

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

Form 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2014

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission file number: 001-31826

Centene Corporation

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

42-1406317

(I.R.S. Employer Identification Number)

7700 Forsyth Boulevard

St. Louis, Missouri

(Address of principal executive offices)

63105

(Zip Code)

Registrant's telephone number, including area code: (314) 725-4477

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

Common Stock, \$0.001 Par Value

(Title of Each Class)

New York Stock Exchange

(Name of Each Exchange on Which Registered)

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

None

(Title of Each Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "small reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer (do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant, based upon the last reported sale price of the common stock on the New York Stock Exchange on June 30, 2014, was \$4.4 billion.

As of February 20, 2015, the registrant had 118,820,237 shares of common stock issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the registrant's 2015 annual meeting of stockholders are incorporated by reference in Part III, Items 10, 11, 12, 13 and 14.

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, 2014 and 2013, 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, 2014. 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, 2014 and 2013, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2014, 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, 2014, 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 23, 2015 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

St. Louis, Missouri
February 23, 2015

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

	December 31, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents of continuing operations	\$ 1,546	\$ 974
Cash and cash equivalents of discontinued operations	64	64
Total cash and cash equivalents	1,610	1,038
Premium and related receivables	912	429
Short term investments	177	102
Other current assets	324	217
Other current assets of discontinued operations	11	14
Total current assets	3,034	1,800
Long term investments	1,280	792
Restricted deposits	100	47
Property, software and equipment, net	445	395
Goodwill	754	348
Intangible assets, net	120	49
Other long term assets	80	60
Long term assets of discontinued operations	25	38
Total assets	\$ 5,838	\$ 3,529
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Medical claims liability	\$ 1,723	\$ 1,112
Accounts payable and accrued expenses	751	338
Return of premium payable	236	38
Unearned revenue	168	38
Current portion of long term debt	5	3
Current liabilities of discontinued operations	17	30
Total current liabilities	2,900	1,559
Long term debt	888	666
Other long term liabilities	158	60
Long term liabilities of discontinued operations	1	1
Total liabilities	3,947	2,286
Commitments and contingencies		
Redeemable noncontrolling interest	148	—
Stockholders' equity:		
Common stock, \$.001 par value; authorized 200,000,000 shares; 124,274,864 issued and 118,433,416 outstanding at December 31, 2014, and 117,346,430 issued and 110,638,478 outstanding at December 31, 2013	—	—
Additional paid-in capital	840	594
Accumulated other comprehensive loss	(1)	(3)
Retained earnings	1,003	732
Treasury stock, at cost (5,841,448 and 6,707,952 shares, respectively)	(98)	(89)
Total Centene stockholders' equity	1,744	1,234
Noncontrolling interest	(1)	9
Total stockholders' equity	1,743	1,243
Total liabilities and stockholders' equity	\$ 5,838	\$ 3,529

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,		
	2014	2013	2012
Revenues:			
Premium	\$ 14,198	\$ 10,153	\$ 7,569
Service	1,469	373	113
Premium and service revenues	15,667	10,526	7,682
Premium tax and health insurer fee	893	337	428
Total revenues	<u>16,560</u>	<u>10,863</u>	<u>8,110</u>
Expenses:			
Medical costs	12,678	8,995	6,781
Cost of services	1,280	327	88
General and administrative expenses	1,314	931	677
Premium tax expense	698	333	428
Health insurer fee expense	126	—	—
Impairment loss	—	—	28
Total operating expenses	<u>16,096</u>	<u>10,586</u>	<u>8,002</u>
Earnings from operations	464	277	108
Other income (expense):			
Investment and other income	28	19	35
Interest expense	(35)	(27)	(20)
Earnings from continuing operations, before income tax expense	457	269	123
Income tax expense	196	107	47
Earnings from continuing operations, net of income tax expense	261	162	76
Discontinued operations, net of income tax expense (benefit) of \$1, \$2, and \$(48), respectively	3	4	(87)
Net earnings (loss)	264	166	(11)
(Earnings) loss attributable to noncontrolling interests	7	(1)	13
Net earnings attributable to Centene Corporation	<u>\$ 271</u>	<u>\$ 165</u>	<u>\$ 2</u>
Amounts attributable to Centene Corporation common shareholders:			
Earnings from continuing operations, net of income tax expense	\$ 268	\$ 161	\$ 89
Discontinued operations, net of income tax expense (benefit)	3	4	(87)
Net earnings	<u>\$ 271</u>	<u>\$ 165</u>	<u>\$ 2</u>
Net earnings (loss) per common share attributable to Centene Corporation:			
Basic:			
Continuing operations	\$ 2.30	\$ 1.49	\$ 0.86
Discontinued operations	0.03	0.03	(0.84)
Basic earnings per common share	<u>\$ 2.33</u>	<u>\$ 1.52</u>	<u>\$ 0.02</u>
Diluted:			
Continuing operations	\$ 2.23	\$ 1.43	\$ 0.83
Discontinued operations	0.02	0.04	(0.81)
Diluted earnings per common share	<u>\$ 2.25</u>	<u>\$ 1.47</u>	<u>\$ 0.02</u>
Weighted average number of common shares outstanding:			
Basic	116,345,764	108,253,090	103,018,732
Diluted	120,360,212	112,494,346	107,428,750

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,		
	2014	2013	2012
Net earnings (loss)	\$ 264	\$ 166	\$ (11)
Reclassification adjustment, net of tax	—	(1)	(2)
Change in unrealized gain (loss) on investments, net of tax	3	(7)	1
Foreign currency translation adjustments, net of tax	(1)	—	—
Other comprehensive earnings (loss)	2	(8)	(1)
Comprehensive earnings (loss)	266	158	(12)
Comprehensive (earnings) loss attributable to the noncontrolling interest	7	(1)	13
Comprehensive earnings attributable to Centene Corporation	<u>\$ 273</u>	<u>\$ 157</u>	<u>\$ 1</u>

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			Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock		Non controlling Interest	Total
	5,001 Par Value Shares	Amt	Additional Paid-in Capital			5,001 Par Value Shares	Amt		
Balance, December 31, 2011	107,173,452	\$ —	\$ 422	\$ 6	\$ 565	5,444,216	\$ (57)	\$ 1	\$ 937
Comprehensive Earnings:									
Net earnings (loss)					2				
Change in unrealized investment gain, net of (\$0) tax								(13)	(11)
Total comprehensive earnings (loss)				(1)					(1)
Common stock issued for employee benefit plans	3,504,868		17						(12)
Common stock repurchases									17
Stock compensation expense			25			575,608	(13)		(13)
Excess tax benefits from stock compensation			11						25
Purchase of noncontrolling interest			(24)						11
Contribution from noncontrolling interest								12	(12)
Balance, December 31, 2012	110,678,320	\$ —	\$ 451	\$ 5	\$ 567	6,019,824	\$ (70)	\$ 1	\$ 954
Comprehensive Earnings:									
Net earnings					165				
Change in unrealized investment gain, net of \$(4) tax								1	166
Total comprehensive earnings				(8)					(8)
Common stock issued for acquisition	3,433,380		75						158
Common stock issued for stock offering	685,280		15						75
Common stock issued for employee benefit plans	2,549,450		10						15
Common stock repurchases									10
Stock compensation expense			37			688,128	(19)		(19)
Excess tax benefits from stock compensation			6						37
Contribution from noncontrolling interest									6
Balance, December 31, 2013	117,346,430	\$ —	\$ 594	\$ (3)	\$ 732	6,707,952	\$ (89)	\$ 7	\$ 1,243
Comprehensive Earnings:									
Net earnings (loss)					271				
Change in unrealized investment loss, net of \$1 tax								(1)	270
Foreign currency translation, net of (\$0) tax				3					3
Total comprehensive earnings				(1)					(1)
Common stock issued for acquisitions	4,486,434		170			(1,492,738)	20		272
Common stock issued for employee benefit plans	2,442,000		9						190
Common stock repurchases									9
Stock compensation expense			48			626,234	(29)		(29)
Excess tax benefits from stock compensation			19						48
Reclassification to redeemable noncontrolling interest									19
Balance, December 31, 2014	124,274,864	\$ —	\$ 840	\$ (1)	\$ 1,003	5,841,448	\$ (98)	\$ (1)	\$ 1,743

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,		
	2014	2013	2012
Cash flows from operating activities:			
Net earnings (loss)	\$ 264	\$ 166	\$ (11)
Adjustments to reconcile net earnings to net cash provided by operating activities			
Depreciation and amortization	89	67	66
Stock compensation expense	48	37	25
Impairment loss	—	—	28
Gain on sale of investment in convertible note	—	—	(18)
Deferred income taxes	(42)	(2)	(14)
Changes in assets and liabilities			
Premium and related receivables	(463)	(143)	(117)
Other current assets	(5)	(80)	(37)
Other assets	(8)	(1)	3
Medical claims liabilities	609	172	360
Unearned revenue	129	3	25
Accounts payable and accrued expenses	506	152	(22)
Other operating activities	96	11	(9)
Net cash provided by operating activities	<u>1,223</u>	<u>382</u>	<u>279</u>
Cash flows from investing activities:			
Capital expenditures	(103)	(68)	(82)
Purchases of investments	(1,015)	(790)	(696)
Sales and maturities of investments	406	579	590
Investments in acquisitions, net of cash acquired	(136)	(63)	—
Net cash used in investing activities	<u>(848)</u>	<u>(342)</u>	<u>(188)</u>
Cash flows from financing activities:			
Proceeds from exercise of stock options	8	9	16
Proceeds from borrowings	1,875	180	400
Proceeds from stock offering	—	15	—
Payment of long term debt	(1,674)	(41)	(218)
Excess tax benefits from stock compensation	19	6	11
Common stock repurchases	(29)	(19)	(13)
Contribution from noncontrolling interest	6	8	1
Purchase of noncontrolling interest	—	—	(14)
Debt issue costs	(7)	(4)	(4)
Net cash provided by financing activities	<u>198</u>	<u>154</u>	<u>179</u>
Effect of exchange rate changes on cash and cash equivalents	(1)	—	—
Net increase in cash and cash equivalents	<u>572</u>	<u>194</u>	<u>270</u>
Cash and cash equivalents, beginning of period	1,038	844	574
Cash and cash equivalents, end of period	<u>\$ 1,610</u>	<u>\$ 1,038</u>	<u>\$ 844</u>
Supplemental disclosures of cash flow information:			
Interest paid	\$ 40	\$ 30	\$ 22
Income taxes paid	\$ 237	\$ 85	\$ 43
Equity issued in connection with acquisitions	\$ 190	\$ 75	\$ —

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

**CENTENE CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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, per share and stock price 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 2014 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.

[Table of Contents](#)

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 certain of its investment in entities that it does not control and for which it does not have 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 their undistributed 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:

<u>Fixed Asset</u>	<u>Depreciation Period</u>
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

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, 2014, the Company recorded a payable of \$44 million associated with risk adjustment.

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 (\$45,000 with 80% coinsurance). When qualified member claims costs exceed the threshold, the Company is entitled to certain reimbursements from this program. 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, 2014, the Company recorded a receivable of \$11 million associated with reinsurance.

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, 2014, the Company recorded a payable of \$9 million associated with risk corridor.

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, 2014, the Company recorded a payable of \$6 million associated with minimum medical loss ratio.

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):

	2014	2013	2012
Allowances, beginning of year	\$ 1	\$ 1	\$ 1
Amounts charged to expense	8	3	1
Write-offs of uncollectible receivables	(4)	(3)	(1)
Allowances, end of year	\$ 5	\$ 1	\$ 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 January 31, 2015 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 25%, 37% and 40% for the years ended December 31, 2014, 2013, and 2012, respectively, and Florida where the percentage of the Company's total revenue was 14% for the year ended December 31, 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 May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2014-09 "Revenue from Contracts with Customers." ASU 2014-09 will supersede 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. ASU 2014-09 will become effective for annual and interim reporting periods beginning after December 15, 2016. The Company is currently evaluating the effect of the new revenue recognition guidance.

In April 2014, the FASB issued ASU 2014-08 "Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity." ASU 2014-08 raises the threshold for reporting discontinued operations to a strategic business shift having a major effect on an entity's operations and financial results. The updates also added disclosures for disposals of business units qualifying for discontinued presentation, and for some dispositions that do not qualify as discontinued operations but are still considered individually significant components of the entity. ASU 2014-08 is effective prospectively for all disposals (except disposals classified as held for sale before the adoption date) or components initially classified as held for sale in periods beginning on or after December 15, 2014. Early adoption is permitted.

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. Acquisitions and Noncontrolling Interest

Acquisitions

AcariaHealth. In April 2013, the Company acquired 100% of AcariaHealth, a specialty pharmacy company, for \$142 million in total consideration. The transaction consideration was financed through a combination of \$75 million of Centene common stock and \$67 million of cash. The Company also sold 685,280 shares of common stock for \$15 million related to funding the escrow account for the acquisition. The Company's allocation of fair value resulted in goodwill of \$92 million and other identifiable intangible assets of \$35 million. The goodwill is not deductible for income tax purposes. The acquisition is recorded in the Specialty Services 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 of \$134 million consists of the following: cash consideration of \$56 million; Centene common stock (1,492,738 shares) issued at closing of \$58 million, and; the present value of the estimated contingent consideration subject to membership retained by LHC in the first quarter of 2015 of \$20 million. The estimated contingent consideration is a Level III fair value measurement. The contingent consideration will not exceed \$28 million.

The Company's allocation of fair value resulted in goodwill of \$125 million and other identifiable intangible assets of \$9 million. Approximately 100% of the goodwill is 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 \$58 million (valued at the December 31, 2014 conversion rate), or €48 million, representing its proportional share of the letters of credit issued to support Ribera Salud's outstanding debt.

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.

[Table of Contents](#)

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:

	2014	2013	2012
Centurion	51%	51%	51%
Home State Health Plan	95%	95%	95%
U.S. Medical Management	68%	—	—

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

	Year Ended December 31,		
	2014	2013	2012
Net earnings attributable to Centene Corporation	\$ 268	\$ 161	\$ 89
Transfers from (to) the noncontrolling interest:			
Decrease in equity for purchase of, distribution to and redemption of noncontrolling interest	—	—	(12)
Increase in equity for distributions from and consolidation of noncontrolling interest	—	7	1
Reclassification to redeemable noncontrolling interest	(9)	—	—
Net transfers from (to) noncontrolling interest	(9)	7	(11)
Changes from net earnings attributable to Centene Corporation and net transfers from (to) the noncontrolling interest	\$ 259	\$ 168	\$ 78

Ownership changes are described in more detail below.

Home State Health Plan. In July 2012, the Company began operations as a 95% joint venture partner, operating under a new contract with the Office of Administration for Missouri to serve Medicaid beneficiaries in the Eastern, Central, and Western Managed Care Regions of the state. The operating results of Home State Health Plan are included in the Company's Managed Care segment.

Louisiana Healthcare Connections. In February 2012, the Company began operations under a new contract in Louisiana through a joint venture subsidiary, Louisiana Healthcare Connections. The Company initially owned a 51% interest in the subsidiary and in October 2012, acquired the remaining noncontrolling interest for \$10 million. The purchase price in excess of the noncontrolling interest was recorded to additional paid in capital. The operating results of Louisiana Healthcare Connections are included in the Company's Managed Care segment.

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.

[Table of Contents](#)

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

Balance, December 31, 2013	\$	—
Fair value of noncontrolling interest at acquisition		139
Contribution from noncontrolling interest		6
Reclassification to redeemable noncontrolling interest		9
Net losses attributable to noncontrolling interest		(6)
Balance, December 31, 2014	\$	148

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

4. Discontinued Operations: Kentucky Spirit Health Plan

In October 2012, the Company notified the Kentucky Cabinet for Health and Family Services (Cabinet) that it was exercising a contractual right that it believes allowed the Company to terminate its Medicaid managed care contract with the Commonwealth of Kentucky (Commonwealth) effective July 5, 2013. As of July 6, 2013, our subsidiary, Kentucky Spirit Health Plan (KSHP), ceased serving Medicaid members in Kentucky. Refer to Note 17, *Contingencies*, in the Notes to the Consolidated Financial Statements for further information regarding litigation between the Company and the Cabinet.

Accordingly, the results of operations of KSHP are presented as discontinued operations for all periods presented. The assets, liabilities and results of operations of KSHP are classified as discontinued operations for all periods presented beginning in 2011. KSHP was previously reported in the Managed Care segment.

During the year ended December 31, 2014, the Company received \$8 million of dividends from KSHP. KSHP had remaining statutory capital of approximately \$80 million at December 31, 2014, which, subject to future dividends, will be transferred to unregulated cash upon regulatory approval.

Operating results for the discontinued operations are as follows (\$ in millions):

	Year Ended December 31,		
	2014	2013	2012
Revenues	\$ —	\$ 248	\$ 557
Earnings (loss) before income taxes	\$ 4	\$ 6	\$ (134)
Net earnings (loss)	\$ 3	\$ 4	\$ (87)

Assets and liabilities of the discontinued operations are as follows (\$ in millions):

	December 31, 2014		December 31, 2013	
	\$	75	\$	78
Current assets				
Long term investments and restricted deposits		25		38
Other assets		—		—
Assets of discontinued operations	\$	100	\$	116
Medical claims liability	\$	10	\$	27
Accounts payable and accrued expenses		7		3
Other liabilities		1		1
Liabilities of discontinued operations	\$	18	\$	31

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, 2014				December 31, 2013			
	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	\$ 393	\$ 1	\$ (2)	\$ 392	\$ 246	\$ —	\$ (7)	\$ 239
Corporate securities	556	2	(2)	556	294	3	(1)	296
Restricted certificates of deposit	6	—	—	6	6	—	—	6
Restricted cash equivalents	79	—	—	79	27	—	—	27
Municipal securities:								
General obligation	54	—	—	54	54	—	—	54
Pre-refunded	5	—	—	5	11	—	—	11
Revenue	101	1	—	102	69	—	—	69
Variable rate demand notes	14	—	—	14	29	—	—	29
Asset backed securities	180	—	—	180	139	—	—	139
Mortgage backed securities	84	1	—	85	34	—	—	34
Cost and equity method investments	68	—	—	68	22	—	—	22
Life insurance contracts	16	—	—	16	15	—	—	15
Total	\$ 1,556	\$ 5	\$ (4)	\$ 1,557	\$ 946	\$ 3	\$ (8)	\$ 941

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, 2014, 50% of the Company's investments in securities recorded at fair value that carry a rating by S&P or Moody's were rated AA/Aaa, 62% were rated AA-/Aa3 or higher, and 90% were rated A-/A3 or higher. At December 31, 2014, the Company held certificates of deposit, life insurance contracts and cost and equity method investments which did not carry a credit rating.

[Table of Contents](#)

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, 2014				December 31, 2013			
	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	\$ —	\$ 72	\$ (2)	\$ 180	\$ (7)	\$ 172	\$ (1)	\$ 27
Corporate securities	(2)	311	—	1	—	53	—	5
Municipal securities:								
General obligation	—	4	—	3	—	4	—	2
Revenue	—	16	—	3	—	28	—	—
Pre-refunded	—	—	—	1	—	—	—	—
Asset backed securities	—	70	—	10	—	38	—	—
Mortgage backed securities	—	18	—	—	—	34	—	—
Total	\$ (2)	\$ 491	\$ (2)	\$ 198	\$ (7)	\$ 329	\$ (1)	\$ 34

As of December 31, 2014, the gross unrealized losses were generated from 116 positions out of a total of 341 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, 2014, the company recognized \$6 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, 2014				December 31, 2013			
	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	\$ 177	\$ 92	\$ 92	\$ 102	\$ 102	\$ 41	\$ 41
One year through five years	1,121	1,121	8	8	610	611	6	6
Five years through ten years	121	120	—	—	157	151	—	—
Greater than ten years	38	39	—	—	30	30	—	—
Total	\$ 1,456	\$ 1,457	\$ 100	\$ 100	\$ 899	\$ 894	\$ 47	\$ 47

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, 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	\$ 1,546	\$ —	\$ —	\$ 1,546
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:				
General obligation	—	54	—	54
Pre-refunded	—	5	—	5
Revenue	—	102	—	102
Variable rate demand notes	—	14	—	14
Asset backed securities	—	180	—	180
Mortgage backed securities	—	85	—	85
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	\$ 2,006	\$ 1,024	\$ —	\$ 3,030

[Table of Contents](#)

The following table summarizes fair value measurements by level at December 31, 2013, 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	\$ 974	\$ —	\$ —	\$ 974
Investments available for sale:				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 213	\$ 12	\$ —	\$ 225
Corporate securities	—	296	—	296
Municipal securities:				
General obligation	—	54	—	54
Pre-refunded	—	11	—	11
Revenue	—	69	—	69
Variable rate demand notes	—	29	—	29
Asset backed securities	—	139	—	139
Mortgage backed securities	—	34	—	34
Total investments	\$ 213	\$ 644	\$ —	\$ 857
Restricted deposits available for sale:				
Cash and cash equivalents	\$ 27	\$ —	\$ —	\$ 27
Certificates of deposit	6	—	—	6
U.S. Treasury securities and obligations of U.S. government corporations and agencies	14	—	—	14
Total restricted deposits	\$ 47	\$ —	\$ —	\$ 47
Other long term assets:				
Interest rate swap agreements	\$ —	\$ 10	\$ —	\$ 10
Total assets at fair value	\$ 1,234	\$ 654	\$ —	\$ 1,888

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, 2014, there were \$14 million of transfers from Level I to Level II and \$1 million of 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 \$84 million and \$37 million as of December 31, 2014 and December 31, 2013, respectively.

7. Property, Software and Equipment

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

	2014	2013
Computer software	\$ 198	\$ 185
Building	208	206
Land	87	69
Computer hardware	88	69
Furniture and office equipment	70	53
Leaschold improvements	82	57
	733	639
Less accumulated depreciation	(288)	(244)
Property, software and equipment, net	\$ 445	\$ 395

[Table of Contents](#)

As of December 31, 2014 and 2013, the Company had assets acquired under capital leases included above of \$7 million and \$6 million, net of accumulated amortization of \$3 million and \$2 million, respectively. Amortization on assets under capital leases charged to expense is included in depreciation expense. Depreciation expense for the years ended December 31, 2014, 2013 and 2012 was \$65 million, \$52 million and \$49 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, 2012	\$ 151	\$ 105	\$ 256
Acquisition	—	92	92
Balance as of December 31, 2013	151	197	348
Acquisition	125	281	406
Balance as of December 31, 2014	\$ 276	\$ 478	\$ 754

Goodwill acquisitions were related to the acquisitions and finalization of fair value allocations discussed in Note 3, *Acquisitions and Noncontrolling Interest*. During 2012, an impairment analysis of our subsidiary, Celtic Insurance Company, resulted in goodwill and intangible asset impairments of \$28 million. The impaired identifiable intangible assets of \$2 million and goodwill of \$26 million were reported under the Specialty Services segment; \$27 million of the impairment loss was not deductible for income tax purposes.

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

	2014	2013	Weighted Average Life in Years	
			2014	2013
Purchased contract rights	\$ 28	\$ 22	7.5	7.5
Provider contracts	103	36	11.1	13.2
Customer relationships	15	13	7.1	8.0
Trade names	17	9	13.1	18.9
Intangible assets	163	80	10.3	11.1
Less accumulated amortization:				
Purchased contract rights	(14)	(14)		
Provider contracts	(14)	(4)		
Customer relationships	(12)	(11)		
Trade names	(3)	(2)		
Total accumulated amortization	(43)	(31)		
Intangible assets, net	\$ 120	\$ 49		

Amortization expense was \$16 million, \$6 million and \$5 million for the years ended December 31, 2014, 2013 and 2012, respectively. Estimated total amortization expense related to intangible assets for each of the five succeeding fiscal years is as follows (\$ in millions):

Year	Expense
2015	\$ 16
2016	16
2017	13
2018	11
2019	11

9. Medical Claims Liability

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

	Year Ended December 31,		
	2014	2013	2012
Balance, January 1,	\$ 1,112	\$ 815	\$ 519
Incurring related to:			
Current year	12,820	9,073	6,836
Prior years	(142)	(78)	(55)
Total incurred	12,678	8,995	6,781
Paid related to:			
Current year	11,122	7,975	6,025
Prior years	945	723	460
Total paid	12,067	8,698	6,485
Balance, December 31,	\$ 1,723	\$ 1,112	\$ 815

Changes in estimates of incurred claims for prior years are primarily attributable to reserving under moderately adverse conditions. In addition, 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 \$22 million and \$10 million at December 31, 2014 and 2013, 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. Debt

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

	December 31, 2014	December 31, 2013
\$425 million 5.75% Senior notes, due June 1, 2017	\$ 429	\$ 431
\$300 million 4.75% Senior notes, due May 15, 2022	300	—
Fair value of interest rate swap agreements	11	10
Senior notes	740	441
Revolving credit agreement	75	150
Mortgage notes payable	70	73
Capital leases	8	5
Total debt	893	669
Less current portion	(5)	(3)
Long term debt	\$ 888	\$ 666

Senior 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 completely 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 \$300 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 \$550 million of notional amount of interest rate swap agreements consisting of \$250 million which are scheduled to expire on June 1, 2017 and \$300 million that are scheduled to expire May 15, 2022. Under the Swap Agreements, the Company receives a fixed rate of interest and pays an average variable rate of the three month LIBOR plus 2.83% adjusted quarterly. At December 31, 2014, the weighted average rate was 3.06%.

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, 2014 were assets of approximately \$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

In May 2013, the Company entered into 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, 2014, the Company had \$75 million of borrowings outstanding under the agreement with a weighted average interest rate of 1.91%.

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, 2014, 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 \$70 million at December 31, 2014 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 \$159 million at December 31, 2014.

Letters of Credit & Surety Bonds

The Company had outstanding letters of credit of \$30 million as of December 31, 2014, which were not part of the revolving credit facility. As discussed in Note 3 *Acquisitions and Noncontrolling Interest*, the Company also had letters of credit for \$58 million (valued at December 31, 2014 conversion rate), or €48 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 1.73% as of December 31, 2014. The Company had outstanding surety bonds of \$142 million as of December 31, 2014.

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

2015	\$	5
2016		4
2017		429
2018		79
2019		4
Thereafter		357
Total	\$	878

The fair value of outstanding debt was approximately \$901 million and \$673 million at December 31, 2014 and 2013, respectively.

11. Stockholders' Equity

The Company has 10,000,000 authorized shares of preferred stock at \$.001 par value. At December 31, 2014, 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, 2014. The Company reserves the right to discontinue the repurchase program at any time. During the year ended December 31, 2014, 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 626,234 shares at an aggregate cost of \$29 million in 2014 and 688,128 shares at an aggregate cost of \$19 million in 2013. 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.

In April 2013, the Company completed the acquisition of AcariaHealth and as a result, issued 3,433,380 shares of Centene common stock to the selling stockholders. Additionally, the Company filed an equity shelf registration statement related to funding the escrow account for the acquisition and sold 685,280 shares of Centene common stock for \$15 million.

12. 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, 2014 and 2013, Centene's subsidiaries, including Kentucky Spirit Health Plan, had aggregate statutory capital and surplus of \$1,699 million and \$1,280 million, respectively, compared with the required minimum aggregate statutory capital and surplus of \$851 million and \$686 million, respectively.

13. Income Taxes

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

	2014	2013	2012
Current provision:			
Federal	\$ 225	\$ 121	\$ 47
State and local	13	6	(4)
Total current provision	238	127	43
Deferred provision	(42)	(20)	4
Total provision for income taxes	<u>\$ 196</u>	<u>\$ 107</u>	<u>\$ 47</u>

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):

	2014	2013	2012
Earnings from continuing operations, before income tax expense	\$ 457	\$ 269	\$ 123
(Earnings) loss attributable to flow through noncontrolling interest	4	(1)	2
Earnings from continuing operations, less noncontrolling interest, before income tax expense	461	268	125
Tax provision at the U.S. federal statutory rate	162	94	44
State income taxes, net of federal income tax benefit	6	3	(2)
Nondeductible compensation	1	12	1
Benefit from reversal of prior years impact of 162(m)(6) regulations	(14)	—	—
ACA Health Insurer Fee	44	—	—
Nondeductible goodwill impairment	—	—	8
Other, net	(3)	(2)	(4)
Income tax expense	<u>\$ 196</u>	<u>\$ 107</u>	<u>\$ 47</u>

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):

	2014	2013
Deferred tax assets:		
Medical claims liability	\$ 27	\$ 20
Accrued expenses	11	5
Net operating loss carryforward	21	16
Compensation accruals	53	31
Premium and related receivables	35	20
Other	9	16
Deferred tax assets	156	108
Valuation allowance	(12)	(8)
Net deferred tax assets	<u>\$ 144</u>	<u>\$ 100</u>
Deferred tax liabilities:		
Intangible assets	\$ 25	\$ 18
Prepaid assets	6	6
Depreciation and amortization	26	30
Other	4	2
Deferred tax liabilities	61	56
Net deferred tax assets	<u>\$ 83</u>	<u>\$ 44</u>

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. The federal NOLs of \$5 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 2015 and 2035. Valuation allowances are recorded for those NOLs the Company believes are more likely than not to expire unused. During 2014 and 2013, the Company recorded valuation allowance additions in the tax provision of \$5 million and \$1 million, respectively. The Company recorded valuation allowance reductions of \$1 million during the years ended December 31, 2014 and 2013.

As of December 31, 2014 and 2013, the Company maintained reserves for uncertain tax positions of \$4 million and \$3 million, respectively, that may be challenged by a tax authority. The unrecognized federal tax benefits are related to returns open from 2012 to 2014. The Company files in numerous state jurisdictions with varying statutes of limitation. The unrecognized state tax benefits are related to returns open from 2009 to 2014.

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 no longer believes it is subject to the compensation deduction limitation in 2013 and 2014. As a result of this change in regulation, tax benefits of \$14 million related to prior years were recorded during 2014.

14. 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 4,208,558 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 \$48 million, \$36 million and \$25 million for the years ended December 31, 2014, 2013 and 2012, respectively. The total income tax benefit recognized in the income statement for stock-based compensation arrangements was \$17 million, \$8 million and \$9 million for the years ended December 31, 2014, 2013 and 2012, respectively.

Option activity for the year ended December 31, 2014 is summarized below:

	Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value (\$ in millions)	Weighted Average Remaining Contractual Term
Outstanding as of December 31, 2013	1,894,390	\$ 11.71		
Granted	—	—		
Exercised	(619,324)	10.77		
Forfeited	(8,000)	9.23		
Outstanding as of December 31, 2014	1,267,066	\$ 12.18	\$ 50	2.2
Exercisable as of December 31, 2014	1,249,734	\$ 12.08	\$ 50	2.1

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,		
	2014 ⁽¹⁾	2013	2012 ⁽¹⁾
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, 2014 and 2012.

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,		
	2014 ⁽¹⁾	2013	2012 ⁽¹⁾
Weighted-average fair value of options granted	\$ —	\$ 9.52	\$ —
Total intrinsic value of stock options exercised (\$ in millions)	\$ 17	\$ 13	\$ 24

(1) No options were awarded in the years ended December 31, 2014 and 2012.

A summary of the Company's non-vested restricted stock and restricted stock unit shares as of December 31, 2014, and changes during the year ended December 31, 2014, is presented below:

	Weighted Average Grant Date	
	Shares	Fair Value
Non-vested balance as of December 31, 2013	4,179,186	\$ 23.95
Granted	2,238,194	46.85
Vested	(1,953,094)	21.62
Forfeited	(114,272)	23.77
Non-vested balance as of December 31, 2014	4,350,014	\$ 36.86

The total fair value of restricted stock and restricted stock units vested during the years ended December 31, 2014, 2013 and 2012, was \$82 million, \$49 million and \$39 million, respectively.

As of December 31, 2014, there was \$145 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 1.9 years.

The Company maintains an employee stock purchase plan and has issued 76,088 shares, 84,168 shares, and 95,226 shares in 2014, 2013 and 2012, respectively.

15. 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 \$12 million, \$9 million and \$7 million during the years ended December 31, 2014, 2013 and 2012, respectively.

16. 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 \$46 million, \$31 million and \$28 million for the years ended December 31, 2014, 2013 and 2012, respectively. Annual non-cancelable minimum lease payments over the next five years and thereafter are as follows (\$ in millions):

2015	\$	45
2016		49
2017		40
2018		30
2019		26
Thereafter		62
	\$	<u>252</u>

17. 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. On July 3, 2014, the Commonwealth's attorneys asserted in a letter to the Cabinet for Health and Family Services 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 is pursuing its own litigation claims for damages against the Commonwealth.

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." Kentucky Spirit intends to seek Kentucky Supreme Court review of the finding that its departure constituted a breach of contract. The Commonwealth may seek review of the ruling that the liquidated damages provision is applicable in the event of a premature termination.

Kentucky Spirit also 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 December 9, 2014, the Franklin Circuit Court denied the Commonwealth's motion for partial summary judgment on Kentucky Spirit's damages claims. Discovery is proceeding on those claims.

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, 2014. 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.

18. 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):

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Earnings attributable to Centene Corporation:			
Earnings from continuing operations, net of tax	\$ 268	\$ 161	\$ 89
Discontinued operations, net of tax	3	4	(87)
Net earnings	<u>\$ 271</u>	<u>\$ 165</u>	<u>\$ 2</u>
Shares used in computing per share amounts:			
Weighted average number of common shares outstanding	116,345,764	108,253,090	103,018,732
Common stock equivalents (as determined by applying the treasury stock method)	4,014,448	4,241,256	4,410,018
Weighted average number of common shares and potential dilutive common shares outstanding	<u>120,360,212</u>	<u>112,494,346</u>	<u>107,428,750</u>
Net earnings per common share attributable to Centene Corporation:			
Basic:			
Continuing operations	\$ 2.30	\$ 1.49	\$ 0.86
Discontinued operations	0.03	0.03	(0.84)
Basic earnings per common share	<u>\$ 2.33</u>	<u>\$ 1.52</u>	<u>\$ 0.02</u>
Diluted:			
Continuing operations	\$ 2.23	\$ 1.43	\$ 0.83
Discontinued operations	0.02	0.04	(0.81)
Diluted earnings per common share	<u>\$ 2.25</u>	<u>\$ 1.47</u>	<u>\$ 0.02</u>

The calculation of diluted earnings per common share for 2014, 2013 and 2012 excludes the impact of 207,980 shares, 187,078 shares and 284,850 shares, respectively, related to anti-dilutive stock options, restricted stock and restricted stock units.

19. 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.

In January 2013, the Company reclassified the health plan in Arizona, which is primarily a LTC operation, to the Managed Care segment. As a result, the financial results of the Arizona health plan have been reclassified from the Specialty Services segment to the Managed Care segment for all periods presented.

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	4,620	1,118	—	5,738

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	2,817	596	—	3,413

Segment information as of and for the year ended December 31, 2012, follows (\$ in millions):

	Managed Care	Specialty Services	Eliminations	Consolidated Total
Premium and service revenues from external customers	\$ 7,125	\$ 557	\$ —	\$ 7,682
Premium and service revenues from internal customers	87	1,550	(1,637)	—
Total premium and service revenues	7,212	2,107	(1,637)	7,682
Earnings from operations	63	45	—	108
Total assets	2,164	371	—	2,535

20. Quarterly Selected Financial Information

(In millions, except share data)
(Unaudited)

	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 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

	For the Quarter Ended			
	March 31, 2013	June 30, 2013	September 30, 2013	December 31, 2013
Total revenues	\$ 2,525	\$ 2,611	\$ 2,795	\$ 2,932
Amounts attributable to Centene Corporation common shareholders:				
Earnings from continuing operations, net of income tax expense	\$ 23	\$ 41	\$ 50	\$ 48
Discontinued operations, net of income tax expense (benefit)	—	(1)	(1)	5
Net earnings	\$ 23	\$ 40	\$ 49	\$ 53
Net earnings (loss) per common share attributable to Centene Corporation:				
Basic:				
Continuing operations	\$ 0.22	\$ 0.38	\$ 0.46	\$ 0.43
Discontinued operations	—	(0.01)	(0.01)	0.05
Basic earnings per common share	\$ 0.22	\$ 0.37	\$ 0.45	\$ 0.48
Diluted:				
Continuing operations	\$ 0.21	\$ 0.36	\$ 0.44	\$ 0.42
Discontinued operations	—	(0.01)	(0.01)	0.04
Diluted earnings per common share	\$ 0.21	\$ 0.35	\$ 0.43	\$ 0.46

21. Condensed Financial Information of Registrant

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

	December 31,	
	2014	2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3	\$ 3
Short term investments, at fair value (amortized cost \$8 and \$6, respectively)	8	6
Other current assets	378	125
Total current assets	389	134
Long term investments, at fair value (amortized cost \$10 and \$8, respectively)	10	8
Investment in subsidiaries	2,296	1,667
Other long term assets	38	32
Total assets	\$ 2,733	\$ 1,841
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Long term debt	\$ 24	\$ 5
Other long term liabilities	815	591
Total liabilities	3	2
Redeemable noncontrolling interest	842	598
	148	—
Stockholders' equity:		
Common stock, \$.001 par value; authorized 200,000,000 shares; 124,274,864 issued and 118,433,416 outstanding at December 31, 2014, and 117,346,430 issued and 110,638,478 outstanding at December 31, 2013	—	—
Additional paid-in capital	840	594
Accumulated other comprehensive loss	(1)	(3)
Retained earnings	1,003	732
Treasury stock, at cost (5,841,448 and 6,707,952 shares, respectively)	(98)	(89)
Total Centene stockholders' equity	1,744	1,234
Noncontrolling interest	(1)	9
Total stockholders' equity	1,743	1,243
Total liabilities and stockholders' equity	\$ 2,733	\$ 1,841

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,		
	2014	2013	2012
Expenses:			
General and administrative expenses	\$ 3	\$ 4	\$ 4
Other income (expense):			
Investment and other income			
Interest expense	1	1	20
Earnings (loss) before income taxes	(30)	(23)	(16)
Income tax benefit	(32)	(26)	—
Net earnings (loss) before equity in subsidiaries	(8)	(15)	(10)
Equity in earnings from subsidiaries	(24)	(11)	10
Net earnings	285	173	66
(Earnings) loss attributable to noncontrolling interests	261	162	76
Net earnings attributable to Centene	7	(1)	13
	268	161	89
Net earnings per share from continuing operations:			
Basic earnings per common share	\$ 2.30	\$ 1.49	\$ 0.86
Diluted earnings per common share	\$ 2.23	\$ 1.43	\$ 0.83
Weighted average number of shares outstanding:			
Basic	116,345,764	108,253,090	103,018,732
Diluted	120,360,212	112,494,346	107,428,750

See notes to condensed financial information of registrant.

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

	Year Ended December 31,		
	2014	2013	2012
Cash flows from operating activities:			
Cash provided by operating activities	\$ 317	\$ 302	\$ 328
Cash flows from investing activities:			
Net dividends from and capital contributions to subsidiaries	(384)	(417)	(540)
Purchase of investments	(32)	(12)	(7)
Sales and maturities of investments	14	10	30
Acquisitions	(137)	(67)	—
Net cash used in investing activities	(539)	(486)	(517)
Cash flows from financing activities:			
Proceeds from borrowings	1,875	180	400
Payment of long term debt	(1,650)	(30)	(215)
Proceeds from exercise of stock options	8	9	16
Proceeds from stock offering	—	15	—
Common stock repurchases	(29)	(20)	(13)
Debt issue costs	(7)	(3)	(4)
Contributions from noncontrolling interest	6	8	1
Purchase of noncontrolling interest	—	—	(14)
Excess tax benefits from stock compensation	19	6	11
Net cash provided by financing activities	222	165	182
Net increase (decrease) in cash and cash equivalents	—	(19)	(7)
Cash and cash equivalents, beginning of period	3	22	29
Cash and cash equivalents, end of period	\$ 3	\$ 3	\$ 22

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.

[Table of Contents](#)

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, 2014, 2013 and 2012, cash flows received by the parent from unrestricted subsidiaries was \$341 million, \$313 million, and \$318 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 2014, 2013 and 2012, the Registrant received dividends from its subsidiaries totaling \$54 million, \$21 million and \$29 million, respectively.

Note C - Other Current Assets

The parent company's other current assets include \$359 million and \$113 million of federal and state income tax receivables as of December 31, 2014 and 2013, respectively, primarily due to tax sharing agreements with its subsidiaries.

22. Subsequent Events

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 an indenture dated as of April 29, 2014, pursuant to which the Company previously issued \$300 million aggregate principal amount of 4.75% Senior Notes due 2022. 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 will completely offset changes in the fair value of the hedged portion of the underlying debt and will be recorded as an adjustment to the \$200 million Add-on Notes.

In January 2015, the Company sold 25% of our ownership in Celtic Insurance Company. No gain or loss was recognized on the sale of the ownership interest. Celtic Insurance Company is included in the Specialty Services segment. Under the terms of the agreement, the Company entered into a put agreement with the noncontrolling interest holder to purchase the noncontrolling interest at a later date.