

CENTENE CORP  
Form 10-Q  
July 26, 2011

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

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FORM 10-Q

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(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2011

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

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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)

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Registrant's telephone number, including area code:

(314) 725-4477

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: T 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 (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). T Yes  No

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 T 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 Exchange Act).  
Yes  No T

As of July 15, 2011, the registrant had 50,312,876 shares of common stock outstanding.

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CENTENE CORPORATION  
QUARTERLY REPORT ON FORM 10-Q

TABLE OF CONTENTS

|                       | PAGE   |    |
|-----------------------|--|----|
| Part I                |  |    |
| Financial Information |  |    |
| Item 1.               | <u>Financial Statements</u>  |    |
|                       | <u>Consolidated Balance Sheets as of June 30, 2011 and December 31, 2010 (unaudited)</u>                           | 1  |
|                       | <u>Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2011 and 2010 (unaudited)</u> | 2  |
|                       | <u>Consolidated Statement of Stockholders' Equity as of June 30, 2011 (unaudited)</u>                              | 3  |
|                       | <u>Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2011 and 2010 (unaudited)</u>           | 4  |
|                       | <u>Notes to the Consolidated Financial Statements (unaudited)</u>  | 5  |
| Item 2.               | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>                       | 10 |
| Item 3.               | <u>Quantitative and Qualitative Disclosures About Market Risk</u>  | 15 |
| Item 4.               | <u>Controls and Procedures</u>   | 15 |
| Part II               |  |    |
| Other Information     |  |    |
| Item 1.               | <u>Legal Proceedings</u>   | 16 |
| Item 1A.              | <u>Risk Factors</u>  | 16 |
| Item 2.               | <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>   | 22 |
| Item 5.               | <u>Other Information</u>   | 22 |
| Item 6.               | <u>Exhibits</u>  | 23 |
|                       | <u>Signatures</u>  | 24 |

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Table of Contents

CAUTIONARY STATEMENT ON FORWARD-LOOKING STATEMENTS

All statements, other than statements of current or historical fact, contained in this filing are forward-looking statements. We have attempted to identify these statements by terminology including “believe,” “anticipate,” “plan,” “expect,” “estimate,” “intend,” “seek,” “target,” “goal,” “may,” “will,” “should,” “can,” “continue” and other similar words or expressions in connection with, among other things, any discussion of future operating or financial performance. In particular, these statements include statements about our market opportunity, our growth strategy, competition, expected activities and future acquisitions, investments and the adequacy of our available cash resources. These statements may be found in the various sections of this filing, including those entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and Part II, Item 1A. “Risk Factors.” Readers are cautioned that matters subject to forward-looking statements involve known and unknown risks and uncertainties, including economic, regulatory, competitive and other factors that may cause our or our industry’s actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. These statements are not guarantees of future performance and are subject to risks, uncertainties and assumptions.

All forward-looking statements included in this filing are based on information available to us on the date of this filing and we undertake no obligation to update or revise the forward-looking statements included in this filing, whether as a result of new information, future events or otherwise, after the date of this filing. Actual results may differ from projections or estimates due to a variety of important factors, including:

- our ability to accurately predict and effectively manage health benefits and other operating expenses;
    - competition;
    - membership and revenue projections;
    - timing of regulatory contract approval;
    - changes in healthcare practices;
  - changes in federal or state laws or regulations, including the Patient Protection and Affordable Care Act and the Health Care and Education Affordability Reconciliation Act and any regulations enacted thereunder;
    - inflation;
    - provider contract changes;
      - new technologies;
    - reduction in provider payments by governmental payors;
      - major epidemics;
    - disasters and numerous other factors affecting the delivery and cost of healthcare;
  - the expiration, cancellation or suspension of our Medicaid managed care contracts by state governments;
    - availability of debt and equity financing, on terms that are favorable to us; and
    - general economic and market conditions.
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Table of Contents

PART I  
FINANCIAL INFORMATION

## ITEM 1. Financial Statements.

## CENTENE CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS  
(In thousands, except share data)  
(Unaudited)

|  | June 30,<br>2011 | December 31,<br>2010 |
|--|------------------|----------------------|
| <b>ASSETS</b>  |                  |                      |
| Current assets:  |                  |                      |
| Cash and cash equivalents of continuing operations   | \$ 474,450       | \$ 433,914           |
| Cash and cash equivalents of discontinued operations   | —                | 252                  |
| Total cash and cash equivalents  | 474,450          | 434,166              |
| Premium and related receivables, net of allowance for uncollectible accounts of \$574 and \$17, respectively | 152,135          | 136,243              |
| Short-term investments, at fair value (amortized cost \$77,560 and \$21,141, respectively)                   | 78,808           | 21,346               |
| Other current assets   | 69,143           | 64,154               |
| Current assets of discontinued operations other than cash  | —                | 912                  |
| Total current assets   | 774,536          | 656,821              |
| Long-term investments, at fair value (amortized cost \$508,299 and \$585,862, respectively)                  | 518,490          | 595,879              |
| Restricted deposits, at fair value (amortized cost \$26,615 and \$22,755, respectively)                      | 26,662           | 22,758               |
| Property, software and equipment, net of accumulated depreciation of \$157,706 and \$138,629, respectively   | 340,392          | 326,341              |
| Goodwill   | 281,981          | 278,051              |
| Intangible assets, net   | 30,342           | 29,109               |
| Other long-term assets   | 38,041           | 30,057               |
| Long-term assets of discontinued operations  | —                | 4,866                |
| Total assets   | \$ 2,010,444     | \$ 1,943,882         |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                  |                      |
| Current liabilities:   |                  |                      |
| Medical claims liability   | \$ 482,913       | \$ 456,765           |
| Accounts payable and accrued expenses  | 152,578          | 185,218              |
| Unearned revenue   | 111,110          | 117,344              |
| Current portion of long-term debt  | 3,172            | 2,817                |
| Current liabilities of discontinued operations   | —                | 3,102                |
| Total current liabilities  | 749,773          | 765,246              |
| Long-term debt   | 336,468          | 327,824              |
| Other long-term liabilities  | 53,899           | 53,378               |
| Long-term liabilities of discontinued operations   | —                | 379                  |
| Total liabilities  | 1,140,140        | 1,146,827            |

## Commitments and contingencies

## Stockholders' equity:

|   |              |              |
|---|--------------|--------------|
| Common stock, \$.001 par value; authorized 100,000,000 shares; 52,831,462 issued and 50,295,329 outstanding at June 30, 2011, and 52,172,037 issued and 49,616,824 outstanding at December 31, 2010 | 53           | 52           |
| Additional paid-in capital  | 405,711      | 384,206      |
| Accumulated other comprehensive income:   |              |              |
| Unrealized gain on investments, net of tax  | 7,183        | 6,424        |
| Retained earnings   | 505,862      | 453,743      |
| Treasury stock, at cost (2,536,133 and 2,555,213 shares, respectively)  | (50,343 )    | (50,486 )    |
| Total Centene stockholders' equity  | 868,466      | 793,939      |
| Noncontrolling interest   | 1,838        | 3,116        |
| Total stockholders' equity  | 870,304      | 797,055      |
| Total liabilities and stockholders' equity  | \$ 2,010,444 | \$ 1,943,882 |

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

Table of Contents

## CENTENE CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except share data)

(Unaudited)

|  | Three Months Ended<br>June 30, |              | Six Months Ended<br>June 30, |              |
|--|--------------------------------|--------------|------------------------------|--------------|
|  | 2011                           | 2010         | 2011                         | 2010         |
| <b>Revenues:</b>   |                                |              |                              |              |
| Premium  | \$ 1,248,588                   | \$ 1,025,928 | \$ 2,401,365                 | \$ 2,025,243 |
| Service  | 29,428                         | 24,682       | 55,812                       | 47,589       |
| Premium and service revenues   | 1,278,016                      | 1,050,610    | 2,457,177                    | 2,072,832    |
| Premium tax  | 36,998                         | 26,162       | 74,194                       | 72,661       |
| Total revenues   | 1,315,014                      | 1,076,772    | 2,531,371                    | 2,145,493    |
| <b>Expenses:</b>   |                                |              |                              |              |
| Medical costs  | 1,035,740                      | 859,335      | 1,992,814                    | 1,699,043    |
| Cost of services   | 20,312                         | 15,707       | 40,488                       | 32,859       |
| General and administrative expenses  | 166,425                        | 133,470      | 329,006                      | 268,977      |
| Premium tax  | 37,234                         | 26,551       | 74,663                       | 73,294       |
| Total operating expenses   | 1,259,711                      | 1,035,063    | 2,436,971                    | 2,074,173    |
| Earnings from operations   | 55,303                         | 41,709       | 94,400                       | 71,320       |
| <b>Other income (expense):</b>   |                                |              |                              |              |
| Investment and other income  | 2,933                          | 4,142        | 6,682                        | 11,199       |
| Debt extinguishment costs  | (8,488)                        | —            | (8,488)                      | —            |
| Interest expense   | (5,256)                        | (3,869)      | (10,951)                     | (7,682)      |
| Earnings from continuing operations, before income tax expense   | 44,492                         | 41,982       | 81,643                       | 74,837       |
| Income tax expense   | 16,429                         | 17,254       | 30,757                       | 29,779       |
| Earnings from continuing operations, net of income tax expense   | 28,063                         | 24,728       | 50,886                       | 45,058       |
| Discontinued operations, net of income tax expense (benefit) of \$0, \$(90), \$0 and \$4,350, respectively | —                              | (226)        | —                            | 3,694        |
| Net earnings   | 28,063                         | 24,502       | 50,886                       | 48,752       |
| Noncontrolling interest (loss)   | (311)                          | 1,729        | (1,233)                      | 1,977        |
| Net earnings attributable to Centene Corporation   | \$ 28,374                      | \$ 22,773    | \$ 52,119                    | \$ 46,775    |
| <b>Amounts attributable to Centene Corporation common stockholders:</b>                                    |                                |              |                              |              |
| Earnings from continuing operations, net of income tax expense   | \$ 28,374                      | \$ 22,999    | \$ 52,119                    | \$ 43,081    |
| Discontinued operations, net of income tax (benefit) expense   | —                              | (226)        | —                            | 3,694        |
| Net earnings   | \$ 28,374                      | \$ 22,773    | \$ 52,119                    | \$ 46,775    |
| <b>Net earnings (loss) per common share attributable to Centene Corporation:</b>                           |                                |              |                              |              |
| <b>Basic:</b>  |                                |              |                              |              |
| Continuing operations  | \$ 0.57                        | \$ 0.46      | \$ 1.04                      | \$ 0.89      |

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|  |            |            |            |            |
|--|------------|------------|------------|------------|
| Discontinued operations                        | —          | —          | —          | 0.08       |
| Earnings per common share                      | \$ 0.57    | \$ 0.46    | \$ 1.04    | \$ 0.97    |
| Diluted:                                       |            |            |            |            |
| Continuing operations                          | \$ 0.54    | \$ 0.45    | \$ 1.00    | \$ 0.86    |
| Discontinued operations                        | —          | —          | —          | 0.08       |
| Earnings per common share                      | \$ 0.54    | \$ 0.45    | \$ 1.00    | \$ 0.94    |
| Weighted average number of shares outstanding: |            |            |            |            |
| Basic  | 50,167,052 | 49,135,552 | 49,959,892 | 48,203,312 |
| Diluted  | 52,489,414 | 50,866,318 | 52,171,213 | 49,807,084 |

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



Table of Contents

## CENTENE CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(In thousands, except share data)

(Unaudited)

Six Months Ended June 30, 2011

## Centene Stockholders' Equity

|  | Common Stock             |       |                            |  |                   | Treasury Stock           |             |                          |            | Total |
|--|--------------------------|-------|----------------------------|--|-------------------|--------------------------|-------------|--------------------------|------------|-------|
|  | \$ .001 Par Value Shares | Amt   | Additional Paid-in Capital | Accumulated Other Comprehensive Income | Retained Earnings | \$ .001 Par Value Shares | Amt         | Non controlling Interest |            |       |
| Balance, December 31, 2010                             | 52,172,037               | \$ 52 | \$ 384,206                 | \$ 6,424                               | \$ 453,743        | 2,555,213                | \$ (50,486) | \$ 3,116                 | \$ 797,055 |       |
| Comprehensive Earnings:                                |                          |       |                            |  |                   |                          |             |                          |            |       |
| Net earnings   | —                        | —     | —                          | —                                      | 52,119            | —                        | —           | (1,233)                  | 50,886     |       |
| Change in unrealized investment gain, net of \$450 tax | —                        | —     | —                          | 759                                    | —                 | —                        | —           | —                        | 759        |       |
| Total comprehensive earnings                           |                          |       |                            |  |                   |                          |             |                          | 51,645     |       |
| Common stock issued for employee benefit plans         | 659,425                  | 1     | 11,488                     | —                                      | —                 | —                        | —           | —                        | 11,489     |       |
| Issuance of stock warrants                             | —                        | —     | —                          | —                                      | —                 | (50,000)                 | 1,172       | —                        | 1,172      |       |
| Common stock repurchases                               | —                        | —     | —                          | —                                      | —                 | 30,920                   | (1,029)     | —                        | (1,029)    |       |
| Stock compensation expense                             | —                        | —     | 8,839                      | —                                      | —                 | —                        | —           | —                        | 8,839      |       |
| Excess tax benefits from stock compensation            | —                        | —     | 1,178                      | —                                      | —                 | —                        | —           | —                        | 1,178      |       |
| Contribution from Noncontrolling interest              | —                        | —     | —                          | —                                      | —                 | —                        | —           | 244                      | 244        |       |
| Deconsolidation of Noncontrolling interest             | —                        | —     | —                          | —                                      | —                 | —                        | —           | (289)                    | (289)      |       |
| Balance, June 30, 2011                                 | 52,831,462               | \$ 53 | \$ 405,711                 | \$ 7,183                               | \$ 505,862        | 2,536,133                | \$ (50,343) | \$ 1,838                 | \$ 870,304 |       |

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

Table of Contents

## CENTENE CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

|  | Six Months Ended June 30, |            |
|--|---------------------------|------------|
|  | 2011                      | 2010       |
| Cash flows from operating activities:  |                           |            |
| Net earnings   | \$ 50,886                 | \$ 48,752  |
| Adjustments to reconcile net earnings to net cash provided by operating activities |                           |            |
| Depreciation and amortization  | 28,567                    | 24,918     |
| Stock compensation expense   | 8,839                     | 6,888      |
| Gain on sale of investments, net   | (107 )                    | (3,987 )   |
| Debt extinguishment costs  | 8,488                     | —          |
| Gain on sale of UHP  | —                         | (8,201 )   |
| Deferred income taxes  | (3,529 )                  | 4,928      |
| Changes in assets and liabilities  |                           |            |
| Premium and related receivables  | (16,146 )                 | (57,718 )  |
| Other current assets   | (4,001 )                  | 948        |
| Other assets   | (878 )                    | 1,719      |
| Medical claims liabilities   | 24,684                    | (28,868 )  |
| Unearned revenue   | (12,465 )                 | (85,950 )  |
| Accounts payable and accrued expenses  | (34,739 )                 | (3,536 )   |
| Other operating activities   | 3,555                     | 1,851      |
| Net cash provided by (used in) operating activities                                | 53,154                    | (98,256 )  |
| Cash flows from investing activities:  |                           |            |
| Capital expenditures   | (31,744 )                 | (31,177 )  |
| Capital expenditures of Centene Center LLC   | (3,384 )                  | (32,425 )  |
| Purchases of investments   | (103,239 )                | (306,124 ) |
| Proceeds from asset sales  | —                         | 13,420     |
| Sales and maturities of investments  | 120,448                   | 291,735    |
| Investments in acquisitions, net of cash acquired                                  | (3,192 )                  | (21,473 )  |
| Net cash used in investing activities  | (21,111 )                 | (86,044 )  |
| Cash flows from financing activities:  |                           |            |
| Proceeds from exercise of stock options  | 12,264                    | 1,759      |
| Proceeds from borrowings   | 419,183                   | 42,161     |
| Proceeds from stock offering   | —                         | 104,534    |
| Payment of long-term debt  | (414,695 )                | (97,193 )  |
| Contributions from (distributions to) noncontrolling interest                      | 244                       | (4,840 )   |
| Excess tax benefits from stock compensation  | 1,369                     | 295        |
| Common stock repurchases   | (1,029 )                  | (568 )     |
| Debt issue costs   | (9,095 )                  | —          |
| Net cash provided by financing activities  | 8,241                     | 46,148     |
| Net increase (decrease) in cash and cash equivalents                               | 40,284                    | (138,152 ) |
| Cash and cash equivalents, beginning of period                                     | 434,166                   | 403,752    |
| Cash and cash equivalents, end of period   | \$ 474,450                | \$ 265,600 |

Supplemental disclosures of cash flow information:

|                   |           |           |
|-------------------|-----------|-----------|
| Interest paid     | \$ 11,822 | \$ 7,320  |
| Income taxes paid | \$ 40,111 | \$ 27,940 |

Supplemental disclosure of non-cash investing and financing activities:

|   |          |           |
|---|----------|-----------|
| Contribution from noncontrolling interest | \$ —     | \$ 306    |
| Capital expenditures                      | \$ 1,381 | \$ 36,280 |

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

Table of Contents

## CENTENE CORPORATION AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except share data)

(Unaudited)

## 1. Basis of Presentation

The accompanying interim financial statements have been prepared under the presumption that users of the interim financial information have either read or have access to the audited financial statements included in the Form 10-K for the fiscal year ended December 31, 2010. The unaudited interim financial statements herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, footnote disclosures, which would substantially duplicate the disclosures contained in the December 31, 2010 audited financial statements, have been omitted from these interim financial statements where appropriate. In the opinion of management, these financial statements reflect all adjustments, consisting only of normal recurring adjustments, which are necessary for a fair presentation of the results of the interim periods presented.

Certain 2010 amounts in the consolidated financial statements have been reclassified to conform to the 2011 presentation. These reclassifications have no effect on net earnings or stockholders' equity as previously reported.

## 2. Acquisitions

— Casenet, LLC. In December 2010, the Company acquired an additional ownership interest in Casenet, LLC for total consideration of \$6,619, bringing its ownership interest to 68%. The initial allocation resulted in goodwill of \$1,752 and other identifiable intangible assets of \$4,500 that were recorded in the Specialty Services segment. During the second quarter of 2011, the Company finalized the allocation of the fair value that resulted in goodwill of \$8,975, other identifiable intangible assets of \$3,561 and an increase in unearned revenue of \$6,284. The goodwill is not deductible for income tax purposes. During the second quarter of 2011, the Company increased its ownership interest in Casenet to 73%.

— Citrus Health Care, Inc. In December 2010, the Company acquired certain assets in non-reform counties of Citrus Health Care, Inc., a Florida Medicaid and long term care health plan for \$28,689. During 2010, the Company performed a preliminary allocation of fair value that resulted in goodwill of \$22,951 and other identifiable intangible assets of \$5,738 that were recorded in the Medicaid Managed Care segment. During the second quarter of 2011, the Company finalized the allocation of the fair value that resulted in goodwill of \$19,069 and other identifiable intangible assets of \$9,620. All of the goodwill is deductible for income tax purposes.

## 3. Investments and Restricted Deposits

Short-term and long-term investments and restricted deposits by investment type consist of the following:

|  | June 30, 2011     |                              |                               |               | December 31, 2010 |                              |                               |               |
|--|-------------------|------------------------------|-------------------------------|---------------|-------------------|------------------------------|-------------------------------|---------------|
|  | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value |
| U.S. Treasury securities and obligations of U.S. | \$ 28,254         | \$ 548                       | \$ (34 )                      | \$ 28,768     | \$ 28,665         | \$ 510                       | \$ (140 )                     | \$ 29,035     |

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|  |            |           |           |            |            |           |           |            |
|--|------------|-----------|-----------|------------|------------|-----------|-----------|------------|
| government corporations and agencies                 |            |           |           |            |            |           |           |            |
| Corporate securities                                 | 190,542    | 3,746     | (73 )     | 194,215    | 197,577    | 3,124     | (586 )    | 200,115    |
| Restricted certificates of deposit                   | 5,888      | —         | —         | 5,888      | 6,814      | —         | —         | 6,814      |
| Restricted cash equivalents                          | 13,400     | —         | —         | 13,400     | 8,814      | —         | —         | 8,814      |
| Municipal securities:                                |            |           |           |            |            |           |           |            |
| General obligation                                   | 113,851    | 3,466     | —         | 117,317    | 109,866    | 3,601     | (6 )      | 113,461    |
| Pre-refunded   | 32,072     | 689       | —         | 32,761     | 32,442     | 756       | —         | 33,198     |
| Revenue  | 102,027    | 2,845     | (2 )      | 104,870    | 100,198    | 2,781     | (15 )     | 102,964    |
| Variable rate demand notes                           | 91,160     | —         | —         | 91,160     | 106,540    | —         | —         | 106,540    |
| Asset backed securities                              | 13,387     | 301       | —         | 13,688     | 17,391     | 243       | (43 )     | 17,591     |
| Cost method investments and equity method securities | 7,347      | —         | —         | 7,347      | 7,060      | —         | —         | 7,060      |
| Life insurance contracts                             | 14,546     | —         | —         | 14,546     | 14,391     | —         | —         | 14,391     |
| Total  | \$ 612,474 | \$ 11,595 | \$ (109 ) | \$ 623,960 | \$ 629,758 | \$ 11,015 | \$ (790 ) | \$ 639,983 |

The Company's investments are classified as available-for-sale with the exception of life insurance contracts and certain cost method 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. As of June 30, 2011, the Company had no single issue with a par value greater than \$5,000. As of June 30, 2011, 36% of the Company's investments in securities recorded at fair value that carry a rating by Moody's or S&P were rated AAA, 76% were rated AA- or higher, and 99% were rated A- or higher. At June 30, 2011, the Company held certificates of deposit, life insurance contracts and cost and equity method investments which did not carry a credit rating.

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

|   | June 30, 2011                         |                              |                                     |                              | December 31, 2010                     |                              |                                     |                              |
|---|---------------------------------------|------------------------------|-------------------------------------|------------------------------|---------------------------------------|------------------------------|-------------------------------------|------------------------------|
|   | Less Than 12 Months Unrealized Losses | 12 Months or More Fair Value | 12 Months or More Unrealized Losses | 12 Months or More Fair Value | Less Than 12 Months Unrealized Losses | 12 Months or More Fair Value | 12 Months or More Unrealized Losses | 12 Months or More Fair Value |
| U.S. Treasury securities and obligations of U.S. government corporations and agencies | \$ (34 )                              | \$ 7,371                     | \$ —                                | \$ —                         | \$ (140 )                             | \$ 9,246                     | \$ —                                | \$ —                         |
| Corporate securities  | (73 )                                 | 21,733                       | —                                   | —                            | (586 )                                | 40,341                       | —                                   | —                            |
| Municipal securities:   |                                       |                              |                                     |                              |                                       |                              |                                     |                              |
| General obligation  | —                                     | —                            | —                                   | —                            | (6 )                                  | 1,131                        | —                                   | —                            |

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|                         |           |           |      |      |           |           |      |      |
|-------------------------|-----------|-----------|------|------|-----------|-----------|------|------|
| Revenue                 | (2 )      | 838       | —    | —    | (15 )     | 2,419     | —    | —    |
| Asset backed securities | —         | —         | —    | —    | (43 )     | 5,276     | —    | —    |
| Total                   | \$ (109 ) | \$ 29,942 | \$ — | \$ — | \$ (790 ) | \$ 58,413 | \$ — | \$ — |

5

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Table of Contents

As of June 30, 2011, the gross unrealized losses were generated from 34 positions out of a total of 401 positions. The decline 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.

The contractual maturities of short-term and long-term investments and restricted deposits are as follows:

|                              | June 30, 2011  |            |                     |            | December 31, 2010 |            |                     |            |
|------------------------------|----------------|------------|---------------------|------------|-------------------|------------|---------------------|------------|
|                              | 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             | \$ 77,560      | \$ 78,808  | \$ 19,516           | \$ 19,516  | \$ 21,141         | \$ 21,346  | \$ 17,387           | \$ 17,392  |
| One year through five years  | 396,676        | 406,770    | 7,099               | 7,146      | 464,270           | 474,255    | 5,368               | 5,366      |
| Five years through ten years | 37,983         | 37,990     | —                   | —          | 39,732            | 39,731     | —                   | —          |
| Greater than ten years       | 73,640         | 73,730     | —                   | —          | 81,860            | 81,893     | —                   | —          |
| Total                        | \$ 585,859     | \$ 597,298 | \$ 26,615           | \$ 26,662  | \$ 607,003        | \$ 617,225 | \$ 22,755           | \$ 22,758  |

Actual maturities may differ from contractual maturities due to call or prepayment options. Asset backed securities are included in the one year through five years category, while equity securities 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.

Realized gains and losses are determined on the basis of specific identification or a first-in, first-out methodology, if specific identification is not practicable. The Company's gross recorded realized gains and losses on investments were as follows:

|                             | Three Months Ended June 30, |        | Six Months Ended June 30, |          |
|-----------------------------|-----------------------------|--------|---------------------------|----------|
|                             | 2011                        | 2010   | 2011                      | 2010     |
| Gains                       | \$ —                        | \$ 683 | \$ 133                    | \$ 3,717 |
| Losses                      | (11 )                       | (245 ) | (26 )                     | (245 )   |
| Net realized (losses) gains | \$ (11 )                    | \$ 438 | \$ 107                    | \$ 3,472 |

Realized gains in six months ended June 30, 2010 included a gain of \$2,961 representing a gain from a distribution from the Reserve Primary fund in excess of our adjusted basis.



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.

Investment amortization of \$5,009 and \$5,716 was recorded in the six months ended June 30, 2011 and 2010, respectively.

#### 4. Fair Value Measurements

Assets and liabilities recorded at fair value in the consolidated balance sheets are categorized based upon the extent to which the fair value estimates are based upon observable or unobservable inputs. 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 June 30, 2011, for assets and liabilities measured at fair value on a recurring basis:

|                           | Level I    | Level II | Level III | Total      |
|---------------------------|------------|----------|-----------|------------|
| Assets                    |            |          |           |            |
| Cash and cash equivalents | \$ 474,450 | \$       | \$        | \$ 474,450 |

Investments available for sale:

|   |           |            |    |            |
|---|-----------|------------|----|------------|
| U.S. Treasury securities and obligations of U.S. government corporations and agencies | \$ 19,117 | \$ 2,277   | \$ | \$ 21,394  |
| Corporate securities  |           | 194,215    |    | 194,215    |
| Municipal securities:   |           |            |    |            |
| General obligation  |           | 117,317    |    | 117,317    |
| Pre-refunded  |           | 32,761     |    | 32,761     |
| Revenue   |           | 104,870    |    | 104,870    |
| Variable rate demand notes  |           | 91,160     |    | 91,160     |
| Asset backed securities   |           | 13,688     |    | 13,688     |
| Total investments   | \$ 19,117 | \$ 556,288 | \$ | \$ 575,405 |

Restricted deposits available for sale:

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|   |            |            |    |              |
|---|------------|------------|----|--------------|
| Cash and cash equivalents   | \$ 13,400  | \$         | \$ | \$ 13,400    |
| Certificates of deposit   | 5,888      |            |    | 5,888        |
| U.S. Treasury securities and obligations<br>of U.S. government corporations and<br>agencies | 6,844      | 530        |    | 7,374        |
| Total restricted deposits   | \$ 26,132  | \$ 530     | \$ | \$ 26,662    |
| <br>  |            |            |    |              |
| Total assets at fair value  | \$ 519,699 | \$ 556,818 | \$ | \$ 1,076,517 |
| Liabilities   |            |            |    |              |
| Interest rate swap contract   | \$         | \$ 1,819   | \$ | \$ 1,819     |

Table of Contents

The following table summarizes fair value measurements by level at December 31, 2010, for assets and liabilities measured at fair value on a recurring basis:

|   | Level I    | Level II   | Level III | Total      |
|---|------------|------------|-----------|------------|
| Assets  |            |            |           |            |
| Cash and cash equivalents   | \$ 433,914 | \$         | \$        | \$ 433,914 |
| Investments available for sale:   |            |            |           |            |
| U.S. Treasury securities and obligations of U.S. government corporations and agencies | \$ 14,809  | \$ 7,096   | \$        | \$ 21,905  |
| Corporate securities  |            | 200,115    |           | 200,115    |
| Municipal securities:   |            |            |           |            |
| General obligation  |            | 113,461    |           | 113,461    |
| Pre-refunded  |            | 33,198     |           | 33,198     |
| Revenue   |            | 102,964    |           | 102,964    |
| Variable rate demand notes  |            | 106,540    |           | 106,540    |
| Asset backed securities   |            | 17,591     |           | 17,591     |
| Total investments   | \$ 14,809  | \$ 580,965 | \$        | \$ 595,774 |
| Restricted deposits available for sale:   |            |            |           |            |
| Cash and cash equivalents   | \$ 8,814   | \$         | \$        | \$ 8,814   |
| Certificates of deposit   | 6,814      |            |           | 6,814      |
| U.S. Treasury securities and obligations of U.S. government corporations and agencies | 7,130      |            |           | 7,130      |
| Total restricted deposits   | \$ 22,758  | \$         | \$        | \$ 22,758  |