

CENTENE CORP
Form 10-Q
April 22, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 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

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: x Yes o 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). x Yes o 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

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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 Exchange Act).
Yes No

As of April 11, 2014, the registrant had 57,680,118 shares of common stock outstanding.

CENTENE CORPORATION
 QUARTERLY REPORT ON FORM 10-Q
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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,” Part II, Item 1A. “Risk Factors,” and Part II, Item I “Legal Proceedings.” 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;
- changes in expected contract start dates;
- changes in expected closing dates and accretion for acquisitions;
- inflation;
- provider and state contract changes;
- new technologies;
- advances in medicine;
- 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 Medicare or Medicaid managed care contracts by federal or state governments;
- the outcome of pending legal proceedings;
- availability of debt and equity financing, on terms that are favorable to us; and
- general economic and market conditions.

Other Information

The discussion in Part I, Item 2. "Management’s Discussion and Analysis of Financial Condition and Results of Operations" under the heading "Results of Operations" contains financial information for new and existing businesses. Existing businesses are primarily state markets, significant geographic expansion in an existing state or product that we have managed for four complete quarters. New businesses are primarily new state markets, significant geographic expansion in an existing state or product that conversely, we have not managed for four complete quarters.

Non-GAAP Financial Presentation

The Company is providing certain non-GAAP financial measures in this report as the Company believes that these figures are helpful in allowing individuals to more accurately assess the ongoing nature of the Company's operations and measure the Company's performance more consistently. The Company uses the presented non-GAAP financial measures internally to allow management to focus on period-to-period changes in the Company's core business operations. Therefore, the Company believes that this information is meaningful in addition to the information contained in the GAAP presentation of financial information. The presentation of this additional non-GAAP financial information is not intended to be considered in isolation or as a substitute for the financial information prepared and presented in accordance with GAAP.

Table of ContentsPART I
FINANCIAL INFORMATIONITEM 1. Financial Statements.
CENTENE CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)
(Unaudited)

	March 31, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents of continuing operations	\$1,218,004	\$974,304
Cash and cash equivalents of discontinued operations	52,788	63,769
Total cash and cash equivalents	1,270,792	1,038,073
Premium and related receivables	570,105	428,570
Short term investments	99,696	102,126
Other current assets	320,393	217,661
Other current assets of discontinued operations	20,863	13,743
Total current assets	2,281,849	1,800,173
Long term investments	840,152	791,900
Restricted deposits	57,826	46,946
Property, software and equipment, net	412,699	395,407
Goodwill	657,551	348,432
Intangible assets, net	85,134	48,780
Other long term assets	80,961	59,357
Long term assets of discontinued operations	30,275	38,305
Total assets	\$4,446,447	\$3,529,300
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Medical claims liability	\$1,298,513	\$1,111,709
Accounts payable and accrued expenses	614,541	375,862
Unearned revenue	74,260	38,191
Current portion of long term debt	6,110	3,065
Current liabilities of discontinued operations	28,019	30,294
Total current liabilities	2,021,443	1,559,121
Long term debt	810,970	665,697
Other long term liabilities	70,166	60,015
Long term liabilities of discontinued operations	1,009	1,028
Total liabilities	2,903,588	2,285,861
Commitments and contingencies		
Redeemable noncontrolling interest	120,681	—
Stockholders' equity:		
Common stock, \$.001 par value; authorized 100,000,000 shares; 61,044,175 issued and 57,657,040 outstanding at March 31, 2014, and 58,673,215 issued and 55,319,239 outstanding at December 31, 2013	61	59
Additional paid-in capital	739,972	594,326
Accumulated other comprehensive income:		

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Unrealized loss on investments, net of tax	(614) (2,620)
Retained earnings	764,902	731,919	
Treasury stock, at cost (3,387,135 and 3,353,976 shares, respectively)	(91,655) (89,643)
Total Centene stockholders' equity	1,412,666	1,234,041	
Noncontrolling interest	9,512	9,398	
Total stockholders' equity	1,422,178	1,243,439	
Total liabilities and stockholders' equity	\$4,446,447	\$3,529,300	

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

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CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except share data)

(Unaudited)

	Three Months Ended March 31,	
	2014	2013
Revenues:		
Premium	\$3,070,887	\$2,388,639
Service	281,174	33,194
Premium and service revenues	3,352,061	2,421,833
Premium tax and health insurer fee	107,827	103,649
Total revenues	3,459,888	2,525,482
Expenses:		
Medical costs	2,742,453	2,154,546
Cost of services	242,284	25,065
General and administrative expenses		