

ITEM 1. Financial Statements.

**CENTENE CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(In millions, except shares in thousands and per share data in dollars)

	March 31, 2019	December 31, 2018
	(Unaudited)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 6,345	\$ 5,342
Premium and trade receivables	5,819	5,150
Short-term investments	697	722
Other current assets	755	784
Total current assets	13,616	11,998
Long-term investments	7,186	6,861
Restricted deposits	582	555
Property, software and equipment, net	1,800	1,706
Goodwill	6,981	7,015
Intangible assets, net	2,208	2,239
Other long-term assets	1,196	527
Total assets	\$ 33,569	\$ 30,901
<b>LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Medical claims liability	\$ 7,381	\$ 6,831
Accounts payable and accrued expenses	4,641	4,051
Return of premium payable	718	666
Unearned revenue	363	385
Current portion of long-term debt	40	38
Total current liabilities	13,143	11,971
Long-term debt	6,775	6,648
Other long-term liabilities	2,007	1,259
Total liabilities	21,925	19,878
Commitments and contingencies		
Redeemable noncontrolling interests	10	10
Stockholders' equity:		
Preferred stock, \$0.001 par value; authorized 10,000 shares; no shares issued or outstanding at March 31, 2019 and December 31, 2018	-	-
Common stock, \$0.001 par value; authorized 800,000 shares; 419,058 issued and 413,305 outstanding at March 31, 2019, and 417,695 issued and 412,478 outstanding at December 31, 2018	-	-
Additional paid-in capital	7,491	7,449
Accumulated other comprehensive earnings (loss)	38	(56)
Retained earnings	4,185	3,663
Treasury stock, at cost (5,753 and 5,217 shares, respectively)	(174)	(139)
Total Centene stockholders' equity	11,540	10,917
Noncontrolling interest	94	96
Total stockholders' equity	11,634	11,013
Total liabilities, redeemable noncontrolling interests and stockholders' equity	\$ 33,569	\$ 30,901

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

**CENTENE CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(In millions, except shares in thousands and per share data in dollars)  
(Unaudited)

	<b>Three Months Ended March 31,</b>	
	<b>2019</b>	<b>2018</b>
<b>Revenues:</b>		
Premium	\$ 16,203	\$ 11,903
Service	635	653
Premium and service revenues	16,838	12,556
Premium tax and health insurer fee	1,606	638
Total revenues	18,444	13,194
<b>Expenses:</b>		
Medical costs	13,882	10,039
Cost of services	544	543
Selling, general and administrative expenses	1,609	1,316
Amortization of acquired intangible assets	65	39
Premium tax expense	1,659	546
Health insurer fee expense	-	171
Total operating expenses	17,759	12,654
Earnings from operations	685	540
<b>Other income (expense):</b>		
Investment and other income	99	41
Interest expense	(99)	(68)
Earnings from operations, before income tax expense	685	513
Income tax expense	166	175
Net earnings	519	338
<b>Loss attributable to noncontrolling interests</b>	<b>3</b>	<b>2</b>
<b>Net earnings attributable to Centene Corporation</b>	<b>\$ 522</b>	<b>\$ 340</b>
<b>Net earnings per common share attributable to Centene Corporation:</b>		
Basic earnings per common share	\$ 1.26	\$ 0.98
Diluted earnings per common share	\$ 1.24	\$ 0.96
<b>Weighted average number of common shares outstanding:</b>		
Basic	412,924	347,843
Diluted	419,752	355,380

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

**CENTENE CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS**  
**(In millions)**  
**(Unaudited)**

	<b>Three Months Ended March 31,</b>	
	<b>2019</b>	<b>2018</b>
Net earnings	\$ 519	\$ 338
Change in unrealized gain (loss) on investments, net of tax	94	(52)
Foreign currency translation adjustments	-	1
Other comprehensive earnings (loss)	94	(51)
Comprehensive earnings	613	287
Comprehensive loss attributable to noncontrolling interests	3	2
Comprehensive earnings attributable to Centene Corporation	\$ 616	\$ 289

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

**CENTENE CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**  
(In millions, except shares in thousands and per share data in dollars)  
(Unaudited)

**Three Months Ended March 31, 2019**

	Centene Stockholders' Equity								
	Common Stock					Treasury Stock			
	\$0.001 Par Value Shares	Amt	Additional Paid-in Capital	Accumulated Other Comprehensive Earnings (Loss)	Retained Earnings	\$0.001 Par Value Shares	Amt	Non- controlling Interest	Total
Balance, December 31, 2018	417,695	\$ -	\$ 7,449	\$ (56)	\$ 3,663	5,217	\$(139)	\$ 96	\$ 11,013
Comprehensive Earnings:									
Net earnings (loss)	-	-	-	-	522	-	-	(2)	520
Other comprehensive earnings, net of \$30 tax	-	-	-	94	-	-	-	-	94
Common stock issued for employee benefit plans	1,363	-	4	-	-	-	-	-	4
Common stock repurchases	-	-	-	-	-	536	(35)	-	(35)
Stock compensation expense	-	-	38	-	-	-	-	-	38
Balance, March 31, 2019	<u>419,058</u>	<u>\$ -</u>	<u>\$ 7,491</u>	<u>\$ 38</u>	<u>\$ 4,185</u>	<u>5,753</u>	<u>\$(174)</u>	<u>\$ 94</u>	<u>\$ 11,634</u>

**Three Months Ended March 31, 2018**

	Centene Stockholders' Equity								
	Common Stock					Treasury Stock			
	\$0.001 Par Value Shares	Amt	Additional Paid-in Capital	Accumulated Other Comprehensive Earnings (Loss)	Retained Earnings	\$0.001 Par Value Shares	Amt	Non- controlling Interest	Total
Balance, December 31, 2017	360,758	\$ -	\$ 4,349	\$ (3)	\$ 2,748	13,884	\$(244)	\$ 14	\$ 6,864
Comprehensive Earnings:									
Net earnings	-	-	-	-	340	-	-	1	341
Other comprehensive loss, net of (\$16) tax	-	-	-	(51)	-	-	-	-	(51)
Common stock issued for acquisitions	-	-	210	-	-	(6,351)	114	-	324
Common stock issued for employee benefit plans	529	-	4	-	-	-	-	-	4
Common stock repurchases	-	-	-	-	-	165	(9)	-	(9)
Stock compensation expense	-	-	33	-	-	-	-	-	33
Cumulative-effect of accounting guidance	-	-	-	-	16	-	-	-	16
Purchase of noncontrolling interests	-	-	(4)	-	-	-	-	-	(4)
Acquisition resulting in noncontrolling interests	-	-	-	-	-	-	-	62	62
Balance, March 31, 2018	<u>361,287</u>	<u>\$ -</u>	<u>\$ 4,592</u>	<u>\$ (54)</u>	<u>\$ 3,104</u>	<u>7,698</u>	<u>\$(139)</u>	<u>\$ 77</u>	<u>\$ 7,580</u>

The accompanying notes to the consolidated financial statements are an integral part of this statement.

**CENTENE CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In millions)  
(Unaudited)

	<b>Three Months Ended March 31,</b>	
	<b>2019</b>	<b>2018</b>
<b>Cash flows from operating activities:</b>		
Net earnings	\$ 519	\$ 338
Adjustments to reconcile net earnings to net cash provided by operating activities		
Depreciation and amortization	155	104
Stock compensation expense	38	33
Deferred income taxes	23	30
Changes in assets and liabilities		
Premium and trade receivables	(662)	(176)
Other assets	20	51
Medical claims liabilities	548	485
Unearned revenue	(22)	317
Accounts payable and accrued expenses	357	157
Other long-term liabilities	347	477
Other operating activities, net	(7)	30
Net cash provided by operating activities	<u>1,316</u>	<u>1,846</u>
<b>Cash flows from investing activities:</b>		
Capital expenditures	(176)	(218)
Purchases of investments	(580)	(765)
Sales and maturities of investments	383	445
Acquisitions, net of cash acquired	-	(226)
Net cash used in investing activities	<u>(373)</u>	<u>(764)</u>
<b>Cash flows from financing activities:</b>		
Proceeds from long-term debt	1,018	2,015
Payments of long-term debt	(927)	(1,491)
Common stock repurchases	(35)	(9)
Other financing activities, net	2	(2)
Net cash provided by financing activities	<u>58</u>	<u>513</u>
Net increase in cash, cash equivalents and restricted cash and cash equivalents	<u>1,001</u>	<u>1,595</u>
<b>Cash, cash equivalents, and restricted cash and cash equivalents, beginning of period</b>	<u>5,350</u>	<u>4,089</u>
<b>Cash, cash equivalents, and restricted cash and cash equivalents, end of period</b>	<u>\$ 6,351</u>	<u>\$ 5,684</u>
Supplemental disclosures of cash flow information:		
Interest paid	\$ 87	\$ 73
Income taxes paid	\$ 6	\$ 1
Equity issued in connection with acquisitions	\$ -	\$ 324

The following table provides a reconciliation of cash, cash equivalents, and restricted cash and cash equivalents reported within the Consolidated Balance Sheets to the totals above:

	<b>March 31,</b>	
	<b>2019</b>	<b>2018</b>
Cash and cash equivalents	\$ 6,345	\$ 5,668
Restricted cash and cash equivalents, included in restricted deposits	6	16
Total cash, cash equivalents, and restricted cash and cash equivalents	<u>\$ 6,351</u>	<u>\$ 5,684</u>

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

**CENTENE CORPORATION AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**1. Organization and Operations**

***Basis of Presentation***

The accompanying interim financial statements have been prepared under the presumption that users of the interim financial information have either read or have access to the audited financial statements included in the Form 10-K for the fiscal year ended December 31, 2018. The unaudited interim financial statements herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, footnote disclosures that would substantially duplicate the disclosures contained in the December 31, 2018 audited financial statements have been omitted from these interim financial statements, where appropriate. In the opinion of management, these financial statements reflect all adjustments, consisting only of normal recurring adjustments, which are necessary for a fair presentation of the results of the interim periods presented.

Certain 2018 amounts in the consolidated financial statements and notes to the consolidated financial statements have been reclassified to conform to the 2019 presentation. These reclassifications have no effect on net earnings or stockholders' equity as previously reported.

On December 12, 2018, our Board of Directors declared a two-for-one split of our common stock in the form of a 100% stock dividend distributed on February 6, 2019 to stockholders of record as of December 24, 2018. All share and per share information presented in this Form 10-Q has been adjusted for the two-for-one stock split.

***Recently Adopted Accounting Guidance***

In February 2016, the FASB issued an ASU that introduces a lessee model that requires the majority of leases to be recognized on the balance sheet. The new standard also aligns many of the underlying principles of the new lessor model with those in Accounting Standards Codification 606, the FASB's new revenue recognition standard, and addresses other concerns related to the current lessee model. The standard also requires lessors to increase the transparency of their exposure to changes in value of their residual assets and how they manage that exposure. It is effective for annual and interim periods beginning after December 15, 2018. The Company adopted the new guidance in the first quarter of 2019 using the modified retrospective transition approach. In addition, the Company elected the package of practical expedients permitted under the transition guidance within the new standard, which allows an entity to not reassess lease classification for existing leases. The impact of the new guidance is further discussed in Note 8. *Leases*.

In August 2017, the FASB issued an ASU that amends the hedge accounting model to enable entities to better align the economics of risk management activities and financial reporting. In addition, the new standard enhances the understandability of hedge results and simplifies the application of hedge accounting in certain situations. The Company adopted the new guidance in the first quarter of 2019. The new guidance did not have a material impact on the Company's consolidated financial position, results of operations or cash flows.

In March 2017, the FASB issued an ASU that changes the period over which premiums on callable debt securities are amortized. The new standard requires the premiums on callable debt securities to be amortized to the earliest call date rather than to the contractual maturity date of the instrument. The new guidance more closely aligns the amortization period of premiums to expectations incorporated in the market pricing on the underlying securities. The Company adopted the new guidance in the first quarter of 2019. The new guidance did not have a material impact on the Company's consolidated financial position, results of operations or cash flows.

## **2. Acquisitions**

### ***WellCare Transaction***

On March 26, 2019, the Company entered into an Agreement and Plan of Merger (the Merger Agreement) with Wellington Merger Sub I, Inc., a direct, wholly owned subsidiary of the Company (Merger Sub I), Wellington Merger Sub II, Inc., a direct, wholly owned subsidiary of the Company (Merger Sub II), and WellCare, providing for (i) the merger of Merger Sub I with and into WellCare (the First Merger), with WellCare continuing as the surviving corporation of the First Merger and a direct, wholly owned subsidiary of the Company (the Surviving Corporation), and (ii) immediately after the effective time of the First Merger (the First Effective Time), the merger of the Surviving Corporation with and into Merger Sub II (the Second Merger), with Merger Sub II continuing as the surviving corporation of the Second Merger and a direct, wholly owned subsidiary of the Company. At the First Effective Time, each share of common stock of WellCare issued and outstanding immediately prior to the First Effective Time will be automatically canceled and converted into the right to receive 3.38 of validly issued, fully paid and nonassessable shares of Centene common stock and \$120.00 in cash, without interest. The WellCare transaction is valued at approximately \$17.3 billion, including existing WellCare debt (based on the Centene closing stock price on March 25, 2019). The transaction is subject to approval by Centene and WellCare stockholders and is also conditioned on clearance under the Hart-Scott Rodino Act, receipt of state regulatory approvals and other customary closing conditions.

### ***Fidelis Care Acquisition***

On July 1, 2018, the Company acquired substantially all of the assets of Fidelis Care for approximately \$3.6 billion of cash consideration, including a working capital adjustment. The purchase price continues to be subject to adjustments related to changes in working capital through June 2019, which will be settled subsequent to the second quarter of 2019. The Fidelis Care acquisition expanded the Company's scale and presence to New York State.

The acquisition of Fidelis Care was accounted for as a business combination using the acquisition method of accounting that requires assets acquired and liabilities assumed to be recognized at fair value as of the acquisition date. Any necessary adjustments from preliminary estimates will be finalized within one year from the date of acquisition. Measurement period adjustments will be recorded in the period in which they are determined, as if they had been completed at the acquisition date. The Company has completed its valuation procedures on cash and cash equivalents, restricted deposits, and property, software and equipment, but the valuation of all remaining assets and liabilities has not been finalized. The Company has performed preliminary valuation procedures on all assets acquired and liabilities assumed and accordingly has recorded provisional amounts, which are subject to adjustment. The Company is waiting on additional information related to certain liabilities and performing a detailed analysis on the valuation of premium and related receivables.

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The Company's preliminary allocation of the fair value of assets acquired and liabilities assumed as of the acquisition date of July 1, 2018 is as follows (\$ in millions):

<b>Assets acquired and liabilities assumed</b>	
Cash and cash equivalents	\$ 2,001
Premium and related receivables	510
Other current assets	31
Restricted deposits	495
Property, software and equipment, net	48
Intangible assets <sup>(a)</sup>	956
Other long-term assets	1
Total assets acquired	4,042
Medical claims liability	1,210
Accounts payable and accrued expenses	258
Return of premium payable	123
Unearned revenue	115
Other long-term liabilities	300
Total liabilities assumed	2,006
Total identifiable net assets	2,036
Goodwill <sup>(b)</sup>	1,591
Total assets acquired and liabilities assumed	\$ 3,627

The Company has made the following preliminary fair value adjustments based on information reviewed through March 31, 2019. Significant fair value adjustments are noted as follows:

- (a) The identifiable intangible assets acquired are to be measured at fair value as of the completion of the acquisition. The preliminary fair value of intangible assets is determined primarily using variations of the "income approach," which is based on the present value of the future after tax cash flows attributable to each identified intangible asset. Other valuation methods, including the market approach and cost approach, were also considered in estimating the fair value. The Company has estimated the fair value of intangible assets to be \$956 million with a weighted average life of 13 years. The identifiable intangible assets include customer relationships, trade names, provider contracts and developed technology.

The fair values and weighted average useful lives for identifiable intangible assets acquired are as follows:

	Fair Value	Weighted Average Useful Life (in years)
Customer relationships	\$ 711	11
Trade name	196	20
Provider contracts	33	15
Developed technologies	16	2
Total intangible assets acquired	\$ 956	13

- (b) The acquisition resulted in \$1.6 billion of goodwill related primarily to synergies expected from the acquisition and the assembled workforce of Fidelis Care. All of the goodwill has been assigned to the Managed Care segment. The goodwill is deductible for income tax purposes.



### 3. Short-term and Long-term Investments, Restricted Deposits

Short-term and long-term investments and restricted deposits by investment type consist of the following (\$ in millions):

	March 31, 2019				December 31, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 251	\$ 1	\$ (1)	\$ 251	\$ 362	\$ 1	\$ (2)	\$ 361
Corporate securities	3,318	40	(16)	3,342	3,190	8	(52)	3,146
Restricted certificates of deposit	474	-	-	474	433	-	-	433
Restricted cash equivalents	6	-	-	6	8	-	-	8
Municipal securities	2,260	33	(3)	2,290	2,196	9	(18)	2,187
Asset-backed securities	728	3	(3)	728	686	1	(4)	683
Residential mortgage-backed securities	457	4	(6)	455	452	1	(9)	444
Commercial mortgage-backed securities	378	4	(2)	380	366	1	(6)	361
Private equity investments	402	-	-	402	387	-	-	387
Life insurance contracts	137	-	-	137	128	-	-	128
Total	<u>\$ 8,411</u>	<u>\$ 85</u>	<u>\$ (31)</u>	<u>\$ 8,465</u>	<u>\$ 8,208</u>	<u>\$ 21</u>	<u>\$ (91)</u>	<u>\$ 8,138</u>

The Company's investments are debt securities classified as available-for-sale with the exception of life insurance contracts and certain private equity investments. The Company's investment policies are designed to provide liquidity, preserve capital and maximize total return on invested assets with the focus on high credit quality securities. The Company limits the size of investment in any single issuer other than U.S. treasury securities and obligations of U.S. government corporations and agencies. As of March 31, 2019, 97% of the Company's investments in rated securities carry an investment grade rating by nationally recognized statistical rating organizations. At March 31, 2019, the Company held certificates of deposit, life insurance contracts and private equity investments that did not carry a credit rating.

The Company's residential mortgage-backed securities are primarily issued by the Federal National Mortgage Association, Government National Mortgage Association or Federal Home Loan Mortgage Corporation, which carry implicit or explicit guarantees of the U.S. government. The Company's commercial mortgage-backed securities are primarily senior tranches with a weighted average rating of AA+ and a weighted average duration of 3.8 years at March 31, 2019.

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The fair value of available-for-sale debt securities with gross unrealized losses by investment type and length of time that individual securities have been in a continuous unrealized loss position were as follows (\$ in millions):

	March 31, 2019				December 31, 2018			
	Less Than 12 Months		12 Months or More		Less Than 12 Months		12 Months or More	
	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ -	\$ 1	\$ (1)	\$ 172	\$ -	\$ 59	\$ (2)	\$ 202
Corporate securities	(4)	392	(12)	1,010	(27)	1,389	(25)	871
Municipal securities	-	74	(3)	496	(4)	591	(14)	806
Asset-backed securities	(2)	221	(1)	196	(2)	318	(2)	168
Residential mortgage-backed securities	-	12	(6)	241	(1)	61	(8)	233
Commercial mortgage-backed securities	-	72	(2)	129	(2)	137	(4)	140
Total	\$ (6)	\$ 772	\$ (25)	\$ 2,244	\$ (36)	\$ 2,555	\$ (55)	\$ 2,420

As of March 31, 2019, the gross unrealized losses were generated from 1,966 positions out of a total of 4,339 positions. The change in fair value of fixed income securities is primarily a result of movement in interest rates subsequent to the purchase of the security.

For each security in an unrealized loss position, the Company assesses whether it intends to sell the security or if it is more likely than not the Company will be required to sell the security before recovery of the amortized cost basis for reasons such as liquidity, contractual or regulatory purposes. If the security meets this criterion, the decline in fair value is other-than-temporary and is recorded in earnings. The Company does not intend to sell these securities prior to maturity and it is not likely that the Company will be required to sell these securities prior to maturity; therefore, there is no indication of other-than-temporary impairment for these securities.

The contractual maturities of short-term and long-term investments and restricted deposits are as follows (\$ in millions):

	March 31, 2019				December 31, 2018			
	Investments		Restricted Deposits		Investments		Restricted Deposits	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
One year or less	\$ 610	\$ 609	\$ 515	\$ 515	\$ 647	\$ 646	\$ 205	\$ 205
One year through five years	3,112	3,130	67	67	3,026	2,998	351	350
Five years through ten years	2,477	2,512	-	-	2,387	2,362	-	-
Greater than ten years	67	69	-	-	88	89	-	-
Asset-backed securities	1,563	1,563	-	-	1,504	1,488	-	-
Total	\$ 7,829	\$ 7,883	\$ 582	\$ 582	\$ 7,652	\$ 7,583	\$ 556	\$ 555

Actual maturities may differ from contractual maturities due to call or prepayment options. Private equity investments and life insurance contracts are included in the five years through ten years category. Residential mortgage-backed securities and commercial mortgage-backed securities are included in the asset-backed securities category. The Company has an option to redeem at amortized cost substantially all of the securities included in the greater than ten years category listed above.

The Company continuously monitors investments for other-than-temporary impairment. Certain investments have experienced a decline in fair value due to changes in credit quality, market interest rates and/or general economic conditions. The Company recognizes an impairment loss for private equity investments when evidence demonstrates that it is other-than-temporarily impaired. Evidence of a loss in value that is other-than-temporary may include the absence of an ability to recover the carrying amount of the investment or the inability of the investee to sustain a level of earnings that would justify the carrying amount of the investment.

#### 4. Fair Value Measurements

Assets and liabilities recorded at fair value in the Consolidated Balance Sheets are categorized based upon observable or unobservable inputs used to estimate fair value. Level inputs are as follows:

<b>Level Input:</b>	<b>Input Definition:</b>
Level I	Inputs are unadjusted, quoted prices for identical assets or liabilities in active markets at the measurement date.
Level II	Inputs other than quoted prices included in Level I that are observable for the asset or liability through corroboration with market data at the measurement date.
Level III	Unobservable inputs that reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date.

The following table summarizes fair value measurements by level at March 31, 2019, for assets and liabilities measured at fair value on a recurring basis (\$ in millions):

	<b>Level I</b>	<b>Level II</b>	<b>Level III</b>	<b>Total</b>
<b>Assets</b>				
Cash and cash equivalents	\$ 6,345	\$ -	\$ -	\$ 6,345
Investments available for sale:				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 149	\$ -	\$ -	\$ 149
Corporate securities	-	3,342	-	3,342
Municipal securities	-	2,290	-	2,290
Asset-backed securities	-	728	-	728
Residential mortgage-backed securities	-	455	-	455
Commercial mortgage-backed securities	-	380	-	380
Total investments	\$ 149	\$ 7,195	\$ -	\$ 7,344
Restricted deposits available for sale:				
Cash and cash equivalents	\$ 6	\$ -	\$ -	\$ 6
Certificates of deposit	-	474	-	474
U.S. Treasury securities and obligations of U.S. government corporations and agencies	102	-	-	102
Total restricted deposits	\$ 108	\$ 474	\$ -	\$ 582
Total assets at fair value	\$ 6,602	\$ 7,669	\$ -	\$ 14,271
<b>Liabilities</b>				
Other long-term liabilities:				
Interest rate swap agreements	\$ -	\$ 61	\$ -	\$ 61
Total liabilities at fair value	\$ -	\$ 61	\$ -	\$ 61

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The following table summarizes fair value measurements by level at December 31, 2018, for assets and liabilities measured at fair value on a recurring basis (\$ in millions):

	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>	<u>Total</u>
<b>Assets</b>				
Cash and cash equivalents	\$ 5,342	\$ -	\$ -	\$ 5,342
Investments available for sale:				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 247	\$ -	\$ -	\$ 247
Corporate securities	-	3,146	-	3,146
Municipal securities	-	2,187	-	2,187
Asset-backed securities	-	683	-	683
Residential mortgage-backed securities	-	444	-	444
Commercial mortgage-backed securities	-	361	-	361
Total investments	<u>\$ 247</u>	<u>\$ 6,821</u>	<u>\$ -</u>	<u>\$ 7,068</u>
Restricted deposits available for sale:				
Cash and cash equivalents	\$ 8	\$ -	\$ -	\$ 8
Certificates of deposit	-	433	-	433
U.S. Treasury securities and obligations of U.S. government corporations and agencies	114	-	-	114
Total restricted deposits	<u>\$ 122</u>	<u>\$ 433</u>	<u>\$ -</u>	<u>\$ 555</u>
Total assets at fair value	<u>\$ 5,711</u>	<u>\$ 7,254</u>	<u>\$ -</u>	<u>\$ 12,965</u>
<b>Liabilities</b>				
Other long-term liabilities:				
Interest rate swap agreements	\$ -	\$ 95	\$ -	\$ 95
Total liabilities at fair value	<u>\$ -</u>	<u>\$ 95</u>	<u>\$ -</u>	<u>\$ 95</u>

The Company utilizes matrix-pricing services to estimate fair value for securities that are not actively traded on the measurement date. The Company designates these securities as Level II fair value measurements. In addition, the aggregate carrying amount of the Company's life insurance contracts and other private equity investments, which approximates fair value, was \$539 million and \$515 million as of March 31, 2019 and December 31, 2018, respectively.

## 5. Medical Claims Liability

The following table summarizes the change in medical claims liability (\$ in millions):

	<b>Three Months Ended March 31,</b>	
	<b>2019</b>	<b>2018</b>
Balance, January 1	\$ 6,831	\$ 4,286
Less: Reinsurance recoverable	27	18
Balance, January 1, net	6,804	4,268
Acquisitions and purchase accounting adjustments	6	-
Incurred related to:		
Current year	14,376	10,302
Prior years	(494)	(263)
Total incurred	13,882	10,039
Paid related to:		
Current year	8,771	6,579
Prior years	4,560	2,970
Total paid	13,331	9,549
Balance at March 31, net	7,361	4,758
Plus: Reinsurance recoverable	20	13
Balance, March 31	\$ 7,381	\$ 4,771

Reinsurance recoverables related to medical claims are included in premium and related receivables. Changes in estimates of incurred claims for prior years are primarily attributable to reserving under moderately adverse conditions. Additionally, as a result of development within "Incurred related to: Prior years" due to minimum health benefits ratio (HBR) and other return of premium programs, we recorded \$8 million as an increase to premium revenues and \$13 million as a reduction to premium revenues in the three months ended March 31, 2019 and 2018, respectively.

Incurred but not reported (IBNR) plus expected development on reported claims as of March 31, 2019 was \$5,569 million. Total IBNR plus expected development on reported claims represents estimates for claims incurred but not reported, development on reported claims, and estimates for the costs necessary to process unpaid claims at the end of each period. We estimate our liability using actuarial methods that are commonly used by health insurance actuaries and meet Actuarial Standards of Practice. These actuarial methods consider factors such as historical data for payment patterns, cost trends, product mix, seasonality, utilization of healthcare services and other relevant factors.

## 6. Affordable Care Act

The Affordable Care Act contains risk spreading premium stabilization programs as well as a minimum annual MLR and cost sharing reductions. The Company's net receivables (payables) for each of the ongoing programs are as follows (\$ in millions):

	<b>March 31, 2019</b>	<b>December 31, 2018</b>
Risk adjustment	\$ (1,313)	\$ (928)
Minimum MLR	(341)	(265)
Cost sharing reductions	45	(50)

## 7. Debt

Debt consists of the following (\$ in millions):

	<b>March 31, 2019</b>	<b>December 31, 2018</b>
\$1,400 million 5.625% Senior notes, due February 15, 2021	\$ 1,400	\$ 1,400
\$1,000 million 4.75% Senior notes, due May 15, 2022	1,005	1,005
\$1,000 million 6.125% Senior notes, due February 15, 2024	1,000	1,000
\$1,200 million 4.75% Senior notes, due January 15, 2025	1,200	1,200
\$1,800 million 5.375% Senior notes, due June 1, 2026	1,800	1,800
Fair value of interest rate swap agreements	(61)	(95)
Total senior notes	6,344	6,310
Revolving credit agreement	357	284
Mortgage notes payable	57	57
Construction loan payable	78	63
Finance leases and other	49	47
Debt issuance costs	(70)	(75)
Total debt	6,815	6,686
Less current portion	(40)	(38)
Long-term debt	\$ 6,775	\$ 6,648

## 8. Leases

In February 2016, the FASB issued ASU No. 2016-02, Leases, which introduced a lessee model that requires the majority of leases to be recognized on the balance sheet. On January 1, 2019, the Company adopted the ASU using the modified retrospective transition approach and elected the transition option to recognize the adjustment in the period of adoption rather than in the earliest period presented. Adoption of the new guidance resulted in the initial recognition of right-of-use (ROU) assets of \$661 million, ROU lease liabilities of \$774 million and the elimination of \$113 million of straight-line lease liabilities.

The Company records ROU assets and liabilities for non-cancelable operating leases primarily for real estate and equipment. Leases with an initial term of 12 months or less are not recorded on the balance sheet. Expense related to leases is recorded on a straight-line basis over the lease term, including rent holidays. During the three months ended March 31, 2019, the Company recognized operating lease expense of \$50 million.

The following table sets forth the ROU assets and liabilities as of March 31, 2019 (\$ in millions):

	<b>March 31, 2019</b>
<b>Assets</b>	
ROU assets (recorded within other long-term assets)	\$ 624
<b>Liabilities</b>	
Short-term (recorded within accounts payable and accrued expenses)	\$ 156
Long-term (recorded within other long-term liabilities)	583
Total ROU liabilities	\$ 739

During the three months ended March 31, 2019, the Company reduced its ROU liabilities by \$64 million for cash paid. In addition, new operating leases commenced resulting in the recognition of ROU assets and liabilities of \$32 million, respectively. As of March 31, 2019, the Company had additional operating leases that have not yet commenced of \$13 million. These operating leases will commence in 2019 with lease terms of 1 year to 5 years.

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As of March 31, 2019, the weighted average remaining lease term of the Company's operating leases was 6.1 years. The ROU liabilities as of March 31, 2019 reflect a weighted average discount rate of 4.6%. Lease payments over the next five years and thereafter are as follows (\$ in millions):

	<b>March 31, 2019</b>	
2019	\$	133
2020		181
2021		144
2022		102
2023		76
2024		57
Thereafter		148
Total lease payments		<u>841</u>
Less: imputed interest		(102)
Total ROU liabilities	\$	<u><u>739</u></u>

### 9. Earnings Per Share

The following table sets forth the calculation of basic and diluted net earnings per common share (\$ in millions, except shares in thousands and per share data in dollars):

	<b>Three Months Ended March 31,</b>	
	<b>2019</b>	<b>2018</b>
Earnings attributable to Centene Corporation	\$ 522	\$ 340
Shares used in computing per share amounts:		
Weighted average number of common shares outstanding	412,924	347,843
Common stock equivalents (as determined by applying the treasury stock method)	6,828	7,537
Weighted average number of common shares and potential dilutive common shares outstanding	<u>419,752</u>	<u>355,380</u>
Net earnings per common share attributable to Centene Corporation:		
Basic earnings per common share	\$ 1.26	\$ 0.98
Diluted earnings per common share	\$ 1.24	\$ 0.96

The calculation of diluted earnings per common share for the three months ended March 31, 2019 and 2018 excludes the impact of 1.4 million and 9 thousand shares, respectively, related to anti-dilutive stock options, restricted stock and restricted stock units.

### 10. Segment Information

Centene operates in two segments: Managed Care and Specialty Services. The Managed Care segment consists of Centene's health plans, including all of the functions needed to operate them. The Specialty Services segment consists of Centene's specialty companies offering auxiliary healthcare services and products.

Segment information for the three months ended March 31, 2019, follows (\$ in millions):

	<b>Managed Care</b>	<b>Specialty Services</b>	<b>Eliminations</b>	<b>Consolidated Total</b>
Total revenues from external customers	\$ 17,687	\$ 757	\$ -	\$ 18,444
Total revenues from internal customers	35	2,449	(2,484)	-
Total revenues	<u>\$ 17,722</u>	<u>\$ 3,206</u>	<u>\$ (2,484)</u>	<u>\$ 18,444</u>
Earnings from operations	<u>\$ 615</u>	<u>\$ 70</u>	<u>\$ -</u>	<u>\$ 685</u>

Segment information for the three months ended March 31, 2018, follows (\$ in millions):

	Managed Care	Specialty Services	Eliminations	Consolidated Total
Total revenues from external customers	\$ 12,449	\$ 745	\$ -	\$ 13,194
Total revenues from internal customers	25	2,231	(2,256)	-
Total revenues	\$ 12,474	\$ 2,976	\$ (2,256)	\$ 13,194
Earnings from operations	\$ 470	\$ 70	\$ -	\$ 540

## 11. Contingencies

### Overview

The Company records reserves and accrues costs for certain legal proceedings and regulatory matters to the extent that it determines an unfavorable outcome is probable and the amount of the loss can be reasonably estimated. While such reserves and accrued costs reflect the Company's best estimate of the probable loss for such matters, the recorded amounts may differ materially from the actual amount of any such losses. In some cases, no estimate of the possible loss or range of loss in excess of amounts accrued, if any, can be made because of the inherently unpredictable nature of legal and regulatory proceedings, which may be exacerbated by various factors, including but not limited to, they may involve indeterminate claims for monetary damages or may involve fines, penalties or punitive damages; present novel legal theories or legal uncertainties; involve disputed facts; represent a shift in regulatory policy; involve a large number of parties, claimants or regulatory bodies; are in the early stages of the proceedings; involve a number of separate proceedings and/or a wide range of potential outcomes; or result in a change of business practices.

As of the date of this report, amounts accrued for legal proceedings and regulatory matters were not material. However, it is possible that in a particular quarter or annual period the Company's financial condition, results of operations, cash flow and/or liquidity could be materially adversely affected by an ultimate unfavorable resolution of or development in legal and/or regulatory proceedings, including as described below. Except for the proceedings discussed below, the Company believes that the ultimate outcome of any of the regulatory and legal proceedings that are currently pending against it should not have a material adverse effect on financial condition, results of operations, cash flow or liquidity.

### California

On October 20, 2015, the Company's California subsidiary, Health Net of California, Inc. (Health Net California), was named as a defendant in a California taxpayer action filed in Los Angeles County Superior Court, captioned as Michael D. Myers v. State Board of Equalization, Dave Jones, Insurance Commissioner of the State of California, Betty T. Yee, Controller of the State of California, et al., Los Angeles Superior Court Case No. BS158655. This action is brought under a California statute that permits an individual taxpayer to sue a governmental agency when the taxpayer believes the agency has failed to enforce governing law. Plaintiff contends that Health Net California, a California licensed Health Care Service Plan (HCSP), is an "insurer" for purposes of taxation despite acknowledging it is not an "insurer" under regulatory law. Under California law, "insurers" must pay a gross premiums tax (GPT), calculated as 2.35% on gross premiums. As a licensed HCSP, Health Net California has paid the California Corporate Franchise Tax (CFT), the tax generally paid by California businesses. Plaintiff contends that Health Net California must pay the GPT rather than the CFT. Plaintiff seeks a writ of mandate directing the California taxing agencies to collect the GPT, and seeks an order requiring Health Net California to pay GPT, interest and penalties for a period dating to eight years prior to the October 2015 filing of the complaint. This lawsuit is being coordinated with similar lawsuits filed against other entities (collectively, "Related Actions"). In March 2018, the Court overruled the Company's demurrer seeking to dismiss the complaint and denied the Company's motion to strike allegations seeking retroactive relief. In August 2018, the trial court stayed all the Related Actions pending determination of a writ of mandate by the California Court of Appeals in two of the Related Actions. In March 2019, the California Court of Appeals denied the writ of mandate and the defendants in those Related Actions have sought review by the California Supreme Court. It is not yet known whether the trial court will stay the Related Actions pending a decision from the California Supreme Court. The Company intends to vigorously defend itself against these claims; however, this matter is subject to many uncertainties, and an adverse outcome in this matter could potentially have a materially adverse impact on our financial position, results of operations and cash flows.



### ***Federal Securities Class Action***

On November 14, 2016, a putative federal securities class action, Israel Sanchez v. Centene Corp., et al., was filed against the Company and certain of its executives in the U.S. District Court for the Central District of California. In March 2017, the court entered an order transferring the matter to the U.S. District Court for the Eastern District of Missouri. The plaintiffs in the lawsuit allege that the Company's accounting and related disclosures for certain liabilities acquired in the acquisition of Health Net violated federal securities laws. In July 2017, the lead plaintiff filed a Consolidated Class Action Complaint. The Company filed a motion to dismiss this complaint in September 2017. In February 2018, the Court held a hearing on the motion to dismiss but has not yet issued a ruling.

The Company denies any wrongdoing and is vigorously defending itself against these claims. Nevertheless, this matter is subject to many uncertainties and the Company cannot predict how long this litigation will last or what the ultimate outcome will be, and an adverse outcome in this matter could potentially have a materially adverse impact on our financial position and results of operations.

Additionally, on January 24, 2018, a separate derivative action was filed by plaintiff Harkesh Parekh on behalf of Centene Corporation against the Company and certain of its officers and directors in the United States District Court for the Eastern District of Missouri. Plaintiff purports to bring suit derivatively on behalf of the Company against certain officers and directors for violation of securities laws, breach of fiduciary duty, waste of corporate assets and unjust enrichment. The derivative complaint repeats many of the allegations in the federal securities class action described above and asserts that defendants made inaccurate or misleading statements, and/or failed to correct the alleged misstatements.

A second shareholder derivative action was filed on March 9, 2018, by plaintiffs Laura Wood and Peoria Police Pension Fund on behalf of Centene Corporation against the Company and certain of its officers and directors in the United States District Court for the Eastern District of Missouri. This second derivative complaint repeats many of the allegations in the securities class action and the first derivative suit.

A third shareholder derivative action was filed on December 14, 2018, by plaintiffs Carpenter Pension Fund of Illinois and Iron Workers Local 11 Pension Fund on behalf of Centene Corporation against the Company and certain of its officers and directors in the United States District Court for the Eastern District of Missouri. This third derivative action repeats many of the allegations in the securities class action and the other derivative suits and adds additional allegations asserting violations of securities laws, breach of fiduciary duty, insider trading and unjust enrichment. On January 9, 2019, the Court consolidated the three derivative suits and established a schedule for determining lead plaintiff and lead counsel. On February 5, 2019, plaintiffs in the three derivative suits filed a consolidated amended complaint. Lead plaintiffs and counsel have been appointed. On February 22, 2019, the Company moved to stay the consolidated derivative action pending resolution of the Sanchez matter. That motion has not yet been decided.

### ***Medicare Parts C and D Matter***

In December 2016, a Civil Investigative Demand (CID) was issued to Health Net by the United States Department of Justice regarding Health Net's submission of risk adjustment claims to CMS under Parts C and D of Medicare. The CID may be related to a federal qui tam lawsuit filed under seal in 2011 naming more than a dozen health insurers including Health Net. The lawsuit was unsealed in February 2017 when the Department of Justice intervened in the case with respect to one of the insurers (not Health Net). In subsequent pleadings, both the Department of Justice and the Relator excluded Health Net from the lawsuit. The Company is complying with the CID and will vigorously defend any lawsuits. At this point, it is not possible to determine what level of liability, if any, the Company may face as a result of this matter.

### ***Veterans Administration Matter***

In October 2017, a CID was issued to Health Net Federal Services, LLC (HNFS) by the United States Department of Justice. The CID seeks documents and interrogatory responses concerning whether HNFS submitted, or caused to be submitted, excessive, duplicative or otherwise improper claims to the U.S. Department of Veterans Affairs (VA) under a contract to provide healthcare coordination services for veterans. The contract began in late 2014 and ended September 30, 2018. In 2016, modifications to the contract were made to allow for possible duplicate billings with a reconciliation period at the end of the contract term. The Company is complying with the CID and believes it has met its contractual obligations. At this point, it is not possible to determine what level of liability, if any, the Company may face as a result of this matter. This matter is separate from the negotiated settlements with the VA in connection with the contract expiration on September 30, 2018.

### ***Ambetter Class Action***

On January 11, 2018, a putative class action lawsuit was filed by Cynthia Harvey and Steven A. Milman against the Company and certain subsidiaries in the U.S. District Court for the Eastern District of Washington. The complaint alleges that the Company failed to meet federal and state requirements for provider networks and directories with regard to its Ambetter policies, denied coverage and/or refused to pay for covered benefits, and failed to address grievances adequately, causing some members to incur unexpected costs. In March 2018, the Company filed separate motions to dismiss each defendant. In July 2018, the plaintiff voluntarily filed a First Amended Complaint that removed Steven Milman as a plaintiff, dropped Centene Corporation and Superior Health Plan as defendants, abandoned certain claims, narrowed the putative class to Washington State only, and added Centene Management Company as a defendant. In August 2018, the Company moved to dismiss the First Amended Complaint. In response, the plaintiff voluntarily filed a Second Amended Complaint. In September 2018, the Company filed a motion to dismiss the Second Amended Complaint. On November 21, 2018, the Court granted in part and denied in part the Company's motion to dismiss. Plaintiff Cynthia Harvey filed a Third Amended Complaint, on November 28, 2018, against Centene Management Company and Coordinated Care Corporation ("Defendants"), both subsidiaries of the Company. Defendants filed an answer on December 12, 2018. Class certification discovery is occurring. The Company intends to vigorously defend itself against these claims. Nevertheless, this matter is subject to many uncertainties and the Company cannot predict how long this litigation will last or what the ultimate outcome will be, and an adverse outcome in this matter could potentially have a materially adverse impact on our financial position and results of operations.

### ***Miscellaneous Proceedings***

Excluding the matters discussed above, the Company is also routinely subjected to legal and regulatory proceedings in the normal course of business. These matters can include, without limitation:

- periodic compliance and other reviews and investigations by various federal and state regulatory agencies with respect to requirements applicable to the Company's business, including, without limitation, those related to payment of out-of-network claims, submissions to CMS for risk adjustment payments or the False Claims Act, pre-authorization penalties, timely review of grievances and appeals, timely and accurate payment of claims, and the Health Insurance Portability and Accountability Act of 1996;
- litigation arising out of general business activities, such as tax matters, disputes related to healthcare benefits coverage or reimbursement, putative securities class actions and medical malpractice, privacy, real estate, intellectual property and employment-related claims;
- disputes regarding reinsurance arrangements, claims arising out of the acquisition or divestiture of various assets, class actions and claims relating to the performance of contractual and non-contractual obligations to providers, members, employer groups and others, including, but not limited to, the alleged failure to properly pay claims and challenges to the manner in which the Company processes claims and claims alleging that the Company has engaged in unfair business practices.

Among other things, these matters may result in awards of damages, fines or penalties, which could be substantial, and/or could require changes to the Company's business. The Company intends to vigorously defend itself against the miscellaneous legal and regulatory proceedings to which it is currently a party; however, these proceedings are subject to many uncertainties. In some of the cases pending against the Company, substantial non-economic or punitive damages are being sought.