Section 1: 10-Q (10-Q)

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

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FORM 10-Q

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

For the quarterly period ended March 31, 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

____

Evolent Health, Inc.

(Exact name of registrant as specified in its charter)

____

Delaware	**32-0454912**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
800 N. Glebe Road, Suite 500, Arlington, Virginia	**22203**
(Address of principal executive offices)	**(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.)

____

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 ☒

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

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

As of May 6, 2019, there were 81,963,259 shares of the registrant's Class A common stock outstanding and 713,517 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, "Evolent," the "Company," "we," "our" and "us" refer to Evolent Health, Inc. and its consolidated subsidiaries. Evolent Health LLC, a subsidiary of Evolent Health, Inc. through which we conduct our operations, has owned all of our operating assets and substantially all of our business since inception. Evolent Health, Inc. is a holding company and its principal asset is all of the Class A common units of Evolent 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 customer contracts;
- uncertainty relating to expected future revenues from and our relationship with our largest customer, Passport, including as a result of ongoing litigation pertaining to rate adjustments and Passport's ability to remain solvent, which among other things could result in significantly reduced fees or a significant customer loss in 2019;
- 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 pending 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") and NCIS Holdings, Inc. ("New Century Health"), 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 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 Evolent 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 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, particularly in New Mexico;
- 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 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 March 31, 2019	As of December 31, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	$ 170,817	$ 228,320
Restricted cash and restricted investments	50,920	154,718
Accounts receivable, net (amounts attributable to related parties: 2019 - $8,701; 2018 - $8,519)	65,626	80,208
Prepaid expenses and other current assets (amounts attributable to related parties: 2019 - 0; 2018 - $85)	30,495	22,618
Investments, at amortized cost	2,046	—
Contract assets	1,282	2,102
Total current assets	321,186	487,966
Restricted cash and restricted investments	7,036	6,105
Investments, at amortized cost	11,743	10,010
Investments in and advances to equity method investees	6,188	6,276
Property and equipment, net	77,379	73,628
Right-of-use assets - operating	63,855	—
Prepaid expenses and other noncurrent assets (amounts attributable to related parties: 2019 - $3,500; 2018 - $2,500)	11,264	15,028
Contract assets	1,695	961
Contract cost assets	22,463	19,147
Intangible assets, net	336,231	335,036
Goodwill	770,334	768,124
Total assets	$ 1,629,374	$ 1,722,281
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)		
Liabilities		
Current liabilities:		
Accounts payable (amounts attributable to related parties: 2019 - $2,496; 2018 - $1,564)	$ 39,007	$ 146,760
Accrued liabilities (amounts attributable to related parties: 2019 - $1,462; 2018 - $798)	53,018	48,957
Operating lease liabilities - current	3,439	—
Accrued compensation and employee benefits	15,872	25,460
Deferred revenue	22,320	20,584
Reserve for claims and performance-based arrangements	30,019	27,595
Total current liabilities	163,675	269,356
Long-term debt, net of discount	223,320	221,041
Other long-term liabilities	10,490	17,090
Operating lease liabilities - noncurrent	57,197	—
Deferred tax liabilities, net	24,566	25,438
Total liabilities	479,248	532,925
Commitments and Contingencies (See Note 9)		
Shareholders' Equity (Deficit)		
Class A common stock - $0.01 par value; 750,000,000 shares authorized as of March 31, 2019 and December 31, 2018;		
79,428,728 and 79,172,118 shares issued and outstanding as of March 31, 2019 and December 31, 2018, respectively	794	792
Class B common stock - $0.01 par value; 100,000,000 shares authorized as of March 31, 2019 and December 31, 2018;		
3,190,301 shares issued and outstanding as of March 31, 2019 and December 31, 2018	31	31
Additional paid-in capital	1,096,089	1,093,174
Accumulated other comprehensive income (loss)	(158)	(182)
Retained earnings (accumulated deficit)	3,270	50,009
Total shareholders' equity (deficit) attributable to Evolent Health, Inc.	1,100,026	1,143,824
Non-controlling interests	50,100	45,532
Total shareholders' equity (deficit)	1,150,126	1,189,356
Total liabilities and shareholders' equity (deficit)	$ 1,629,374	$ 1,722,281

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 March 31,	
	2019	**2018**
Revenue		
Transformation services [1]	$ 3,353	$ 6,505
Platform and operations services [1]	147,292	109,818
Premiums	47,111	23,391
Total revenue	197,756	139,714
Expenses		
Cost of revenue (exclusive of depreciation and amortization expenses presented separately below) [1]	117,441	71,975
Claims expenses	37,757	16,749
Selling, general and administrative expenses [1]	74,838	55,526
Depreciation and amortization expenses	14,266	9,496
Change in fair value of contingent consideration	100	100
Total operating expenses	244,402	153,846
Operating income (loss)	(46,646)	(14,132)
Interest income	1,060	1,072
Interest expense	(3,562)	(853)
Income (loss) from equity method investees	(424)	(131)
Other income (expense), net	427	(18)
Income (loss) before income taxes and non-controlling interests	(49,145)	(14,062)
Provision (benefit) for income taxes	(496)	3
Net income (loss)	(48,649)	(14,065)
Net income (loss) attributable to non-controlling interests	(1,910)	(439)
Net income (loss) attributable to Evolent Health, Inc.	$ (46,739)	$ (13,626)
Earnings (Loss) Available for Common Shareholders		
Basic and Diluted	$ (46,739)	$ (13,626)
Earnings (Loss) per Common Share		
Basic and Diluted	$ (0.59)	$ (0.18)
Weighted-Average Common Shares Outstanding		
Basic and Diluted	79,335	75,375
Comprehensive income (loss)		
Net income (loss)	$ (48,649)	$ (14,065)
Other comprehensive income (loss), net of taxes, related to:		
Foreign currency translation adjustment	24	—
Total comprehensive income (loss)	(48,625)	(14,065)
Total comprehensive income (loss) attributable to non-controlling interests	(1,910)	(439)
Total comprehensive income (loss) attributable to Evolent Health, Inc.	$ (46,715)	$ (13,626)

[1] See Note 17 for amounts related to related parties included in these line items.

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

	For the Three Months Ended March 31,	
	2019	**2018**
Cash Flows from Operating Activities		
Net income (loss)	$ (48,649)	$ (14,065)
Adjustments to reconcile net income (loss) to net cash and restricted cash provided by (used in) operating activities:		
(Income) loss from equity method investees	424	131
Change in fair value of contingent consideration	100	100
Depreciation and amortization expenses	14,266	9,496
Amortization of deferred financing costs	2,279	229
Stock-based compensation expense	4,537	3,795
Deferred tax provision (benefit)	(492)	(42)
Amortization of contract cost assets	1,250	570
Other	427	(206)
Changes in assets and liabilities, net of acquisitions:		
Accounts receivables, net and contract assets	14,796	(17,135)
Prepaid expenses and other current and noncurrent assets	(4,174)	(12,610)
Contract cost assets	(4,565)	(355)
Accounts payable	(204)	2,334
Accrued liabilities	3,605	5,209
Accrued compensation and employee benefits	(9,591)	(19,570)
Deferred revenue	1,736	10,869
Reserves for claims and performance-based arrangements	2,424	6,699
ROU operating assets	(12,493)	—
Operating lease liabilities	13,233	—
Other long-term liabilities	(4,618)	(154)
Net cash and restricted cash provided by (used in) operating activities	(25,709)	(24,705)
Cash Flows from Investing Activities		
Cash paid for asset acquisitions or business combinations	(6,000)	(11,676)
Customer advance for regulatory capital requirements	(5,400)	—
Principal repayment of implementation funding loan	—	4,000
Amount received from escrow in asset acquisition	—	500
Purchases of investments	(3,779)	—
Investments in and advances to equity method investees	(337)	(4,000)
Investments in internal-use software and purchases of property and equipment	(9,462)	(9,553)
Purchases of restricted investments	(500)	—
Maturities of restricted investments	—	8,044
Net cash and restricted cash provided by (used in) investing activities	(25,478)	(12,685)
Cash Flows from Financing Activities		
Changes in working capital balances related to claims processing on behalf of partners	(107,500)	(22,268)
Amount received from escrow in asset acquisition	500	—
Deferred financing costs related to 2025 Notes	(608)	—
Proceeds from stock option exercises	123	1,461
Taxes withheld and paid for vesting of restricted stock units	(2,180)	(800)
Net cash and restricted cash provided by (used in) financing activities	(109,665)	(21,607)
Effect of exchange rate on cash and cash equivalents and restricted cash	(19)	(4)
Net increase (decrease) in cash and cash equivalents and restricted cash	(160,871)	(59,001)
Cash and cash equivalents and restricted cash as of beginning-of-period	388,325	295,363
Cash and cash equivalents and restricted cash as of end-of-period	$ 227,454	$ 236,362

See accompanying Notes to Consolidated Financial Statements

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

	Three Months Ended March 31, 2019								
	Class A Common Stock		Class B Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Accumulated Deficit)	Non-Controlling Interests	Total Equity (Deficit)
	Shares	Amount	Shares	Amount					
Balance as of December 31, 2018	79,172	$ 792	3,190	$ 31	$ 1,093,174	$ (182)	$ 50,009	$ 45,532	$ 1,189,356
Stock-based compensation expense	—	—	—	—	4,152	—	—	—	4,152
Exercise of stock options	11	—	—	—	123	—	—	—	123
Restricted stock units vested, net of shares withheld for taxes	203	2	—	—	(2,182)	—	—	—	(2,180)
Class A common stock issued for Passport earn-out	43	—	—	—	800	—	—	—	800
Amount attributable to NCI from 2019 business combination	—	—	—	—	—	—	—	6,500	6,500
Foreign currency translation adjustment	—	—	—	—	—	24	—	—	24
Net income (loss)	—	—	—	—	—	—	(46,739)	(1,910)	(48,649)
Reclassification of non-controlling interests	—	—	—	—	22	—	—	(22)	—
Balance as of March 31, 2019	79,429	$ 794	3,190	$ 31	$ 1,096,089	$ (158)	$ 3,270	$ 50,100	$ 1,150,126

	Three Months Ended March 31, 2018								
	Class A Common Stock		Class B Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Accumulated Deficit)	Non-Controlling Interests	Total Equity (Deficit)
	Shares	Amount	Shares	Amount					
Balance as of December 31, 2017	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	—	—	—	—	3,795	—	—	—	3,795
Exercise of stock options	354	4	—	—	1,457	—	—	—	1,461
Restricted stock units vested, net of shares withheld for taxes	129	1	—	—	(801)	—	—	—	(800)
Exchange of Class B common stock	1,773	18	(1,773)	(18)	23,805	—	—	(23,805)	—
Tax impact of Class B Exchanges	—	—	—	—	908	—	—	—	908
Foreign Currency Translation Adjustment	—	—	—	—	—	—	—	—	—
Net income (loss)	—	—	—	—	—	—	(13,626)	(439)	(14,065)
Reclassification of non-controlling interests	—	—	—	—	5	—	—	(5)	—
Balance as of March 31, 2018	76,979	$ 770	881	$ 9	$ 953,322	$ —	$ 89,041	$ 11,772	$ 1,054,914

See accompanying Notes to Consolidated Financial Statements

1. Organization

Evolent 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 March 31, 2019, Evolent Health, Inc. owns 96.1% of Evolent Health LLC, holds 100% of the voting rights, is the sole managing member and controls its operations. Therefore, the financial results of Evolent Health LLC have been consolidated in the financial statements of Evolent Health, Inc.

Since its inception, the Company has incurred losses from operations. As of March 31, 2019, the Company had cash and cash equivalents of $170.8 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. See "Part II - Item 8. Financial Statements and Supplementary Data - Note 2" in our 2018 Form 10-K for a complete summary of our significant accounting policies.

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 the 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 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:

	As of March 31, 2019	As of December 31, 2018
Collateral for letters of credit for facility leases (1)	$ 3,710	$ 3,710
Collateral with financial institutions (2)	37,691	34,142
Claims processing services (3)	14,939	122,439
Other	1,616	532
Total restricted cash and restricted investments	57,956	160,823
Current restricted investments	711	211
Current restricted cash	50,209	154,507
Total current restricted cash and restricted investments	50,920	154,718
Noncurrent restricted investments	608	607
Noncurrent restricted cash	6,428	5,498
Total noncurrent restricted cash and restricted investments	$ 7,036	$ 6,105

(1) 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.
(2) Represents collateral held with financial institutions for risk-sharing and other arrangements. As of March 31, 2019, and December 31, 2018, approximately $34.8 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 March 31, 2019, and December 31, 2018, approximately $2.9 million of the collateral amount was held in FDIC participating bank accounts, primarily related to a line of credit.
(3) 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.

	As of March 31, 2019	2018
Cash and cash equivalents	$ 170,817	$ 200,316
Restricted cash and restricted investments	57,956	36,757
Restricted investments included in restricted cash and restricted investments	(1,319)	(711)
Total cash and cash equivalents and restricted cash shown in the consolidated statements of cash flows	$ 227,454	$ 236,362

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 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. We perform impairment tests between annual tests if an event occurs, or circumstances change, that would more likely than not reduce the fair value of a reporting unit below its carrying amount.

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 months ended March 31, 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 impact to our consolidated balance sheets or results of operations as of or for the three months ended March 31, 2019.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, in order to clarify the principles of recognizing revenue. This standard establishes the core principle of recognizing revenue to depict the transfer of promised goods or services in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The FASB defines a five-step process that systematically identifies the various components of the revenue recognition process, culminating with the recognition of revenue upon satisfaction of an entity’s performance obligations. By completing all five steps of the process, the core principles of revenue recognition will be achieved. The new revenue standard (including updates) is effective for annual and interim reporting periods beginning after December 15, 2017, with early adoption permitted only as of annual reporting periods beginning after December 15, 2016. The guidance permits two methods of adoption: i) the full retrospective method applying the standard to each prior reporting period presented, or ii) the modified retrospective method with a cumulative effect of initially applying the guidance recognized at the date of initial application. The standard also allows entities to apply certain practical expedients at their discretion. The Company adopted the standard effective January 1, 2018, using the modified retrospective method for only contracts that were not completed at the date of initial application. Results for reporting periods beginning after January 1, 2018 are presented under ASC 606, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting under ASC Topic 605, *Revenue Recognition* (“ASC 605”). The adoption of this standard resulted in changes related to revenue recognition for contracts that contain certain features, such as variable consideration. These changes generally accelerate revenue recognition. In addition, certain customer setup costs, which have historically been expensed as incurred, will now be capitalized. Evolent recognized the cumulative effect of applying the new revenue standard as a $17.3 million adjustment to the opening balance of retained earnings, including non-controlling interests, in the first quarter of 2018, primarily as a result of capitalization of expenses related to contract acquisition and fulfillment costs and acceleration of revenue due to variable consideration estimation. See Note 5 for additional disclosures regarding Evolent's contracts with customers. See Note 2 for updated revenue recognition accounting policy.

Future Adoption of New Accounting Standards

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 and “Part II - Item 8. Financial Statements and Supplementary Data - Note 11” within our 2018 Form 10-K for additional information about the portion of the earn-out that is classified as post-combination compensation expense. 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):

Purchase consideration:		
Cash	$	124,652
Fair value of Class B common stock issued		83,173
Fair value of contingent consideration		3,200
Total consideration	$	211,025
Tangible assets acquired:		
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
Identifiable intangible assets acquired:		
Customer relationships		72,500
Technology		27,000
Corporate trade name		4,300
Provider network contracts		9,600
Liabilities assumed:		
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
Goodwill		133,110
Net assets acquired	$	211,025

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):

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

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 March 31,	
	2019	**2018**
Revenue	$ 197,756	$ 184,630
Net income (loss)	(48,649)	(14,885)
Net income (loss) attributable to non-controlling interests	(1,881)	(972)
Net income (loss) attributable to Evolent Health, Inc.	(46,768)	(13,913)
Net income (loss) per Common Share available to common shareholders		
Basic and Diluted	$ (0.59)	$ (0.18)

Securities Offerings and Sales

Under an exchange agreement we entered into at the time of our IPO, we granted TPG, The Advisory Board Company ("The Advisory Board") and Ptolemy Capital, LLC ("Ptolemy Capital") (together, the "Investor Stockholders") 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 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*.

	For the Three Months Ended March 31,	
	2019	2018
Services Revenue		
Transformation services	$ 3,353	$ 6,505
Platform and operations services	147,292	108,420

Transaction Price Allocated to the Remaining Performance Obligations

For contracts with a term that is greater than one year, we have allocated approximately $84.6 million of transaction price to performance obligations that are unsatisfied or partially unsatisfied as of March 31, 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 56% and 88% 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 March 31, 2019	As of December 31, 2018
Short-term receivables [1]	$ 63,886	$ 78,380
Long-term receivables [1]	6,550	6,550
Short-term contract assets	1,282	2,102
Long-term contract assets	1,695	961
Short-term deferred revenue	22,320	20,584
Long-term deferred revenue	443	1,502

[1] Excludes pharmacy claims receivable and premiums receivable

Changes in contract assets and deferred revenue for the three months ended March 31, 2019, were as follows (in thousands):

Contract assets	
Balance as of beginning-of-period	$ 3,063
Reclass to receivables, as the right to consideration becomes unconditional	(1,183)
Contract assets recognized, net of reclass to receivables	1,097
Balance as of end-of-period	$ 2,977
Deferred revenue	
Balance as of beginning-of-period	$ 22,086
Reclass to revenue, as a result of performance obligations satisfied	(11,807)
Cash received in advance of satisfaction of performance obligations	12,484
Balance as of end-of-period	$ 22,763

The amount of revenue recognized during the three months ended March 31, 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 March 31, 2019 and December 31, 2018, the Company had $2.5 million and $1.5 million of contract acquisition cost assets, net of accumulated amortization. The Company recorded amortization expense of $0.1 million and less than $0.1 million for the three months ended March 31, 2019 and 2018, respectively.

In our platforms 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 March 31, 2019 and December 31, 2018, the Company had $20.0 million and 17.6 million of contract fulfillment cost assets, net of accumulated amortization. The Company recorded amortization expense of $1.2 million and $0.5 million for the three months ended March 31, 2019 and 2018, respectively.

The majority of the contract cost balance was recorded as part of the transition adjustment that was recorded upon implementation of ASC 606. 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 March 31, 2019	As of December 31, 2018
Computer hardware	$ 10,850	$ 10,421
Furniture and equipment	3,226	3,187
Internal-use software development costs	90,284	81,640
Leasehold improvements	10,011	10,118
Total property and equipment	114,371	105,366
Accumulated depreciation and amortization	(36,992)	(31,738)
Total property and equipment, net	$ 77,379	$ 73,628

The Company capitalized $8.7 million and $10.5 million of internal-use software development costs for the three months ended March 31, 2019 and 2018, respectively. The net book value of capitalized internal-use software development costs was $67.4 million and $62.8 million as of March 31, 2019, and December 31, 2018, respectively.

Depreciation expense related to property and equipment was $5.2 million for the three months ended March 31, 2019, of which amortization expense related to capitalized internal-use software development costs was $4.1 million. Depreciation expense related to property and equipment was $3.6 million for the three months ended March 31, 2018, of which amortization expense related to capitalized internal-use software development costs was $2.5 million.

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 strategy, partners, or litigation.

We did not identify any qualitative factors that would trigger a quantitative goodwill impairment test during the three months ended March 31, 2019. We will perform our annual impairment test as of October 31, 2019.

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

	For the Three Months Ended March 31, 2019		
	Services	True Health	Consolidated
Balance as of beginning-of-period [1]	$ 762,419	$ 5,705	$ 768,124
Goodwill Acquired	2,200	—	2,200
Measurement period adjustments	—	—	—
Foreign currency translation	10	—	10
Balance as of end-of-period	$ 764,629	$ 5,705	$ 770,334

[1] Net of cumulative inception to date impairment of $160.6 million.

	For the Year Ended December 31, 2018		
	Services	True Health	Consolidated
Balance as of beginning-of-period [1]	$ 628,186	$ —	$ 628,186
Goodwill Acquired [2]	134,343	5,826	140,169
Measurement period adjustments [3]	4	(121)	(117)
Foreign currency translation [4]	(114)	—	(114)
Balance as of end-of-period	$ 762,419	$ 5,705	$ 768,124

[1] Net of cumulative inception to date impairment of $160.6 million.
[2] Goodwill acquired primarily as a result of the New Century Health and True Health transactions, as discussed in Note 4.
[3] Measurement period adjustments related to transactions completed during the first quarter of 2018.
[4] 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 March 31, 2019			
	Weighted-Average Remaining Useful Life	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
Corporate trade name	14.9	$ 23,300	$ 3,856	$ 19,444
Customer relationships	17.6	291,519	32,818	258,701
Technology	2.7	82,922	36,261	46,661
Below market lease, net	3.8	4,097	3,037	1,060
Provider network contracts	4.4	11,900	1,535	10,365
Total		$ 413,738	$ 77,507	$ 336,231

	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		$ 403,438	$ 68,402	$ 335,036

Amortization expense related to intangible assets was $9.1 million and $5.9 million for the three months ended March 31, 2019 and 2018, respectively.

Future estimated amortization of intangible assets (in thousands) as of March 31, 2019, is as follows:

2019	$	28,419
2020		33,309
2021		29,173
2022		25,292
2023		22,528
Thereafter		197,510
Total	$	336,231

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 three months ended March 31, 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 $0.6 million related to the 2025 Notes for the three months ended March 31, 2019. 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 months ended March 31, 2019, the Company recorded $2.0 million 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 months ended March 31, 2019 and 2018, the Company recorded approximately $0.6 million in interest expense and $0.2 million in non-cash interest expense related to the amortization of deferred financing costs.

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 $100.8 million and $122.5 million, respectively, as of March 31, 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 March 31, 2019, were $136.7 million and $121.4 million, respectively, based on traded prices on April 3, 2019, and March 28, 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 March 31, 2019	As of December 31, 2018
2025 Notes		
Carrying value	$ 100,779	$ 98,730
Unamortized debt discount and issuance costs allocated to debt	71,721	73,770
Principal amount	$ 172,500	$ 172,500
Remaining amortization period (years)	6.5	6.8
2021 Notes		
Carrying value	$ 122,541	$ 122,311
Unamortized issuance costs	2,459	2,689
Principal amount	$ 125,000	$ 125,000
Remaining amortization period (years)	2.7	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 March 31, 2019 and December 31, 2018, in accordance with the Company's contribution agreements with certain equity-method investees. These obligations are outside of 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 is effective from September 30, 2017 through June 30, 2019, and carries a quarterly facility rental fee of 0.8% per annum on the amount of the outstanding balance. The letter of credit will terminate on June 30, 2019. The letter of credit is 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 March 31, 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 $3.7 million in letters of credit and, as such, held $3.7 million in restricted cash and restricted investments as collateral for the letters of credit as of March 31, 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.

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 months ended March 31, 2019 and 2018.

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 $34.8 million as of March 31, 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, which expired 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 three months ended March 31, 2019 (in thousands):

Reinsurance premiums assumed	$	25,441
Claims assumed		21,151
Claims-related administrative expenses		4,282
(Increase) decrease in reserves for claims and performance-based arrangements attributable to the Reinsurance Agreement		8
Reserves for claims and performance-based arrangements attributable to the Reinsurance Agreement at the beginning of the period		1,243
Reinsurance payments		1,243
Receivables for claims and performance-based arrangements attributable to the Reinsurance Agreement at the end of the period	$	8

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 (as described in our 2018 Form 10-K), 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 March 31, 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 March 31, 2019, approximately 80.3% of our $227.5 million of cash and cash equivalents (including restricted cash) were held in bank deposits with FDIC participating banks, approximately 19.3% were held in money market funds and less than 1.0% 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:

	As of March 31, 2019	As of December 31, 2018
Customer C	15.4%	23.3%

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:

	For the Three Months Ended March 31,	
	2019	2018
Customer A	14.0%	*
Customer B	13.1%	20.1%
Customer C	*	10.6%

* 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):

	For the Three Months Ended March 31, 2019
Operating lease cost	$ 3,281
Variable lease cost	1,455
Total lease cost	$ 4,736

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 $3.3 million for the three months ended March 31, 2018.

Maturity of lease liabilities (in thousands) as of March 31, 2019, is as follows:

	Operating lease expense (1)
2019	$ 5,226
2020	8,613
2021	8,719
2022	7,563
2023	7,414
2024 and thereafter	47,118
Total lease payments	84,653
Less:	
Interest	24,017
Present value of lease liabilities	60,636

(1) We have additional operating lease agreements for office space that have not yet commenced as of March 31, 2019. The minimum lease payments for those leases are $31.1 million and the leases will commence throughout the remainder of 2019.

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

	As of March 31, 2019
Weighted average discount rate	6.25%
Weighted average remaining lease term	9.71

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 March 31,	
	2019	2018
Net income (loss)	$ (48,649)	$ (14,065)
Less:		
Net income (loss) attributable to non-controlling interests	(1,910)	(439)
Net income (loss) available for common shareholders [(1) (2)]	$ (46,739)	$ (13,626)
Weighted-average common shares outstanding [(2) (3)]	79,335	75,375
Earnings (Loss) per Common Share		
Basic	$ (0.59)	$ (0.18)
Diluted	(0.59)	(0.18)

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

(2) 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.

(3) 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 March 31,	
	2019	2018
Exchangeable Class B common stock	3,190	2,141
Restricted stock units ("RSUs"), performance-based RSUs and leveraged stock units ("LSUs")	1,043	627
Stock options and performance-based stock options	1,966	2,162
Convertible senior notes	10,361	5,201
Total	16,560	10,131

12. Stock-based Compensation

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

	For the Three Months Ended March 31,	
	2019	2018
Award Type		
Stock options	$ 1,360	$ 2,231
Performance-based stock options	110	110
RSUs	2,430	1,454
Performance-based RSUs	384	—
LSUs	253	—
Total	$ 4,537	$ 3,795
Line Item		
Cost of revenue	$ 791	$ 316
Selling, general and administrative expenses	3,746	3,479
Total	$ 4,537	$ 3,795

No stock-based compensation in the totals above was capitalized as software development costs for the three months ended March 31, 2019 and 2018, respectively.

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

	For the Three Months Ended March 31,	
	2019	2018
Stock options	381	962
RSUs	501	753
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.

The Company recorded $0.5 million in income tax benefit and less than $0.1 million in income tax expense for the three months ended March 31, 2019 and 2018, respectively, which resulted in effective tax rates of 1.0% and less than (0.1)%, respectively. The income tax benefit recorded during the three months ended March 31, 2019, primarily relates to the amortization of intangible assets acquired as part of the New Century Health transaction. Furthermore, Evolent Health, Inc. continues to record a valuation allowance against its net deferred tax assets, with the exception of indefinite lived components as part of its outside basis difference in its 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 March 31, 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 and “Part II - Item 8. Financial Statements and Supplementary Data - Note 12” in our 2018 Form 10-K 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. As of March 31, 2019 and 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. 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 \$0.4 million and \$0.1 million for the three months ended March 31, 2019 and 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 \$7.1 million and less than \$0.1 million for the three months ended March 31, 2019 and 2018, respectively.

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 2018. There was no material change in the Company’s ownership percentage during the three months ended March 31, 2019.

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 March 31, 2019, and December 31, 2018, we owned 96.1% 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 March 31,	
	2019	2018
Non-controlling interests as of beginning-of-period	$ 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	—	(23,805)
Amount attributable to NCI from 2019 business combination	6,500	—
Net income (loss) attributable to non-controlling interests	(1,910)	(439)
Reclassification of non-controlling interests	(22)	(5)
Non-controlling interests as of end-of-period	$ 50,100	$ 11,772

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 March 31, 2019			
	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents (1)	$ 9,139	$ —	$ —	$ 9,139
Restricted cash and restricted investments (1)	34,774	—	—	34,774
Total	$ 43,913	$ —	$ —	$ 43,913
Liabilities				
Contingent consideration (2)	—	—	8,100	8,100

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

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

(2) Represents the contingent earn-out consideration related to the University Health Care, Inc. d/b/a Passport Health Plan ("Passport") acquisition and the New Century Health transaction as described below. As of March 31, 2019, $4.9 million was attributable to Passport and $3.2 million was attributable to New Century Health. 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 month periods ended March 31, 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 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 March 31,	
	2019	2018
Balance as of beginning-of-period	$ 8,800	$ 8,700
Settlements	(800)	—
Realized and unrealized (gains) losses, net	100	100
Balance as of end-of-period	$ 8,100	$ 8,800

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 March 31, 2019			
	Fair Value	Valuation Technique	Significant Unobservable Inputs	Assumption or Input Ranges
Passport contingent consideration	$ 4,900	Real options approach	Risk-adjusted recurring revenue CAGR	103.9% (1)
			Discount rate	5.5% - 6.5%
New Century Health contingent consideration	$ 3,200	Real options approach	Risk-neutral probability exceeds threshold	39.0% (2)
			Risk-neutral probability meets earn-out cap	24.0% (2)

	As of December 31, 2018			
	Fair Value	Valuation Technique	Significant Unobservable Inputs	Assumption or Input Ranges
Passport contingent consideration	$ 5,600	Real options approach	Risk-adjusted recurring revenue CAGR	103.9% (1)
			Discount rate	5.5% - 6.5%
New Century Health contingent consideration	$ 3,200	Real options approach	Risk-neutral probability exceeds threshold	39.0% (2)
			Risk-neutral probability meets earn-out cap	24.0% (2)

(1) 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 61.8%.

(2) 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 $7.1 million and less than $0.1 million for the three months ended March 31, 2019 and 2018, respectively.

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 March 31,	
	2019	**2018**
Revenue		
Transformation services	$ 1,159	$ 32
Platform and operations services	12,944	7,291
Expenses		
Cost of revenue (exclusive of depreciation and amortization expenses)	7,830	3,190
Selling, general and administrative expenses	156	99

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 changes in fair value of contingent consideration and indemnification assets, income (loss) from equity method investees, other income (expense), net, net (income) loss attributable to non-controlling interests, 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):

	Services	THNM	Intersegment Eliminations	Consolidated
Revenue				
Three Months Ended March 31, 2019				
Services:				
Transformation services	$ 3,353	$ —	$ —	$ 3,353
Platform and operations	150,351	—	(3,059)	147,292
Services revenue	153,704	—	(3,059)	150,645
True Health:				
Premiums	—	47,376	(265)	47,111
Total revenue	$ 153,704	$ 47,376	$ (3,324)	$ 197,756
Three Months Ended March 31, 2018				
Services:				
Transformation services	$ 6,505	$ —	$ —	$ 6,505
Platform and operations	113,615	—	(3,797)	109,818
Services revenue	120,120	—	(3,797)	116,323
True Health:				
Premiums	—	23,585	(194)	23,391
Total revenue	$ 120,120	$ 23,585	$ (3,991)	$ 139,714

	Services	True Health	Segments Total
Three Months Ended March 31, 2019			
Adjusted EBITDA	$ (15,499)	$ 721	$ (14,778)
Three Months Ended March 31, 2018			
Adjusted EBITDA	$ 6,966	$ 947	$ 7,913

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 March 31, 2019	For the Three Months Ended March 31, 2018
Net Income (Loss) Attributable to Evolent Health, Inc.	$ (46,739)	$ (13,626)
Less:		
Interest income	1,060	1,072
Interest expense	(3,562)	(853)
(Provision) benefit for income taxes	496	(3)
Depreciation and amortization expenses	(14,266)	(9,496)
Income (loss) from equity method investees	(424)	(131)
Change in fair value of contingent consideration	(100)	(100)
Other income (expense), net	427	(18)
Net (income) loss attributable to non-controlling interests	1,910	439
ASC 606 transition adjustments	—	(4,498)
Purchase accounting adjustments	(596)	(217)
Stock-based compensation expense	(4,537)	(3,795)
Severance costs	(10,602)	(1,594)
Amortization of contract cost assets	(754)	(561)
Transaction costs	(1,013)	(1,784)
Adjusted EBITDA	$ (14,778)	$ 7,913

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 Three Months Ended March 31,					
	2019			2018		
	Services (1)	**True Health**	**Consolidated**	**Services (1)**	**True Health**	**Consolidated**
Beginning balance	$ 17,715	$ 9,880	$ 27,595	$ —	$ —	$ —
Incurred costs related to:						
Current year	33,777	31,498	65,275	—	16,749	16,749
Prior years	6,879	6,259	13,138	—	—	—
Total incurred	40,656	37,757	78,413	—	16,749	16,749
Paid costs related to:						
Current year	28,684	11,682	40,366	—	10,050	10,050
Prior years	6,871	7,156	14,027	—	—	—
Total paid	35,555	18,838	54,393	—	10,050	10,050
Other adjustments (2)	(438)	(21,158)	(21,596)	—	—	—
Change during the year	4,663	(2,239)	2,424	—	6,699	6,699
Ending balance	$ 22,378	$ 7,641	$ 30,019	$ —	$ 6,699	$ 6,699

(1) 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).

(2) 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 March 31, 2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury bills	$ 10,388	$ 211	$ —	$ 10,599
Corporate bonds	1,090	37	—	1,127
Other CMOs	1,715	21	—	1,736
Yankees	596	23	—	619
Total investments	$ 13,789	$ 292	$ —	$ 14,081

	As of December 31, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury bills	$ 7,982	$ 120	$ —	$ 8,102
Corporate bonds	887	17	—	904
Other CMOs	545	6	—	551
Yankees	596	11	—	607
Total investments	$ 10,010	$ 154	$ —	$ 10,164

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

	As of March 31, 2019		As of December 31, 2018	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 2,046	$ 2,050	$ —	$ —
Due after one year through five years	11,743	12,031	9,666	9,813
Due after five years through ten years	—	—	344	351
Total	$ 13,789	$ 14,081	$ 10,010	$ 10,164

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 March 31, 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 Three Months Ended March 31, 2019	For the Three Months Ended March 31, 2018
Supplemental disclosure of cash flow information		
Operating cash flows from operating leases	$ 4,165	$ —
Leased assets obtained in exchange for new finance lease liabilities	14,917	—
Non-cash investing and financing activities		
Accrued property and equipment purchases	$ 487	$ 3,183
Class A common stock issued for payment of Passport earn-out	800	—
Consideration for asset acquisitions or business combinations	—	500
Settlement of escrow related to asset acquisition	—	2,519
Effects of Class B Exchanges		
Decrease in non-controlling interests as a result of Class B Exchanges	—	23,805
Decrease in deferred tax liability as a result of securities offerings	—	908

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.

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 a value-based care arrangement. 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 March 31, 2019, our Services business had over 35 operating partners, and a significant portion of our revenue is concentrated with one partner. Our largest partner, Passport, comprised 13.1% of our revenue for the three months ended March 31, 2019.

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 14.0% of our revenue for the three months ended March 31, 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. 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 March 31, 2019	2018	Change Over Prior Period $	%
Revenue				
Services:				
Transformation services	$ 3,353	$ 6,505	$ (3,152)	(48.5)%
Platform and operations services	147,292	109,818	37,474	34.1%
Total Services	150,645	116,323	34,322	29.5%
True Health:				
Premiums	47,111	23,391	23,720	101.4%
Total revenue	197,756	139,714	58,042	41.5%
Expenses				
Cost of revenue (exclusive of depreciation and amortization expenses presented separately below)	117,441	71,975	45,466	63.2%
Claims expenses	37,757	16,749	21,008	125.4%
Selling, general and administrative expenses	74,838	55,526	19,312	34.8%
Depreciation and amortization expenses	14,266	9,496	4,770	50.2%
Change in fair value of contingent consideration	100	100	—	—%
Total operating expenses	244,402	153,846	90,556	58.9%
Operating income (loss)	$ (46,646)	$ (14,132)	$ (32,514)	(230.1)%
Transformation services revenue as a % of total revenue	1.7%	4.7%		
Platform and operations services revenue as a % of total revenue	74.5%	78.6%		
Premiums as a % of total revenue	23.8%	16.7%		
Cost of revenue as a % of Services revenue	78.0%	61.9%		
Claims expenses as a % of premiums	80.1%	71.6%		
Selling, general and administrative expenses as a % of total revenue	37.8%	39.7%		

Comparison of the Operating Results for the Three Months Ended March 31, 2019 to 2018

Revenue

Total revenue increased by $58.0 million, or 41.5%, to $197.8 million for the three months ended March 31, 2019, as compared to the same period in 2018.

Transformation services revenue decreased by $3.2 million, or 48.5%, to $3.4 million for the three months ended March 31, 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 1.7% and 4.7% of our total revenue for the three months ended March 31, 2019, and 2018, respectively.

Platform and operations services revenue accounted for 74.5% and 78.6% of our total revenue for the three months ended March 31, 2019 and 2018, respectively. Platform and operations services revenue increased by $37.5 million, or 34.1%, to $147.3 million for the three months ended March 31, 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 20.8% in lives on platform. We ended the quarter with over 35 operating partners compared to over 30 as of March 31, 2018.

Premiums increased by $23.7 million, or 101.4%, to $47.1 million, for the three months ended March 31, 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 16.7% of our total revenue for the three months ended March 31, 2019, and 2018, respectively.

Cost of Revenue

Cost of revenue increased by $45.5 million, or 63.2%, to $117.4 million for the three months ended March 31, 2019, as compared to the same period in 2018. Cost of revenue increased by approximately $47.6 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 $0.8 million and $0.3 million of total personnel costs were attributable to stock-based compensation expense for the three months ended March 31, 2019 and 2018, respectively. Our professional fees decreased by $0.4 million, due to the nature and timing of our projects. Additionally, our technology services, TPA fees and other costs decreased by $1.7 million period over period. Cost of revenue represented 78.0% and 61.9% of total Services revenue for the three months ended March 31, 2019 and 2018, respectively. Our cost of revenue increased as a percentage of total Services revenue, however, we expect our cost of revenue to decrease as a percentage of total Services revenue going forward.

Claims Expenses

Claims expenses attributable to our True Health segment increased by $21.0 million, or 125.4%, to $37.8 million for the three months ended March 31, 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. 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 claims liability 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. Claims expenses represented 80.1% and 71.6% of premiums for the three months ended March 31, 2019 and 2018, respectively.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased by $19.3 million, or 34.8%, to $74.8 million for the three months ended March 31, 2019, as compared to the same period in 2018. During the three months ended March 31, 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 $1.8 million, $13.6 million and $1.4 million, respectively, period over period, as a result of the growing customer base and service offerings. Approximately $3.7 million and $3.5 million of total personnel costs were attributable to stock-based compensation expense for the three months ended March 31, 2019 and 2018, respectively. Ceded expenses under the Reinsurance Agreement were $4.3 million for the three months ended March 31, 2019, as compared to zero in the prior period. Our professional fees and other costs decreased by $1.2 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 $11.6 million and $2.6 million of total selling, general and administrative expenses for the three months ended March 31, 2019 and 2018, respectively. Selling, general and administrative expenses represented 37.8% and 39.7% of total revenue for the three months ended March 31, 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 $4.8 million, or 50.2%, to $14.3 million for the three months ended March 31, 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).

Change in fair value of contingent consideration

We recorded a loss from change in fair value of contingent consideration of $0.1 million for each of the three months ended March 31, 2019 and 2018. The amount represents an increase in the fair value of a mark-to-market contingent liability. There were no significant changes to the underlying fair value assumptions during the three months ended March 31, 2019 and 2018, 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. We recorded interest income of $1.1 million for each of the three months ended March 31, 2019 and 2018.

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 $3.5 million and $0.9 million related to our 2021 Notes and 2025 Notes for the three months ended March 31, 2019 and 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 $0.4 million and $0.1 million for the three months ended March 31, 2019 and 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 $0.5 million in income tax benefit and less than $0.1 million in income tax expense for the three months ended March 31, 2019 and 2018, respectively, which resulted in effective tax rates of 1.0% and less than (0.1)%, respectively. The difference between our effective tax rate and our statutory rate is due primarily to the fact that we have 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, with the exception of its 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 March 31, 2019 and March 31, 2018, we owned 96.1% and 98.9% 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 months ended March 31, 2019 and 2018, our results reflect net losses of $1.9 million and $0.4 million, respectively, attributable to non-controlling interests, which represents 4.1% and 3.1% of the operating losses of Evolent Health LLC. The Company's economic interest in Evolent Health LLC increased as compared to the prior period as a result of the Class B Exchanges in connection with the November 2018 Private Sale and the issuance of shares of Class A common stock in conjunction with 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 $46.6 million and $14.1 million for the three months ended March 31, 2019 and 2018, respectively. Net cash and restricted cash used in operating activities was $25.7 million and $24.7 million for the three months ended March 31, 2019 and 2018, respectively. As of March 31, 2019, the Company had $170.8 million of cash and cash equivalents and $58.0 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":

	For the Three Months Ended March 31,	
	2019	2018
Net cash and restricted cash provided by (used in) operating activities	$ (25,709)	$ (24,705)
Net cash and restricted cash provided by (used in) investing activities	(25,478)	(12,685)
Net cash and restricted cash provided by (used in) financing activities	(109,665)	(21,607)

Operating Activities

Cash flows used in operating activities of $25.7 million for the three months ended March 31, 2019, were due primarily to our net loss of $48.6 million, partially offset by non-cash items, including depreciation and amortization expenses of $14.3 million, stock-based compensation expense of $4.5 million and amortization of deferred financing costs and contract costs assets of $3.5 million. Our operating cash outflows were affected by the timing of our customer and vendor payments. Increases in prepaid expenses, contract cost assets and ROU operating assets, combined with a decrease in accrued compensation and employee benefits and other long-term liabilities, contributed approximately $35.4 million to our cash outflows. Those cash outflows were offset by increases in reserves for claims and performance-based arrangements, accrued liabilities, deferred revenue and operating lease liabilities, combined with a decrease in accounts receivable and contract assets, of approximately $35.8 million.

Cash flows used in operating activities of $24.7 million for the three months ended March 31, 2018, were due primarily to our net loss of $14.1 million, partially offset by non-cash items, including depreciation and amortization expenses of $9.5 million and stock-based compensation expense of $3.8 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 $49.1 million to our cash outflows. Those cash outflows were partially offset by increases in accounts payable, accrued liabilities, deferred revenue and reserves for claims and performance-based arrangements of approximately $25.1 million.

Investing Activities

Cash flows used in investing activities of $25.5 million for the three months ended March 31, 2019, were primarily attributable to purchases of property and equipment of $9.5 million, cash paid for asset acquisitions, business combinations and equity method investments of $6.3 million, amounts advanced to satisfy regulatory capital requirements of $5.4 million and purchases of investments of $3.8 million.

Cash flows used in investing activities of $12.7 million for the three months ended March 31, 2018, were primarily attributable to purchases of property and equipment of $9.6 million, cash paid for an asset acquisitions and business combinations of $11.7 million and cash paid to acquire equity method investments of $4.0 million. Those cash outflows were offset by maturities of restricted investments of $8.0 million and a principle repayment of an implementation loan of $4.0 million.

Financing Activities

Cash flows used in financing activities of approximately $109.7 million for the three months ended March 31, 2019, were primarily related to a decrease of $107.5 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 $2.2 million related to taxes withheld and paid for vests of restricted stock units.

Cash flows used in financing activities of approximately $21.6 million for the three months ended March 31, 2018, were primarily related to a decrease of $22.3 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. In addition, we had inflows of $0.7 million related to stock option exercises, net of taxes withheld and paid for vests of restricted stock units.

Contractual Obligations

Our contractual obligations (in thousands) as of March 31, 2019, were as follows:

	2019	2020-2021	2022-2023	Thereafter	Total
Operating leases for facilities	$ 6,640	$ 22,183	$ 20,067	$ 66,851	$ 115,741
Contingent loan commitments	11,000	—	—	—	11,000
Purchase obligations related to vendor contracts	7,491	2,063	—	—	9,554
Convertible debt interest payments	5,142	10,187	5,165	5,101	25,595
Convertible debt principal repayment	—	125,000	—	172,500	297,500
Total	$ 30,273	$ 159,433	$ 25,232	$ 244,452	$ 459,390

During the three months ended March 31, 2019, there were no material changes outside the ordinary course of business to our contractual obligations set forth above.

Restricted Cash and Restricted Investments

Restricted cash and restricted investments of $58.0 million is carried at cost and includes cash held on behalf of other entities for pharmacy and claims management services of $14.9 million, collateral for letters of credit required as security deposits for facility leases of $3.7 million, amounts held with financial institutions for risk-sharing arrangements and line of credit deposits of $37.7 million and other restricted balances as of March 31, 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 March 31, 2019, the Company had not entered into any off-balance sheet arrangements and did not have any 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 March 31, 2019, cash and cash equivalents and restricted cash and restricted investments was $228.8 million, which consisted primarily of bank deposits with FDIC participating banks of $182.6 million, bank deposits in international banks of $0.9 million, cash equivalents deposited in a money-market fund of $43.9 million and $1.3 million of restricted investments that are classified as held-to-maturity investments. In addition, we have investments of $13.8 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 March 31, 2019, we had $223.3 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 months ended March 31, 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 March 31, 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 March 31, 2019, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting other than the new internal controls related to our adoption of ASC Topic 842, Leases.

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 March 31, 2019.

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

On January 1, 2019, we issued 42,769 shares of our Class A common stock to University Health Care, Inc. in connection with a contingent consideration earn-out provision pursuant to the terms of an agreement between the Company and Passport.

The foregoing issuance was deemed to be exempt from registration under the Securities Act in reliance upon Section 4(a)(2) of the Securities Act as transaction by an issuer not involving a public offering. The issuance was made without any general solicitation or advertising to a recipient who represented its intention to acquire the securities for investment only and not with a view to or for sale in connection with any distribution thereof, and appropriate legends were placed upon the stock certificates issued in this 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 March 31, 2019

2.1*	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
2.2*	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
2.3*	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
31.1	Certification of the Chief Executive Officer pursuant to section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of the Chief Financial Officer pursuant to section 302 of the Sarbanes-Oxley Act of 2002
32.1	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
32.2	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
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

Signatures

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

EVOLENT HEALTH, INC.
Registrant

By:	/s/ Nicholas McGrane
Name:	**Nicholas McGrane**
Title:	**Chief Financial Officer**
By:	/s/ Lydia Stone
Name:	**Lydia Stone**
Title:	**Chief Accounting Officer and Controller**

Dated: May 9, 2019

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Section 2: 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:	May 9, 2019	/s/ Frank Williams
		Name: Frank Williams
		Title: Chief Executive Officer

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Section 3: EX-31.2 (EXHIBIT 31.2)

Exhibit 31.2

**Certification Pursuant to Section 302 of the
Sarbanes-Oxley Act of 2002**

I, Nicholas McGrane, 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: May 9, 2019 /s/ Nicholas McGrane
Name: Nicholas McGrane
Title: Chief Financial Officer

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Section 4: 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 March 31, 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: May 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 5: 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, Nicholas McGrane, 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 March 31, 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:	May 9, 2019	/s/ Nicholas McGrane
		Name: Nicholas McGrane
		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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