Item 8. ***Financial Statements and Supplementary Data***

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Centene Corporation:

We have audited the accompanying consolidated balance sheets of Centene Corporation and subsidiaries as of December 31, 2015 and 2014, and the related consolidated statements of operations, comprehensive earnings, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2015. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Centene Corporation and subsidiaries as of December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Centene Corporation's internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 22, 2016 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

KPMG LLP

St. Louis, Missouri
February 22, 2016

CENTENE CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In millions, except share data)

	December 31, 2015	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,760	$ 1,610
Premium and related receivables	1,279	912
Short term investments	176	177
Other current assets	390	252
Total current assets	3,605	2,951
Long term investments	1,927	1,280
Restricted deposits	115	100
Property, software and equipment, net	518	445
Goodwill	842	754
Intangible assets, net	155	120
Other long term assets	177	174
Total assets	$ 7,339	$ 5,824
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Medical claims liability	$ 2,298	$ 1,723
Accounts payable and accrued expenses	976	768
Return of premium payable	207	236
Unearned revenue	143	168
Current portion of long term debt	5	5
Total current liabilities	3,629	2,900
Long term debt	1,216	874
Other long term liabilities	170	159
Total liabilities	5,015	3,933
Commitments and contingencies		
Redeemable noncontrolling interest	156	148
Stockholders' equity:		
Preferred stock, $0.001 par value; authorized 10,000,000 shares; no shares issued or outstanding at December 31, 2015 and December 31, 2014	—	—
Common stock, $.001 par value; authorized 400,000,000 shares; 126,855,477 issued and 120,342,981 outstanding at December 31, 2015, and 124,274,864 issued and 118,433,416 outstanding at December 31, 2014	—	—
Additional paid-in capital	956	840
Accumulated other comprehensive loss	(10)	(1)
Retained earnings	1,358	1,003
Treasury stock, at cost (6,512,496 and 5,841,448 shares, respectively)	(147)	(98)
Total Centene stockholders' equity	2,157	1,744
Noncontrolling interest	11	(1)
Total stockholders' equity	2,168	1,743
Total liabilities and stockholders' equity	$ 7,339	$ 5,824

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 share data)

	Year Ended December 31,		
	2015	**2014**	**2013**
Revenues:			
Premium	$ 19,389	$ 14,198	$ 10,153
Service	1,876	1,469	373
Premium and service revenues	21,265	15,667	10,526
Premium tax and health insurer fee	1,495	893	337
Total revenues	22,760	16,560	10,863
Expenses:			
Medical costs	17,242	12,678	8,995
Cost of services	1,621	1,280	327
General and administrative expenses	1,826	1,314	931
Premium tax expense	1,151	698	333
Health insurer fee expense	215	126	—
Total operating expenses	22,055	16,096	10,586
Earnings from operations	705	464	277
Other income (expense):			
Investment and other income	35	28	19
Interest expense	(43)	(35)	(27)
Earnings from continuing operations, before income tax expense	697	457	269
Income tax expense	339	196	107
Earnings from continuing operations, net of income tax expense	358	261	162
Discontinued operations, net of income tax expense (benefit) of $(1), $1, and $2, respectively	(1)	3	4
Net earnings	357	264	166
(Earnings) loss attributable to noncontrolling interests	(2)	7	(1)
Net earnings attributable to Centene Corporation	$ 355	$ 271	$ 165
Amounts attributable to Centene Corporation common shareholders:			
Earnings from continuing operations, net of income tax expense	$ 356	$ 268	$ 161
Discontinued operations, net of income tax expense (benefit)	(1)	3	4
Net earnings	$ 355	$ 271	$ 165
Net earnings (loss) per common share attributable to Centene Corporation:			
Basic:			
Continuing operations	$ 2.99	$ 2.30	$ 1.49
Discontinued operations	(0.01)	0.03	0.03
Basic earnings per common share	$ 2.98	$ 2.33	$ 1.52
Diluted:			
Continuing operations	$ 2.89	$ 2.23	$ 1.43
Discontinued operations	(0.01)	0.02	0.04
Diluted earnings per common share	$ 2.88	$ 2.25	$ 1.47
Weighted average number of common shares outstanding:			
Basic	119,100,744	116,345,764	108,253,090
Diluted	123,066,370	120,360,212	112,494,346

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)

	Year Ended December 31,		
	2015	**2014**	**2013**
Net earnings	$ 357	$ 264	$ 166
Reclassification adjustment, net of tax	—	—	(1)
Change in unrealized gain (loss) on investments, net of tax	(4)	3	(7)
Foreign currency translation adjustments, net of tax	(5)	(1)	—
Other comprehensive earnings (loss)	(9)	2	(8)
Comprehensive earnings	348	266	158
Comprehensive (earnings) loss attributable to the noncontrolling interest	(2)	7	(1)
Comprehensive earnings attributable to Centene Corporation	$ 346	$ 273	$ 157

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

CENTENE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In millions, except share data)

	Centene Stockholders' Equity								
	Common Stock					Treasury Stock			
	$.001 Par Value Shares	Amt	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	$.001 Par Value Shares	Amt	Non controlling Interest	Total
Balance, December 31, 2012	110,678,320	$ —	$ 451	$ 5	$ 567	6,019,824	$ (70)	$ 1	$ 954
Net earnings	—	—	—	—	165	—	—	1	166
Other comprehensive earnings (loss), net of $(4) tax	—	—	—	(8)	—	—	—	—	(8)
Common stock issued for acquisition	3,433,380	—	75	—	—	—	—	—	75
Common stock issued for stock offering	685,280	—	15	—	—	—	—	—	15
Common stock issued for employee benefit plans	2,549,450	—	10	—	—	—	—	—	10
Common stock repurchases	—	—	—	—	—	688,128	(19)	—	(19)
Stock compensation expense	—	—	37	—	—	—	—	—	37
Excess tax benefits from stock compensation	—	—	6	—	—	—	—	—	6
Contribution from noncontrolling interest	—	—	—	—	—	—	—	7	7
Balance, December 31, 2013	117,346,430	$ —	$ 594	$ (3)	$ 732	6,707,952	$ (89)	$ 9	$ 1,243
Net earnings (loss)	—	—	—	—	271	—	—	(1)	270
Other comprehensive earnings, net of $1 tax	—	—	—	2	—	—	—	—	2
Common stock issued for acquisitions	4,486,434	—	170	—	—	(1,492,738)	20	—	190
Common stock issued for employee benefit plans	2,442,000	—	9	—	—	—	—	—	9
Common stock repurchases	—	—	—	—	—	626,234	(29)	—	(29)
Stock compensation expense	—	—	48	—	—	—	—	—	48
Excess tax benefits from stock compensation	—	—	19	—	—	—	—	—	19
Reclassification to redeemable noncontrolling interest	—	—	—	—	—	—	—	(9)	(9)
Balance, December 31, 2014	124,274,864	$ —	$ 840	$ (1)	$ 1,003	5,841,448	$ (98)	$ (1)	$ 1,743
Net earnings	—	—	—	—	355	—	—	—	355
Other comprehensive earnings (loss), net of $3 tax	—	—	—	(9)	—	—	—	—	(9)
Common stock issued for acquisitions	—	—	8	—	—	(247,580)	4	—	12
Common stock issued for employee benefit plans	2,580,613	—	12	—	—	—	—	—	12
Common stock repurchases	—	—	—	—	—	918,628	(53)	—	(53)
Stock compensation expense	—	—	71	—	—	—	—	—	71
Excess tax benefits from stock compensation	—	—	25	—	—	—	—	—	25
Contribution from noncontrolling interest	—	—	—	—	—	—	—	11	11
Reclassification to redeemable noncontrolling interest	—	—	—	—	—	—	—	1	1
Balance, December 31, 2015	126,855,477	$ —	$ 956	$ (10)	$ 1,358	6,512,496	$ (147)	$ 11	$ 2,168

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)

	Year Ended December 31,		
	2015	**2014**	**2013**
Cash flows from operating activities:			
Net earnings	$ 357	$ 264	$ 166
Adjustments to reconcile net earnings to net cash provided by operating activities			
Depreciation and amortization	111	89	67
Stock compensation expense	71	48	37
Deferred income taxes	(17)	(42)	(2)
Gain on contingent consideration	(44)	—	—
Goodwill and intangible adjustment	38	—	—
Changes in assets and liabilities			
Premium and related receivables	(360)	(463)	(143)
Other current assets	(96)	(5)	(80)
Other assets	(9)	(8)	(1)
Medical claims liabilities	536	609	172
Unearned revenue	(27)	129	3
Accounts payable and accrued expenses	39	506	152
Other long term liabilities	51	89	8
Other operating activities	8	7	3
Net cash provided by operating activities	658	1,223	382
Cash flows from investing activities:			
Capital expenditures	(150)	(103)	(68)
Purchases of investments	(1,321)	(1,015)	(790)
Sales and maturities of investments	669	406	579
Proceeds from asset sale	7	—	—
Investments in acquisitions, net of cash acquired	(18)	(136)	(63)
Net cash used in investing activities	(813)	(848)	(342)
Cash flows from financing activities:			
Proceeds from exercise of stock options	13	8	9
Proceeds from borrowings	1,925	1,875	180
Proceeds from stock offering	—	—	15
Payment of long term debt	(1,583)	(1,674)	(41)
Excess tax benefits from stock compensation	25	19	6
Common stock repurchases	(53)	(29)	(19)
Contribution from noncontrolling interest	11	6	8
Debt issue costs	(4)	(7)	(4)
Payment of contingent consideration obligation	(29)	—	—
Net cash provided by financing activities	305	198	154
Effect of exchange rate changes on cash and cash equivalents	—	(1)	—
Net increase in cash and cash equivalents	150	572	194
Cash and cash equivalents, beginning of period	1,610	1,038	844
Cash and cash equivalents, end of period	$ 1,760	$ 1,610	$ 1,038
Supplemental disclosures of cash flow information:			
Interest paid	$ 55	$ 40	$ 30
Income taxes paid	$ 328	$ 237	$ 85
Equity issued in connection with acquisitions	$ 12	$ 190	$ 75

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

1. Organization and Operations

Centene Corporation, or the Company, is a diversified, multi-national healthcare enterprise operating in two segments: Managed Care and Specialty Services. The Managed Care segment provides Medicaid and Medicaid-related health plan coverage to individuals through the government subsidized programs, including Medicaid, the State Children's Health Insurance Program (CHIP), Long Term Care (LTC), Foster Care, dual-eligible individuals (Duals) in Medicare Special Needs Plans and the Supplemental Security Income Program, also known as the Aged, Blind or Disabled Program, or collectively ABD and the Health Insurance Marketplace. The Specialty Services segment consists of our specialty companies offering auxiliary healthcare services and products to state programs, healthcare organizations, employer groups and other commercial organizations, as well as to our own subsidiaries.

On February 2, 2015, the Board of Directors declared a two-for-one split of Centene's common stock in the form of a 100% stock dividend distributed February 19, 2015 to stockholders of record on February 12, 2015. All share and per share information presented in this Form 10-K has been adjusted for the two-for-one stock split.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Centene Corporation and all majority owned subsidiaries and subsidiaries over which the Company exercises the power and control to direct activities significantly impacting financial performance. All material intercompany balances and transactions have been eliminated. The assets, liabilities and results of operations of Kentucky Spirit Health Plan are classified as discontinued operations for all periods presented.

Certain amounts in the consolidated financial statements have been reclassified to conform to the 2015 presentation. These reclassifications have no effect on net earnings or stockholders' equity as previously reported.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States, or GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Future events and their effects cannot be predicted with certainty; accordingly, the accounting estimates require the exercise of judgment. The accounting estimates used in the preparation of the consolidated financial statements will change as new events occur, as more experience is acquired, as additional information is obtained and as the operating environment changes. The Company evaluates and updates its assumptions and estimates on an ongoing basis and may employ outside experts to assist in our evaluation, as considered necessary. Actual results could differ from those estimates.

Cash and Cash Equivalents

Investments with original maturities of three months or less are considered to be cash equivalents. Cash equivalents consist of money market funds and bank certificates of deposit and savings accounts.

The Company maintains amounts on deposit with various financial institutions, which may exceed federally insured limits. However, management periodically evaluates the credit-worthiness of those institutions, and the Company has not experienced any losses on such deposits.

Investments

Short term investments include securities with maturities greater than three months to one year. Long term investments include securities with maturities greater than one year.

Short term and long term investments are generally classified as available for sale and are carried at fair value. Certain equity investments are recorded using the cost or equity method. Unrealized gains and losses on investments available for sale are excluded from earnings and reported in accumulated other comprehensive income, a separate component of stockholders' equity, net of income tax effects. Premiums and discounts are amortized or accreted over the life of the related security using the effective interest method. The Company monitors the difference between the cost and fair value of investments. Investments that experience a decline in value that is judged to be other than temporary are written down to fair value and a realized loss is recorded in investment and other income. To calculate realized gains and losses on the sale of investments, the Company uses the specific amortized cost of each investment sold. Realized gains and losses are recorded in investment and other income.

The Company uses the equity method to account for its investments in entities that it does not control but has the ability to exercise significant influence over operating and financial policies. These investments are recorded at the lower of their cost or fair value adjusted for the Company's proportionate share of earnings or losses.

Restricted Deposits

Restricted deposits consist of investments required by various state statutes to be deposited or pledged to state agencies. These investments are classified as long term, regardless of the contractual maturity date, due to the nature of the states' requirements. The Company is required to annually adjust the amount of the deposit pledged to certain states.

Fair Value Measurements

In the normal course of business, the Company invests in various financial assets and incurs various financial liabilities. Fair values are disclosed for all financial instruments, whether or not such values are recognized in the Consolidated Balance Sheets. Management obtains quoted market prices and other observable inputs for these disclosures. The carrying amounts reported in the Consolidated Balance Sheets for cash and cash equivalents, premium and related receivables, unearned revenue, accounts payable and accrued expenses, and certain other current liabilities are carried at cost, which approximates fair value because of their short term nature.

The following methods and assumptions were used to estimate the fair value of each financial instrument:

- Available for sale investments and restricted deposits: The carrying amount is stated at fair value, based on quoted market prices, where available. For securities not actively traded, fair values were estimated using values obtained from independent pricing services or quoted market prices of comparable instruments.
- Senior unsecured notes: Estimated based on third-party quoted market prices for the same or similar issues.
- Variable rate debt: The carrying amount of our floating rate debt approximates fair value since the interest rates adjust based on market rate adjustments.
- Interest rate swap: Estimated based on third-party market prices based on the forward 3-month LIBOR curve.
- Contingent consideration: Estimate based on expected membership retained at contract commencement and per member purchase price in the acquisition agreement.

Property, Software and Equipment

Property, software and equipment are stated at cost less accumulated depreciation. Capitalized software includes certain costs incurred in the development of internal-use software, including external direct costs of materials and services and payroll costs of employees devoted to specific software development. Depreciation is calculated principally by the straight-line method over estimated useful lives. Leasehold improvements are depreciated using the straight-line method over the shorter of the expected useful life or the remaining term of the lease. Property, software and equipment are depreciated over the following periods:

Fixed Asset	Depreciation Period
Buildings and land improvements	3 - 40 years
Computer hardware and software	2 - 7 years
Furniture and equipment	3 - 10 years
Leasehold improvements	1 - 20 years

The carrying amounts of all long-lived assets are evaluated to determine if adjustment to the depreciation and amortization period or to the unamortized balance is warranted. Such evaluation is based principally on the expected utilization of the long-lived assets.

The Company retains fully depreciated assets in property and accumulated depreciation accounts until it removes them from service. In the case of sale, retirement, or disposal, the asset cost and related accumulated depreciation balance is removed from the respective account, and the resulting net amount, less any proceeds, is included as a component of earnings from operations in the consolidated statements of operations.

Goodwill and Intangible Assets

Intangible assets represent assets acquired in purchase transactions and consist primarily of customer relationships, purchased contract rights, provider contracts, trade names and goodwill. Intangible assets are amortized using the straight-line method over the following periods:

Intangible Asset	Amortization Period
Purchased contract rights	5 - 15 years
Provider contracts	4 - 15 years
Customer relationships	3 - 15 years
Trade names	7 - 20 years
Developed technology	5 years

The Company tests for impairment of intangible assets as well as long-lived assets whenever events or changes in circumstances indicate that the carrying value of an asset or asset group (hereinafter referred to as "asset group") may not be recoverable by comparing the sum of the estimated undiscounted future cash flows expected to result from use of the asset group and its eventual disposition to the carrying value. Such factors include, but are not limited to, significant changes in membership, state funding, state contracts and provider networks and contracts. If the sum of the estimated undiscounted future cash flows is less than the carrying value, an impairment determination is required. The amount of impairment is calculated by subtracting the fair value of the asset group from the carrying value of the asset group. An impairment charge, if any, is recognized within earnings from operations.

The Company tests goodwill for impairment using a fair value approach. The Company is required to test for impairment at least annually, absent a triggering event including a significant decline in operating performance that would require an impairment assessment. Absent any impairment indicators, the Company performs its goodwill impairment testing during the fourth quarter of each year. The Company recognizes an impairment charge for any amount by which the carrying amount of goodwill exceeds its implied fair value.

The Company first assesses qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. The Company generally does not calculate the fair value of a reporting unit unless it determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. However, in certain circumstances, such as recent acquisitions, the Company may elect to perform a quantitative assessment without first assessing qualitative factors.

If the two-step quantitative test is deemed necessary, the Company determines an appropriate valuation technique to estimate a reporting unit's fair value as of the testing date. The Company utilizes either the income approach or the market approach, whichever is most appropriate for the respective reporting unit. The income approach is based on an internally developed discounted cash flow model that includes many assumptions related to future growth rates, discount factors, future tax rates, etc. The market approach is based on financial multiples of comparable companies derived from current market data. Changes in economic and operating conditions impacting assumptions used in our analyses could result in goodwill impairment in future periods.

Medical Claims Liability

Medical claims liability includes claims reported but not yet paid, or inventory, estimates for claims incurred but not reported, or IBNR, and estimates for the costs necessary to process unpaid claims at the end of each period. The Company estimates its medical claims 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.

Actuarial Standards of Practice generally require that the medical claims liability estimates be adequate to cover obligations under moderately adverse conditions. Moderately adverse conditions are situations in which the actual claims are expected to be higher than the otherwise estimated value of such claims at the time of estimate. In many situations, the claims amounts ultimately settled will be different than the estimate that satisfies the Actuarial Standards of Practice. The Company includes in its IBNR an estimate for medical claims liability under moderately adverse conditions which represents the risk of adverse deviation of the estimates in its actuarial method of reserving.

The Company uses its judgment to determine the assumptions to be used in the calculation of the required estimates. The assumptions it considers when estimating IBNR include, without limitation, claims receipt and payment experience (and variations in that experience), changes in membership, provider billing practices, healthcare service utilization trends, cost trends, product mix, seasonality, prior authorization of medical services, benefit changes, known outbreaks of disease or increased incidence of illness such as influenza, provider contract changes, changes to fee schedules, and the incidence of high dollar or catastrophic claims.

The Company's development of the medical claims liability estimate is a continuous process which it monitors and refines on a monthly basis as additional claims receipts and payment information becomes available. As more complete claims information becomes available, the Company adjusts the amount of the estimates, and includes the changes in estimates in medical costs in the period in which the changes are identified. In every reporting period, the operating results include the effects of more completely developed medical claims liability estimates associated with previously reported periods. The Company consistently applies its reserving methodology from period to period. As additional information becomes known, it adjusts the actuarial model accordingly to establish medical claims liability estimates.

The Company periodically reviews actual and anticipated experience compared to the assumptions used to establish medical costs. The Company establishes premium deficiency reserves if actual and anticipated experience indicates that existing policy liabilities together with the present value of future gross premiums will not be sufficient to cover the present value of future benefits, settlement and maintenance costs.

Revenue Recognition

The Company's health plans generate revenues primarily from premiums received from the states in which it operates health plans. The Company receives a fixed premium per member per month pursuant to its state contracts. The Company generally receives premium payments during the month it provides services and recognizes premium revenue during the period in which it is obligated to provide services to its members. In some instances, the Company's base premiums are subject to an adjustment, or risk score, based on the acuity of its membership. Generally, the risk score is determined by the State analyzing submissions of processed claims data to determine the acuity of the Company's membership relative to the entire state's Medicaid membership. Some states enact premium taxes, similar assessments and provider pass-through payments, collectively premium taxes, and these taxes are recorded as a separate component of both revenues and operating expenses. Some contracts allow for additional premiums related to certain supplemental services provided such as maternity deliveries.

Revenues are recorded based on membership and eligibility data provided by the states, which is adjusted on a monthly basis by the states for retroactive additions or deletions to membership data. These eligibility adjustments are estimated monthly and subsequent adjustments are made in the period known. We continuously review and update those estimates as new information becomes available. It is possible that new information could require us to make additional adjustments, which could be significant, to these estimates.

The Company's specialty companies generate revenues under contracts with state programs, individuals, healthcare organizations and other commercial organizations, as well as from the Company's own subsidiaries. Revenues are recognized when the related services are provided or as ratably earned over the covered period of service.

Health Insurance Marketplace

The Affordable Care Act (ACA) established risk spreading premium stabilization programs effective January 1, 2014 for the Health Insurance Marketplace product. These programs, commonly referred to as the “three Rs,” include a permanent risk adjustment program, a transitional reinsurance program, and a temporary risk corridor program. The Company’s accounting policies for the programs are as follows:

Risk Adjustment

The permanent risk adjustment program established by the ACA transfers funds from qualified individual and small group insurance plans with below average risk scores to those plans with above average risk scores within each state. The Company estimates the receivable or payable under the risk adjustment program based on its estimated risk score compared to the state average risk score. The Company may record a receivable or payable as an adjustment to Premium revenue to reflect the year to date impact of the risk adjustment based on its best estimate. The Company expects to refine its estimate as new information becomes available. As of December 31, 2015, the Company recorded a payable of $108 million associated with risk adjustment, and $44 million at December 31, 2014.

Reinsurance

The ACA established a transitional three-year reinsurance program whereby the Company's claims costs incurred for qualified members will be reimbursed when they exceed a specific threshold. For the 2015 benefit year, qualified member claims that exceeded $45,000 entitled the Company to reimbursement from the programs at 50% coinsurance. The Company accounts for reinsurance recoveries as a reduction of Medical Costs based on each individual case that exceeds the reinsurance threshold established by the program. As of December 31, 2015, the Company recorded a receivable of $24 million associated with reinsurance, and $11 million at December 31, 2014.

Risk Corridor

The temporary, three-year risk corridor program established by the ACA applies to qualified individual and small group health plans operating both inside and outside of the Health Insurance Marketplace. The risk corridor program limits the Company's gains and losses in the Health Insurance Marketplace by comparing certain medical and administrative costs to a target amount and sharing the risk for allowable costs with the federal government. Allowable medical costs are adjusted for risk adjustment settlements, transitional reinsurance recoveries, and cost sharing reductions received from the federal government. The Company records a risk corridor receivable or payable as an adjustment to Premium Revenue on a year to date basis based on where its estimated annual costs fall within the risk corridor range. As of December 31, 2015, the Company recorded a payable of $4 million associated with risk corridor, and $9 million at December 31, 2014.

Minimum Medical Loss Ratio

Additionally, the ACA established a minimum annual medical loss ratio for the Health Insurance Marketplace. Each of the three R programs described above are taken into consideration to determine if the Company's estimated annual medical costs are less than the minimum loss ratio and require an adjustment to Premium revenue to meet the minimum medical loss ratio. As of December 31, 2015, the Company recorded a payable of $15 million associated with minimum medical loss ratio, and $6 million at December 31, 2014.

Premium and Related Receivables and Unearned Revenue

Premium and service revenues collected in advance are recorded as unearned revenue. For performance-based contracts the Company does not recognize revenue subject to refund until data is sufficient to measure performance. Premiums and service revenues due to the Company are recorded as premium and related receivables and are recorded net of an allowance based on historical trends and management's judgment on the collectibility of these accounts. As the Company generally receives payments during the month in which services are provided, the allowance is typically not significant in comparison to total revenues and does not have a material impact on the presentation of the financial condition or results of operations. Activity in the allowance for uncollectible accounts for the years ended December 31, is summarized below ($ in millions):

	2015	2014	2013
Allowances, beginning of year	$ 5	$ 1	$ 1
Amounts charged to expense	12	8	3
Write-offs of uncollectible receivables	(7)	(4)	(3)
Allowances, end of year	$ 10	$ 5	$ 1

Significant Customers

Centene receives the majority of its revenues under contracts or subcontracts with state Medicaid managed care programs. The current contracts expire on various dates between April 30, 2016 and June 30, 2019. States where the aggregate annual contract value exceeded 10% of total annual revenues included Texas, where the percentage of the Company's total revenue was 22%, 25% and 37% for the years ended December 31, 2015, 2014, and 2013, respectively, and Florida where the percentage of the Company's total revenue was 14% for the years ended December 31, 2015 and 2014.

Other Income (Expense)

Other income (expense) consists principally of investment income, interest expense and equity method earnings from investments. Investment income is derived from the Company's cash, cash equivalents, restricted deposits and investments. Interest expense relates to borrowings under the senior notes, interest rate swap, credit facilities, interest on capital leases and credit facility fees.

Income Taxes

Deferred tax assets and liabilities are recorded for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax law or tax rates is recognized in income in the period that includes the enactment date.

Valuation allowances are provided when it is considered more likely than not that deferred tax assets will not be realized. In determining if a deductible temporary difference or net operating loss can be realized, the Company considers future reversals of existing taxable temporary differences, future taxable income, taxable income in prior carryback periods and tax planning strategies.

Contingencies

The Company accrues for loss contingencies associated with outstanding litigation, claims and assessments for which it has determined it is probable that a loss contingency exists and the amount of loss can be reasonably estimated. The Company expenses professional fees associated with litigation claims and assessments as incurred.

Stock Based Compensation

The fair value of the Company's employee share options and similar instruments are estimated using the Black-Scholes option-pricing model. That cost is recognized over the period during which an employee is required to provide service in exchange for the award. Excess tax benefits related to stock compensation are presented as a cash inflow from financing activities.

Foreign Currency Translation

The Company is exposed to foreign currency exchange risk through its equity method investment in Ribera Salud S.A. (Ribera Salud), a Spanish health management group whose functional currency is the Euro. The assets and liabilities of the Company's investment are translated into United States dollars at the balance sheet date. The Company translates its proportionate share of earnings using average rates during the year. The resulting foreign currency translation adjustments are recorded as a separate component of accumulated other comprehensive income.

Recent Accounting Pronouncements

In November 2015, the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU) which requires entities to present deferred tax assets and deferred tax liabilities as noncurrent in a classified balance sheet. The new standards simplifies the current guidance, which requires entities to separately present deferred tax assets and deferred tax liabilities as current and noncurrent in a classified balance sheet. It is effective for annual and interim periods beginning after December 15, 2016. Early adoption is permitted. The Company elected to adopt this guidance in the current fiscal year and applied the new standard retrospectively to all prior periods. The reclassification of deferred tax assets and deferred tax liabilities impacted the Consolidated Balance Sheets by decreasing Other Current Assets and increasing Other Long Term Assets by $102 million and $83 million at December 31, 2015 and December 31, 2014. These reclassifications have no effect on net earnings or stockholders' equity as previously reported.

In September 2015, the FASB issued an ASU which simplifies the accounting for measurement-period adjustments in business combinations. The new standard eliminates the requirement for an acquirer in a business combination to account for measurement-period adjustments retrospectively. Instead, acquirers must recognize measurement-period adjustments during the period in which they determine the amounts, including any amounts they would have recorded in previous periods if the accounting had been completed at the acquisition date. Additionally, the acquirer must disclose the portion of the amount that would have been recorded in previous reporting periods. It is effective for annual and interim periods beginning after

December 15, 2016. Early adoption is permitted. The Company elected to adopt this guidance in the current fiscal year.

In May 2015, the FASB issued an ASU which expands the disclosure requirements for insurance companies that issue short-duration contracts. The new standard will increase the level of disclosure around the Company's Medical Claims Liability to include the following: claims development by year; claim frequency; a rollforward of the claims liability; and a description of methods and assumptions used for determining the liability. It is effective for annual periods beginning after December 15, 2015 and interim periods beginning after December 15, 2016. Early adoption is permitted. The Company is currently evaluating the effect of the new disclosure requirements.

In April 2015, the FASB issued an ASU which changes the presentation of debt issuance costs in financial statements. Under the new standard, debt issuance costs are presented in the balance sheet as a direct deduction of the related debt liability rather than as an asset. Amortization of the cost is reported as interest expense. The new standard is effective for annual and interim periods beginning after December 15, 2015 and early adoption is permitted. The Company elected to adopt this guidance beginning in the first quarter of 2015 and has applied the new standard retrospectively to all prior periods. The reclassification of debt issuance costs impacted the Consolidated Balance Sheets by decreasing both Other Long Term Assets and Long Term Debt by $14 million at December 31, 2015 and December 31, 2014. These reclassifications have no effect on net earnings or stockholders' equity as previously reported.

In May 2014, the FASB issued an ASU which supersedes existing revenue recognition standards with a single model unless those contracts are within the scope of other standards (e.g., an insurance entity's insurance contracts). Under the new standard, recognition of revenue occurs when a customer obtains control of promised goods or services in an amount that reflects the consideration which the entity expects to receive in exchange for those goods or services. In addition, the standard requires disclosure of the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The new effective date is for annual and interim periods beginning after December 15, 2017. Early adoption is permitted. The Company is currently evaluating the effect of the new revenue recognition guidance.

The Company has determined that there are no other recently issued accounting pronouncements that will have a material impact on its consolidated financial position, results of operations and cash flows.

3. Health Net Merger

On July 2, 2015, the Company announced that the Company and two direct, newly formed subsidiaries of the Company had entered into a definitive merger agreement with Health Net, Inc. (Health Net) under which the Company will acquire all of the issued and outstanding shares of Health Net. Under the terms of the agreement, at the closing of the transaction, Health Net stockholders (with limited exceptions) would receive 0.622 of a validly issued, fully paid, non-assessable share of Centene common stock and $28.25 in cash for each share of Health Net common stock. The transaction is valued at approximately $5.5 billion (based on the Centene closing stock price on February 17, 2016), including the assumption of debt.

The transaction is expected to close in early 2016 and is subject to approvals by relevant state insurance and healthcare regulators and other customary closing conditions. In August 2015, the Company announced the early termination of the waiting period required under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended. In October 2015, the Company and Health Net announced the transaction was approved by both the Centene and Health Net stockholders. The Company expects to fund the cash portion of the acquisition through a combination of the debt financing completed in February 2016, borrowings on the Company's revolving credit facility and existing cash on hand.

4. Acquisitions and Noncontrolling Interest

Acquisitions

Agate Resources, Inc. In September 2015, the Company completed the acquisition of Agate Resources, Inc. (Agate) for $109 million. Agate is a diversified holding company that offers primarily Medicaid and other healthcare products and services to Oregon residents. The fair value of consideration of $109 million consists of initial cash consideration of $93 million, the present value of future cash payments of $7 million to be paid out over a three year period, and the fair value of estimated contingent consideration of $9 million. A portion of the contingent consideration is based on the achievement of underwriting targets and will be paid in cash over a three year period; the remainder is based on the net proceeds of a retrospective rate adjustment to be settled in 2016.

The Company's preliminary allocation of fair value resulted in goodwill of $48 million and other identifiable intangible assets of $39 million. The Company has not finalized the allocation of the fair value of assets and liabilities. The goodwill is not deductible for income tax purposes. The acquisition is recorded in the Managed Care segment.

Community Health Solutions of America, Inc. In July 2014, the Company completed a transaction whereby Community Health Solutions of America, Inc. assigned its contract with the Louisiana Department of Health and Hospitals under the Bayou Health Shared Savings Program to the Company's subsidiary, Louisiana Healthcare Connections (LHC). The fair value of consideration transferred included the present value of the estimated contingent consideration, subject to membership retained by LHC in the first quarter of 2015. The fair value of contingent consideration was $18 million at December 31, 2014. During the first quarter of 2015, the Company determined the amount of the actual contingent consideration to be $8 million. A gain of $10 million related to the settlement of the obligation was recorded in General and Administrative expense.

Fidelis SecureCare of Michigan, Inc. In May 2015, the Company acquired 100% of Fidelis SecureCare of Michigan, Inc. (Fidelis) a subsidiary of Concerto Healthcare. Fidelis was previously selected by the Michigan Department of Community Health to provide integrated healthcare services to members who are dually eligible for Medicare and Medicaid in Macomb and Wayne counties. The fair value of consideration of $57 million consisted of initial cash consideration of $7 million and the fair value of estimated contingent consideration of $50 million. The contingent consideration is based on duals membership and revenue per member during the first year of the contract (July 2015 - June 2016), including reconciliation payments settled over a two year period. The contingent consideration fair value is estimated based on expected membership during the first year of the contract as well as estimated revenue per member reflecting both member mix and risk adjustment. The Company's allocation of fair value resulted in goodwill of $29 million and other identifiable intangible assets of $23 million. 100% of the goodwill is deductible for income tax purposes. The acquisition is recorded in the Managed Care segment.

During 2015, the Company experienced higher than anticipated opt-out rates and member attrition in the dual demonstration program, resulting in lower than expected membership and lower blended premium rates. As a result, the fair value of estimated contingent consideration was reduced from $50 million to $16 million, and the Company recorded a gain of $34 million in general and administrative expenses. In connection with the lower membership and revenue outlook, the Company conducted an impairment analysis of the identifiable intangible assets and goodwill, resulting in a reduction of goodwill and intangible assets of $38 million which was recorded in general and administrative expenses. At December 31, 2015, the Company had goodwill of $11 million and other identifiable intangible assets of $1 million, net of $2 million of amortization, remaining on the balance sheet.

LiveHealthier, Inc. In January 2015, the Company acquired the remaining 79% of LiveHealthier, Inc. (LiveHealthier) for $28 million, bringing its total ownership to 100%. LiveHealthier is a provider of technology and service-based health management solutions. The fair value of consideration of $28 million consists of cash paid of $11 million, Centene common stock issued at closing of $13 million, and the fair value of estimated contingent consideration of $4 million to be paid in cash over a three year period. The contingent consideration will not exceed $9 million.

The Company's allocation of fair value resulted in goodwill of $26 million and other identifiable intangible assets of $15 million. The goodwill is not deductible for income tax purposes. The acquisition is recorded in the Managed Care segment.

Ribera Salud, S.A. In July 2014, the Company purchased a noncontrolling interest in Ribera Salud S.A. (Ribera Salud), a Spanish health management group for $17 million. Centene is a 50% joint shareholder with Ribera Salud's remaining investor, Banco Sabadell S.A. The Company is accounting for its investment using the equity method of accounting. Any basis difference between the Company's share of underlying net assets and the purchase price will be attributable to certain intangible assets and will be accreted into earnings over their useful lives.

Upon closing, the Company executed letters of credit for $52 million (valued at the December 31, 2015 conversion rate), or €48 million, representing its proportional share of the letters of credit issued to support Ribera Salud’s outstanding debt. Refer to Note 11, *Debt* for outstanding balance as of December 31, 2015.

U.S. Medical Management. In January 2014, the Company acquired 68% of U.S. Medical Management, LLC (USMM), a management services organization and provider of in-home health services for high acuity populations, for $213 million in total consideration. The transaction consideration consisted of $133 million of Centene common stock and $80 million of cash.

The total fair value of 100% of USMM on the date of acquisition was $352 million ($213 million for the Company's interest and $139 million for the redeemable noncontrolling interest). The Company's allocation of fair value resulted in goodwill of $280 million and other identifiable intangible assets of $78 million. Approximately 45% of the goodwill is deductible for income tax purposes. The acquisition is recorded in the Specialty Services segment.

In connection with the acquisition, the Company entered into call and put agreements with the noncontrolling interest holder to purchase the noncontrolling interest at a later date. Under these agreements, the Company may purchase or be required to purchase up to the total remaining interests in USMM over a period beginning in 2015 and continuing through 2017. Under certain circumstances, the agreements may be extended through 2020. At the Company's sole option, up to 50% of the consideration to be issued for the purchase of the additional interests under these agreements may be funded with shares of the Company's common stock.

Noncontrolling Interest

The Company has consolidated subsidiaries where it maintains less than 100% ownership. The Company's ownership interest for each subsidiary as of December 31, are as follows:

	2015	2014	2013
Celtic Insurance Company	75%	100%	100%
Centurion	51%	51%	51%
Home State Health Plan	95%	95%	95%
U.S. Medical Management	68%	68%	—

Net income attributable to Centene Corporation and transfers from (to) noncontrolling interest entities are as follows ($ in millions):

	Year Ended December 31,		
	2015	2014	2013
Net earnings attributable to Centene Corporation	$ 356	$ 268	$ 161
Transfers from (to) the noncontrolling interest:			
Increase in equity for distributions from and consolidation of noncontrolling interest	11	—	7
Reclassification to redeemable noncontrolling interest	1	(9)	—
Net transfers from (to) noncontrolling interest	12	(9)	7
Changes from net earnings attributable to Centene Corporation and net transfers from (to) the noncontrolling interest	$ 368	$ 259	$ 168

Redeemable Noncontrolling Interest

As a result of put option agreements, noncontrolling interest is considered redeemable and is classified in the Redeemable Noncontrolling Interest section of the consolidated balance sheets. Noncontrolling interest is initially measured at fair value using the binomial lattice model as of the acquisition date. The Company has elected to accrete changes in the redemption value through additional paid-in capital over the period from the date of issuance to the earliest redemption date following the effective interest method.

A reconciliation of the changes in the Redeemable Noncontrolling Interest is as follows ($ in millions):

Balance, December 31, 2014	$ 148
Fair value of noncontrolling interest sold	7
Reclassification to redeemable noncontrolling interest	(1)
Net earnings attributable to noncontrolling interest	2
Balance, December 31, 2015	$ 156

Ownership changes are described in more detail below.

Celtic Insurance Company In January 2015, the Company sold 25% of its ownership in Celtic Insurance Company for $7 million. No gain or loss was recognized on the sale of the ownership interest. Celtic Insurance Company is included in the Managed Care segment. In connection with the sale of the ownership interest, the Company entered into a put agreement with the noncontrolling interest holder, allowing the noncontrolling interest holder to put its interest back to the Company beginning in 2022. As a result of put option agreements, the noncontrolling interest is considered redeemable and is classified in the Redeemable Noncontrolling Interest section of the consolidated balance sheets.

Pro forma disclosures related to the acquisitions have been excluded as immaterial.

5. 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):

	December 31, 2015				December 31, 2014			
	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	$ 431	$ —	$ (2)	$ 429	$ 393	$ 1	$ (2)	$ 392
Corporate securities	859	2	(8)	853	556	2	(2)	556
Restricted certificates of deposit	5	—	—	5	6	—	—	6
Restricted cash equivalents	78	—	—	78	79	—	—	79
Municipal securities	496	2	(1)	497	174	1	—	175
Asset backed securities	163	—	(1)	162	180	—	—	180
Residential mortgage backed securities	66	1	—	67	84	1	—	85
Commercial mortgage backed securities	40	—	—	40	—	—	—	—
Cost and equity method investments	71	—	—	71	68	—	—	68
Life insurance contracts	16	—	—	16	16	—	—	16
Total	$ 2,225	$ 5	$ (12)	$ 2,218	$ 1,556	$ 5	$ (4)	$ 1,557

The Company’s investments are classified as available-for-sale with the exception of life insurance contracts and certain cost and equity method 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. The Company's mortgage backed securities are issued by the Federal National Mortgage Association and carry guarantees by the U.S. government. As of December 31, 2015, 99% of the Company’s investments in rated securities carry an investment grade rating by S&P or Moody’s. At December 31, 2015, the Company held certificates of deposit, life insurance contracts and cost and equity method investments which did not carry a credit rating.

The fair value of available-for-sale investments 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):

	December 31, 2015				December 31, 2014			
	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	$ (2)	$ 294	$ —	$ 14	$ —	$ 72	$ (2)	$ 180
Corporate securities	(6)	561	(2)	41	(2)	311	—	1
Municipal securities	(1)	208	—	5	—	20	—	7
Asset backed securities	(1)	121	—	8	—	70	—	10
Residential Mortgage backed securities	—	30	—	—	—	18	—	—
Commercial mortgage backed securities	—	34	—	—	—	—	—	—
Total	$ (10)	$ 1,248	$ (2)	$ 68	$ (2)	$ 491	$ (2)	$ 198

As of December 31, 2015, the gross unrealized losses were generated from 429 positions out of a total of 733 positions. The change in fair value of fixed income securities is 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.

During the year ended December 31, 2015, the company recognized $8 million of income from equity method investments.

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

	December 31, 2015				December 31, 2014			
	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	$ 176	$ 176	$ 93	$ 93	$ 176	$ 177	$ 92	$ 92
One year through five years	1,662	1,654	22	22	1,121	1,121	8	8
Five years through ten years	267	268	—	—	121	120	—	—
Greater than ten years	5	5	—	—	38	39	—	—
Total	$ 2,110	$ 2,103	$ 115	$ 115	$ 1,456	$ 1,457	$ 100	$ 100

Actual maturities may differ from contractual maturities due to call or prepayment options. Asset backed and mortgage backed securities are included in the one year through five years category, while cost and equity method investments and life insurance contracts are included in the five years through ten years 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 cost and equity method 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.

6. 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 the fair value. Level inputs are as follows:

Level Input:	Input Definition:
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 December 31, 2015, for assets and liabilities measured at fair value on a recurring basis ($ in millions):

	Level I	Level II	Level III	Total
Assets				
Cash and cash equivalents	$ 1,760	$ —	$ —	$ 1,760
Investments available for sale:				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 325	$ 72	$ —	$ 397
Corporate securities	—	853	—	853
Municipal securities	—	497	—	497
Asset backed securities	—	162	—	162
Residential mortgage backed securities	—	67	—	67
Commercial mortgage backed securities	—	40	—	40
Total investments	$ 325	$ 1,691	$ —	$ 2,016
Restricted deposits available for sale:				
Cash and cash equivalents	$ 78	$ —	$ —	$ 78
Certificates of deposit	5	—	—	5
U.S. Treasury securities and obligations of U.S. government corporations and agencies	32	—	—	32
Total restricted deposits	$ 115	$ —	$ —	$ 115
Other long term assets:				
Interest rate swap agreements	$ —	$ 11	$ —	$ 11
Total assets at fair value	$ 2,200	$ 1,702	$ —	$ 3,902
Liabilities				
Other long term liabilities:				
Interest rate swap agreements	$ —	$ 2	$ —	$ 2
Total liabilities at fair value	$ —	$ 2	$ —	$ 2

The following table summarizes fair value measurements by level at December 31, 2014, for assets and liabilities measured at fair value on a recurring basis ($ in millions):

	Level I	Level II	Level III	Total
Assets				
Cash and cash equivalents	$ 1,610	$ —	$ —	$ 1,610
Investments available for sale:				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 360	$ 17	$ —	$ 377
Corporate securities	—	556	—	556
Municipal securities	—	175	—	175
Asset backed securities	—	180	—	180
Residential mortgage backed securities	—	85	—	85
Commercial mortgage backed securities	—	—	—	—
Total investments	$ 360	$ 1,013	$ —	$ 1,373
Restricted deposits available for sale:				
Cash and cash equivalents	$ 79	$ —	$ —	$ 79
Certificates of deposit	6	—	—	6
U.S. Treasury securities and obligations of U.S. government corporations and agencies	15	—	—	15
Total restricted deposits	$ 100	$ —	$ —	$ 100
Other long term assets:				
Interest rate swap agreements	$ —	$ 11	$ —	$ 11
Total assets at fair value	$ 2,070	$ 1,024	$ —	$ 3,094

The Company periodically transfers U.S. Treasury securities and obligations of U.S. government corporations and agencies between Level I and Level II fair value measurements dependent upon the level of trading activity for the specific securities at the measurement date. The Company's policy regarding the timing of transfers between Level I and Level II is to measure and record the transfers at the end of the reporting period. At December 31, 2015, there were $53 million of transfers from Level I to Level II and no transfers from Level II to Level I. The Company utilizes matrix pricing services to estimate fair value for securities which are not actively traded on the measurement date. The Company designates these securities as Level II fair value measurements. The aggregate carrying amount of the Company's life insurance contracts and other non-majority owned investments, which approximates fair value, was $87 million and $84 million as of December 31, 2015 and December 31, 2014, respectively.

7. Property, Software and Equipment

Property, software and equipment consist of the following as of December 31 ($ in millions):

	2015	2014
Computer software	$ 237	$ 198
Building	223	208
Land	104	87
Computer hardware	105	88
Furniture and office equipment	92	70
Leasehold improvements	108	82
	869	733
Less accumulated depreciation	(351)	(288)
Property, software and equipment, net	$ 518	$ 445

As of December 31, 2015 and 2014, the Company had assets acquired under capital leases included above of $6 million and $7 million, net of accumulated amortization of $4 million and $3 million, respectively. Amortization on assets under capital leases charged to expense is included in depreciation expense. Depreciation expense for the years ended December 31, 2015, 2014 and 2013 was $78 million, $65 million and $52 million, respectively.

8. Goodwill and Intangible Assets

The following table summarizes the changes in goodwill by operating segment ($ in millions):

	Managed Care	Specialty Services	Total
Balance as of December 31, 2013	$ 151	$ 197	$ 348
Acquisition	125	281	406
Balance as of December 31, 2014	276	478	754
Acquisition	103	3	106
Impairment	(18)	—	(18)
Balance as of December 31, 2015	$ 361	$ 481	$ 842

Goodwill acquisitions were related to the acquisitions and finalization of fair value allocations discussed in Note 4, *Acquisitions and Noncontrolling Interest*.

Intangible assets at December 31, consist of the following ($ in millions):

			Weighted Average Life in Years	
	2015	2014	2015	2014
Purchased contract rights	$ 71	$ 28	8.8	7.5
Provider contracts	103	103	11.1	11.1
Customer relationships	26	15	8.1	7.1
Trade names	12	17	7.3	13.1
Developed technology	5	—	5.0	—
Intangible assets	217	163	9.8	10.3
Less accumulated amortization:				
Purchased contract rights	(21)	(14)		
Provider contracts	(24)	(14)		
Customer relationships	(14)	(12)		
Trade names	(2)	(3)		
Developed technology	(1)	—		
Total accumulated amortization	(62)	(43)		
Intangible assets, net	$ 155	$ 120		

Amortization expense was $24 million, $16 million and $6 million for the years ended December 31, 2015, 2014 and 2013, respectively. Estimated total amortization expense related to intangible assets for each of the five succeeding fiscal years is as follows ($ in millions):

Year	Expense
2016	$ 22
2017	19
2018	18
2019	18
2020	16

9. Medical Claims Liability

The change in medical claims liability is summarized as follows ($ in millions):

	Year Ended December 31,		
	2015	2014	2013
Balance, January 1,	$ 1,723	$ 1,112	$ 815
Acquisitions	79	—	—
Incurred related to:			
Current year	17,471	12,820	9,073
Prior years	(229)	(142)	(78)
Total incurred	17,242	12,678	8,995
Paid related to:			
Current year	15,279	11,122	7,975
Prior years	1,467	945	723
Total paid	16,746	12,067	8,698
Balance, December 31,	$ 2,298	$ 1,723	$ 1,112

Changes in estimates of incurred claims for prior years are primarily attributable to reserving under moderately adverse conditions. Additionally, as a result of minimum HBR and other return of premium programs, approximately $47 million, $26 million, and $0 million of the “Incurred related to: Prior period” was recorded as a reduction to premium revenues in 2015, 2014 and 2013, respectively. Further, claims processing initiatives yielded increased claim payment recoveries and coordination of benefits related to prior year dates of service. Changes in medical utilization and cost trends and the effect of medical management initiatives may also contribute to changes in medical claim liability estimates. While the Company has evidence that medical management initiatives are effective on a case by case basis, medical management initiatives primarily focus on events and behaviors prior to the incurrence of the medical event and generation of a claim. Accordingly, any change in behavior, leveling of care, or coordination of treatment occurs prior to claim generation and as a result, the costs prior to the medical management initiative are not known by the Company. Additionally, certain medical management initiatives are focused on member and provider education with the intent of influencing behavior to appropriately align the medical services provided with the member's acuity. In these cases, determining whether the medical management initiative changed the behavior cannot be determined. Because of the complexity of its business, the number of states in which it operates, and the volume of claims that it processes, the Company is unable to practically quantify the impact of these initiatives on its changes in estimates of IBNR.

The Company had reinsurance recoverables related to medical claims liability of $31 million and $22 million at December 31, 2015 and 2014, respectively, included in premium and related receivables.

The Company periodically reviews actual and anticipated experience compared to the assumptions used to establish medical costs. The Company establishes premium deficiency reserves if actual and anticipated experience indicates that existing policy liabilities together with the present value of future gross premiums will not be sufficient to cover the present value of future benefits, settlement and maintenance costs.

10. Health Insurance Marketplace

The Affordable Care Act (ACA) established risk spreading premium stabilization programs effective January 1, 2014 for the Health Insurance Marketplace product. These programs, commonly referred to as the “three Rs,” include a permanent risk adjustment program, a transitional reinsurance program, and a temporary risk corridor program. Additionally, the ACA established a minimum annual medical loss ratio for the Health Insurance Marketplace. Each of the three R programs are taken into consideration to determine if the Company’s estimated annual medical costs are less than the minimum loss ratio and require an adjustment to Premium revenue to meet the minimum medical loss ratio.

In June 2015, CMS released final results on reinsurance and risk-adjustment for the 2014 plan year. In September 2015, the results on risk corridor and the minimum medical loss ratio were finalized for the 2014 plan year. These final results had an insignificant impact to the Company for the 2014 plan year.

The Company's receivables (payables) for each of these programs are as follows at each year ended ($ in millions):

	December 31, 2015	December 31, 2014
Risk adjustment	$ (108)	$ (44)
Reinsurance	24	11
Risk corridor	(4)	(9)
Minimum medical loss ratio	(15)	(6)

11. Debt

Debt consists of the following ($ in millions):

	December 31, 2015	December 31, 2014
$425 million 5.75% Senior notes, due June 1, 2017	$ 428	$ 429
$500 million 4.75% Senior notes, due May 15, 2022	500	300
Fair value of interest rate swap agreements	9	11
Senior notes	937	740
Revolving credit agreement	225	75
Mortgage notes payable	67	70
Capital leases	6	8
Debt issuance costs	(14)	(14)
Total debt	1,221	879
Less current portion	(5)	(5)
Long term debt	$ 1,216	$ 874

Senior Notes

In January 2015, the Company issued an additional $200 million of 4.75% Senior Notes ($200 Million Add-on Notes) at par. The $200 Million Add-on Notes were offered as additional debt securities under the indenture governing the $300 million of 4.75% Senior Notes issued in April 2014. In connection with the January 2015 issuance, the Company entered into interest rate swap agreements for a notional amount of $200 million at a floating rate of interest based on the three month LIBOR plus 2.88%. Gains and losses due to changes in the fair value of the interest rate swap completely offset changes in the fair value of the hedged portion of the underlying debt and are recorded as an adjustment to the $200 Million Add-on Notes.

In April 2014, the Company issued $300 million of 4.75% Senior Notes due May 15, 2022 ($300 Million Notes) at par. In connection with the April 2014 issuance, the Company entered into interest rate swap agreements for a notional amount of $300 million. Gains and losses due to changes in the fair value of the interest rate swap agreements offset changes in the fair value of the hedged portion of the underlying debt and are recorded as an adjustment to the $300 Million Notes.

The indentures governing both the $425 million and the $500 million notes contain non-financial and financial covenants, including requirements of a minimum fixed charge coverage ratio.

Interest Rate Swaps

The Company uses interest rate swap agreements to convert a portion of its interest rate exposure from fixed rates to floating rates to more closely align interest expense with interest income received on its cash equivalent and variable rate investment balances. The Company has $750 million of notional amount of interest rate swap agreements consisting of $250 million which are scheduled to expire on June 1, 2017 and $500 million that are scheduled to expire May 15, 2022. Under the Swap Agreements, the Company receives a fixed rate of interest and pays a variable rate of the three month LIBOR plus an average 2.85% adjusted quarterly. At December 31, 2015, the weighted average rate was 3.22%.

The Swap Agreements are formally designated and qualify as fair value hedges and are recorded at fair value in the Consolidated Balance Sheet in other assets or other liabilities. Gains and losses due to changes in fair value of the interest rate swap agreements completely offset changes in the fair value of the hedged portion of the underlying debt. Therefore, no gain or loss has been recognized due to hedge ineffectiveness. Offsetting changes in fair value of both the interest rate swaps and the hedged portion of the underlying debt both were recognized in interest expense in the Consolidated Statement of Operations. The Company does not hold or issue any derivative instrument for trading or speculative purposes.

The fair values of the Swap Agreements as of December 31, 2015 were assets of $11 million and liabilities of $2 million, and are included in other long term assets and other long term liabilities, respectively in the Consolidated Balance Sheet. The fair value of the Swap Agreements as of December 31, 2014 were assets of $11 million and are included in other long term assets in the Consolidated Balance Sheet. The fair value of the Swap Agreements excludes accrued interest and takes into consideration current interest rates and current likelihood of the swap counterparties' compliance with its contractual obligations.

Revolving Credit Agreement

The Company has an unsecured $500 million revolving credit facility. Borrowings under the agreement bear interest based upon LIBOR rates, the Federal Funds Rate or the Prime Rate. The agreement has a maturity date of June 1, 2018, provided it will mature 90 days prior to the maturity date of the Company's 5.75% Senior Notes due 2017 if such notes are not refinanced (or extended), certain financial conditions are not met, or the Company does not carry $100 million of unrestricted cash. As of December 31, 2015, the Company had $225 million of borrowings outstanding under the agreement with a weighted average interest rate of 2.05%.

The agreement contains non-financial and financial covenants, including requirements of minimum fixed charge coverage ratios, maximum debt-to-EBITDA ratios and minimum tangible net worth. The Company is required to not exceed a maximum debt-to-EBITDA ratio of 3.0 to 1.0. As of December 31, 2015, there were no limitations on the availability under the revolving credit agreement as a result of the debt-to-EBITDA ratio.

Mortgage Notes Payable

The Company has a non-recourse mortgage note of $67 million at December 31, 2015 collateralized by its corporate headquarters building. The mortgage note is due January 1, 2021 and bears a 5.14% interest rate. The collateralized property had a net book value of $151 million at December 31, 2015.

Letters of Credit & Surety Bonds

The Company had outstanding letters of credit of $47 million as of December 31, 2015, which were not part of the revolving credit facility. As discussed in Note 4, *Acquisitions and Noncontrolling Interest*, the Company also had letters of credit for $50 million (valued at December 31, 2015 conversion rate), or €46 million, representing its proportional share of the letters of credit issued to support Ribera Salud's outstanding debt which are a part of the revolving credit facility. Collectively, the letters of credit bore interest at 1.55% as of December 31, 2015. The Company had outstanding surety bonds of $305 million as of December 31, 2015.

Aggregate maturities for the Company's debt are as follows ($ in millions):

2016	$ 5
2017	429
2018	228
2019	4
2020	4
Thereafter	553
Total	$ 1,223

The fair value of outstanding debt was approximately $1,239 million and $901 million at December 31, 2015 and 2014, respectively.

12. Stockholders' Equity

The Company has 10,000,000 authorized shares of preferred stock at $.001 par value. At December 31, 2015, there were no preferred shares outstanding.

The Company's Board of Directors has authorized a stock repurchase program for up to 8,000,000 shares of the Company's common stock from time to time on the open market or through privately negotiated transactions. No duration has been placed on the repurchase program. The Company has 3,335,448 available shares remaining under the program for repurchases as of December 31, 2015. The Company reserves the right to discontinue the repurchase program at any time. During the year ended December 31, 2015, the Company did not repurchase any shares through this publicly announced program.

As a component of the employee stock compensation plan, employees can use shares of stock which have vested to satisfy minimum statutory tax withholding obligations. As part of this plan, the Company repurchased 918,628 shares at an aggregate cost of $53 million in 2015 and 626,234 shares at an aggregate cost of $29 million in 2014. These shares are included in the Company's treasury stock.

In January 2014, the Company completed the acquisition of 68% of USMM and as a result, issued 4,486,434 shares of Centene common stock to the selling stockholders. Additionally, in July 2014, the Company completed a transaction whereby CHS assigned its contract with the Louisiana Department of Health and Hospitals to Centene's wholly owned subsidiary, LHC. The closing resulted in the issuance of 1,492,738 shares of Centene common stock.

13. Statutory Capital Requirements and Dividend Restrictions

Various state laws require Centene's regulated subsidiaries to maintain minimum capital levels specified by each state and restrict the amount of dividends that may be paid without prior regulatory approval. At December 31, 2015 and 2014, Centene's subsidiaries, including Kentucky Spirit Health Plan, had aggregate statutory capital and surplus of $2,284 million and $1,699 million, respectively, compared with the required minimum aggregate statutory capital and surplus of $1,195 million and $851 million, respectively.

14. Income Taxes

The consolidated income tax expense consists of the following for the years ended December 31 ($ in millions):

	2015	2014	2013
Current provision:			
Federal	$ 332	$ 225	$ 121
State and local	26	13	6
Total current provision	358	238	127
Deferred provision	(19)	(42)	(20)
Total provision for income taxes	$ 339	$ 196	$ 107

The reconciliation of the tax provision at the U.S. Federal Statutory Rate to the provision for income taxes for the years ended December 31 is as follows ($ in millions):

	2015	2014	2013
Earnings from continuing operations, before income tax expense	$ 697	$ 457	$ 269
(Earnings) loss attributable to flow through noncontrolling interest	1	4	(1)
Earnings from continuing operations, less noncontrolling interest, before income tax expense	698	461	268
Tax provision at the U.S. federal statutory rate	244	162	94
State income taxes, net of federal income tax benefit	15	6	3
Nondeductible compensation	2	1	12
Benefit from reversal of prior years impact of 162(m)(6) regulations	—	(14)	—
ACA Health Insurer Fee	75	44	—
Other, net	3	(3)	(2)
Income tax expense	$ 339	$ 196	$ 107

The tax effects of temporary differences which give rise to deferred tax assets and liabilities are presented below for the years ended December 31 ($ in millions):

	2015	2014
Deferred tax assets:		
Medical claims liability	$ 27	$ 27
Accrued expenses	9	11
Net operating loss carryforward	20	21
Compensation accruals	73	53
Acquisition costs	10	—
Premium and related receivables	34	35
Other	18	9
Deferred tax assets	191	156
Valuation allowance	(11)	(12)
Net deferred tax assets	$ 180	$ 144
Deferred tax liabilities:		
Intangible assets	$ 46	$ 25
Prepaid assets	8	6
Depreciation and amortization	31	26
Investments in partnerships	7	—
Other	1	4
Deferred tax liabilities	93	61
Net deferred tax assets	$ 87	$ 83

The Company's deferred tax assets include federal and state net operating losses, or NOLs. Accordingly, the total and annual deduction for those NOLs is limited by tax law. Federal and State NOLs of $6 million were all acquired in business combinations. The Company's federal NOLs expire between the years 2020 and 2033 and the state NOLs expire between the years 2016 and 2035. Valuation allowances are recorded for those NOLs the Company believes are more likely than not to expire unused. During 2015 and 2014, the Company recorded valuation allowance additions in the tax provision of $1 million and $5 million, respectively. The Company recorded valuation allowance reductions of $2 million and $1 million during the years ended December 31, 2015 and 2014.

As of December 31, 2015 and 2014, the Company maintained reserves for uncertain tax positions that may be challenged by a tax authority of $4 million. The unrecognized federal tax benefits are related to returns open from 2012 to 2015. The Company files in numerous state jurisdictions with varying statutes of limitation. The unrecognized state tax benefits are related to returns open from 2010 to 2015.

In September 2014, the Internal Revenue Service issued final regulations related to the compensation deduction limitation applicable to certain health insurance issuers. The new regulations provided additional information regarding the definition of a health insurance issuer. Based on the final regulations, the Company believes it is not subject to the compensation deduction limitation. As a result of this change in regulation, tax benefits of $14 million related to 2013 were recorded during the 2014 period.

As of December 31, 2015, the Company had $8 million of undistributed earnings from non-U.S. subsidiaries that are intended to be reinvested in non-U.S. operations. Because these earnings are considered permanently reinvested, no U.S. tax provision has been accrued related to the repatriation of these earnings. The amount of U.S. tax that would be payable on the eventual remittance of such earnings is not material to the Company’s financial statements.

15. Stock Incentive Plans

The Company's stock incentive plans allow for the granting of restricted stock or restricted stock unit awards and options to purchase common stock. Both incentive stock options and nonqualified stock options can be awarded under the plans. No option will be exercisable for longer than ten years after the date of grant. The plans have 2,528,371 shares available for future awards. Compensation expense for stock options and restricted stock unit awards is recognized on a straight-line basis over the vesting period, generally three to five years for stock options and 1 to 10 years for restricted stock or restricted stock unit awards. Certain restricted stock unit awards contain performance-based as well as service-based provisions. Certain awards provide for accelerated vesting if there is a change in control as defined in the plans. The total compensation cost that has been charged against income for the stock incentive plans was $71 million, $48 million and $36 million for the years ended December 31, 2015, 2014 and 2013, respectively. The total income tax benefit recognized in the income statement for stock-based compensation arrangements was $24 million, $17 million and $8 million for the years ended December 31, 2015, 2014 and 2013, respectively.

Option activity for the year ended December 31, 2015 is summarized below:

	Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value ($ in millions)	Weighted Average Remaining Contractual Term
Outstanding as of December 31, 2014	1,267,066	$ 12.18		
Granted	—	—		
Exercised	(588,658)	12.52		
Forfeited	(1,000)	12.39		
Outstanding as of December 31, 2015	677,408	$ 11.88	$ 37	2.0
Exercisable as of December 31, 2015	670,740	$ 11.78	$ 36	2.0

The fair value of each option grant is estimated on the date of the grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	Year Ended December 31,		
	2015 (1)	2014 (1)	2013
Expected life (in years)	—	—	5.1
Risk-free interest rate	—	—	0.8%
Expected volatility	—	—	48.1%
Expected dividend yield	—	—	—

(1) No options were awarded in the years ended December 31, 2015 and 2014.

For the year ended December 31, 2013, the Company used a projected expected life for each award granted based on historical experience of employees' exercise behavior. The expected volatility is primarily based on historical volatility levels. The risk-free interest rates are based on the implied yield currently available on U.S. Treasury instruments with a remaining term equal to the expected life.

Other information pertaining to option activity is as follows:

	Year Ended December 31,		
	2015 (1)	2014 (1)	2013
Weighted-average fair value of options granted	$ —	$ —	$ 9.52
Total intrinsic value of stock options exercised ($ in millions)	$ 28	$ 17	$ 13

(1) No options were awarded in the years ended December 31, 2015 and 2014.

A summary of the Company's non-vested restricted stock and restricted stock unit shares as of December 31, 2015, and changes during the year ended December 31, 2015, is presented below:

	Shares	Weighted Average Grant Date Fair Value
Non-vested balance as of December 31, 2014	4,350,014	$ 36.86
Granted	1,795,359	58.38
Vested	(1,906,900)	31.81
Forfeited	(116,470)	34.10
Non-vested balance as of December 31, 2015	4,122,003	$ 48.65

The total fair value of restricted stock and restricted stock units vested during the years ended December 31, 2015, 2014 and 2013, was $112 million, $82 million and $49 million, respectively.

As of December 31, 2015, there was $191 million of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the plans; that cost is expected to be recognized over a weighted-average period of 1.3 years.

The Company maintains an employee stock purchase plan and has issued 86,819 shares, 76,088 shares, and 84,168 shares in 2015, 2014 and 2013, respectively.

16. Retirement Plan

Centene has a defined contribution plan which covers substantially all employees who are at least twenty-one years of age. Under the plan, eligible employees may contribute a percentage of their base salary, subject to certain limitations. Centene may elect to match a portion of the employee's contribution. Company expense related to matching contributions to the plan was $19 million, $12 million and $9 million during the years ended December 31, 2015, 2014 and 2013, respectively.

17. Commitments

Centene and its subsidiaries lease office facilities and various equipment under non-cancelable operating leases which may contain escalation provisions. The rental expense related to these leases is recorded on a straight-line basis over the lease term, including rent holidays. Tenant improvement allowances are recorded as a liability and amortized against rent expense over the term of the lease. Rent expense was $64 million, $46 million and $31 million for the years ended December 31, 2015, 2014 and 2013, respectively. Annual non-cancelable minimum lease payments over the next five years and thereafter are as follows ($ in millions):

2016	$ 58
2017	59
2018	50
2019	45
2020	33
Thereafter	70
	$ 315

18. Contingencies

On July 5, 2013, the Company's subsidiary, Kentucky Spirit Health Plan, Inc. (Kentucky Spirit), terminated its contract with the Commonwealth of Kentucky (the Commonwealth). Kentucky Spirit believes it had a contractual right to terminate the contract and filed a lawsuit in Franklin Circuit Court seeking a declaration of this right. The Commonwealth has alleged that Kentucky Spirit's exit constitutes a material breach of contract. The Commonwealth seeks to recover substantial damages and to enforce its rights under Kentucky Spirit's $25 million performance bond. The Commonwealth's attorneys have asserted that the Commonwealth's expenditures due to Kentucky Spirit's departure range from $28 million to $40 million plus interest, and that the associated CMS expenditures range from $92 million to $134 million. Kentucky Spirit disputes the Commonwealth's alleged damages, and filed a lawsuit in April 2013, amended in October 2014, in Franklin Circuit Court seeking damages against the Commonwealth for losses sustained due to the Commonwealth's alleged breaches.

On February 6, 2015, the Kentucky Court of Appeals affirmed a Franklin Circuit Court ruling that Kentucky Spirit does not have a contractual right to terminate the contract early. The Court of Appeals also found that the contract's liquidated damages provision "is applicable in the event of a premature termination of the Contract term." On September 8, 2015, Kentucky Spirit filed a motion for discretionary review seeking Kentucky Supreme Court review of the finding that Kentucky Spirit's departure constituted a breach of contract. On October 9, 2015, the Commonwealth filed a response opposing discretionary review.

On May 26, 2015, the Commonwealth issued a demand for indemnification to its actuarial firm, for "all defense costs, and any resultant monetary awards in favor of Kentucky Spirit, arising from or related to Kentucky Spirit's claims which are predicated upon the alleged omissions and errors in the Data Book and the certified actuarially sound rates." On August 19, 2015, the actuarial firm moved to intervene in the litigation. The Franklin Circuit Court granted the actuarial firm's motion on September 8, 2015 and ordered a forty-five day stay of all pretrial proceedings in order for the firm to review the record. Also, on August 19, 2015, the actuarial firm filed a petition seeking a declaratory judgment that it is not liable to the Commonwealth for indemnification related to the claims asserted by Kentucky Spirit against the Commonwealth. On October 5, 2015, the Commonwealth filed an answer to the actuarial firm's petition and asserted counterclaims/cross-claims against the firm.

On March 9, 2015, the Secretary of the Kentucky Cabinet for Health and Family Services (CHFS) issued a determination letter finding that Kentucky Spirit owed the Commonwealth $40 million in actual damages plus prejudgment interest at 8 percent. On March 18, 2015, in a letter to the Kentucky Finance and Administration Cabinet (FAC), Kentucky Spirit contested CHFS' jurisdiction to make such a determination. The FAC did not issue a decision within the required 120 days. On August 13, 2015, Kentucky Spirit filed a declaratory judgment action against the Commonwealth in Franklin Circuit Court seeking a declaration that the Commonwealth may not purport to issue a decision against Kentucky Spirit awarding damages to itself when the matter is already before the Kentucky courts, and that the Commonwealth has waived its claims against Kentucky Spirit for damages arising out of the contract. The Commonwealth filed counterclaims seeking a Declaration of Rights and Entry of Judgment on its determination letter. On December 1, 2015 the Franklin Circuit Court consolidated this declaratory judgment action with Kentucky Spirit's other litigation claims against the Commonwealth. On December 15, 2015, the Franklin Circuit Court denied Kentucky Spirit's motion to dismiss the Commonwealth's counterclaim for Declaration of Rights and Entry of Judgment. Discovery is proceeding in the consolidated litigation matters.

The resolution of the Kentucky litigation matters may result in a range of possible outcomes. If Kentucky Spirit prevails on its claims, it would be entitled to damages. If the Commonwealth prevails, a liability to the Commonwealth could be recorded. The Company is unable to estimate the ultimate outcome resulting from the Kentucky litigation. As a result, the Company has not recorded any receivable or any liability for potential damages under the contract as of December 31, 2015. While uncertain, the ultimate resolution of the pending litigation could have a material effect on the financial position, cash flow or results of operations of the Company in the period it is resolved or becomes known.

Excluding the Kentucky matters discussed above, the Company is also routinely subjected to legal proceedings in the normal course of business. While the ultimate resolution of such matters in the normal course of business is uncertain, the Company does not expect the results of any of these matters individually, or in the aggregate, to have a material effect on its financial position, results of operations or cash flows.

19. Earnings Per Share

The following table sets forth the calculation of basic and diluted net earnings per common share for the years ended December 31 ($ in millions, except per share data):

	2015	2014	2013
Earnings attributable to Centene Corporation:			
Earnings from continuing operations, net of tax	$ 356	$ 268	$ 161
Discontinued operations, net of tax	(1)	3	4
Net earnings	$ 355	$ 271	$ 165
Shares used in computing per share amounts:			
Weighted average number of common shares outstanding	119,100,744	116,345,764	108,253,090
Common stock equivalents (as determined by applying the treasury stock method)	3,965,626	4,014,448	4,241,256
Weighted average number of common shares and potential dilutive common shares outstanding	123,066,370	120,360,212	112,494,346
Net earnings per common share attributable to Centene Corporation:			
Basic:			
Continuing operations	$ 2.99	$ 2.30	$ 1.49
Discontinued operations	(0.01)	0.03	0.03
Basic earnings per common share	$ 2.98	$ 2.33	$ 1.52
Diluted:			
Continuing operations	$ 2.89	$ 2.23	$ 1.43
Discontinued operations	(0.01)	0.02	0.04
Diluted earnings per common share	$ 2.88	$ 2.25	$ 1.47

The calculation of diluted earnings per common share for 2015, 2014 and 2013 excludes the impact of 7,247 shares, 207,980 shares and 187,078 shares, respectively, related to anti-dilutive stock options, restricted stock and restricted stock units.

20. 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.

Factors used in determining the reportable business segments include the nature of operating activities, existence of separate senior management teams, and the type of information presented to the Company's chief operating decision maker to evaluate all results of operations.

Segment information as of and for the year ended December 31, 2015, follows ($ in millions):

	Managed Care	Specialty Services	Eliminations	Consolidated Total
Premium and service revenues from external customers	$ 19,054	$ 2,211	$ —	$ 21,265
Premium and service revenues from internal customers	100	4,864	(4,964)	—
Total premium and service revenues	19,154	7,075	(4,964)	21,265
Earnings from operations	513	192	—	705
Total assets	6,202	1,137	—	7,339

Segment information as of and for the year ended December 31, 2014, follows ($ in millions):

	Managed Care	Specialty Services	Eliminations	Consolidated Total
Premium and service revenues from external customers	$ 13,886	$ 1,781	$ —	$ 15,667
Premium and service revenues from internal customers	60	3,019	(3,079)	—
Total premium and service revenues	13,946	4,800	(3,079)	15,667
Earnings from operations	353	111	—	464
Total assets	4,706	1,118	—	5,824

Segment information as of and for the year ended December 31, 2013, follows ($ in millions):

	Managed Care	Specialty Services	Eliminations	Consolidated Total
Premium and service revenues from external customers	$ 9,741	$ 785	$ —	$ 10,526
Premium and service revenues from internal customers	41	2,147	(2,188)	—
Total premium and service revenues	9,782	2,932	(2,188)	10,526
Earnings from operations	198	79	—	277
Total assets	2,921	598	—	3,519

21. Quarterly Selected Financial Information

(In millions, except share data)
(Unaudited)

	For the Quarter Ended			
	March 31, 2015	June 30, 2015	September 30, 2015	December 31, 2015
Total revenues	$ 5,131	$ 5,506	$ 5,821	$ 6,302
Amounts attributable to Centene Corporation common shareholders:				
Earnings from continuing operations, net of income tax expense	$ 64	$ 88	$ 92	$ 112
Discontinued operations, net of income tax expense (benefit)	(1)	—	1	(1)
Net earnings	$ 63	$ 88	$ 93	$ 111
Net earnings (loss) per common share attributable to Centene Corporation:				
Basic:				
Continuing operations	$ 0.54	$ 0.74	$ 0.77	$ 0.94
Discontinued operations	(0.01)	—	0.01	(0.01)
Basic earnings per common share	$ 0.53	$ 0.74	$ 0.78	$ 0.93
Diluted:				
Continuing operations	$ 0.52	$ 0.72	$ 0.75	$ 0.91
Discontinued operations	(0.01)	—	0.01	(0.01)
Diluted earnings per common share	$ 0.51	$ 0.72	$ 0.76	$ 0.90

	For the Quarter Ended			
	March 31, 2014	June 30, 2014	September 30, 2014	December 31, 2014
Total revenues	$ 3,460	$ 4,023	$ 4,352	$ 4,725
Amounts attributable to Centene Corporation common shareholders:				
Earnings from continuing operations, net of income tax expense	$ 34	$ 47	$ 81	$ 106
Discontinued operations, net of income tax expense (benefit)	(1)	2	1	1
Net earnings	$ 33	$ 49	$ 82	$ 107
Net earnings (loss) per common share attributable to Centene Corporation:				
Basic:				
Continuing operations	$ 0.30	$ 0.41	$ 0.69	$ 0.90
Discontinued operations	(0.01)	0.01	0.01	0.01
Basic earnings per common share	$ 0.29	$ 0.42	$ 0.70	$ 0.91
Diluted:				
Continuing operations	$ 0.29	$ 0.39	$ 0.67	$ 0.87
Discontinued operations	(0.01)	0.02	0.01	0.01
Diluted earnings per common share	$ 0.28	$ 0.41	$ 0.68	$ 0.88

22. Condensed Financial Information of Registrant

Centene Corporation (Parent Company Only)
Condensed Balance Sheets
(In millions, except share data)

	December 31, 2015	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$ 4	$ 3
Short term investments, at fair value (amortized cost $5 and $8, respectively)	5	8
Other current assets	711	378
Total current assets	720	389
Long term investments, at fair value (amortized cost $6 and $10, respectively)	6	10
Investment in subsidiaries	2,749	2,296
Other long term assets	35	38
Total assets	$ 3,510	$ 2,733
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities	$ 13	$ 24
Long term debt	1,147	815
Other long term liabilities	26	3
Total liabilities	1,186	842
Redeemable noncontrolling interest	156	148
Stockholders' equity:		
Common stock, $.001 par value; authorized 400,000,000 shares; 126,855,477 issued and 120,342,981 outstanding at December 31, 2015, and 124,274,864 issued and 118,433,416 outstanding at December 31, 2014	—	—
Additional paid-in capital	956	840
Accumulated other comprehensive loss	(10)	(1)
Retained earnings	1,358	1,003
Treasury stock, at cost (6,512,496 and 5,841,448 shares, respectively)	(147)	(98)
Total Centene stockholders' equity	2,157	1,744
Noncontrolling interest	11	(1)
Total stockholders' equity	2,168	1,743
Total liabilities and stockholders' equity	$ 3,510	$ 2,733

See notes to condensed financial information of registrant.

Centene Corporation (Parent Company Only)
Condensed Statements of Operations
(In millions, except share data)

	Year Ended December 31,		
	2015	2014	2013
Expenses:			
General and administrative expenses	$ 9	$ 3	$ 4
Gain on contingent consideration	(44)	—	—
Other income (expense):			
Investment and other income	(5)	1	1
Interest expense	(39)	(30)	(23)
Earnings (loss) before income taxes	(9)	(32)	(26)
Income tax benefit	(26)	(8)	(15)
Net earnings (loss) before equity in subsidiaries	17	(24)	(11)
Equity in earnings from subsidiaries	341	285	173
Net earnings	358	261	162
(Earnings) loss attributable to noncontrolling interests	(2)	7	(1)
Net earnings attributable to Centene	$ 356	$ 268	$ 161
Net earnings per share from continuing operations:			
Basic earnings per common share	$ 2.99	$ 2.30	$ 1.49
Diluted earnings per common share	$ 2.89	$ 2.23	$ 1.43
Weighted average number of shares outstanding:			
Basic	119,100,744	116,345,764	108,253,090
Diluted	123,066,370	120,360,212	112,494,346

See notes to condensed financial information of registrant.

Centene Corporation (Parent Company Only)
Condensed Statements of Cash Flows
(In millions)

	Year Ended December 31,		
	2015	**2014**	**2013**
Cash flows from operating activities:			
Cash provided by operating activities	$ 462	$ 317	$ 302
Cash flows from investing activities:			
Net dividends from and capital contributions to subsidiaries	(660)	(384)	(417)
Purchase of investments	(17)	(32)	(12)
Sales and maturities of investments	9	14	10
Proceeds from asset sale	7	—	—
Acquisitions	(113)	(137)	(67)
Net cash used in investing activities	(774)	(539)	(486)
Cash flows from financing activities:			
Proceeds from borrowings	1,925	1,875	180
Payment of long term debt	(1,575)	(1,650)	(30)
Proceeds from exercise of stock options	13	8	9
Proceeds from stock offering	—	—	15
Common stock repurchases	(53)	(29)	(20)
Debt issue costs	(4)	(7)	(3)
Payment of contingent consideration obligation	(29)	—	—
Contributions from noncontrolling interest	11	6	8
Excess tax benefits from stock compensation	25	19	6
Net cash provided by financing activities	313	222	165
Net increase (decrease) in cash and cash equivalents	1	—	(19)
Cash and cash equivalents, beginning of period	3	3	22
Cash and cash equivalents, end of period	$ 4	$ 3	$ 3

See notes to condensed financial information of registrant.

Notes to Condensed Financial Information of Registrant

Note A - Basis of Presentation and Significant Accounting Policies

The parent company only financial statements should be read in conjunction with Centene Corporation's audited consolidated financial statements and the notes to consolidated financial statements included in this Form 10-K.

The parent company's investment in subsidiaries is stated at cost plus equity in undistributed earnings of the subsidiaries. The parent company's share of net income of its unconsolidated subsidiaries is included in income using the equity method of accounting. Certain unrestricted subsidiaries receive monthly management fees from our restricted subsidiaries. The management and service fees received by our unrestricted subsidiaries are associated with all of the functions required to manage the restricted subsidiaries including but not limited to salaries and wages for all personnel, rent, utilities, medical management, provider contracting, compliance, member services, claims processing, information technology, cash management, finance and accounting, and other services. The management fees are based on a percentage of the restricted subsidiaries revenue.

Due to our centralized cash management function, all cash flows generated by our unrestricted subsidiaries, including management fees, are transferred to the parent company, primarily to repay borrowings on the parent company's revolving credit facility. The parent company may also utilize the cash flow to make acquisitions, fund capital contributions to subsidiaries and fund its operations. During the years ended December 31, 2015, 2014 and 2013, cash flows received by the parent from unrestricted subsidiaries was $445 million, $341 million, and $313 million and was included in cash flows from operating activities.

Certain amounts presented in the parent company only financial statements are eliminated in the consolidated financial statements of Centene Corporation.

Note B - Dividends

During 2015, 2014 and 2013, the Registrant received dividends from its subsidiaries totaling $14 million, $54 million and $21 million, respectively.

Note C - Other Current Assets

The parent company's other current assets include $686 million and $359 million of federal and state income tax receivables as of December 31, 2015 and 2014, respectively, primarily due to tax sharing agreements with its subsidiaries.

23. Subsequent Events

In January 2016, the Company completed an approximate 19% investment in a data analytics business and as a result, issued 1.1 million shares of Centene common stock to the selling stockholders. The investment will be accounted for using the equity method of accounting.

In February 2016, a wholly owned unrestricted subsidiary of the Company (Escrow Issuer) issued $1,400 million of 5.625% Senior Notes ($1,400 million Notes) at par due 2021 and $1,000 million of 6.125% Senior Notes ($1,000 million Notes) at par due 2024. The Company intends to use the net proceeds of the offering, together with borrowings under the Company's $1,000 million revolving credit facility and cash on hand, to fund the cash consideration for the Health Net merger, to pay merger and offering related fees and expenses, and for general corporate purposes. The proceeds of the debt issuance will be held in escrow until the closing of the Health Net merger. If the Health Net merger is not consummated, the Escrow Issuer will be required to redeem each series of Notes at a redemption price equal to 100% of the principal amount of such series of Notes, plus accrued and unpaid interest to the redemption date.