial, local or municipal court, legislature, executive or regulatory authority, agency or commission, or other governmental entity, authority or instrumentality, including, without limitation, any insurance or healthcare regulatory authority or economic development board or authority.

“Governmental Authorization” means any domestic or foreign federal, state, provincial special or local license, permit, governmental authorization, certificate of exemption, franchise, accreditation, registration, approval or consent.

“Health Care Laws” means all Legal Requirements relating to (a) the licensure, certification, qualification or authority to transact business in connection with the provision of, payment for, or arrangement of, health benefits or health insurance, and the regulation of third-party administrators, utilization review organizations, managed care, third-party payors and persons bearing financial risk for the provision or arrangement of health care items and services; (b) the Programs; (c) the solicitation or acceptance of improper incentives, inducements or remuneration, fraud and abuse, patient inducements, patient referrals or Provider incentives, including, without limitation, the following statutes and all regulations and guidance promulgated thereunder: the Federal anti-kickback law (42 U.S.C. § 1320a-7b), the Stark laws (42 U.S.C. § 1395nn), the Federal False Claims Act (31 U.S.C. §§ 3729, et seq.), the Federal Civil Monetary Penalties Law (42 U.S.C. § 1320a-7a), the Federal Program Fraud Civil Remedies Act (31 U.S.C. § 3801 et seq.), the Federal Health Care Fraud law (18 U.S.C. § 1347), and any similar state Legal Requirements; (d) the administration of healthcare claims or benefits or processing or payment for health care services, treatment, devices or supplies furnished by Providers, including third party administrators, utilization review agents and persons performing quality assurance, credentialing or coordination of benefits; (e) coding, coverage, reimbursement, claims submission, billing and collections related to any Program or otherwise related to insurance fraud; (f) the privacy, security, integrity, accuracy, transmission, storage or other protection of information, including without limitation HIPAA; (g) state insurance, health maintenance organization or managed care (including Medicaid programs), including without limitation those Legal Requirements and regulations pursuant to which Seller is required to be licensed or authorized to transact business as a health maintenance organization in Kentucky; and (h) the Patient Protection and Affordable Care Act (Pub. L. 111-148) as amended by the Health Care and Education Reconciliation Act of 2010 (Pub. L. 111-152), and all regulations promulgated thereunder.

“HIPAA” means the Administrative Simplification provisions of the Health Insurance Portability and Accountability Act of 1996, the Health Information Technology for Economic and Clinical Health Act (“HITECH”) and their respective implementing regulations including the Standards for Privacy of Individually Identifiable Health Information (45 CFR Part 160 and Part 164, Subparts A, D and E) (“Privacy Standards”), the Transactions and Code Set Standards (45 CFR Part 162) (“TCS Standards”) and Security Standards for the Protection of Electronic Protected Health Information (45 CFR Part 164, Subparts A and C) (“Security Standards”), as in effect on the date hereof.

“HSR Act” means the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended.

“Indebtedness” means, with respect to any Person, (i) indebtedness of such Person for borrowed money, whether secured or unsecured, (ii) obligations of such Person for money owed evidenced by notes,

bonds, debentures or other similar instruments, (iii) obligations of such Person under conditional sale or other title retention agreements relating to property purchased by such Person, (iv) capital lease obligations of such Person, (v) obligations of such Person under acceptance, letter of credit or similar facilities, (vi) obligations of such Person under interest rate cap, swap, collar or similar transaction or currency hedging transactions, and (vii) guarantees of such Person of any such indebtedness referred to in clauses (i)-(vi) of any other Person; provided, however, Indebtedness shall exclude any indebtedness under any surplus note issued to or by a Party or its Affiliates pursuant to Section 5.15.

“Intellectual Property” means all domestic and foreign (1) patents and patent applications, and all patents issuing thereon, including, without limitation, utility, model and design patents and certificates of invention, together with all reissue patents, patents of addition, divisionals, provisional applications, renewals, continuations, continuations-in-part, substitutions, additions, extensions, confirmations, re-examinations, and all foreign counterparts of the foregoing which are in the process of being prepared, and all inventions and improvements disclosed therein (collectively, “Patents”); (2) trademarks, service marks, trade dress, trade names, brand names, designs, logos, commercial symbols and corporate names, and all registrations, applications and goodwill associated therewith, and the right to recover for past, present and future infringement thereof (collectively, “Trademarks”); (3) copyrights and all works of authorship, whether or not registered or copyrightable, and all applications, registrations, and renewals in connection therewith (collectively, “Copyrights”); (4) software, including, without limitation, computer programs, operating systems, applications, firmware, utilities, tools, data files, databases, graphics, graphical user interfaces, menus, images, icons, forms, methods of processing, software engines, platforms, schematics, interfaces, architecture, file formats, routines, algorithms, video players, transcoding systems, content management systems, data collection tools, any updates, enhancements, replacements, modifications thereof, and any and all specifications and documentation (including, but not limited to, developer notes, comments and annotations) related thereto and all copyrights therein but excluding retail software products (“Software”); (5) domain names, Internet addresses and other computer identifiers, web sites, URLs, web pages, unique phone numbers, registrations for any of the foregoing and similar rights and items (“Domain Names”); (6) confidential and proprietary information, including without limitation, trade secrets, know-how, formulae, ideas, concepts, discoveries, innovations, improvements, results, reports, information and data, research, laboratory and programmer notebooks, methods, procedures, proprietary technology, operating and maintenance manuals, engineering and other drawings and sketches, customer lists, supplier lists, pricing information, cost information, business manufacturing and production processes and techniques, designs, specifications, and blueprints, financial data, marketing and business data, strategic business and development plans (collectively, “Trade Secrets”); and (7) all other intellectual property and proprietary rights in any form or medium known as of the Closing Date, all copies and tangible embodiments of the foregoing, and all goodwill associated with any of the foregoing.

“IP License” means (i) all Contracts pursuant to Seller has acquired rights in (including usage rights) to any Intellectual Property; or (ii) licenses or agreements pursuant to which the Seller has licensed, granted or transferred any Intellectual Property to a third party, including license agreements, settlement agreements and covenants not to sue but excluding shrink wrap licenses.

“IRS” means the U.S. Internal Revenue Service.

“Knowledge” has the following meaning: (a) an individual will have “Knowledge” of a particular fact or other matter if such individual is actually consciously aware of such fact or matter; and (b) a Person, other than an individual, will have “Knowledge” of a particular fact or other matter if any individual who is serving as a director or officer (or similar executive) of such Person has Knowledge, as stated in clause (a), of such fact or other matter after due inquiry.

“Knowledge of Buyer” (and any similar expression) means Knowledge by Dave Thornton.

“Knowledge of Seller” (and any similar expression) means Knowledge by Mark B. Carter, Carl Felix. David Henley, Stephen J. Houghland, Scott Worthington and Greg Pugh.

“Legal Requirement” means any domestic or foreign federal, state, provincial, local or municipal law, ordinance, code, principle of common law, regulation, order or directive.

“Liabilities” means any liabilities or obligations whatsoever, whether matured or unmatured, known or unknown, accrued or fixed, absolute or contingent or otherwise.

“Medicaid” means the means-tested entitlement program under Title XIX of the Social Security Act, which provides federal grants to states for medical assistance based on specific eligibility criteria, as set forth at 42 U.S.C. § 1396, et seq., as the same may be amended, and any successor law in respect thereof, and encompasses each state’s implementation of such program.

“Medicaid Contract” means that certain Medicaid contract, effective July 1, 2018, between Passport and CHFS, as amended, supplemented and renewed from time to time, pursuant to which Passport operates the Business of administering and delivering Medicaid managed care benefits in the Commonwealth of Kentucky.

“Medicaid RFP” means that certain request for proposals issued by CHFS regarding the issuance of new Medicaid contracts in the Commonwealth of Kentucky to become effective July 1, 2020.

“Medicare” means the entitlement program under Title XVIII of the Social Security Act, which provides specified medical benefits to individuals meeting eligibility criteria, as set forth at 42 U.S.C. § 1395, et seq., as the same may be amended, and any successor law in respect thereof.

“Open Source Software” means any Software that is licensed pursuant to: (a) any license that is a license now approved by the Open Source Initiative and listed at <http://www.opensource.org/licenses>, which licenses include all versions of the GNU General Public License (GPL), the GNU Lesser General Public License (LGPL), the GNU Affero GPL, the MIT license, the Eclipse Public License, the Common Public License, the CDDL, the Mozilla Public License (MPL), the Artistic License, the Netscape Public License, the Sun Community Source License (SCSL), and the Sun Industry Standards License (SISL); or (b) any license to Software that is considered “free” or “open source software” by the Open Source Foundation or the Free Software Foundation.

“Order” means any writ, order, injunction, judgment, decree, ruling, assessment or arbitration award of any Governmental Authority.

“Ordinary Course of Business” means any action (which includes, for this definition, any failure to take action), condition, circumstance or status of or regarding a Person that is consistent with the past practices of such Person and is taken or exists in the ordinary course of the normal operations of such Person.

“Organizational Document” means, for any Person: (a) the articles or certificate of incorporation, formation or organization (as applicable) and the by-laws or similar governing document of such Person; (b) any limited liability company agreement, partnership agreement, operating agreement, stockholder agreement, voting agreement, voting trust agreement or similar document of or regarding such Person; (c) any

other charter or similar document adopted or filed in connection with the incorporation, formation, organization or governance of such Person; or (d) any amendment to any of the foregoing.

“Passport Subsidiaries” means PHS I and PHS II.

“Person” means any individual, partnership, limited partnership, corporation, business trust, limited liability company, limited liability partnership, joint stock company, trust, unincorporated association, joint venture or other entity, or any Governmental Authority.

“PHS II” means Passport Health Solutions Two, LLC, a Kentucky nonprofit limited liability company.

“Pre-Closing Tax Period” means the taxable period ending before the Effective Time and the portion though the end of the day immediately preceding the Closing Date for any taxable period that includes (but does not begin on) the Closing Date.

“Pre-Closing Taxes” means any Taxes owed by or imposed on Seller or the Acquired Assets with respect to any Pre-Closing Tax Period, whether imposed directly, as a transferee or a successor, by contract or otherwise.

“Proceeding” means any action, arbitration, hearing, litigation, or suit (whether civil, criminal, administrative, judicial or investigative, whether formal or informal, whether public or private).

“Program” means Medicaid, Medicare, TRICARE, the Dual Eligible Special Needs program and any other state or federal healthcare programs.

“Provider” means any professional, practitioner, provider or supplier of healthcare services, devices, or supplies to individuals, including, but not limited to, nurses, nurse practitioners, physicians or groups of physicians, hospitals, nursing homes, clinical laboratories, imaging provider, durable medical equipment, prosthetic, orthotics and supplies suppliers, supplemental benefit providers and any other ancillary service providers.

“Records” means books, records, manuals or other materials or similar information (including customer records, personnel or payroll records, accounting or Tax records, purchase or sale records, price lists, correspondence, quality control records or research or development files).

“Required Permits and Governmental Approvals” means those permits, consents and approvals set forth on Annex B.

“SAP” means the statutory accounting principles prescribed or permitted by the DOI.

“SEC” means the Securities and Exchange Commission.

“Securities Act” means the Securities Act of 1933, as amended.

“Seller Disclosure Schedules” means the disclosure schedules delivered by Seller that qualify the representations and warranties of Seller in Article II and attached to this Agreement.

“Seller Employee” means each of those employees so designated on Schedule 2.7(a).

“Seller Material Adverse Effect” means any material adverse change to the business, condition (financial or otherwise), results of operations, assets, or liabilities of Seller, or on the ability of Seller to perform its obligations under this Agreement or to consummate the transactions contemplated hereby; provided, however, that in determining whether a Seller Material Adverse Effect has or would occur, is reasonably likely to occur, or would reasonably be expected to occur, any change or effect on Seller primarily resulting from, or arising out of, any of the following, (either alone or in combination) shall be excluded and disregarded: (i) changes in, or conditions affecting, interest rates or general economic conditions in the United States; (ii) changes in, or conditions affecting, the industries in which Seller operates; (iii) acts of war, terrorism, hostilities or other similar events; (iv) natural disasters and other similar events beyond the reasonable control of Seller; (v) changes in Legal Requirements or SAP, or in the interpretation of the foregoing by any Person other than Seller; or (vii) any action or omission taken by Evolent, Buyer or any of their Affiliates or by any Designated Employee or any act or omission taken by Seller upon the advice of Evolent, an Affiliate of Evolent or any Designated Employee (whether under this Agreement, the Services Agreement or otherwise); or (viii) any change, effect or circumstance resulting from the announcement or performance of this Agreement, (provided that such exclusions will not apply in each of the cases specified in clauses (i) or (ii)), if such change, effect, event, fact, circumstance or occurrence has or would reasonably be expected to have a disproportionate effect on Seller relative to the other entities in the industries in which Seller operates.

“Sponsor” means each of University of Louisville Physicians, Inc. (“ULP”), Louisville/Jefferson County Primary Care Association, Inc. (“PCA”), Norton Healthcare, Inc. (“Norton”), University Medical Center, Inc. (“UMC”), and the Jewish Heritage Fund for Excellence, Inc. (“JHFE”), each of which is a Kentucky nonprofit corporation that qualifies as a tax-exempt organization under Section 501(c)(3) of the Code, and “Sponsors” means ULP, PCA, Norton, UMC and JHFE, together.

“Subsidiary” of a Person means any corporation or other legal entity of which such Person (either alone or through or together with any other Subsidiary or Subsidiaries) is the general partner or managing entity or of which at least a majority of the stock or other equity interests the holders of which are generally entitled to vote for the election of the board of directors or others performing similar functions of such corporation or other legal entity is directly or indirectly owned or controlled by such Person (either alone or through or together with any other Subsidiary or Subsidiaries).

“Tax” or “Taxes” means all federal, state, local and foreign taxes (including, without limitation, income, gross receipts, profit, alternative minimum, add on minimum, franchise, sales, use, real property, personal property, ad valorem, excise, environmental (whether or not considered a tax under applicable law and including under Section 59A of the Code), escheatment or unclaimed property (whether or not considered a tax under applicable law), license, occupation, unemployment, disability, payroll, employment, social security, wage withholding and bed taxes) and installments of estimated taxes, assessments, deficiencies, levies, imports, duties, license fees, registration fees, withholdings, or other similar charges of every kind, character or description imposed by any Governmental Authority, and any interest, penalties or additions to tax imposed thereon or in connection therewith, that arise from or relate to the assets, business or property of Seller with respect to any period or arising out of the transactions contemplated by this Agreement for which Seller is liable.

“Tax Returns” means any return, declaration, report, claim for refund, or information return or statement relating to Taxes, including any schedule or attachment thereto, and including any amendment thereof.

“Transaction Expenses” means the cost of insurance obtained pursuant to Section 5.17 and all fees, expenses, commissions or similar amounts payable by Seller to any of its counsel, accountants and other professional advisers (including the fees and expenses of Wyatt, Tarrant & Combs LLP) in connection with this Agreement and the transactions contemplated hereby.

“TRICARE” means the program of medical and dental care for members of the United States uniformed services and certain former members of those services, and for their dependents, as set forth at 10 U.S.C. § 1071, et seq., as the same may be amended, and any successor law in respect thereof.

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## Section 3: EX-31.1 (EXHIBIT 31.1)

Exhibit 31.1

### Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Frank Williams, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Evolent Health, 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 officers 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 the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal 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 officers 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 the 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.

Dated: August 9, 2019      /s/ Frank Williams  
Name: Frank Williams  
Title: Chief Executive Officer

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## Section 4: EX-31.2 (EXHIBIT 31.2)

Exhibit 31.2

### Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, John Johnson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Evolent Health, 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 officers 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 the registrant's most recent fiscal quarter (the registrant's fourth fiscal 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 officers 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 the 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.

Dated: August 9, 2019      /s/ John Johnson  
Name: John Johnson  
Title: Chief Financial Officer

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## Section 5: EX-32.1 (EXHIBIT 32.1)

Exhibit 32.1

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

I, Frank Williams, Chief Executive Officer of Evolent Health, Inc. (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

1. The Quarterly Report on Form 10-Q of the Company for the quarter ended June 30, 2019 (the "Report"), fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 (15 U.S.C. 78m); and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 9, 2019      /s/ Frank Williams  
Name: Frank Williams  
Title: Chief Executive Officer

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

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## Section 6: EX-32.2 (EXHIBIT 32.2)

Exhibit 32.2

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

I, John Johnson, Chief Financial Officer of Evolent Health, Inc. (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

1. The Quarterly Report on Form 10-Q of the Company for the quarter ended June 30, 2019 (the "Report"), fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 (15 U.S.C. 78m); and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 9, 2019      /s/ John Johnson

Name: John Johnson  
Title: Chief Financial Officer

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

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