Section 1: 10-Q (10-Q)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 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 September 30, 2019
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: 001-32209

WELLCARE HEALTH PLANS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**47-0937650**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
8735 Henderson Road, Renaissance One **Tampa , Florida**	**33634**
(Address of Principal Executive Offices)	(Zip Code)

(813) 290-6200
(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $0.01 par value	**WCG**	**New York Stock Exchange**

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 every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

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

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐

Smaller reporting company ☐ Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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 October 28, 2019, there were 50,327,612 shares of the registrant's common stock, par value $0.01 per share, outstanding.

WELLCARE HEALTH PLANS, INC.

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Part I — FINANCIAL INFORMATION

Item 1. Financial Statements.

WELLCARE HEALTH PLANS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited) (In millions, except per share and share data)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2019	2018	2019	2018
Revenues:				
Premium	$ 6,965.6	$ 4,988.8	$ 20,417.2	$ 14,227.7
Products and services	132.1	34.6	374.6	34.6
Investment and other income	42.5	34.7	120.7	81.0
Total revenues	7,140.2	5,058.1	20,912.5	14,343.3
Expenses:				
Medical benefits	6,025.7	4,195.0	17,884.5	12,023.0
Costs of products and services	128.9	33.5	363.9	33.5
Selling, general and administrative	567.4	433.2	1,558.0	1,167.0
ACA industry fee	—	86.5	—	247.0
Medicaid premium taxes	35.6	31.5	99.0	94.2
Depreciation and amortization	59.9	46.2	197.6	117.1
Interest	29.4	23.6	90.0	57.8
Total expenses	6,846.9	4,849.5	20,193.0	13,739.6
Income before income taxes and equity in losses of unconsolidated subsidiaries	293.3	208.6	719.5	603.7
Equity in earnings (losses) of unconsolidated subsidiaries	20.4	6.6	22.9	(0.1)
Income before income taxes	313.7	215.2	742.4	603.6
Income tax expense	72.7	84.6	167.2	219.7
Net income	$ 241.0	$ 130.6	$ 575.2	$ 383.9
Other comprehensive income (loss):				
Change in net unrealized gains and losses on available-for-sale securities, before tax	(3.5)	(1.1)	29.2	(11.4)
Income tax expense (benefit) related to other comprehensive income	(0.9)	(0.3)	7.3	(2.7)
Other comprehensive income (loss), net of tax	(2.6)	(0.8)	21.9	(8.7)
Comprehensive income	$ 238.4	$ 129.8	$ 597.1	$ 375.2
Earnings per common share:				
Basic	$ 4.79	$ 2.74	$ 11.45	$ 8.40
Diluted	$ 4.74	$ 2.70	$ 11.32	$ 8.29
Weighted average common shares outstanding:				
Basic	50,313,901	47,712,712	50,240,480	45,692,804
Diluted	50,846,402	48,384,427	50,833,504	46,287,616

See notes to unaudited condensed consolidated financial statements.

WELLCARE HEALTH PLANS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited) (In millions, except share data)

	September 30, 2019	December 31, 2018
Assets		
Current Assets:		
Cash and cash equivalents	$ 2,567.1	$ 3,653.9
Short-term investments	1,082.0	830.1
Premiums receivable, net	1,447.5	1,223.4
Pharmacy rebates receivable, net	434.7	460.6
Funds receivable for the benefit of members	297.8	187.3
Prepaid expenses and other current assets, net	1,571.4	477.1
Total current assets	7,400.5	6,832.4
Property, equipment and capitalized software, net	477.3	428.2
Goodwill	2,265.2	2,227.7
Other intangible assets, net	856.9	996.2
Long-term investments	2,060.3	813.2
Restricted cash, cash equivalents and investments	317.9	234.7
Other assets	266.3	18.7
Assets of discontinued operations	217.3	213.6
Total Assets	$ 13,861.7	$ 11,764.7
Liabilities and Stockholders' Equity		
Current Liabilities:		
Medical benefits payable	$ 3,363.9	$ 2,897.4
Unearned premiums	48.7	1.4
Accounts payable and accrued expenses	1,923.4	964.6
Funds payable for the benefit of members	800.0	693.3
Other payables to government partners	268.0	458.9
Total current liabilities	6,404.0	5,015.6
Deferred income tax liability, net	105.8	134.2
Long-term debt, net	2,029.1	2,126.4
Other liabilities	249.1	34.9
Liabilities of discontinued operations	217.3	213.6
Total Liabilities	9,005.3	7,524.7
Commitments and contingencies (see Note 14)		
Stockholders' Equity:		
Preferred stock, $0.01 par value (20,000,000 authorized, no shares issued or outstanding)	—	—
Common stock, $0.01 par value (100,000,000 authorized, 50,316,099 and 49,993,219 shares issued and outstanding at September 30, 2019 and December 31, 2018, respectively)	0.5	0.5
Paid-in capital	2,000.4	1,981.1
Retained earnings	2,842.5	2,267.3
Accumulated other comprehensive income (loss)	13.0	(8.9)
Total Stockholders' Equity	4,856.4	4,240.0
Total Liabilities and Stockholders' Equity	$ 13,861.7	$ 11,764.7

See notes to unaudited condensed consolidated financial statements.

WELLCARE HEALTH PLANS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(Unaudited) (In millions, except share data)

	Three Months Ended September 30, 2019 and 2018					
	Common Stock					
	Shares	Amount	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance at July 1, 2019	50,311,933	$ 0.5	$ 1,985.7	$ 2,601.5	$ 15.6	$ 4,603.3
Common stock issued for vested equity-compensation awards	6,163	—	—	—	—	—
Repurchase and retirement of shares to satisfy tax withholding requirements	(1,997)	—	(2.4)	—	—	(2.4)
Stock-based compensation expense, net of forfeitures	—	—	17.1	—	—	17.1
Comprehensive income	—	—	—	241.0	(2.6)	238.4
Balance at September 30, 2019	50,316,099	$ 0.5	$ 2,000.4	$ 2,842.5	$ 13.0	$ 4,856.4
Balance at July 1, 2018	44,767,277	$ 0.4	$ 601.3	$ 2,080.8	$ (10.6)	$ 2,671.9
Issuance of common stock, net of issuance costs	5,207,547	0.1	1,342.2	—	—	1,342.3
Common stock issued for vested stock-based compensation awards	7,266	—	—	—	—	—
Repurchase and retirement of shares to satisfy tax withholding requirements	(2,424)	—	(3.0)	—	—	(3.0)
Stock-based compensation expense, net of forfeitures	—	—	21.4	—	—	21.4
Comprehensive income (loss)	—	—	—	130.6	(0.8)	129.8
Balance at September 30, 2018	49,979,666	$ 0.5	$ 1,961.9	$ 2,211.4	$ (11.4)	$ 4,162.4

	Nine Months Ended September 30, 2019 and 2018					
	Common Stock					
	Shares	Amount	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance at January 1, 2019	49,993,219	$ 0.5	$ 1,981.1	$ 2,267.3	$ (8.9)	$ 4,240.0
Common stock issued for vested equity-compensation awards	468,246	—	—	—	—	—
Repurchase and retirement of shares to satisfy tax withholding requirements	(145,366)	—	(39.6)	—	—	(39.6)
Stock-based compensation expense, net of forfeitures	—	—	58.9	—	—	58.9
Comprehensive income	—	—	—	575.2	21.9	597.1
Balance at September 30, 2019	50,316,099	$ 0.5	$ 2,000.4	$ 2,842.5	$ 13.0	$ 4,856.4
Balance at January 1, 2018	44,522,988	$ 0.4	$ 591.5	$ 1,827.5	$ (2.7)	$ 2,416.7
Issuance of common stock, net of issuance costs	5,207,547	0.1	1,342.2	—	—	1,342.3
Common stock issued for vested stock-based compensation awards	356,491	—	—	—	—	—
Repurchase and retirement of shares to satisfy tax withholding requirements	(107,360)	—	(23.3)	—	—	(23.3)
Stock-based compensation expense, net of forfeitures	—	—	51.5	—	—	51.5
Comprehensive income (loss)	—	—	—	383.9	(8.7)	375.2
Balance at September 30, 2018	49,979,666	$ 0.5	$ 1,961.9	$ 2,211.4	$ (11.4)	$ 4,162.4

See notes to unaudited condensed consolidated financial statements.

WELLCARE HEALTH PLANS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited, in millions)

	For the Nine Months Ended September 30,	
	2019	**2018**
Cash flows from operating activities:		
Net income	$ 575.2	$ 383.9
Adjustments to reconcile net income to cash flows from operating activities:		
Depreciation and amortization	197.6	117.1
Stock-based compensation expense	58.9	51.5
Deferred taxes, net	(25.0)	(9.8)
Other, net	11.1	13.1
Changes in operating accounts, net of effects from acquisitions:		
Premiums receivable, net	(232.3)	(144.1)
Pharmacy rebates receivable, net	25.9	(138.7)
Medical benefits payable	466.5	227.1
Unearned premiums	47.3	(74.7)
Other receivables/payables to government partners	(276.2)	64.8
Prepaid and other current assets	(145.5)	(190.3)
Accrued liabilities and other, net	204.1	(101.9)
Net cash provided by operating activities	907.6	198.0
Cash flows from investing activities:		
Purchases of investments	(4,949.8)	(1,322.6)
Proceeds from sales and maturities of investments	3,287.4	822.8
Acquisitions and acquisition-related settlements	(8.6)	(2,035.7)
Additions to property, equipment and capitalized software, net	(157.7)	(87.5)
Net cash used in investing activities	(1,828.7)	(2,623.0)
Cash flows from financing activities:		
Proceeds from issuance of common stock, net of issuance fees paid	—	1,342.3
Proceeds from issuance of debt, net of financing costs paid	—	739.0
Borrowings on Revolving Credit Facility, net of financing costs paid	140.0	221.3
Payments on debt	(240.0)	(25.0)
Repurchase and retirement of shares to satisfy employee tax withholding requirements	(39.6)	(23.3)
Funds received for the benefit of members, net	25.9	250.8
Other, net	11.6	29.5
Net cash (used in) provided by financing activities	(102.1)	2,534.6
(Decrease) increase in cash, cash equivalents and restricted cash and cash equivalents	(1,023.2)	109.6
Balance at beginning of period	3,716.6	4,263.0
Balance at end of period	$ 2,693.4	$ 4,372.6
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for taxes, net of refunds	$ 101.4	$ 174.6
Cash paid for interest	$ 112.5	$ 65.5
SUPPLEMENTAL DISCLOSURES OF NON-CASH TRANSACTIONS:		
Non-cash additions to property, equipment, and capitalized software	$ 4.0	$ 3.7

See notes to unaudited condensed consolidated financial statements.

WELLCARE HEALTH PLANS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited) (In millions, except member, per share and share data)

1. ORGANIZATION, BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

WellCare Health Plans, Inc. (the "Company," "we," "us," or "our") focuses primarily on providing government-sponsored managed care services to families, children, seniors and individuals with complex medical needs primarily through Medicaid, Medicare Advantage ("MA") and Medicare Prescription Drug Plans ("PDP"), as well as individuals in the Health Insurance Marketplace. As of September 30, 2019, we served approximately 6.4 million members nationwide.

As of September 30, 2019, we operated Medicaid health plans, including states where we receive Medicaid premium revenues associated with dually eligible special needs plans, in Arizona, Florida, Georgia, Hawaii, Illinois, Kentucky, Michigan, Missouri, Nebraska, New Jersey, New York, South Carolina and Texas.

In addition, as of September 30, 2019, we also operated MA coordinated care plans ("CCPs") in Alabama, Arizona, Arkansas, California, Connecticut, Florida, Georgia, Hawaii, Illinois, Indiana, Kentucky, Louisiana, Maine, Michigan, Mississippi, New Jersey, New York, North Carolina, Ohio, South Carolina, Tennessee and Texas. We also offered stand-alone Medicare PDPs nationwide.

In September 2018, we completed the acquisition of Meridian Health Plan of Michigan, Inc., Meridian Health Plan of Illinois, Inc., and MeridianRx, LLC, a pharmacy benefit manager ("PBM") (collectively, "Meridian"). As a result of the acquisition, we expanded our Medicaid portfolio through the addition of Michigan; expanded our Medicaid presence in Illinois; and acquired an integrated PBM platform. Meridian also serves MA members in Illinois, Indiana, Michigan, and Ohio, as well as Health Insurance Marketplace members in Michigan.

Basis of Presentation

The accompanying unaudited condensed consolidated balance sheets and statements of comprehensive income, changes in stockholders' equity, and cash flows include our accounts and the accounts of our subsidiaries over which we have control or are the primary beneficiary. We eliminated all intercompany accounts and transactions.

The accompanying unaudited condensed consolidated interim financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP"). Accordingly, certain financial information and footnote disclosures normally included in financial statements prepared in accordance with GAAP, but that are not required for interim reporting purposes, have been condensed or omitted. The accompanying unaudited condensed consolidated interim financial statements should be read in conjunction with the consolidated financial statements and notes thereto, for the fiscal year ended December 31, 2018, included in our Annual Report on Form 10-K ("2018 Form 10-K"), which was filed with the U.S. Securities and Exchange Commission ("SEC") in February 2019. Results for the interim periods presented are not necessarily indicative of results that may be expected for the entire year or any other interim period.

In the opinion of management, the unaudited condensed consolidated interim financial statements reflect all normal recurring adjustments that we consider necessary for the fair presentation of our financial position, results of operations and cash flows for the interim periods presented. In accordance with GAAP, we make certain estimates and assumptions that affect the amounts reported in the condensed consolidated interim financial statements and accompanying notes. We base these estimates, including assumptions as to the annualized tax rate, on our knowledge of current events and anticipated future events and evaluate and update our assumptions and estimates on an ongoing basis; however, actual results may differ from our estimates. We evaluated all material events subsequent to the date of these unaudited condensed consolidated interim financial statements. Certain reclassifications were made to 2018 financial information to conform to the 2019 presentation.

Pharmacy Benefit Manager

The external revenues and costs for our PBM business are reported within "Products and Services" and "Cost of Products and Services", respectively, on the condensed consolidated statements of comprehensive income. Products and services revenues from our PBM consist of the prescription price (ingredient cost plus dispensing fee) negotiated with the retail pharmacies with which we have contracted, plus any associated administrative fees. This revenue is recognized when the claim is processed. We have the contractual obligation to pay network pharmacies for benefits provided to participating members and, therefore, act as principal in the arrangement and reflect the total prescription price as revenue, on a gross basis, in accordance with applicable accounting guidance. Costs of products and services is recognized at the time prescriptions are dispensed by pharmacies in the PBM's network to eligible members and consists primarily of ingredient costs and dispensing fees paid to retail pharmacies with which we have contracted. The overall results of our PBM business are immaterial.

Aetna Part D Membership Reinsurance

In November 2018, we completed the purchase of Aetna Inc.'s ("Aetna") entire standalone Medicare Part D prescription drug plan membership ("Aetna Part D membership"). In connection with the purchase, we also entered into an administrative services agreement and a reinsurance agreement pursuant to which Aetna provides administrative services to, and retains financial risk of, the Aetna Part D membership, effective for plan year 2019. We remain primarily liable to policyholders under this ceded insurance contract and are contingently liable for amounts recoverable from Aetna in the event that they do not meet their contractual obligations. In the normal course, we evaluate the financial condition of our reinsurers and monitor concentrations of credit risk to minimize our exposure to significant losses from reinsurer insolvencies. As of September 30, 2019, related to the Aetna Part D membership, our condensed consolidated balance sheet included reinsured receivables of $167.2 million, primarily related to premiums receivable, and reinsured payables of $549.4 million, primarily related to pharmacy claims payables. These reinsured receivables and payables were included in prepaid expenses and other current assets, net, and accounts payable and accrued liabilities, respectively. The resulting net reinsurance recoverables of $382.2 million was included in prepaid expenses and other current assets, net on the condensed consolidated balance sheet. There were no reinsurance recoverables or reinsurance liabilities relating to the Aetna Part D membership recorded as of December 31, 2018.

In our condensed consolidated statement of comprehensive income, premium revenue and medical benefits were reported net of amounts ceded under this Aetna reinsurance arrangement. Premium revenue ceded relating to the Aetna Part D membership were $364.4 million and $1.3 billion for the three and nine months ended September 30, 2019, respectively. Additionally, member benefits expense ceded relating to the Aetna Part D membership were $224.2 million and $999.2 million for the three and nine months ended September 30, 2019, respectively.

Unconsolidated Subsidiaries

We work with physicians and other health care professionals to operate Accountable Care Organizations ("ACOs") under the Medicare Shared Saving Program ("MSSP") and Next Generation ACO Models. ACOs were established by the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010 (collectively, the "ACA") to reward integrated, efficient care and allow providers to share in any savings they achieve as a result of improved quality and operational efficiency.

These ACOs are generally formed as limited liability companies. The ACOs are considered variable interest entities ("VIEs") under GAAP as these entities do not have sufficient equity to finance their own operations without additional financial support. We own a majority interest in our ACOs; however, we share the power to direct the activities that most significantly affect the ACOs with health care providers that are minority owners in the ACOs. This power is shared pursuant to the structure of the management committee of each of the ACOs. Accordingly, we have determined that we are not the primary beneficiary of the ACOs; therefore, we cannot consolidate their results. We perform an ongoing qualitative assessment of our variable interests in VIEs to determine whether we have a controlling financial interest and would therefore be considered the primary beneficiary of the VIE.

We account for our participation in the ACOs using the equity method. Gains and losses are immaterial and are reported on the face of our condensed consolidated statements of comprehensive income as equity in earnings (losses) of unconsolidated subsidiaries.

Significant Accounting Policies

Below is a discussion of our significant accounting policies, which affected the comparability of our consolidated results of operations, financial condition or cash flows for the periods presented. Refer to Note 2 - *Summary of Significant Accounting Policies* to the consolidated financial statements included in our 2018 Form 10-K for a complete discussion of all of our significant accounting policies.

Premium Receivables and Unearned Premiums

We record premiums earned but not received as premiums receivable and record premiums received in advance of the period of service as unearned premiums in our condensed consolidated balance sheets. A complete discussion of premiums receivable and unearned premiums is included in Note 2 - *Summary of Significant Accounting Policies* to the consolidated financial statements included in our 2018 Form 10-K. The premium receivable balance at September 30, 2019 is primarily related to Medicaid contracts with our state partners of approximately $1.2 billion, as well as net risk-adjusted premiums receivable under our MA and PDP contracts of approximately $186.7 million.

Medicaid Risk-Adjusted Premiums and Retroactive Rate Changes

As discussed further in Note 2 - *Summary of Significant Accounting Policies* to the consolidated financial statements included in our 2018 Form 10-K, Medicaid premium rate changes are recognized in the period the change becomes effective, when the effect of the change in the rate is reasonably estimable and collection is assured. In some instances, our Medicaid premiums are subject to risk score adjustments based on the health profile of our membership. Generally, the risk score is determined by the state agency's analysis of encounter submissions of processed claims data to determine the acuity of our membership relative to the entire state's Medicaid membership. The frequency of when states adjust premiums varies, but is usually done quarterly or semi-annually on a retrospective basis. We recognize periodic changes to risk-adjusted premiums as revenue when the amounts are determinable and collection is reasonably assured. Premiums receivable in our condensed consolidated balance sheets include net risk-adjusted premiums receivable from our Medicaid state partners related to retroactive rate changes and risk score adjustments of $277.9 million and $54.4 million as of September 30, 2019 and December 31, 2018, respectively.

Medicare Part D Settlements

We receive certain Part D prospective subsidy payments from the Centers for Medicare & Medicaid Services ("CMS") for our MA and PDP members as a fixed monthly per member amount, based on the estimated costs of providing prescription drug benefits over the plan year, as reflected in our bids. A discussion of the subsidy components under Part D is included in Note 2 - *Summary of Significant Accounting Policies* to the consolidated financial statements included in our 2018 Form 10-K. CMS will fully reimburse these subsidies, or recoup overpaid subsidies made during the plan year, as part of its annual settlement process that typically occurs in the fourth quarter of the subsequent year and, accordingly, there is no insurance risk to us. Therefore, amounts received for these subsidies are not considered premium revenue, and are reported, net of the subsidy benefits paid, as funds receivable (payable) for the benefit of members in the condensed consolidated balance sheets. As of December 31, 2018, our condensed consolidated balance sheet primarily includes CMS Part D payables for the 2018 plan year. Our condensed consolidated balance sheet as of September 30, 2019 primarily includes a payable for the 2019 and 2018 plan years. We expect to settle a majority of the 2018 net payable during the remainder of 2019.

ACA Industry Fee

The ACA imposed certain new taxes and fees, including an annual premium-based health insurance industry assessment (the "ACA industry fee") on health insurers, which began in 2014. In January 2018, Congress approved a one-year moratorium of the ACA industry fee for 2019, which also eliminated the Medicaid ACA industry fee reimbursement from our state government partners for 2019. Accordingly, we did not incur ACA industry fee expense nor recognize any Medicaid ACA industry fee reimbursement revenue for the three and nine months ended September 30, 2019. We incurred $86.5 million and $247.0 million for the ACA industry fee for the three and nine months ended September 30, 2018, respectively. Additionally, we recognized $71.5 million and $199.0 million of Medicaid ACA industry fee reimbursement revenue as premium revenue for the three and nine months ended September 30, 2018, respectively. During September 2018, we remitted a total of $388.5 million to the Internal Revenue Service ("IRS") for our portion of the ACA Industry fee assessed for 2018, including $66.5 million remitted for the recently acquired Meridian business.

Recently Adopted Accounting Standards

In June 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") 2018-07, "*Compensation-Stock Compensation (Topic 718) - Improvements to Nonemployee Share-Based Payment Accounting*." This update expands the scope of Topic 718, which currently only includes share-based payments issued to employees, to include share-based payments issued to non-employees for goods and services. This guidance was effective for interim and annual periods beginning after December 15, 2018. We adopted this guidance on January 1, 2019. The adoption of this guidance did not have a material effect on our consolidated results of operations, financial condition or cash flows.

In February 2018, the FASB issued ASU 2018-02 "*Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*", which allows entities to reclassify stranded tax effects resulting from the Tax Cuts and Jobs Act of 2017 from accumulated other comprehensive income to retained earnings. The guidance is effective for interim and annual periods beginning after December 15, 2018. We adopted this guidance prospectively on January 1, 2019. The adoption of this guidance did not have a material effect on our consolidated results of operations, financial condition or cash flows.

In March 2017, the FASB issued ASU No. 2017-08, "*Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities*". This update shortens the amortization period for the premium on certain purchased callable debt securities to the earliest call date. Previously, entities generally amortize the premium as a yield adjustment over the contractual life of the security. The new guidance does not change the accounting for purchased callable debt securities held at a discount. This guidance is effective for interim and annual periods beginning after December 15, 2018. We adopted this guidance on January 1, 2019 on a modified retrospective basis. The adoption of this guidance did not have a material effect on our consolidated results of operations, financial condition or cash flows.

In February 2016, the FASB issued ASU 2016-02, "*Leases (Topic 842)*", which for operating leases, requires a lessee to recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments in its balance sheet. This standard also requires a lessee to recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term, on a generally straight-line basis. Subsequently, in July 2018, the FASB issued ASU 2018-11, "*Leases (Topic 842), Targeted Improvements*" which, among other things, allows companies to elect an optional transition method to apply the new lease standard through a cumulative-effect adjustment, if any, in the period of adoption, rather than in the earliest period presented. We adopted the standard on January 1, 2019 using the optional transition method. We elected the practical expedients permitted under the transition guidance, which allows us to carryforward our historical lease classifications for existing leases. Additionally, we elected the practical expedient to not separate non-lease components from the associated lease component. As part of the adoption process, we implemented a new lease accounting system. The adoption of this guidance resulted in the initial recognition of operating lease right-of-use assets of approximately $259.5 million, operating lease liabilities of approximately $277.3 million and the elimination of $17.8 million of straight-line lease liabilities, as of January 1, 2019. This guidance did not have a material effect on our consolidated results of operations or cash flows.

Accounting Standards Pending Adoption

In August 2018, the FASB issued ASU 2018-15, "*Intangibles-Goodwill and Other-Internal-Use Software: Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract",* which requires implementation costs incurred by customers in cloud computing arrangements (i.e., hosting arrangements) to be capitalized under the same premises of authoritative guidance for internal-use software, and deferred over the noncancellable term of the cloud computing arrangements plus any option renewal periods that are reasonably certain to be exercised by the customer or for which the exercise is controlled by the service provider. The guidance is effective for interim and annual periods beginning after December 15, 2019, with early adoption permitted. We are currently assessing the effect this guidance will have on our consolidated results of operations, financial condition or cash flows.

In June 2016, the FASB issued ASU 2016-13, "*Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*," which requires entities to use a current expected credit loss model, which is a new impairment model based on expected losses rather than incurred losses. Under this model, an entity would recognize an impairment allowance equal to its current estimate of all contractual cash flows that the entity does not expect to collect from financial assets measured at amortized cost. The entity's estimate would consider relevant information about past events, current conditions, and reasonable and supportable forecasts, which will result in recognition of lifetime expected credit losses upon loan origination. ASU 2016-13 is effective for interim and annual reporting periods beginning after December 15, 2019, with early adoption permitted for annual reporting periods beginning after December 15, 2018. We are currently assessing the effect this guidance will have on our consolidated results of operations, financial condition or cash flows.

2. CENTENE PLAN OF MERGER, PROPOSED DIVESTITURES AND COMPLETED ACQUISITIONS

Centene Plan of Merger

On March 26, 2019, we entered into an Agreement and Plan of Merger (the “Merger Agreement”) with Centene Corporation ("Centene") under which Centene will acquire us for a combination of cash and stock (the "Centene Transaction"). Under the terms of the Merger Agreement, our shareholders will receive $120.00 in cash and 3.38 shares of Centene common stock for each share of our common stock. On June 24, 2019, stockholders of both companies approved all proposals regarding the Centene Transaction. Completion of the Centene Transaction remains subject to the receipt of U.S. federal antitrust clearance and certain other required regulatory approvals. The Centene Transaction is expected to close in the first half of 2020.

The Merger Agreement includes restrictions on the conduct of our business prior to completion of the Centene Transaction or termination of the Merger Agreement, generally requiring us to conduct our business in the ordinary course. However, we are subject to various specified restrictions unless we obtain Centene’s prior written consent, which may not be unreasonably withheld, delayed or conditioned, or expressly contemplated or permitted by the Merger Agreement or as required by applicable law. Among other things and in each case subject to certain exceptions, we may not:

- incur additional indebtedness (excluding borrowings under our Revolving Credit Facility (as defined below) that are used to manage our ordinary course cash flow needs);
- issue additional shares of our common stock, repurchase our common stock, or pay dividends;
- acquire assets, securities or property, dispose of businesses or assets; or
- authorize any payment of, accrual or commitment for capital expenditures in any calendar year that would exceed by more than 110% the aggregate amount of capital expenditures budgeted for such year.

Proposed Divestitures

On September 26, 2019, in connection with the previously announced Centene Transaction, we entered into a definitive agreement with Anthem, Inc. ("Anthem") under which Anthem will acquire our Missouri and Nebraska health plans. The closing of the transaction with Anthem is subject to U.S. federal antitrust clearance, receipt of state regulatory approvals and certain other customary closing conditions, as well as the closing of the Centene Transaction. The sale price is not material and the transaction is not expected to have a material effect on our consolidated results of operations, financial condition or cash flows.

Aetna Medicare Part D Asset Acquisition

As discussed in Note 1 - *Organization, Basis of Presentation and Significant Accounting Policies* of this 2019 Form 10-Q, we completed the purchase of Aetna's Part D membership for total cash consideration of $115.8 million, including subsequent purchase price adjustments. These membership assets are recorded within other intangible assets, net in the condensed consolidated balance sheets as of September 30, 2019 and December 31, 2018, and have a weighted-average useful life of eight years beginning in 2020. Per the terms of the agreement, Aetna provides administrative services to, and retains financial risk of, the Aetna Part D membership through 2019. Therefore, the Aetna Part D membership is excluded from our membership and has had, or is expected to have, an immaterial effect on our results of operations until January 1, 2020.

Meridian Business Acquisition

On September 1, 2018 (the "Effective Date"), we acquired Meridian for an estimated purchase price of approximately $2.5 billion in cash, subject to certain purchase price adjustments, as described in the purchase agreement. The Meridian acquisition was funded through a combination of cash on hand, our Revolving Credit Facility, net proceeds from the August 2018 issuance of our 5.375% of Senior Notes due 2026 ("2026 Notes") and net proceeds from an issuance of shares of our common stock. We included the results of Meridian's operations since the Effective Date in our condensed consolidated financial statements.

The following table summarizes the final fair values of major classes of assets acquired and liabilities assumed at the Effective Date, based on our valuation assumptions, reconciled to the total consideration transferred.

Assets		(in millions)
Cash, cash equivalents and restricted cash	$	484.4
Investments, including restricted investments		180.4
Premiums receivable, net		379.6
Other current assets		139.2
Property, equipment and capitalized software, net		49.3
Goodwill		1,598.2
Other intangible assets, net		543.5
Fair value of total assets acquired	$	3,374.6
Liabilities		
Medical benefits payable	$	534.3
ACA Fee liability		66.5
Other liabilities		253.7
Fair value of liabilities assumed		854.5
Fair value of net assets acquired	$	2,520.1

The fair value results from judgments about future events, which reflect certain uncertainties and rely on estimates and assumptions. The judgments used to determine the fair value assigned to each class of assets acquired and liabilities assumed, as well as intangible asset lives, can materially affect our operating results. As of the Effective Date, the expected fair value of all current assets and liabilities approximated their historical cost. For certain noncurrent assets and liabilities, we have made fair value adjustments based on information reviewed through the end of the measurement period.

Identifiable intangible assets acquired

As disclosed at December 31, 2018, under the Hart-Scott-Rodino Antitrust Improvements Act and other relevant laws and regulations, there were significant limitations on our ability to obtain specific information about Meridian's intangible assets prior to completion of the acquisition in September 2018. As a result, certain assumptions inherent in the development of intangible asset fair values were preliminary as of December 31, 2018.

During the nine months ended September 30, 2019, we received updated information regarding facts and circumstances which existed as of the Effective Date that affected certain assumptions utilized in the preliminary purchase price valuation. As a result, we recorded measurement period adjustments, which reduced total identifiable intangible assets and deferred tax liabilities by $50.5 million and $22.9 million, respectively, during the nine months ended September 30, 2019. These two items and certain working capital adjustments as of the Effective Date, resulted in a net increase to goodwill. The effect to our statement of operations was immaterial for all periods presented.

As of September 30, 2019, our final allocation of the Meridian purchase price to identifiable intangible assets acquired reflects our final assumptions of membership attrition rates, discount rates selected to measure the risks inherent in the future cash flows and working capital adjustments.

The following table summarizes the final fair values and weighted average useful lives for identifiable intangible assets acquired in the Meridian acquisition as of the Effective Date of the acquisition.

	Gross Fair Value (in millions)		**Weighted Average Useful Life (in years)**
Membership	$	326.8	8.2
Tradenames		113.8	4.9
Provider network		8.3	15.0
Technology and other		94.6	5.8
Total	$	543.5	7.2

Goodwill

We recorded $1.6 billion for the valuation of goodwill for the excess of the purchase price over the estimated fair value of the net assets acquired and primarily represents synergies expected from the acquisition and the assembled workforce. The recorded goodwill related to the acquisition is deductible for tax purposes.

Deferred taxes

The Meridian acquisition included taxable and nontaxable components resulting in differences in amounts recognized for GAAP and tax purposes. In both taxable and nontaxable business combinations, the amounts assigned to the individual assets acquired and liabilities assumed for financial statement purposes are often different from the amounts assigned or carried forward for tax purposes. We recorded a $23.6 million deferred tax liability based on the estimated bases differences.

Goodwill

A summary of changes in our goodwill, including the allocation of Meridian goodwill, by reportable segment is as follows for the nine months ended September 30, 2019:

	Medicaid Health Plans	Medicare Health Plans	Corporate and Other	Not Assigned	Total
Balance as of December 31, 2018	$ 274.7	$ 392.3	$ —	$ 1,560.7	$ 2,227.7
Acquisition related adjustments	1,416.3	119.0	62.9	(1,560.7)	37.5
Balance as of September 30, 2019	$ 1,691.0	$ 511.3	$ 62.9	$ —	$ 2,265.2

Unaudited Pro Forma Financial Information

The results of operations and financial condition for the Meridian acquisition have been included in our condensed consolidated financial statements since the Effective Date. The unaudited pro forma financial information presented below reflects our 2018 acquisition of Meridian, assuming the acquisition occurred as of January 1, 2018. Pro forma results are not provided for the three and nine months ended September 30, 2019, as Meridian's operations were included in our results of operations for this time period.

These pro forma results are based on estimates and assumptions and do not reflect any anticipated synergies, efficiencies or other cost savings that we expect to realize from the acquisition. The following unaudited pro forma results have been prepared for comparative purposes only and do not purport to be indicative of the results of operations that would have occurred had the acquisition actually consummated at January 1, 2018, or project the future results of the combined company.

	Pro Forma - Unaudited	
(in millions, except per share data)	**Three Months Ended September 30, 2018**	**Nine Months Ended September 30, 2018**
Total revenues	$ 5,869.8	$ 17,337.8
Net income	$ 106.9	$ 355.2
Earnings per common share:		
Basic	$ 2.14	$ 7.12
Diluted	$ 2.11	$ 7.03
Weighted average common shares outstanding:		
Basic	49,976,863	49,949,219
Diluted	50,648,578	50,514,031

The pro forma results presented in the schedule above include adjustments related to the following purchase accounting and other acquisition-related costs:

- Elimination of historical intangible asset amortization expense and addition of amortization expense based on the current preliminary values of identified intangible assets;
- Elimination of interest expense associated with retired obligations and addition of interest expense based on debt incurred to finance the Meridian transaction;
- Elimination of results for Meridian operations not acquired;
- Elimination of transaction and integration-related costs;
- Include 5,207,547 shares of our common stock issued to finance the Meridian transaction;
- Adjustments to align the acquisition to our accounting policies; and
- Tax effects of the adjustments noted above.

3. SEGMENT REPORTING

On a regular basis, we evaluate discrete financial information and assess the performance of our three reportable segments Medicaid Health Plans, Medicare Health Plans and Medicare PDPs, to determine the most appropriate use and allocation of Company resources.

We allocate premium revenue, medical benefits expense, Medicaid premium taxes, the 2018 ACA industry fee and goodwill to our reportable segments. We do not allocate to our reportable segments any other assets and liabilities, investment and other income, selling, general and administrative expenses ("SG&A"), depreciation and amortization, or interest expense. The Company's decision-makers primarily use premium revenue, medical benefits expense and gross margin to evaluate the performance of our reportable segments.

Our Corporate and Other category includes net investment and other income, SG&A expenses, depreciation, amortization and interest. Also included in this category are results for operating segments that are not individually reportable because they do not meet the quantitative thresholds required by generally accepted accounting principles.

Medicaid Health Plans

Our Medicaid Health Plans segment includes plans for beneficiaries of Temporary Assistance for Needy Families ("TANF"), Supplemental Security Income ("SSI"), Aged Blind and Disabled ("ABD"), Children's Health Insurance Program ("CHIP") and Long-Term Services and Supports ("LTSS") programs, among others. TANF generally provides assistance to low-income families with children. ABD and SSI generally provide assistance to low-income aged, blind or disabled individuals. CHIP provides assistance to qualifying families who are not eligible for Medicaid because their income exceeds the applicable income thresholds. The LTSS program is designed to help people with chronic illnesses or who have disabilities and need health and long-term care services, such as home care or adult day care, to enable them to stay in their homes and communities as long as possible.

Our Medicaid operations in Florida, Illinois and Kentucky individually account for 10% or more of our consolidated premium revenue for the three and nine months ended September 30, 2019. These states and the respective Medicaid premium revenue as a percentage of total consolidated premium revenue are as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2019	2018	2019	2018
Florida	20%	13%	19%	13%
Illinois	13%	*	13%	*
Kentucky	10%	13%	10%	14%

*Our Illinois Medicaid health plan accounted for less than 10% of our consolidated premium revenue for the three and nine months ended September 30, 2018.

On February 1, 2019, we began providing statewide-managed care services to children with medically complex conditions through the Children's Medical Services Managed Care Plan ("CMS Plan") contract from the Florida Department of Health. On December 1, 2018, we began providing managed care services to Medicaid-eligible beneficiaries, including Managed Medical Assistance and Long-Term Care beneficiaries in 10 of 11 regions in Florida through a new five-year contract. As part of the

Medicaid Managed Care program, we are one of two managed care plans providing statewide-managed care services to beneficiaries in the Serious Mental Illness Specialty Plan.

Medicare Health Plans

Medicare is a federal program that provides eligible persons age 65 and over and some disabled persons with a variety of hospital, medical and prescription drug benefits. MA is Medicare's managed care alternative to the original Medicare program, which provides individuals standard Medicare benefits directly through CMS. Our MA CCPs generally require members to seek health care services and select a primary care physician from a network of health care providers. In addition, we offer coverage of prescription drug benefits under the Medicare Part D program as a component of most of our MA plans.

Medicare PDPs

We offer stand-alone Medicare Part D coverage to Medicare-eligible beneficiaries in our Medicare PDPs segment. The Medicare Part D prescription drug benefit is supported by risk sharing with the federal government through risk corridors designed to limit the losses and gains of the participating drug plans and by reinsurance for catastrophic drug costs. The government subsidy is based on the national weighted average monthly bid for this coverage, adjusted for risk factor payments. Additional subsidies are provided for dually-eligible beneficiaries and specified low-income beneficiaries. The Part D program offers national in-network prescription drug coverage that is subject to limitations in certain circumstances.

Summary of Financial Information

Reportable operating segments are defined as components of an enterprise for which discrete financial information is available and evaluated on a regular basis by the enterprise's decision-makers to determine how resources should be allocated to an individual segment and to assess performance of those segments. Accordingly, we have three reportable segments: Medicaid Health Plans, Medicare Health Plans and Medicare PDPs.

A summary of financial information for our reportable segments through the gross margin level and reconciliation to income from operations is presented in the table below.

	Medicaid Health Plan	Medicare Health Plan	Medicare PDP	Corporate & Other	Consolidated
For the Three Months Ended September 30, 2019			(in millions)		
Premium	$ 4,877.5	$ 1,841.4	$ 241.2	$ 5.5	$ 6,965.6
Products and services	—	—	—	132.1	132.1
Total premium and products and services revenues	4,877.5	1,841.4	241.2	137.6	7,097.7
Medical benefits	4,308.7	1,533.5	182.7	0.8	6,025.7
Costs of products and services	—	—	—	128.9	128.9
ACA industry fee	—	—	—	—	—
Medicaid premium taxes	35.6	—	—	—	35.6
Total gross margin expenses	4,344.3	1,533.5	182.7	129.7	6,190.2
Gross margin	533.2	307.9	58.5	7.9	907.5
Investment and other income	—	—	—	42.5	42.5
Other expenses	—	—	—	(656.7)	(656.7)
Income from operations	$ 533.2	$ 307.9	$ 58.5	$ (606.3)	$ 293.3
For the Three Months Ended September 30, 2018					
Premium	$ 3,223.3	$ 1,582.0	$ 182.3	$ 1.2	$ 4,988.8
Products and services	—	—	—	34.6	34.6
Total premium and products and services revenues	3,223.3	1,582.0	182.3	35.8	5,023.4
Medical benefits	2,738.1	1,340.8	115.1	1.0	4,195.0
Costs of products and services	—	—	—	33.5	33.5
ACA industry fee	54.4	27.5	4.6	—	86.5
Medicaid premium taxes	31.5	—	—	—	31.5
Total gross margin expenses	2,824.0	1,368.3	119.7	34.5	4,346.5
Gross margin	399.3	213.7	62.6	1.3	676.9
Investment and other income	—	—	—	34.7	34.7
Other expenses	—	—	—	(503.0)	(503.0)
Income from operations	$ 399.3	$ 213.7	$ 62.6	$ (467.0)	$ 208.6

	Medicaid Health Plan	Medicare Health Plan	Medicare PDP	Corporate & Other	Consolidated
For the Nine Months Ended September 30, 2019			(in millions)		
Premium	$ 14,055.8	$ 5,557.3	$ 789.3	$ 14.8	$ 20,417.2
Products and services	—	—	—	374.6	374.6
Total premium and products and services revenues	14,055.8	5,557.3	789.3	389.4	20,791.8
Medical benefits	12,599.5	4,627.2	651.7	6.1	17,884.5
Costs of products and services	—	—	—	363.9	363.9
ACA industry fee	—	—	—	—	—
Medicaid premium taxes	99.0	—	—	—	99.0
Total gross margin expenses	12,698.5	4,627.2	651.7	370.0	18,347.4
Gross margin	1,357.3	930.1	137.6	19.4	2,444.4
Investment and other income	—	—	—	120.7	120.7
Other expenses	—	—	—	(1,845.6)	(1,845.6)
Income from operations	$ 1,357.3	$ 930.1	$ 137.6	$ (1,705.5)	$ 719.5
For the Nine Months Ended September 30, 2018					
Premium	$ 8,899.4	$ 4,684.9	$ 642.2	$ 1.2	$ 14,227.7
Products and services	—	—	—	34.6	34.6
Total premium and products and services revenues	8,899.4	4,684.9	642.2	35.8	14,262.3
Medical benefits	7,601.1	3,929.8	491.1	1.0	12,023.0
Costs of products and services	—	—	—	33.5	33.5
ACA industry fee	151.5	81.8	13.7	—	247.0
Medicaid premium taxes	94.2	—	—	—	94.2
Total gross margin expenses	7,846.8	4,011.6	504.8	34.5	12,397.7
Gross margin	1,052.6	673.3	137.4	1.3	1,864.6
Investment and other income	—	—	—	81.0	81.0
Other expenses	—	—	—	(1,341.9)	(1,341.9)
Income from operations	$ 1,052.6	$ 673.3	$ 137.4	$ (1,259.6)	$ 603.7

4. EQUITY AND EARNINGS PER SHARE

Issuance of Common Stock

In August 2018, we completed a public offering of our common stock and issued 5,207,547 shares of our common stock, at an offering price of $265.00 per share. The net proceeds from the offering were approximately $1.3 billion, after deducting underwriting discounts and offering costs of approximately $37.7 million. We used the net proceeds to fund a portion of the acquisition of Meridian.

Earnings per Common Share

We compute basic earnings per common share on the basis of the weighted-average number of unrestricted common shares outstanding. We compute diluted earnings per common share on the basis of the weighted-average number of unrestricted common shares outstanding plus the dilutive effect of our stock-based compensation awards using the treasury stock method.

The calculation of the weighted-average common shares outstanding — diluted is as follows:

	For the Three Months Ended	For the Nine Months Ended

	September 30,		September 30,	
	2019	2018	2019	2018
Weighted-average common shares outstanding — basic	50,313,901	47,712,712	50,240,480	45,692,804
Dilutive effect of outstanding stock-based compensation awards	532,501	671,715	593,024	594,812
Weighted-average common shares outstanding — diluted	50,846,402	48,384,427	50,833,504	46,287,616
Anti-dilutive stock-based compensation awards excluded from computation	121,960	136,428	104,439	184,964

5. INVESTMENTS

The Company considers all of its investments as available-for-sale securities. Excluding restricted cash, cash equivalents and investments, the amortized cost, gross unrealized gains or losses and estimated fair value of short-term and long-term investments by security type are summarized in the following tables.

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
September 30, 2019				
Debt securities:				
Asset-backed securities	$ 367.5	$ 1.3	$ (0.1)	$ 368.7
Corporate debt securities	1,516.1	11.5	(1.3)	1,526.3
Municipal securities	154.6	3.2	(0.1)	157.7
Residential mortgage-backed securities	307.2	1.0	(0.4)	307.8
Short-term time deposits	137.2	—	—	137.2
Government and agency obligations	26.4	—	—	26.4
Other securities	149.2	0.8	(0.3)	149.7
Total debt securities	2,658.2	17.8	(2.2)	2,673.8
Equity securities[(1)]	468.5	—	—	468.5
Total	$ 3,126.7	$ 17.8	$ (2.2)	$ 3,142.3
December 31, 2018				
Asset-backed securities	$ 144.7	$ —	$ (0.5)	$ 144.2
Corporate debt securities	943.0	0.5	(10.1)	933.4
Municipal securities	199.6	0.6	(0.9)	199.3
Residential mortgage-backed securities	7.2	—	(0.2)	7.0
Short-term time deposits	242.2	—	—	242.2
Government and agency obligations	44.9	—	(0.1)	44.8
Other securities	72.5	—	(0.1)	72.4
Total[(1)]	$ 1,654.1	$ 1.1	$ (11.9)	$ 1,643.3

(1) Investments in equity securities primarily consists of exchange traded funds in fixed income and preferred and hybrid securities. Equity securities were not material as of December 31, 2018.

As of September 30, 2019, approximately 97% of our investments consist of investment-grade debt securities. These investment-grade securities have a weighted average credit rating of A+ as designated by a nationally recognized statistical rating organization. The below investment-grade debt securities have a weighted average credit rating of BB (the higher end of the below investment-grade rating scale).

Contractual maturities of debt securities at September 30, 2019 are as follows:

	Amortized Cost	Fair Value
Due in one year or less	$ 952.4	$ 953.2
Due after one year through five years	676.7	682.6
Due after five years through ten years	221.4	227.8
Due after ten years	26.6	26.8
Asset-backed and mortgage-backed securities	781.1	783.4
Total	$ 2,658.2	$ 2,673.8

Actual maturities may differ from contractual maturities due to the exercise of pre-payment options.

We sold available-for-sale investments totaling $1.4 billion and $252.4 million during the three months ended September 30, 2019 and 2018, respectively, and $2.8 billion and $471.2 million during the nine months ended September 30, 2019 and 2018, respectively. Realized gains and losses resulting from sales and redemptions of our available-for-sale investments were immaterial for all periods presented. Additionally, we did not realize any other-than-temporary impairment during any of these periods.

6. RESTRICTED CASH, CASH EQUIVALENTS AND INVESTMENTS

As a condition for licensure, we are required to maintain certain funds on deposit or pledged to various state agencies. Certain of our state contracts require the issuance of surety bonds. We classify restricted cash, cash equivalents and investments as long-term regardless of the contractual maturity date of the securities held, due to the nature of the states' requirements. The amortized cost, gross unrealized gains, gross unrealized losses and fair value of our restricted cash, cash equivalents and investment securities are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
September 30, 2019				
Cash	$ 4.7	$ —	$ —	$ 4.7
Money market funds	121.6	—	—	121.6
U.S. government securities and other	191.6	—	—	191.6
Total	$ 317.9	$ —	$ —	$ 317.9
December 31, 2018				
Cash	$ 11.3	$ —	$ —	$ 11.3
Money market funds	51.4	—	—	51.4
U.S. government securities and other	172.5	—	(0.5)	172.0
Total	$ 235.2	$ —	$ (0.5)	$ 234.7

Realized gains and losses on sales and redemptions of our restricted cash, cash equivalents and investments were not material for the three and nine months ended September 30, 2019 and 2018.

7. STOCK-BASED COMPENSATION

Certain of our employees, including executive officers, are eligible for long-term incentive awards ("LTI Program"), consisting of equity awards granted pursuant to the WellCare Health Plans, Inc. 2013 Incentive Compensation Plan (the "2013 Plan") and the WellCare Health Plans, Inc. 2019 Incentive Compensation Plan (the "2019 Plan"). During the second quarter of 2019, our stockholders approved the 2019 Plan. Upon approval of the 2019 Plan, approximately 1,600,000 shares of our common stock were available for issuance pursuant to the 2019 Plan. In addition, shares subject to awards forfeited, terminated or expired under the 2013 Plan will become available for issuance under the 2019 Plan. No further awards are permitted to be granted under our 2013 Plan.

We designed the LTI Program to motivate and promote the achievement of our long-term financial and operating goals and improve retention. Under the LTI Program, we grant multi-year performance period awards and time-based awards. The award amounts and allocation amongst the different types of awards are based on job level. The Compensation Committee of our board of directors (the "Compensation Committee") evaluates our results with respect to the pre-established performance criteria and determines the ultimate payout amount of the performance stock units.

Our Compensation Committee awards certain equity-based compensation under our stock plans, including restricted stock units ("RSUs") and performance stock units ("PSUs"). Compensation expense related to our stock-based compensation awards was $17.1 million and $21.4 million for the three months ended September 30, 2019 and 2018, respectively, and $58.9 million and $51.5 million for the nine months ended September 30, 2019 and 2018, respectively. As of September 30, 2019, there was $89.4 million of unrecognized compensation cost related to unvested stock-based compensation arrangements that is expected to be recognized over a weighted-average period of 1.7 years. The unrecognized compensation cost for certain of our PSUs, which are subject to variable accounting, was determined based on our closing common stock price of $259.17 as of September 30, 2019 and amounted to approximately $23.7 million of the total unrecognized compensation cost. Due to the nature of the accounting for these awards, future compensation cost will fluctuate based on changes in our common stock price. We estimate stock-based compensation expense based on awards ultimately expected to vest over the related service period (generally the vesting period) of the award, or to an employee's eligible retirement date under the award agreement, if earlier. We make assumptions of forfeiture rates at the time of grant and continuously reassess our assumptions based on actual forfeiture experience.

A summary of RSU and PSU award activity, at target, for the nine months ended September 30, 2019, is presented in the table below. For our PSUs, shares attained over target upon vesting are reflected as awards granted during the period, while shares canceled due to vesting below target are reflected as awards forfeited during the period.

	RSUs	PSUs	Total
Outstanding as of January 1, 2019	253,235	606,708	859,943
Granted	113,276	352,683	465,959
Vested	(126,103)	(360,344)	(486,447)
Forfeited	(13,959)	(32,096)	(46,055)
Outstanding as of September 30, 2019	226,449	566,951	793,400

The weighted-average grant-date fair value of all equity awards granted during the nine months ended September 30, 2019 was $308.55.

Refer to Note 2 - *Summary of Significant Accounting Policies* and Note 15 - *Stock-based Compensation* to the consolidated financial statements included in our 2018 Form 10-K for additional information regarding our equity-compensation awards and related compensation cost measurement.

8. DEBT

The following table summarizes our outstanding debt obligations and their classification in the accompanying condensed consolidated balance sheets (in millions):

	September 30, 2019	December 31, 2018
Long-term debt, net:		
5.25% Senior Notes, due April 1, 2025	$ 1,200.0	$ 1,200.0
5.375% Senior Notes, due August 15, 2026	750.0	750.0
Revolving Credit Facility	100.0	200.0
Debt issuance costs	(20.9)	(23.6)
Total long-term debt, net	$ 2,029.1	$ 2,126.4

Senior Notes

In August 2018, we completed the offering and sale of 5.375% unsecured senior notes due 2026 in the aggregate principal amount of $750.0 million (the "2026 Notes"). The aggregate net proceeds from the issuance of the 2026 Notes were used to fund a portion of the cash consideration for our acquisition of Meridian.

In March 2017, we completed the offering and sale of 5.25% unsecured senior notes due 2025 in the aggregate principal amount of $1,200.0 million (the “2025 Notes”). The aggregate net proceeds from the issuance of the 2025 Notes were primarily used to redeem the full $900.0 million aggregate principal amount of our 5.75% unsecured senior notes (the "2020 Notes") on April 7, 2017, and for general corporate purposes, including organic growth and working capital.

The 2026 Notes and 2025 Notes are classified as long-term debt in our condensed consolidated balance sheet at September 30, 2019, based on their maturity date. Refer to Note 10 - *Debt* to the consolidated financial statements included in our 2018 Form 10-K for additional information regarding these 2026 Notes and 2025 Notes, including applicable covenants.

Revolving Credit Facility

In January 2016, we entered into a credit agreement, which provided for a senior unsecured revolving loan facility (the "Revolving Credit Facility"). In July 2018, this credit agreement was amended and restated (“Amended and Restated Credit Agreement”) to increase the aggregate principle amount available under our Revolving Credit Facility from $1.0 billion to $1.3 billion, extend the maturity date for borrowings under the Revolving Credit Facility from January 2021 to July 2023 and decrease the applicable margins for borrowings under the Revolving Credit Facility, as calculated in accordance with the Amended and Restated Credit Agreement. The Amended and Restated Credit Agreement also includes an accordion feature which allows the Company to increase the total commitments under the Revolving Credit Facility by up to an additional $500 million, subject to certain conditions.

Unutilized commitments under the Amended and Restated Credit Agreement are subject to a fee of 0.20% to 0.30% depending upon our ratio of total debt to consolidated EBITDA, as calculated in accordance with the Amended and Restated Credit Agreement.

During the nine months ended September 30, 2019, we made net repayments of $100.0 million on the outstanding balance under our Revolving Credit Facility, and as a result, there was $100.0 million outstanding as of September 30, 2019. These borrowings are classified as long-term debt in accordance with the contractual terms of the Amended and Restated Credit Agreement.

As of September 30, 2019, and the date of this filing, we were in compliance with all covenants under the 2026 Notes, the 2025 Notes and the Amended and Restated Credit Agreement.

9. FAIR VALUE MEASUREMENTS

Our condensed consolidated balance sheets include the following financial instruments: cash and cash equivalents, investments, receivables, accounts payable, medical benefits payable, long-term debt, including any current portion of long-term debt, and other liabilities. We consider the carrying amounts of cash and cash equivalents, receivables, other current assets and current liabilities to approximate their fair value due to the short period of time between the origination of these instruments and the expected realization or payment. Certain assets and liabilities are measured at fair value on a recurring basis and are disclosed below. These assets and liabilities are classified into one of three levels of a hierarchy defined by GAAP. For a description of the methods and assumptions that are used to estimate the fair value and determine the fair value hierarchy classification of each class of financial instrument, see the consolidated financial statements and notes thereto included in our 2018 Form 10-K.

Recurring Fair Value Measurements

Assets and liabilities measured at fair value on a recurring basis at September 30, 2019 are as follows:

		Fair Value Measurements Using		
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments:				
Debt securities:				
Asset-backed securities	$ 368.7	$ —	$ 368.7	$ —
Corporate debt securities	1,526.3	—	1,526.3	—
Municipal securities	157.7	—	157.7	—
Residential mortgage-backed securities	307.8	—	307.8	—
Short-term time deposits	137.2	—	137.2	—
Government and agency obligations	26.4	26.4	—	—
Other securities	149.7	42.9	106.8	—
Total debt securities	2,673.8	69.3	2,604.5	—
Equity securities[(1)]	468.5	466.4	2.1	—
Total investments	$ 3,142.3	$ 535.7	$ 2,606.6	$ —
Restricted cash, cash equivalents and investments:				
Cash	$ 4.7	$ 4.7	$ —	$ —
Money market funds	121.6	121.6	—	—
U.S. government securities and other	191.6	191.4	0.2	—
Total restricted cash, cash equivalents and investments	$ 317.9	$ 317.7	$ 0.2	$ —

(1) Investments in equity securities primarily consists of exchange traded funds in fixed-income and preferred and hybrid securities.

Assets and liabilities measured at fair value on a recurring basis at December 31, 2018 are as follows:

	Carrying Value	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments:				
Asset-backed securities	$ 144.2	$ —	$ 144.2	$ —
Corporate debt securities	933.4	—	933.4	—
Municipal securities	199.3	—	199.3	—
Residential mortgage-backed securities	7.0	—	7.0	—
Short-term time deposits	242.2	—	242.2	—
Government and agency obligations	44.8	44.8	—	—
Other securities	72.4	49.8	22.6	—
Total Investments[1]	$ 1,643.3	$ 94.6	$ 1,548.7	$ —
Restricted cash, cash equivalents and investments:				
Cash	$ 11.3	$ 11.3	$ —	$ —
Money market funds	51.4	51.4	—	—
U.S. government securities and other	172.0	171.8	0.2	—
Total restricted cash, cash equivalents and investments	$ 234.7	$ 234.5	$ 0.2	$ —

(1) Equity securities were not material as of December 31, 2018.

The following table presents the carrying value and fair value of our long-term debt outstanding as of September 30, 2019 and December 31, 2018:

	Carrying Value	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Long-term debt - September 30, 2019	2,029.1	2,054.4	100.0	—
Long-term debt - December 31, 2018	2,126.4	1,885.2	200.0	—

The fair value of our 2026 Notes and 2025 Notes were determined based on quoted market prices; therefore, would be classified within Level 1 of the fair value hierarchy. The fair value of obligations outstanding under our Revolving Credit Facility, as of September 30, 2019 and December 31, 2018, approximated the carrying value and would be classified within Level 2 of the fair value hierarchy.

10. MEDICAL BENEFITS PAYABLE

A reconciliation of the beginning and ending balances of medical benefits payable, by segment, is as follows:

	For the Nine Months Ended September 30, 2019				
	Medicaid Health Plans	Medicare Health Plans	Medicare PDPs	Corporate and Other [2]	Consolidated
Beginning balance [1]	$ 2,012.8	$ 823.5	$ 59.1	$ 2.0	$ 2,897.4
Acquisitions	—	—	—	—	—
Medical benefits incurred related to:					
Current year	12,885.1	4,732.1	700.2	7.2	18,324.6
Prior years	(285.6)	(104.9)	(48.5)	(1.1)	(440.1)
Total	12,599.5	4,627.2	651.7	6.1	17,884.5
Medical benefits paid related to:					
Current year	(10,936.0)	(3,858.4)	(628.4)	(5.5)	(15,428.3)
Prior years	(1,384.3)	(600.7)	(3.8)	(0.9)	(1,989.7)
Total	(12,320.3)	(4,459.1)	(632.2)	(6.4)	(17,418.0)
Ending balance [1]	$ 2,292.0	$ 991.6	$ 78.6	$ 1.7	$ 3,363.9

(1) The Medicaid Health Plans and Consolidated beginning balance for 2019 include a premium deficiency reserve for our Illinois Medicaid programs ("Illinois PDR"), which amounted to $16.1 million at December 31, 2018. There was no Illinois PDR at September 30, 2019. See Note 2 - *Summary of Significant Accounting Policies* in our 2018 Form 10-K for further discussion.
(2) The Corporate and Other category includes operating segments that are not individually reportable because they do not meet the quantitative thresholds required by generally accepted accounting principles.

	For the Nine Months Ended September 30, 2018				
	Medicaid Health Plans	Medicare Health Plans	Medicare PDPs	Corporate and Other	Consolidated
Beginning balance [1]	$ 1,373.2	$ 722.5	$ 50.6	$ —	$ 2,146.3
Acquisitions	478.2	47.1	—	2.7	528.0
Medical benefits incurred related to:					
Current year	7,803.2	4,051.6	560.4	1.0	12,416.2
Prior years	(202.1)	(121.8)	(69.3)	—	(393.2)
Total	7,601.1	3,929.8	491.1	1.0	12,023.0
					—
Medical benefits paid related to:					
Current year	(6,562.2)	(3,382.3)	(502.9)	(0.8)	(10,448.2)
Prior years	(889.3)	(488.3)	30.0	(0.1)	(1,347.7)
Total	(7,451.5)	(3,870.6)	(472.9)	(0.9)	(11,795.9)
Ending balance [1]	$ 2,001.0	$ 828.8	$ 68.8	$ 2.8	$ 2,901.4

(1) The Medicaid Health Plans and Consolidated beginning and ending balances for 2018 include a premium deficiency reserve for our Illinois Medicaid program ("Illinois PDR"), which amounted to $20.6 million and $45.6 million at September 30, 2018 and December 31, 2017, respectively.

We recognize the cost of medical benefits in the period in which services are provided, including an estimate of the cost of medical benefits incurred but not reported ("IBNR"). Medical benefits expense includes direct medical expenses and certain medically-related administrative costs. We evaluate our estimates of medical benefits payable as we obtain more complete claims information and medical expense trend data over time. We record differences between actual experience and estimates used to establish the liability, which we refer to as favorable and unfavorable prior year reserve developments, as increases or decreases to medical benefits expense in the period we identify the differences.

Medical benefits payable developed favorably by approximately $440.1 million and $393.2 million for the nine months ended September 30, 2019 and 2018, respectively. The release of the provision for moderately adverse conditions included in our prior year estimates was substantially offset by the provision for moderately adverse conditions established for claims incurred in the current year. Accordingly, the favorable development in our estimate of medical benefits payable related to claims incurred in prior years does not directly correspond to a decrease in medical benefits expense recognized during the period in which the favorable development is recognized.

Excluding the prior year development related to the release of the provision for moderately adverse conditions, our estimates of consolidated medical benefits payable developed favorably by approximately $247.0 million and $215.2 million for the nine months ended September 30, 2019 and 2018, respectively. Such amounts are net of the development relating to refunds due to government customers with minimum loss ratio provisions. The net favorable development recognized in both 2019 and 2018 resulted primarily due to a number of operational and clinical initiatives planned and executed, that contributed to lower than expected pharmacy and medical trends, and actual claim submission time being faster than we originally assumed (i.e., our completion factors were higher than we originally assumed) in establishing our medical benefits payable in the prior years. This development does not directly correspond to an increase in our current year operating results as these reductions were offset by estimated current period medical benefits expense when we established our estimate of the current year medical benefits payable. Both completion factor and medical trend assumptions are influenced by utilization levels, unit costs, mix of business, provider reimbursement levels, processing system conversions and changes, claim inventory levels, claim processing patterns, our ability and practices to manage medical and pharmaceutical costs, claim submission patterns and operational changes resulting from business combinations, among others. Our actual costs were ultimately less than expected.

Our Meridian acquisition in September 2018 resulted in an increase to medical benefits payable as of the acquisition date. See Note 2 - *Centene Plan of Merger, Proposed Divestitures and Completed Acquisitions*, for additional information on the Meridian acquisitions.

11. LEASES

In determining whether a contract contains a lease, we assess whether the arrangement meets all three of the following criteria: 1) there is an identified asset; 2) we have the right to obtain substantially all the economic benefits from use of the identified asset; and 3) we have the right to direct the use of the identified asset. This involves evaluating whether we have the right to operate the asset or to direct others to operate the asset in a manner that it determines without the supplier having the right to change those operating instructions, as well as evaluating our involvement in the design of the asset.

We have right-of-use assets and liabilities for non-cancelable operating leases primarily for office space, data centers and other equipment. Our leases have remaining lease terms up to approximately 14 years. The depreciable life of assets and leasehold improvements are limited by the expected lease term. Our lease agreements do not contain any material residual value guarantees or material restrictive covenants.

For the three and nine months ended September 30, 2019 operating lease expense of $19.0 million and $53.7 million, respectively, was recorded as SG&A expense in our condensed consolidated statement of comprehensive income.

Balance sheet information related to our operating leases was as follows (in millions):

	Classification	September 30, 2019
Assets:		
Right of use assets	Other assets	$ 247.0
Liabilities:		
Current	Accounts payable and accrued expenses	$ 37.3
Noncurrent	Other liabilities	231.2
Total liabilities		$ 268.5

As of September 30, 2019 the weighted-average remaining lease term was 7.9 years. Our lease agreements do not provide a readily determinable implicit rate nor is it available to us from our lessors. Instead, we estimate our incremental borrowing rate based on information available at lease commencement in order to discount lease payments to present value. The weighted-average discount rate of our operating leases was 5.9%, as of September 30, 2019.

Supplemental cash flow information related to our operating leases is as follows (in millions):

	Nine Months Ended September 30, 2019
Cash paid for operating leases	$ 36.0
Leased assets obtained in exchange for new operating lease liabilities	22.9

Maturities of our operating lease liabilities are as follows (in millions):

	September 30, 2019
2019 (remaining)	$ 13.2
2020	50.0
2021	49.3
2022	42.5
2023	37.9
2024	35.7
Thereafter	115.2
Total lease payments	$ 343.8
Less: imputed interest	$ 75.3
Present value of lease liabilities	$ 268.5

The Company adopted ASU 2016-02 on January 1, 2019 as noted in Note 1 - *Organization, Basis of Presentation and Significant Accounting Policies*, and as required, the following disclosure is provided for periods prior to adoption. Annual non-cancellable minimum lease payments over the next five years and thereafter under ASC Topic 840 for the year ended December 31, 2018 were as follows (in millions):

	December 31, 2018
2019	$ 42.4
2020	44.4
2021	45.5
2022	41.9
2023	38.7
2024 and Thereafter	151.4
Total	$ 364.3

12. INCOME TAXES

Our effective income tax rate on pre-tax income was 23.2% and 22.5% for the three and nine months ended September 30, 2019, respectively, compared with 39.3% and 36.4% for the three and nine months ended September 30, 2018, respectively. The year-over-year decrease was primarily driven by the one-year moratorium on the non-deductible ACA industry fee for 2019 and higher excess tax benefits resulting from the settlement of stock-compensation awards in 2019.

There were no significant changes to unrecognized tax benefits for the three and nine months ended September 30, 2019. Our unrecognized tax benefits are not expected to change significantly during the next 12 months.

13. DISCONTINUED OPERATIONS

On August 3, 2016, our subsidiary, Universal American, completed the sale of its Traditional Insurance business prior to our acquisition of Universal American. This was accomplished by selling two life insurance subsidiaries, while retaining ownership of a third life insurance subsidiary, American Progressive Life & Health Insurance of New York ("Progressive"). The

sale of the Traditional Insurance business underwritten by Progressive was accomplished through a 100% quota-share reinsurance treaty with a wholly-owned subsidiary of Nassau Re, that, when considered in combination with other reinsurance transactions previously entered into, resulted in the reinsurance of all of the Traditional Insurance policies that were underwritten by Progressive. Accordingly, the discontinued Traditional Insurance business did not materially affect our condensed consolidated statements of comprehensive income for any of the periods presented.

In accordance with ASC 360-10, *Property, Plant and Equipment* and ASC 205-20, *Presentation of Financial Statements—Discontinued Operations*, the Traditional Insurance business has been reported in discontinued operations in this 2019 Form 10-Q.

The following table summarizes the total assets and liabilities of our discontinued operations:

	September 30, 2019	December 31, 2018
	(in millions)	
Assets		
Cash and cash equivalents	$ 0.5	$ 0.1
Investments	49.9	42.8
Reinsurance recoverables	166.4	170.2
Other assets	0.5	0.5
Total Assets	$ 217.3	$ 213.6
Liabilities		
Reserves and other policy liabilities	$ 164.1	$ 166.9
Other liabilities	53.2	46.7
Total liabilities	$ 217.3	$ 213.6

Progressive's traditional insurance products are reinsured under quota share coinsurance treaties with unaffiliated insurers, while the life insurance risks are reinsured under either quota share coinsurance or yearly-renewable term treaties with unaffiliated insurers. Under quota share coinsurance treaties, we pay the reinsurer an agreed upon percentage of all premiums and the reinsurer reimburses us that same percentage of any losses. In addition, the reinsurer pays us certain allowances to cover commissions, the cost of administering the policies and premium taxes. Under yearly-renewable term treaties, the reinsurer receives premiums at an agreed upon rate for its share of the risk on a yearly-renewable term basis. We also use excess of loss reinsurance agreements for certain policies whereby we limit our loss in excess of specified thresholds.

We evaluate the financial condition of our Traditional Insurance reinsurers and monitor concentrations of credit risk to minimize our exposure to significant losses from reinsurer insolvencies. We are obligated to pay claims in the event that a reinsurer to whom we have ceded an insured claim fails to meet its obligations under the reinsurance agreement. We are not aware of any instances where any of our reinsurers have been unable to pay any policy claims on any reinsured business.

14. COMMITMENTS AND CONTINGENCIES

Indemnification Obligations

Under Delaware law, our charter and bylaws and certain indemnification agreements to which we are a party, we are obligated to indemnify, or we have otherwise agreed to indemnify, certain of our current and former directors, officers and associates with respect to current and future investigations and litigation, including the matters discussed in this note. The indemnification agreements for our directors and executive officers with respect to events occurring prior to May 2009 require us to indemnify an indemnitee to the fullest extent permitted by law if the indemnitee was or is or becomes a party to or a witness or other participant in any proceeding by reason of any event or occurrence related to the indemnitee's status as a director, officer, associate, agent or fiduciary of the Company or any of our subsidiaries. The indemnification agreements require us to indemnify an indemnitee against all expenses, including attorney's fees, judgments, fines, settlement amounts and interest and other charges, and any taxes as a result of the receipt of payments under the indemnification agreement. We will not indemnify the indemnitee if not permitted under applicable law. We are required to advance all expenses incurred by the indemnitee. We are entitled to reimbursement by an indemnitee of expenses advanced if the indemnitee is not permitted to be reimbursed under applicable law after a final judicial determination is made and all rights of appeal have been exhausted or lapsed.

We amended and restated our indemnification agreements in May 2009. The revised agreements apply to our officers and directors with respect to events occurring after that time. Pursuant to the 2009 indemnification agreements, we will indemnify the indemnitee against all expenses, including attorney's fees, judgments, penalties, fines, settlement amounts and any taxes imposed as a result of payments made under the indemnification agreement incurred in connection with any proceedings that relate to the indemnitee's status as a director, officer or associate of the Company or any of our subsidiaries or any other enterprise that the indemnitee was serving at our request. We will also indemnify for expenses incurred by an indemnitee if the indemnitee, by reason of his or her corporate status, is a witness in any proceeding. Further, we are required to indemnify for expenses incurred by an indemnitee in defense of a proceeding to the extent the indemnitee has been successful on the merits or otherwise. Finally, if the indemnitee is involved in certain proceedings as a result of the indemnitee's corporate status, we are required to advance the indemnitee's reasonable expenses incurred in connection with such proceeding, subject to the requirement that the indemnitee repay the expenses if it is ultimately determined that the indemnitee is not entitled to be indemnified. We are not obligated to indemnify an indemnitee for losses incurred in connection with any proceeding if a determination has not been made by the Board of Directors, a committee of disinterested directors or independent legal counsel in the specific case that the indemnitee has satisfied any standards of conduct required as a condition to indemnification under Section 145 of the Delaware General Corporation Law.

Pursuant to our obligations, we have advanced legal fees and related expenses to three former officers and two additional associates who were criminally indicted in connection with the government investigations of the Company that commenced in 2007 related to federal criminal health care fraud charges including conspiracy to defraud the United States, false statements relating to health care matters, and health care fraud in connection with their defense of criminal charges. In June 2013, the jury in the federal criminal trial reached guilty verdicts on multiple charges for the four individuals that were tried in 2013. In May 2014, the individuals were sentenced and our request for restitution was denied. All four individuals filed notices of appeal and the government filed notices of cross appeal on three of the four individuals, which the government has subsequently voluntarily dismissed. The appellate court affirmed the convictions in August 2016. Mr. Farha filed a petition for a writ of certiorari to the United States Supreme Court in January 2017. In April 2017, the United States Supreme Court declined to hear the appeal by Mr. Farha. The fifth individual, Mr. Bereday, entered a guilty plea in June 2017 in connection with the federal criminal charges, which was accepted by the court in July 2017. Mr. Bereday was sentenced in November 2017.

We have also previously advanced legal fees and related expenses to these five individuals regarding: a dispute in Delaware Chancery Court related to whether we were legally obligated to advance fees or indemnify certain of these individuals; the class actions titled *Eastwood Enterprises, L.L.C. v. Farha, et al*. and *Hutton v. WellCare Health Plans, Inc. et al*. filed in federal court; six stockholder derivative actions filed in federal and state courts between October 2007 and January 2008; an investigation by the United States Securities & Exchange Commission (the "Commission"); an action by the Commission filed in January 2012 against three of the five individuals, Messrs. Farha, Behrens and Bereday, and a *qui tam* action against Messrs. Farha, Behrens and Bereday in federal court. We settled the class actions in May 2011. In 2010, we settled the stockholder derivative actions and we were realigned as the plaintiff to pursue our claims against Messrs. Farha, Behrens and Bereday. Pursuant to the settlement agreements described below, Messrs. Farha, Behrens and Bereday were dismissed from the federal court and state derivative actions. Pursuant to the settlement agreement with Mr. Bereday described below, Mr. Bereday was dismissed from the fee advancement case in Delaware Chancery Court. The Commission action was closed in May 2018. The *qui tam* action is currently stayed and the stay is subject to being lifted at any time.

In April 2017, the Commission and Mr. Farha entered into a consent judgment to pay $12.5 million to the Commission and $7.5 million to us. In April 2017, the Commission and Mr. Behrens also entered into a consent judgment to pay $4.5 million to the Commission and $1.5 million to us. In May 2018, the Commission and Mr. Bereday entered into a consent judgment to pay $4.5 million to the Commission and the case was closed.

In addition, we have advanced a portion of the legal fees and related expenses to Mr. Farha in connection with lawsuits he filed in Delaware and Florida state court to have certain restrictions lifted on WellCare stock purportedly awarded to him during his employment with us. The Delaware and Florida state court matters have been dismissed.

In September 2016, we entered into a settlement agreement with Mr. Farha pursuant to which he paid us $7.5 million, as referenced in the April 2017 consent judgment with the Commission, and we agreed that we would not seek to recover additional legal fees previously advanced related to these matters, and that our obligation to continue advancing fees would be limited to no more than an additional $7.5 million.

We also have advanced a portion of the legal fees and related expenses to Mr. Behrens in connection with his lawsuit in Delaware state court to have certain restrictions lifted on WellCare stock purportedly awarded to him during his employment with WellCare, which the court dismissed. In October 2016, we also entered into a settlement agreement with Mr. Behrens pursuant to which he paid us $1.5 million, as referenced in the April 2017 consent judgment with the Commission, and we agreed that we would not seek to recover additional legal fees previously advanced in connection with these matters, and that our obligation to continue advancing fees would be limited to no more than an additional $1.5 million.

In June 2017, we entered into a settlement agreement with Mr. Bereday that became effective in July 2017, pursuant to which we agreed that we would not seek to recover legal fees previously advanced in connection with these matters, and that our obligation to continue advancing fees would be limited to no more than an additional $2.5 million.

In connection with these matters, we have advanced to the five individuals legal fees and related expenses from the inception of the investigations through September 30, 2019, the cumulative amounts of which has not changed materially from December 31, 2018. We expense these costs as incurred and classify the costs as SG&A expense incurred in connection with the investigations and related matters.

We have exhausted our insurance policies related to reimbursement of our advancement of fees related to these matters. We are unable to estimate the total amount of these costs or a range of possible loss. Accordingly, we continue to expense these costs as incurred.

Proceedings Related to the Centene Transaction

Between May 7 and May 9, 2019, three putative class action lawsuits were filed by purported stockholders of WellCare against WellCare and members of the WellCare Board in the United States District Court for the District of Delaware (Stein v. WellCare Health Plans, Inc., et al., Case No. 1:19-cv-00855-LPS (“Stein v. WellCare”); Kent v. WellCare Health Plans, Inc., et al., Case No. 1:19-cv-00865-LPS (“Kent v. WellCare”); and Clarke v. WellCare Health Plans, Inc., et al., Case No. 1:19-cv-00873-LPS “Clark v. WellCare”). The complaint in Kent v. WellCare also names Centene, Merger Sub I and Merger Sub II as defendants. The complaints in Stein v. WellCare, Kent v. WellCare and Clark v. WellCare purport to assert claims under Sections 14(a) and 20(a) of the Securities Exchange Act of 1934 and allege that the Joint Proxy Statement filed with the SEC on May 23, 2019 contained certain material omissions.

In addition, on May 10, 2019, a putative class action lawsuit was filed by a purported stockholder of WellCare against WellCare, members of the WellCare Board, Centene, Merger Sub 1 and Merger Sub 2 in the Circuit Court of the 13th Judicial Circuit in and for Hillsborough County, Florida (Seabaugh v. WellCare Health Plans, Inc., et al., Case No. 2019CA004942 (“Seabaugh v. WellCare” and, together with Stein v. WellCare, Kent v. WellCare and Clark v. WellCare, the “Lawsuits”). The complaint in Seabaugh v. WellCare alleges that members of the WellCare Board breached their fiduciary duties by, among other things, agreeing to an allegedly unfair and inadequate price, agreeing to deal protection devices that allegedly impede their ability to investigate or obtain higher offers, allegedly failing to protect against certain purported conflicts of interest, and allegedly failing to disclose material information in the Joint Proxy Statement. The complaint further alleges that WellCare, Centene, Merger Sub 1 and Merger Sub 2 aided and abetted these alleged breaches of fiduciary duties. The complaint seeks to enjoin or rescind the mergers and requests an award of attorneys’ fees and damages in an unspecified amount.

On July 1, 2019, the plaintiffs in Stein v. WellCare and Kent v. WellCare filed notices of voluntary dismissal. On September 24, 2019, the plaintiff in Clark v. WellCare filed a notice of voluntary dismissal. On October 8, 2019, the plaintiff in Seabaugh v. WellCare filed a notice of voluntary dismissal.

Additional lawsuits arising out of or relating to the Merger Agreement, the Proxy Statement and/or the Centene Transaction may be filed in the future. WellCare intends to vigorously defend against any lawsuits challenging the merger. However, there can be no assurance that defendants will be successful in the outcome of any potential future lawsuits. One of the conditions to completion of the Centene Transaction is the absence of any applicable injunction or other order being in effect that prohibits completion of the Centene Transaction. Accordingly, if a plaintiff is successful in obtaining an injunction prohibiting completion of the Centene Transaction, then that injunction may delay or prevent the Centene Transaction from being completed, or from being completed within the expected timeframe.

Other Lawsuits and Claims

Based on the nature of our business, we are subject to regulatory reviews or other investigations by various state insurance and health care regulatory authorities and other state and federal regulatory authorities. These authorities regularly scrutinize the business practices of health insurance and benefits companies and their reviews focus on numerous facets of our business, including claims payment practices, provider contracting, competitive practices, commission payments, privacy issues and utilization management practices, among others. Some of these reviews have historically resulted in fines imposed on us and some have required changes to our business practices. We continue to be subject to such reviews, which may result in additional fines and/or sanctions being imposed, premium refunds or additional changes in our business practices.

Separate and apart from the legal matters described above, we are also involved in other legal actions in the normal course of our business, including, without limitation, protests and appeals related to Medicaid procurement awards, wage and hour claims and other employment claims, claims for indemnification under purchase agreements, vendor disputes and provider disputes regarding payment of claims. Some of these actions seek monetary damages including claims for liquidated or punitive damages, which are not covered by insurance. We review relevant information with respect to these litigation matters and we update our estimates of reasonably possible losses and related disclosures. We accrue an estimate for contingent liabilities, including attorney's fees related to these matters, if a loss is probable and estimable. Currently, we do not expect that the resolution of any of these currently pending actions, either individually or in the aggregate, will differ materially from our current estimates or have a material adverse effect on our results of operations, financial condition and cash flows. However, the outcome of any legal actions cannot be predicted, and therefore actual results may differ from those estimates.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Forward-Looking Statements

Statements contained in this Form 10-Q for the quarterly period ended September 30, 2019 ("2019 Form 10-Q"), which are not historical fact may be forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and we intend such statements to be covered by the safe harbor provisions for forward-looking statements contained therein. Such statements, which may address, among other things, our financial outlook, the timing of the launch of new programs, pending new Medicaid contracts, the appropriation and payment to us by state governments of Medicaid premiums receivable, approval, financial and other effects of the proposed acquisition of us (the "Centene Transaction") by Centene Corporation ("Centene"), rate changes, market acceptance of our products and services, our ability to finance growth opportunities, our ability to respond to changes in laws and government regulations, including any repeal, replacement or modification of the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010 (collectively, the "ACA"), implementation of our growth strategies, projected capital expenditures, liquidity and the availability of additional funding sources may be found in this Item of this 2019 Form 10-Q and elsewhere in this report generally. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "expects," "plans," "anticipates," "believes," "estimates," "targets," "predicts," "potential," "continues" or the negative of such terms or other comparable terminology. Forward-looking statements involve risks and uncertainties, including economic, regulatory, competitive and other factors that may affect our business. Please refer to the Risk Factors in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2018 ("2018 Form 10-K") and in Part II, Item 1A of this 2019 Form 10-Q. These forward-looking statements are inherently susceptible to uncertainty and changes in circumstances, as they are based on management's expectations and beliefs about future events and circumstances. Given the risks and uncertainties inherent in forward-looking statements, any of our forward-looking statements could be incorrect and investors are cautioned not to place undue reliance on any of our forward-looking statements. Subsequent events and developments may cause actual results to differ, perhaps materially, from our forward-looking statements. We undertake no duty and expressly disclaim any obligation to update publicly any forward-looking statements for any reason, even if new information becomes available or other events occur in the future.

Our actual results may differ materially from those indicated by forward-looking statements as a result of various important factors, including the expiration, cancellation, delay, suspension or amendment of our state and federal contracts. In addition, our results of operations and estimates of future earnings depend, in large part, on accurately estimating and effectively managing health care benefits and other operating expenses. A variety of factors may affect our premium revenue, medical expenses, profitability, cash flows and liquidity, including the outcome of any protests and litigation related to Medicaid awards, our ability to meet the requirements of readiness reviews, competition, changes in health care practices, changes in the demographics of our members, changes in the eligibility for participation in government programs, and changes to eligibility certification requirements, higher than expected utilization of health care services by our members, changes in federal or state laws and regulations or their interpretations, inflation, provider contract changes, changes in or suspensions or terminations of our contracts with government agencies, new technologies, such as new, expensive medications, potential reductions in Medicaid and Medicare revenue, the appropriation and payment to us by state governments of Medicaid premiums receivable, our ability to negotiate actuarially sound rates, especially in new programs with limited experience, government-imposed surcharges, taxes or assessments, changes to how provider payments are made by governmental payors, the ability of state customers to launch new programs on their announced timelines, or at all, the timing of the approval by the Centers for Medicare & Medicaid Services ("CMS") of Medicaid contracts, or changes to the contracts or rates required to obtain CMS approval, major epidemics, disasters and numerous other factors affecting the delivery and cost of health care, such as major health care providers' inability to maintain their operations and our ability to implement health care value-added programs and our ability to control our medical costs and other operating expenses, including through our vendors. Governmental action or inaction could result in premium revenues not increasing to offset any increase in medical costs, the annual premium-based health insurance industry assessment (the "ACA industry fee") or other operating expenses. Once set, premiums are generally fixed for one-year periods and, accordingly, costs that exceed our estimates or our regulators' actuarial pricing assumptions during such periods generally may not be able to be recovered through higher premiums or rate adjustments. Furthermore, if we are unable to estimate accurately incurred but not reported medical costs in the current period, our future profitability may be adversely affected. Due to these factors and risks, we cannot provide any assurance regarding our future premium levels or our ability to control our future medical costs.

In addition, the risks and uncertainties include, but are not limited to

- failure to complete the Centene Transaction could have material adverse effects on our business, results of operations, financial condition and cash flows;

- our ability to pursue alternatives to the Centene Transaction is limited by provisions in the Merger Agreement (as defined herein), which could discourage a potential competing acquiror of us from making a favorable alternative transaction proposal and, in specified circumstances, could require us to pay substantial termination fees to Centene;
- the Centene Transaction is subject to the expiration or termination of applicable waiting periods and the receipt of approvals, consents or clearances from regulatory authorities that may impose conditions that could have an adverse effect on us or, if not obtained, could prevent completion of the Centene Transaction;
- we are subject to business uncertainties and contractual restrictions while the Centene Transaction is pending, which could materially adversely affect our business, results of operations, financial condition and cash flows;
- uncertainties associated with the Centene Transaction may cause a loss of management personnel and other key employees, and we may have difficulty attracting and motivating management personnel and other key employees which could materially adversely affect our business, results of operations, financial condition and cash flows;
- our progress on top priorities such as integrating care management, advocating for our members, building advanced relationships with providers and government partners;
- delivering prudent, profitable growth; and
- our ability to effectively identify, execute and integrate acquisitions and performance of our acquisitions once acquired, including the ability to achieve expected synergies of the Meridian acquisition within the expected time frames or at all, the ability to achieve accretion to WellCare's earnings, revenues or other benefits expected, disruption to business relationships, operating results, and business generally of WellCare and/or Meridian and the ability to retain Meridian employees, and our ability to address operational challenges relating to the integration of Meridian with our existing business.

Due to these factors and risks, we may be required to write down or take impairment charges of assets associated with acquisitions. Furthermore, at both the federal and state government levels, legislative and regulatory proposals have been made related to, or potentially affecting, the health care industry, including but not limited to, repeal, replacement or modification of the ACA, reform of the Medicaid and Medicare programs, limitations on managed care organizations, changes to membership eligibility, and benefit mandates. Any such legislative or regulatory action could have the effect of reducing the premiums paid to us by governmental programs, increasing our medical and administrative costs or requiring us to materially alter the manner in which we operate. We are unable to predict the specific content of any future legislation, action or regulation that may be enacted or when any such future legislation or regulation will be adopted. Therefore, we cannot predict accurately the effect or ramifications of such future legislation, action or regulation on our business, financial condition, results of operations, and/or cash flows.

OVERVIEW

Introduction

WellCare Health Plans, Inc. (the "Company," "we," "us," or "our") focuses primarily on providing government-sponsored managed care services to families, children, seniors and individuals with complex medical needs primarily through Medicaid, Medicare Advantage ("MA") and Medicare Prescription Drug Plans ("PDP"), as well as individuals in the Health Insurance Marketplace. As of September 30, 2019, we served approximately 6.4 million members nationwide. As of September 30, 2019, we operated Medicaid health plans, including states where we receive Medicaid premium revenues associated with dually eligible special needs plans, in Arizona, Florida, Georgia, Hawaii, Illinois, Kentucky, Michigan, Missouri, Nebraska, New Jersey, New York, South Carolina and Texas.

As of September 30, 2019, we also operated MA coordinated care plans ("CCPs") in Alabama, Arizona, Arkansas, California, Connecticut, Florida, Georgia, Hawaii, Illinois, Indiana, Kentucky, Louisiana, Maine, Michigan, Mississippi, New Jersey, New York, North Carolina, Ohio, South Carolina, Tennessee and Texas, as well as stand-alone Medicare PDP nationwide.

Summary of Consolidated Financial Results

Summarized below are the key highlights for the three and nine months ended September 30, 2019. For additional information, refer to "Results of Operations" below, which discusses both consolidated and segment results.

- ***Membership*** at September 30, 2019 increased by 842,000, or 15.3%, compared with September 30, 2018. The increase was driven by organic growth primarily in our Florida Medicaid health plan and our Medicare PDP segment.

- ***Premiums*** increased 39.6% and 43.5% for the three and nine months ended September 30, 2019, respectively, compared with the same periods in 2018, reflecting our acquisition of Meridian in September 2018, additional members in our Florida Medicaid health plan, and organic growth in our Medicare Health Plans and Medicare PDP segments. These increases were partially offset by the 2019 ACA Fee Moratorium (discussed in *Key Developments and Accomplishments* below).

- ***Net Income*** increased $110.4 million and $191.3 million for the three and nine months ended September 30, 2019, respectively, compared with the same periods in 2018, primarily driven by organic growth, continued improvement in operational execution across all segments and the acquisition of Meridian in September 2018.

Key Developments and Accomplishments

Presented below are key developments and accomplishments relating to progress on our business strategy that have affected, or are expected to affect, our results:

- On September 26, 2019, in connection with the previously announced Centene Transaction, we entered into a definitive agreement with Anthem, Inc. ("Anthem") under which Anthem will acquire our Missouri and Nebraska health plans. The closing of the transaction with Anthem is subject to U.S. federal antitrust clearance, receipt of state regulatory approvals and certain other customary closing conditions, as well as the closing of the Centene Transaction.

- On March 26, 2019, we entered into an Agreement and Plan of Merger (the “Merger Agreement”) with Centene under which Centene will acquire us for a combination of cash and stock. Under the terms of the Merger Agreement, our shareholders will receive $120.00 in cash and 3.38 shares of Centene common stock for each share of our common stock. On June 24, 2019, stockholders of both companies approved all proposals regarding the Centene Transaction. Completion of the Centene Transaction remains subject to the receipt of U.S. federal antitrust clearance and certain other required regulatory approvals. The Centene Transaction is expected to close in the first half of 2020.

- In February 2019, we received notice from the North Carolina Department of Health and Human Services (“DHHS”) that we were awarded a contract to administer the state’s Medicaid Prepaid Health Plans, which is subject to a protest process. DHHS has selected four health plans, including us, to serve North Carolina's Medicaid beneficiaries on a statewide basis. One additional health plan led by providers was selected to operate health plans in certain regions. The state is expected to implement the new managed care program for its 1.6 million Medicaid beneficiaries beginning February 1, 2020.

- Effective January 1, 2019, Congress approved a one-year moratorium of the ACA industry fee for 2019 ("2019 ACA Fee Moratorium"), which also eliminated the Medicaid ACA industry fee reimbursement from our state government partners for 2019.

- In November 2018, we completed the asset purchase of Aetna Inc.'s ("Aetna") entire standalone Medicare Part D prescription drug plan membership ("Aetna Part D membership") for total approximate consideration of $115.8 million in cash, inclusive of subsequent purchase price adjustments. Per the terms of the agreements, Aetna will provide administrative services to, and retain financial risk of, the acquired Aetna Part D membership through 2019. Therefore, the Aetna Part D membership will be excluded from our membership and results of operations until January 1, 2020.

- In September 2018, we completed the acquisition of Meridian for approximately $2.5 billion in cash. As a result of this transaction, we expanded our Medicaid portfolio through the addition of Michigan; expanded our Medicaid presence in Illinois; and acquired an integrated PBM platform. Meridian also serves MA members in Illinois, Indiana, Michigan and Ohio, as well as Health Insurance Marketplace members in Michigan.

- On February 1, 2019, we began providing statewide-managed care services to children with medically complex conditions through the Children's Medical Services Managed Care Plan ("CMS Plan") contract from the Florida Department of Health. On December 1, 2018, we began providing managed care services to Medicaid-eligible beneficiaries, including Managed Medical Assistance and Long-Term Care beneficiaries in 10 of 11 regions in Florida through a new five-year contract. As part of the Medicaid Managed Care program, we are one of two managed care plans providing statewide-managed care services to beneficiaries in the Serious Mental Illness Specialty Plan.

Political and Regulatory Developments

Our 2020 PDP bids resulted in one of our basic plans being below the benchmarks in 32 of 34 CMS regions, and within the *de minimis* range in two other regions, compared with our 2019 PDP bids in which we were below the benchmarks in 21 of the 34 CMS regions, and within the *de minimis* range in ten other regions.

CMS Star Ratings

Certain provisions in the ACA provide additional Medicare revenue related to the achievement of higher Star Ratings that can be used to offer more attractive benefit packages to members and/or achieve higher profit margins. In addition, plans with Star Ratings of 4.0 or higher are eligible for year-round open enrollment, whereas plans with lower Star Ratings have more restrictions on enrollment criteria and timing. As a result, plans that achieve higher Star Ratings may have a competitive advantage over plans with lower Star Ratings.

CMS's current quality measurement methodology does not appropriately account for socio-economic determinants of health. Because we have a greater percentage of lower-income members than average, we may be unable to achieve or maintain a 4.0 Star Rating for some or all of our plans without a legislative or regulatory adjustment to the quality measurement methodology. Though various regulatory and legislative solutions have been proposed, we continue to work with our legislative and regulatory partners to ensure this issue is adequately addressed.

In October 2019, CMS announced 2020 MA and PDP Star Ratings. Two of our 38 active MA contracts, serving certain members in California and Florida, received an overall rating of 4.0 stars or higher and served approximately 24.4% of our total MA membership as of September 30, 2019.

Additionally, nine of our MA contracts, serving approximately 54.2% of our total MA membership as of September 30, 2019, received an overall rating of 3.5 stars and served certain members in Arkansas, Connecticut, Georgia, Illinois, Kentucky, Maine, Mississippi, New York, North Carolina, South Carolina and Texas.

RESULTS OF OPERATIONS

Condensed Consolidated Financial Results

The following tables set forth condensed consolidated statements of operations data, as well as other key data used in our results of operations discussion for the three and nine months ended September 30, 2019, compared with the same periods in 2018.

	For the Three Months Ended September 30,		Percentage	For the Nine Months Ended September 30,		Percentage
	2019	2018	Change	2019	2018	Change
Revenues:	(Dollars in millions)			(Dollars in millions)		
Premium	$ 6,965.6	$ 4,988.8	39.6%	$ 20,417.2	$ 14,227.7	43.5%
Products and services	132.1	34.6	281.8%	374.6	34.6	982.7%
Investment and other income	42.5	34.7	22.5%	120.7	81.0	49.0%
Total revenues	7,140.2	5,058.1	41.2%	20,912.5	14,343.3	45.8%
Expenses:						
Medical benefits	6,025.7	4,195.0	43.6%	17,884.5	12,023.0	48.8%
Costs of products and services	128.9	33.5	284.8%	363.9	33.5	986.3%
Selling, general and administrative	567.4	433.2	31.0%	1,558.0	1,167.0	33.5%
ACA industry fee	—	86.5	NM	—	247.0	NM
Medicaid premium taxes	35.6	31.5	13.0%	99.0	94.2	5.1%
Depreciation and amortization	59.9	46.2	29.7%	197.6	117.1	68.7%
Interest	29.4	23.6	24.6%	90.0	57.8	55.7%
Total expenses	6,846.9	4,849.5	41.2%	20,193.0	13,739.6	47.0%
Income before income taxes and equity in losses of unconsolidated subsidiaries	293.3	208.6	40.6%	719.5	603.7	19.2%
Equity in earnings (losses) of unconsolidated subsidiaries	20.4	6.6	209.1%	22.9	(0.1)	NM
Income before income taxes	313.7	215.2	45.8%	742.4	603.6	23.0%
Income tax expense	72.7	84.6	(14.1)%	167.2	219.7	(23.9)%
Net income	$ 241.0	$ 130.6	84.5%	$ 575.2	$ 383.9	49.8%
Effective tax rate	23.2%	39.3%	(16.1)%	22.5%	36.4%	(13.9)%

Membership

In the following tables, we have summarized membership for our business segments in each state that exceeded 5% of our total membership, as well as all other states in the aggregate, as of September 30, 2019 and 2018, respectively.

	September 30, 2019				
State	Medicaid Health Plans[1]	Medicare Health Plans[1]	Medicare PDPs	Total Membership	Percentage of Total
Florida	1,028,000	105,000	72,000	1,205,000	19.0%
Illinois	789,000	28,000	60,000	877,000	13.8%
Michigan	492,000	24,000	58,000	574,000	9.0%
Georgia	492,000	52,000	26,000	570,000	9.0%
Kentucky	438,000	14,000	33,000	485,000	7.6%
Other states	845,000	340,000	1,448,000	2,633,000	41.5%
Health Insurance Marketplace[2]	—	—	—	6,000	0.1%
Total	4,084,000	563,000	1,697,000	6,350,000	100.0%

	September 30, 2018				
State	Medicaid Health Plans[1]	Medicare Health Plans[1]	Medicare PDPs	Total Membership	Percentage of Total
Illinois	862,000	27,000	34,000	923,000	16.8%
Florida	735,000	96,000	29,000	860,000	15.6%
Georgia	502,000	50,000	15,000	567,000	10.3%
Michigan	512,000	19,000	44,000	575,000	10.4%
Kentucky	448,000	13,000	22,000	483,000	8.8%
New York	152,000	89,000	52,000	293,000	5.3%
Missouri	265,000	—	16,000	281,000	5.1%
Other states	427,000	250,000	844,000	1,521,000	27.6%
Health Insurance Marketplace[2]	—	—	—	5,000	0.1%
Total	3,903,000	544,000	1,056,000	5,508,000	100.0%

(1) Medicaid Health Plans and Medicare Health Plans membership includes members who are dually-eligible and participate in both our Medicaid and Medicare programs. The dually-eligible membership was 76,000 and 68,000 of our Medicaid and Medicare membership as of September 30, 2019 and 2018, respectively.
(2) Health Insurance Marketplace, included in our Corporate and Other category as it does not meet the quantification thresholds required by generally accepted accounting principles and therefore not individually reportable, includes members from Michigan. Total Michigan membership was 580,000 members as of September 30, 2019 and September 30, 2018.

As of September 30, 2019, membership increased approximately 842,000 members, or 15.3%, compared with September 30, 2018. Membership discussion by segment follows:

- *Medicaid Health Plans.* Membership increased by 181,000 year-over-year, or 4.6%, to 4.1 million members as of September 30, 2019. The increase was primarily driven by organic membership growth primarily in our Florida Medicaid health plan. These increases were partially offset by net eligibility decreases in certain of our Medicaid markets.

- *Medicare Health Plans.* Membership as of September 30, 2019 increased by 19,000 year-over-year, or 3.5%, to 563,000 members. The increase is a result of organic growth.

- *Medicare PDPs.* Membership as of September 30, 2019 increased 641,000 year-over-year, or 60.7%, to 1.7 million members. The increase was primarily the result of organic growth through a new enhanced product offering in 2019.

Premium Revenue

Premium revenue increased by approximately $2.0 billion, or 39.6%, and $6.2 billion, or 43.5%, for the three and nine months ended September 30, 2019, respectively, compared with the same periods in 2018. The increases are primarily due to our acquisition of Meridian in September 2018, additional members in our Florida Medicaid health plan and organic growth in both our Medicare health plans and Medicare PDP segments. The increase was partially offset by the effect of the 2019 ACA Fee Moratorium.

Medical Benefits Expense

Medical benefits expense increased by approximately $1.8 billion, or 43.6%, and $5.9 billion, or 48.8%, for the three and nine months ended September 30, 2019, respectively, compared with the same periods in 2018. The increase was primarily driven by the acquisition of Meridian in September 2018, additional members in our Florida Medicaid health plan and organic growth in our Medicare health plans segment, partially offset by the continued performance in clinical and pharmacy execution.

Selling, General and Administrative ("SG&A") Expense

For the three and nine months ended September 30, 2019 and 2018, when applicable, SG&A expense included certain transaction and integration-related costs associated with the pending Centene Transaction, our acquisition of Aetna's Part D membership, our acquisition of Meridian in September 2018 and our acquisition of Universal American in April 2017 ("transaction and integration costs"). These costs include severance payments, retention costs, technology integration costs, advisory, legal and other professional fees that are reflected in SG&A expense in our condensed consolidated statements of comprehensive income. Additionally, for the three and nine months ended September 30, 2018, SG&A expense under GAAP includes aggregate costs related to previously disclosed government investigations and related litigation and resolution costs ("investigation costs"). Refer to Note 14 - *Commitments and Contingencies* within the condensed consolidated financial statements included in this 2019 Form 10-Q for additional discussion of these investigation costs. Although the above items may recur, we believe that by providing non-GAAP measurements exclusive of these items, we facilitate period-over-period comparisons and provide additional clarity about events and trends affecting our core operating performance, as well as providing comparability to competitor results. The investigation costs are related to a discrete incident, which we do not expect to reoccur. The transaction and integration costs are related to specific events, which do not reflect the underlying ongoing performance of our business. The non-GAAP financial measures should be considered in addition to, but not as a substitute for, or superior to, financial measures prepared in accordance with GAAP. Below is a reconciliation of these non-GAAP measures with the most directly comparable financial measure calculated in accordance with GAAP.

The reconciliation of SG&A expense, including and excluding such costs, is as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2019	2018	2019	2018
	(Dollars in millions)		(Dollars in millions)	
SG&A expense (GAAP)	$ 567.4	$ 433.2	$ 1,558.0	$ 1,167.0
Adjustments:				
Investigation costs	—	(0.1)	—	(0.3)
Transaction and integration costs	(26.6)	(13.1)	(49.6)	(25.5)
Adjusted SG&A expense (non-GAAP)	$ 540.8	$ 420.0	$ 1,508.4	$ 1,141.2
SG&A ratio (GAAP) [1]	7.9%	8.6%	7.5%	8.1%
Adjusted SG&A ratio (non-GAAP) [2]	7.6%	8.5%	7.2%	8.1%

(1) SG&A expense, as a percentage of total revenues.
(2) Adjusted SG&A expense, as a percentage of total revenues, excluding Medicaid premium tax reimbursement and Medicaid ACA industry fee reimbursements. Because reimbursements for Medicaid premium tax and ACA industry fee are both included in the premium rates or reimbursement established in certain of our Medicaid contracts and recognized separately as a component of expense, we exclude these reimbursements from total revenue when calculating key ratios as we believe that these components are not indicative of operating performance.

Our SG&A expense, for the three and nine months ended September 30, 2019, increased approximately $134.2 million and $391.0 million, respectively, compared with the same periods in 2018. The increase was primarily the result of our acquisition of Meridian in September 2018 and staffing and infrastructure costs to support organic growth. Our SG&A ratio decreased 70 basis points and 60 basis points, respectively, for the three and nine months ended September 30, 2019, compared with the same periods in 2018, reflecting leverage in our SG&A on a higher revenue base as a result of our acquisition of Meridian in September 2018 and continued organic growth.

Our Adjusted SG&A expense, for the three and nine months ended September 30, 2019, increased approximately $120.8 million and $367.2 million, respectively, compared with the same periods in 2018. This increase was primarily the result of our acquisition of Meridian in September 2018 and staffing and infrastructure costs to support organic growth. Our Adjusted SG&A ratio decreased 90 basis points for both the three and nine months ended September 30, 2019, compared with the same periods in 2018 reflecting leverage in our SG&A on a higher revenue base as a result of our acquisition of Meridian in September 2018 and continued organic growth.

Income Tax Expense

Income tax expense for the three and nine months ended September 30, 2019, decreased $11.9 million, or 14.1%, and $52.5 million, or 23.9%, respectively, compared with the same periods in 2018. The effective tax rate, for the three and nine months ended September 30, 2019, decreased to 23.2% and 22.5%, respectively, compared with 39.3% and 36.4% for the same periods in 2018. The decrease in income tax expense and the effective tax rate is primarily driven by the effect of the 2019 ACA Fee Moratorium. The ACA industry fee, which was nondeductible for tax purposes, had the effect of increasing our income tax rate in 2018.

Segment Reporting

Reportable operating segments are defined as components of an enterprise for which discrete financial information is available and evaluated on a regular basis by the enterprise's decision-makers to determine how resources should be allocated to an individual segment and to assess performance of those segments. Accordingly, we have three reportable segments: Medicaid Health Plans, Medicare Health Plans and Medicare PDPs.

Segment Financial Performance Measures

Our primary measurements of profitability for our reportable operating segments are premium revenue, gross margin and medical benefits ratio ("MBR"). Gross margin is defined as total revenues less investment and other income, medical benefits expense, costs of products and services, ACA industry fee expense and Medicaid premium tax expense. MBR measures the ratio of medical benefits expense to premium revenue. Our Adjusted MBR (non-GAAP) measures the ratio of medical benefits expense to premium revenue, excluding Medicaid premium taxes reimbursement and Medicaid ACA industry fee reimbursement.

We use gross margin, MBR and, where applicable, Adjusted MBR to monitor our management of medical benefits and medical benefits expense. These metrics are utilized to make various business decisions, including which health care plans to offer, which geographic areas to enter or exit and which health care providers to include in our networks.

For further information regarding premium revenues and medical benefits expense, please refer to "*Premium Revenue Recognition and Premiums Receivable*," and " *Estimating Medical Benefits Expense and Medical Benefits Payable*" in Part II – Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations, under "*Critical Accounting Estimates"* in our 2018 Form 10-K.

Reconciling Segment Results

The following table reconciles our reportable segment results to income from operations, as reported in accordance with GAAP.

	For the Three Months Ended September 30,		Percentage	For the Nine Months Ended September 30,		Percentage
	2019	2018	Change	2019	2018	Change
	(Dollars in millions)			(Dollars in millions)		
Gross Margin						
Medicaid Health Plans	$ 533.2	$ 399.3	33.5 %	$ 1,357.3	$ 1,052.6	28.9%
Medicare Health Plans	307.9	213.7	44.1 %	930.1	673.3	38.1%
Medicare PDPs	58.5	62.6	(6.5)%	137.6	137.4	0.1%
Corporate and Other [1]	7.9	1.3	507.7 %	19.4	1.3	NM
Total gross margin	907.5	676.9	34.1 %	2,444.4	1,864.6	31.1%
Investment and other income	42.5	34.7	22.5 %	120.7	81.0	49.0%
Other expenses	(656.7)	(503.0)	30.6 %	(1,845.6)	(1,341.9)	37.5%
Income from operations	$ 293.3	$ 208.6	40.6 %	$ 719.5	$ 603.7	19.2%

[1] Corporate and other category includes businesses that are not individually reportable because they do not meet the quantitative thresholds required by generally accepted accounting principles.

Medicaid Health Plans

Our Medicaid Health Plans segment includes plans for beneficiaries of Temporary Assistance for Needy Families ("TANF"), Supplemental Security Income ("SSI"), Aged Blind and Disabled ("ABD"), Children's Health Insurance Program ("CHIP") and the Long-Term Services and Supports ("LTSS") program.

Medicaid Health Plans Results of Operations

The following table sets forth the summarized results of operations and other relevant performance measures for our Medicaid Health Plans segment for the three and nine months ended September 30, 2019 and 2018:

	For the Three Months Ended September 30,		Percentage	For the Nine Months Ended September 30,		Percentage
	2019	2018	Change	2019	2018	Change
	(Dollars in millions)			(Dollars in millions)		
Premium revenue [1]	$ 4,841.9	$ 3,120.3	55.2%	$ 13,956.8	$ 8,606.2	62.2%
Medicaid premium tax reimbursement [1]	35.6	31.5	13.0%	99.0	94.2	5.1%
Medicaid ACA industry fee reimbursement [1]	—	71.5	NM	—	199.0	NM
Total premiums	4,877.5	3,223.3	51.3%	14,055.8	8,899.4	57.9%
Medical benefits expense	4,308.7	2,738.1	57.4%	12,599.5	7,601.1	65.8%
ACA industry fee	—	54.4	NM	—	151.5	NM
Medicaid premium tax	35.6	31.5	13.0%	99.0	94.2	5.1%
Gross margin	$ 533.2	$ 399.3	33.5%	$ 1,357.3	$ 1,052.6	28.9%
Medicaid Health Plans MBR [1]	88.3%	84.9%	3.4%	89.6%	85.4%	4.2%
Effect of:						
Medicaid premium taxes	0.7%	0.9%		0.7%	0.9%	
Medicaid ACA industry fee reimbursement	—%	2.0%		—%	2.0%	
Medicaid Health Plans Adjusted MBR [1]	89.0%	87.8%	1.2%	90.3%	88.3%	2.0%
Medicaid membership at end of period:	4,084,000	3,903,000	4.6%			

[1] For GAAP reporting purposes, Medicaid premium tax reimbursement and Medicaid ACA industry fee reimbursement are included in premium revenue to measure our MBR. Our Medicaid Health Plans Adjusted MBR measures the ratio of our medical benefits expense to premium revenue, excluding Medicaid premium tax reimbursement and Medicaid ACA industry fee reimbursement revenue. Because reimbursements for Medicaid premium tax and the ACA industry fee are both included in the premium rates or reimbursement established in certain of our Medicaid contracts and recognized separately as a component of expense, we exclude these reimbursements from premium revenue when calculating key ratios as we believe that these components are not indicative of operating performance.

Medicaid total premiums increased $1.7 billion, or 51.3%, and $5.2 billion, or 57.9%, for the three and nine months ended September 30, 2019, respectively, compared with the same periods in 2018. The increases were primarily driven by net organic growth, including additional growth in our Florida Medicaid health plan, and our acquisition of Meridian in September 2018. The increases were partially offset by the effect of the 2019 ACA Fee Moratorium.

Excluding Medicaid premium taxes and the Medicaid ACA industry fee reimbursements, Medicaid premium revenue increased $1.7 billion, or 55.2%, and $5.4 billion or 62.2%, for the three and nine months ended September 30, 2019, respectively, compared with the same periods in 2018. The increase was primarily driven by net organic growth, including additional growth in our Florida Medicaid health plan, and our acquisition of Meridian in September 2018.

Medical benefits expense increased $1.6 billion, or 57.4%, and $5.0 billion, or 65.8%, for the three and nine months ended September 30, 2019, respectively, compared with the same periods in 2018. The increases were primarily resulting from net organic growth, including the additional growth in our Florida Medicaid health plans, and our acquisition of Meridian in September 2018. These increases were partially offset by the favorable result of continued performance in clinical and pharmacy execution.

Our Medicaid Health Plans segment MBR increased 340 basis points and 420 basis points, for the three and nine months ended September 30, 2019, respectively, compared with the same periods in 2018. The increase is primarily driven by net organic growth in our Florida health plan, where the newer products typically have a higher MBR, our Illinois health plan performance and the effect of the 2019 ACA Fee Moratorium. These increases were partially offset by net premium rate increases in certain of our Medicaid markets and the favorable result of continued performance in clinical and pharmacy execution.

Excluding the effect of Medicaid premium taxes and Medicaid ACA industry fee reimbursements, our Medicaid Health Plans Adjusted MBR increased by 120 basis points and 200 basis points for the three and nine months ended September 30, 2019, respectively, compared with the same periods in 2018. The increase is primarily driven by net organic growth in our Florida health plan, where the newer products typically have a higher MBR, and our Illinois health plan performance, partially offset by net premium rate increases in certain of our Medicaid markets and the favorable result of continued performance in clinical and pharmacy execution.

Medicare Health Plans

We contract with CMS under the Medicare program to provide a comprehensive array of Part C and Part D benefits to Medicare eligible persons provided through our MA plans. Our MA plans are comprised of coordinated care plans ("CCPs"), which are primarily administered through HMOs and generally require members to seek health care services and select a primary care physician from a network of health care providers. Certain MA CCPs are administered through preferred provider organizations ("PPO") and private-fee-for-service ("PFFS"). In addition, we offer Medicare Part D coverage, which provides prescription drug benefits, as a component of most of our MA plans.

Medicare Health Plans Results of Operations

The following table sets forth the summarized results of operations and other relevant performance measures for our Medicare Health Plans segment for the three and nine months ended September 30, 2019 and 2018:

	For the Three Months Ended September 30,		Percentage	For the Nine Months Ended September 30,		Percentage
	2019	2018	Change	2019	2018	Change
Medicare Health Plans:	(Dollars in millions)			(Dollars in millions)		
Premium revenue	$ 1,841.4	$ 1,582.0	16.4 %	$ 5,557.3	$ 4,684.9	18.6 %
Medical benefits expense	1,533.5	1,340.8	14.4 %	4,627.2	3,929.8	17.7 %
ACA industry fee	—	27.5	NM	—	81.8	NM
Gross margin	$ 307.9	$ 213.7	44.1 %	$ 930.1	$ 673.3	38.1 %
MBR	83.3%	84.8%	(1.5)%	83.3%	83.9%	(0.6)%
Membership	563,000	544,000	3.5 %			

Medicare Health Plans premium revenue increased $259.4 million, or 16.4%, and $872.4 million, or 18.6%, for the three and nine months ended September 30, 2019, respectively, compared with the same periods in 2018, driven by organic growth and our acquisition of Meridian in September 2018.

Medical benefits expense increased $192.7 million, or 14.4%, and $697.4 million, or 17.7%, for the three and nine months ended September 30, 2019, respectively, compared with the same periods in 2018, driven by organic growth and our acquisition of Meridian in September 2018. The Medicare Health Plans segment MBR decreased 150 basis points and 60 basis points, respectively, for the three and nine months ended September 30, 2019, compared with the same periods in 2018. The decrease primarily resulted from our 2019 bid positioning and the favorable result of continued performance in clinical and pharmacy execution.

Medicare PDPs

We have contracted with CMS to serve as a plan sponsor offering stand-alone Medicare Part D PDPs to Medicare eligible beneficiaries through our Medicare PDPs segment. The PDP benefit design generally results in our incurring a greater portion of the responsibility for total prescription drug costs in the early stages of a plan year and less in the latter stages of a plan year due to the members' share of cumulative out-of-pocket costs increasing throughout the plan year. As a result, the Medicare PDPs' MBR is generally lower in the second half of the year as compared with the first half. In addition, the level and mix of members who are auto assigned to us and those who actively choose our PDPs will affect the segment MBR pattern across periods.

Medicare PDPs Results of Operations

The following table sets forth the summarized results of operations and other relevant performance measures for our Medicare PDPs segment for the three and nine months ended September 30, 2019 and 2018:

	For the Three Months Ended September 30,		Percentage	For the Nine Months Ended September 30,		Percentage
	2019	2018	Change	2019	2018	Change
Medicare PDPs:	(Dollars in millions)			(Dollars in millions)		
Premium revenue	$ 241.2	$ 182.3	32.3 %	$ 789.3	$ 642.2	22.9%
Medical benefits expense	182.7	115.1	58.7 %	651.7	491.1	32.7%
ACA industry fee	—	4.6	NM	—	13.7	NM
Gross margin	$ 58.5	$ 62.6	(6.5)%	$ 137.6	$ 137.4	0.1%
MBR	75.7%	63.1%	12.6 %	82.6%	76.5%	6.1%
Membership	1,697,000	1,056,000	60.7 %			

As reflected in the table above, Medicare PDPs premium revenue, medical benefits expense and MBR increased for the three and nine months ended September 30, 2019, compared with the same periods in 2018. The increases in premium revenue and medical benefits expense were primarily a result of growth from our new enhanced product offering in 2019. The increase in Medicare PDP MBR was primarily a result of our 2019 bid position, partially offset by the performance of the new enhanced product offering in 2019 and continued performance in pharmacy execution.

BUSINESS TRENDS AND INFLATION

Health care expenditures have grown consistently for many years, and we expect overall health care costs to continue to grow in the future due to inflation, evolving medical technology, pharmaceutical advancement, regulatory requirements, demographic trends in the U.S. population, and national interest in health and wellbeing. We use various strategies to mitigate the negative effects of health care cost inflation. Specifically, our health plans try to control medical and hospital costs through our state savings initiatives and contracts with independent providers of health care services. Through these contracted care providers, our health plans emphasize preventive health care and appropriate use of specialty and hospital services. Additionally, our contracts with states require actuarially sound premiums that include health care cost trend. While we currently believe our strategies to mitigate health care cost inflation will continue to be successful, competitive pressures, new health care and pharmaceutical product introductions, demands from health care providers and customers, applicable health care reform regulations, an increase in the expected rate of inflation for health care costs, or other factors may adversely affect our ability to control health care costs.

OUTLOOK

We expect our full year 2019 premium revenue and medical benefits expense to increase, across all segments, as compared with the full year 2018. The increases are expected to be a result of our acquisition of Meridian in September 2018 and net organic growth across all of our segments. These increases will be partially offset by the effect of the 2019 ACA Fee Moratorium. Additionally, while we anticipate improved SG&A operating leverage associated with premium revenue growth and continued synergies from our acquisitions, we expect the aggregate 2019 SG&A expense, as compared to 2018, to increase resulting from our acquisition of Meridian in September 2018 and net organic growth across all of our segments. Our effective income tax rate is expected to decrease in 2019, compared to 2018, due to the 2019 ACA Fee Moratorium.

LIQUIDITY AND CAPITAL RESOURCES

Each of our existing and anticipated sources of cash is affected by operational and financial risks that influence the overall amount of cash generated and the capital available to us. Additionally, we operate as a holding company in a highly regulated industry. The parent and other non-regulated companies ("non-regulated subsidiaries") are dependent upon dividends and management fees from our regulated subsidiaries, most of which are subject to regulatory restrictions. For a further discussion of risks that can affect our liquidity, see Part I – Item 1A – "*Risk Factors*" included in our 2018 Form 10-K.

Centene Merger Agreement

The Merger Agreement includes restrictions on the conduct of our business prior to completion of the Centene Transaction or termination of the Merger Agreement, generally requiring us to conduct our business in the ordinary course. However, we are subject to various specified restrictions unless we obtain Centene's prior written consent, which may not be unreasonably withheld, delayed or conditioned, or expressly contemplated or permitted by the Merger Agreement or as required by applicable law. Among other things and in each case subject to certain exceptions, we may not:

- incur additional indebtedness (excluding borrowings under our Revolving Credit Facility that are used to manage our ordinary course cash flow needs);
- issue additional shares of our common stock, repurchase our common stock, or pay dividends;
- acquire assets, securities or property, dispose of businesses or assets; or
- authorize any payment of, accrual or commitment for capital expenditures in any calendar year that would exceed by more than 110% the aggregate amount of capital expenditures budgeted for such year.

Liquidity

The Company maintains liquidity at two levels: the regulated subsidiary level and the non-regulated subsidiary level.

Regulated subsidiaries

Our regulated subsidiaries' primary liquidity requirements include:

- payment of medical claims and other health care services;
- payment of certain Part D benefits paid for members on behalf of CMS;
- SG&A costs directly incurred or paid through a management services agreement to one of our non-regulated administrative and management services subsidiaries; and
- federal tax payments to the parent company under an intercompany tax sharing agreement.

Our regulated subsidiaries meet their liquidity needs by:

- generating cash flows from operating activities, mainly from premium revenue;
- receipts of prospective subsidy payments and related final settlements from CMS to reimburse us for certain Part D benefits paid for members on behalf of CMS;
- cash flows from investing activities, including investment income and sales of investments; and
- capital contributions received from our non-regulated subsidiaries.

We refer collectively to the cash, cash equivalents and investment balances maintained by our regulated subsidiaries as "regulated cash and investments." Our regulated subsidiaries generally receive premiums in advance of payments of claims for medical and other health care services; however, regulated cash and investments can fluctuate significantly in a particular period depending on the timing of receipts for premiums from our government partners. Our unrestricted regulated cash and investments were $5.3 billion as of September 30, 2019, an approximate $0.5 billion increase from $4.8 billion at December 31, 2018, due primarily to earnings from operations and contributions received from the parent and non-regulated subsidiaries, partially offset by dividends paid to the unregulated subsidiaries.

Our regulated subsidiaries are each subject to applicable state regulations that, among other things, require the maintenance of minimum levels of capital and surplus. We continue to maintain significant levels of aggregate excess statutory capital and surplus in our regulated subsidiaries. See further discussion under *Regulatory Capital and Dividend Restrictions* below.

Parent and Non-Regulated Subsidiaries

Liquidity requirements at the non-regulated parent and subsidiary level generally consist of:

- payment of administrative costs not directly incurred by our regulated operations, including, but not limited to, staffing costs, business development, rent, branding and certain information technology services;
- capital contributions paid to our regulated subsidiaries;
- capital expenditures;
- debt service; and
- federal and state tax payments.

Our non-regulated parent and subsidiaries normally meet their liquidity requirements by:

- management fees earned by our non-regulated administrator subsidiary under management services agreements;
- dividends received from our regulated subsidiaries;
- collecting federal and state tax payments from the regulated subsidiaries;
- proceeds from issuance of debt and equity securities; and
- cash flows from investing activities, including investment income and sales of investments.

Unregulated cash, cash equivalents and investments totaled approximately $433.9 million as of September 30, 2019, a decrease of approximately $82.1 million from $516.0 million as of December 31, 2018. The decrease is primarily due to capital contributions to our regulated subsidiaries, a net reduction in borrowings outstanding under our Revolving Credit Facility, and the semi-annual interest payment for our 2026 Notes and 2025 Notes, partially offset by dividends from certain of our regulated subsidiaries.

Medicare Part D Funding and Settlements

Funding may be provided to certain regulated subsidiaries from our unregulated subsidiaries to cover any shortfall resulting from the amount of Part D benefits paid for members on behalf of CMS that exceeds the prospective subsidy payments that these regulated subsidiaries receive from CMS. We receive certain Part D prospective subsidy payments from CMS for our MA and PDP members as a fixed monthly per member amount, based on the estimated costs of providing prescription drug benefits over the plan year, as reflected in our bids. A discussion of the subsidy components under Part D is included in Note 2 - *Summary of Significant Accounting Policies* to the consolidated financial statements included in our 2018 Form 10-K. The benefits include the catastrophic reinsurance, premium and cost sharing for low-income Part D members, for which CMS will fully reimburse these subsidies, or recoup overpaid subsidies made during the plan year, as part of its annual settlement process that occurs in the fourth quarter of the subsequent year.

Cash Flow Activities

Our cash flows are summarized as follows:

	For the Nine Months Ended September 30,	
	2019	2018
	(In millions)	
Net cash provided by operating activities	$ 907.6	$ 198.0
Net cash used in investing activities	(1,828.7)	(2,623.0)
Net cash (used in) provided by financing activities	(102.1)	2,534.6
(Decrease) increase in cash, cash equivalents and restricted cash and cash equivalents	$ (1,023.2)	$ 109.6

Cash Flows from Operating Activities

We generally receive premiums in advance of payments of claims for health care services; however, cash flows related to our operations can fluctuate significantly in a particular period depending on the timing of premium receipts from our government partners.

Net cash provided by operating activities for the nine months ended September 30, 2019 was $907.6 million, compared with $198.0 million for the same period in 2018. The increase is primarily due to the timing of Medicaid premium receivable and pharmacy rebate receivable receipts, the timing of medical claims payments and the ACA industry fee payment remitted to the IRS in September 2018.

Cash Flows from Investing Activities

Net cash used in investing activities for the nine months ended September 30, 2019 was $1.8 billion, compared with $2.6 billion for the same period in 2018. The decrease was primarily due to the September 2018 acquisition of Meridian, partially offset by higher purchases of investments during the nine months ended September 30, 2019.

Cash Flows from Financing Activities

Cash flows from financing activities are primarily affected by net funds received or paid for the benefit of members of our MA and PDP plans, as well as debt-related activity and taxes withheld at the end of the vesting period for our equity-compensation awards. Cash used in financing activities for the nine months ended September 30, 2019 was $102.1 million, compared with cash provided by financing activities of $2.5 billion for the same period in 2018, primarily driven by the following:

- Net proceeds of approximately $1.3 billion from the issuance of 5,207,547 shares of our common stock during August 2018;
- Net payments of $100.0 million on borrowings outstanding under our Revolving Credit Facility during the nine months ended September 30, 2019, compared with net proceeds of $935.3 million resulting from debt transactions executed during the nine months ended September 30, 2018. The 2018 debt transactions include net proceeds of $739.0 million from the issuance of our 2026 Notes in August 2018 and net borrowings on our Revolving Credit Facility of $196.3 million during the third quarter of 2018;
- Net funds received for the benefit of members of approximately $25.9 million for the nine months ended September 30, 2019, compared with $250.8 million during the same period in 2018. The year-over-year decrease in funds received was primarily the result of the payments remitted to CMS in June 2019 to settle outstanding liabilities for certain terminated contracts relating to the 2016 Part D plan year.

Capital Resources

Debt

5.375% Senior Notes due 2026

On August 13, 2018, we completed the offering and sale of 5.375% unsecured senior notes due 2026 in the aggregate principal amount of $750.0 million (the “2026 Notes”). The aggregate net proceeds from the issuance of the 2026 Notes were $739.0 million, with the net proceeds from the offering being used to fund a portion of the cash consideration for our acquisition of Meridian in September 2018.

The 2026 Notes will mature on August 15, 2026, and bear interest at a rate of 5.375% per annum, payable semi-annually on February 15 and August 15 of each year, commencing on February 15, 2019.

The 2026 Notes were issued under an indenture, dated as of August 13, 2018 (the “2026 Indenture”), between the Company and The Bank of New York Mellon Trust Company, N.A. ("*BNY Mellon*"), as trustee. The 2026 Indenture under which the notes were issued contains covenants that, among other things, limit our ability and the ability of our subsidiaries under certain circumstances to:

- incur additional indebtedness and issue preferred stock;
- pay dividends or make other distributions;

- make other restricted payments and investments;
- sell assets, including capital stock of restricted subsidiaries;
- create certain liens;
- incur restrictions on the ability of restricted subsidiaries to pay dividends or make other payments, and in the case of our subsidiaries, guarantee indebtedness;
- engage in transactions with affiliates; and
- create unrestricted subsidiaries.

In addition, the 2026 Indenture requires that for the Company to merge, consolidate or sell all or substantially all of its assets, (i) either the Company must be the surviving entity, or the surviving entity or purchaser must be a U.S. entity; (ii) the surviving entity or purchaser must assume all the obligations of the Company under the 2026 Notes and the 2026 Indenture; (iii) no default or event of default (as defined under the Indenture) exists; and (iv) the surviving entity, after giving pro forma effect to the transaction, (x) may incur at least $1.00 of additional indebtedness pursuant to the fixed charge coverage ratio or (y) have a fixed charge coverage ratio that is no worse than the fixed charge coverage ratio of the Company without giving pro forma effect to the transactions.

5.25% Senior Notes due 2025

On March 22, 2017, we completed the offering and sale of our 2025 Notes in the aggregate principal amount of $1,200.0 million, resulting in aggregate net proceeds of $1,182.2 million. A portion of the net proceeds from the offering was used to repay the $100.0 million outstanding under our Credit Agreement, and to redeem the full $900.0 million aggregate principal amount of our 2020 Notes. The remaining net proceeds from the offering of the 2025 Notes were used for general corporate purposes, including organic growth and working capital.

The 2025 Notes were issued under an indenture, dated as of March 22, 2017 (the "Base Indenture"), as supplemented by the First Supplemental Indenture, dated as of March 22, 2017 (the "First Supplemental Indenture" and, together with the Base Indenture, the "2025 Indenture"), each between the Company and BNY Mellon, as trustee. The 2025 Indenture under which the notes were issued contains covenants that, among other things, limit our ability and the ability of our subsidiaries under certain circumstances to:

- incur additional indebtedness and issue preferred stock;
- pay dividends or make other distributions;
- make other restricted payments and investments;
- sell assets, including capital stock of restricted subsidiaries;
- create certain liens;
- incur restrictions on the ability of restricted subsidiaries to pay dividends or make other payments, and in the case of our subsidiaries, guarantee indebtedness;
- engage in transactions with affiliates; and
- create unrestricted subsidiaries.

In addition, the 2025 Indenture requires that for the Company to merge, consolidate or sell all or substantially all of its assets: (i) either the Company must be the surviving entity, or the surviving entity or purchaser must be a U.S. entity; (ii) the surviving entity or purchaser must assume all the obligations of the Company under the 2025 Notes and the 2025 Indenture; (iii) no default or event of default (as defined under the indenture) exists; and (iv) the surviving entity, after giving pro forma effect to the transaction, (x) may incur at least $1.00 of additional indebtedness pursuant to the fixed charge coverage ratio or (y) have a fixed charge coverage ratio that is no worse than the fixed charge coverage ratio of the Company without giving pro forma effect to the transactions.

Credit Agreement

On July 23, 2018, we entered into an amended and restated credit agreement (the “Amended and Restated Credit Agreement”) with JPMorgan Chase Bank, N.A., as administrative agent, and the other lenders party thereto. The Amended and Restated Credit Agreement, among other things, modified the terms of our senior unsecured revolving loan facility (the "Revolving Credit Facility") to (i) increase the total commitments under the Revolving Credit Facility from $1.0 billion to $1.3 billion and (ii) extend the maturity date under the Revolving Credit Facility from January 2021 to July 2023.

Unutilized commitments under the Amended and Restated Credit Agreement are subject to a fee of 0.20% to 0.30% depending upon our ratio of total debt to consolidated EBITDA, as calculated in accordance with the Amended and Restated Credit Agreement.

Revolving Credit Loans designated by us at the time of borrowing as "ABR Loans" that are outstanding under the Credit Agreement bear interest at a rate per annum equal to (i) the greatest of (a) the Prime Rate (as defined in the Credit Agreement) in effect on such day; (b) the Federal Reserve Bank of New York Rate (as defined in the Credit Agreement) in effect on such day plus 1/2 of 1%; and (c) the Adjusted LIBO Rate (as defined in the Credit Agreement) for a one-month interest period on such day plus 1%; plus (ii) the Applicable Rate. Revolving Credit Loans designated by us at the time of borrowing as "Eurodollar Loans" that are outstanding under the Credit Agreement bear interest at a rate per annum equal to the Adjusted LIBO Rate (as defined in the Credit Agreement) for the interest period in effect for such borrowing plus the Applicable Rate. Pursuant to the Amended and Restated Credit Agreement, the "Applicable Rate" decreased to a range of (A) 0.375% to 1.00% per annum for ABR Loans and (B) 1.375% to 2.00% per annum for Eurodollar Loans, in each case depending on our ratio of total debt to consolidated earnings before interest, taxes, depreciation and amortization ("EBITDA"), as calculated in accordance with the Amended and Restated Credit Agreement. The Amended and Restated Credit Agreement includes negative and financial covenants that limit certain of our and our subsidiaries' activities, including (i) restrictions on our and our subsidiaries' ability to incur additional indebtedness; and (ii) financial covenants that require (a) the ratio of total debt to consolidated EBITDA not to exceed a maximum and (b) a minimum interest expense and principal payment coverage ratio.

The Amended and Restated Credit Agreement also contains customary representations and warranties that must be accurate in order for us to borrow under the revolving credit facility. In addition, the Amended and Restated Credit Agreement contains customary events of default. If an event of default occurs and is continuing, we may be required immediately to repay all amounts outstanding under the Amended and Restated Credit Agreement. Lenders holding greater than 50% of the loans and commitments under the Amended and Restated Credit Agreement may elect to accelerate the maturity of the loans.

During the nine months ended September 30, 2019, we made net repayments of $100.0 million on the outstanding balance under our Revolving Credit Facility and, as a result, there was $100.0 million outstanding as of September 30, 2019. Additionally, we were in compliance with all covenants under the 2026 Notes, the 2025 Notes and the Amended and Restated Credit Agreement as of September 30, 2019. For additional information on our long-term debt, see Note 10 - *Debt* in the consolidated financial statements included in our 2018 Form 10-K.

Initiatives to Increase Our Unregulated Cash

Subject to certain restrictions under the Centene Merger Agreement, as discussed above, we may pursue alternatives to raise additional unregulated cash. Some of these initiatives may include, but are not limited to, obtaining dividends from certain of our regulated subsidiaries, provided sufficient capital in excess of regulatory requirements exists in these subsidiaries, and/or accessing the debt and equity capital markets. However, we cannot provide any assurances that we will obtain applicable state regulatory approvals for additional dividends to our non-regulated subsidiaries by our regulated subsidiaries or be successful in accessing the capital markets if we determine to do so. We believe that we have sufficient capital, or sufficient access to capital, including through the Revolving Credit Facility, to meet our capital needs for at least the next twelve months.

Regulatory Capital and Dividend Restrictions

Each of our HMO and insurance subsidiaries must maintain a minimum amount of statutory capital determined by statute or regulation. Such statutes, regulations and capital requirements also restrict the timing, payment and amount of dividends and other distributions, loans or advances that may be paid to us as the sole stockholder. To the extent our HMO and insurance subsidiaries must comply with these regulations, they may not have the financial flexibility to transfer funds to us. Based upon current statutes and regulations, the minimum capital and surplus requirement, or net assets, for these subsidiaries was approximately $1.7 billion and $1.6 billion at September 30, 2019 and December 31, 2018, respectively. Our HMO and insurance subsidiaries were in compliance with these minimum capital requirements.

Under applicable regulatory requirements at September 30, 2019, the amount of dividends that may be paid through the remainder of 2019 by our HMO and insurance subsidiaries without prior approval by regulatory authorities was approximately $173.7 million in the aggregate. We received $462.1 million in dividends from our regulated subsidiaries during the nine months ended September 30, 2019, $255.0 million of which required prior regulatory approval.

For additional information on regulatory requirements, see Note 16 – *Regulatory Capital and Dividend Restrictions* to the consolidated financial statements included in our 2018 Form 10-K.

CRITICAL ACCOUNTING ESTIMATES

There have been no material changes in our critical accounting estimates during the nine months ended September 30, 2019 from those previously disclosed in Part II – Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations, *Critical Accounting Estimates* in our 2018 Form 10-K.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Investment Return Market Risk

As of September 30, 2019, we had cash and cash equivalents of $2.6 billion, investments classified as current assets of $1.1 billion, long-term investments of $2.1 billion and restricted investments on deposit for licensure of $0.3 billion. The short-term investments classified as current assets consist of highly liquid securities with maturities between three and twelve months that are considered available for sale. Restricted assets consist of cash and cash equivalents and U.S. Treasury instruments deposited or pledged to state agencies in accordance with state rules and regulations. These restricted assets are classified as long term regardless of the contractual maturity date due to the nature of the states' requirements. The investments classified as long term are subject to interest rate risk and will decrease in value if market rates increase. Because of their contractual maturity dates, however, we would not expect the value of these investments to decline significantly as a result of a sudden change in market interest rates. Assuming a hypothetical and immediate 1% increase in market rates at September 30, 2019, the fair value of our fixed income investments would decrease by approximately $51.2 million. Similarly, a 1% decrease in market interest rates at September 30, 2019 would increase the fair value of our investments by approximately $51.1 million.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Our management carried out an evaluation required by Rule 13a-15 under the Exchange Act, under the leadership and with the participation of our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), of the effectiveness of our disclosure controls and procedures as defined in Rule 13a-15 under the Exchange Act ("Disclosure Controls"). Based on the evaluation, our CEO and CFO concluded that our Disclosure Controls were effective as of the end of the period covered by this 2019 Form 10-Q.

Changes in Internal Control over Financial Reporting

On September 1, 2018, we acquired Meridian Health Plan of Michigan, Inc., Meridian Health Plan of Illinois, Inc. and MeridianRx, LLC, a pharmacy benefit manager (collectively "Meridian"), which is included in the 2019 consolidated financial statements and constituted 12.8% of total consolidated assets as of September 30, 2019 and 21.9% and 21.6% of total consolidated revenues for the three and nine months ended September 30, 2019, respectively. Refer to Note 2 - *Centene Plan of Merger, Proposed Divestitures and Completed Acquisitions* of this 2019 Form 10-Q for further discussion of the Meridian acquisition.

We continue to integrate, implement, modify and evaluate processes, information technology systems and other components of internal control over financial reporting resulting from the acquisition of Meridian and such evaluation will be reported in management’s annual assessment of internal control over financial reporting in our 2019 Annual Report on Form 10-K.

Excluding Meridian, there has not been any change in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) identified in connection with the evaluation required by Rule 13a-15(d) under the Exchange Act during the quarter ended September 30, 2019 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Part II – OTHER INFORMATION

Item 1. Legal Proceedings.

For information regarding legal proceedings, see Note 14 – *Commitments and Contingencies* to the condensed consolidated financial statements of this Form 10-Q.

Item 1A. Risk Factors.

In addition to the risk factors set forth in Part I - Item 1A - "Risk Factors" of our Annual Report on Form 10-K for the fiscal year ended December 31, 2018 (the "2018 Form 10-K"), investors should carefully consider the following risk factors, which relate to the proposed acquisition of us (the "Centene Transaction") by Centene. These risks should be read in conjunction with the risk factors set forth in the 2018 Form 10-K and the other information contained in this report and our other filings with the Securities and Exchange Commission.

The Centene Transaction is subject to conditions, some or all of which may not be satisfied, or completed on a timely basis, if at all. Failure to complete the Centene Transaction could have material adverse effects on our business, results of operations, financial condition and cash flows.

The completion of the Centene Transaction is subject to a number of conditions, including, among others, (a) the adoption of the Merger Agreement by our stockholders (which occurred on June 24, 2019), (b) the approval of the issuance of the shares of Centene common stock forming part of the merger consideration, as required by the listing standards of the New York Stock Exchange (the "Centene Stock Issuance"), by Centene's stockholders (which occurred on June 24, 2019), (c) the approval for listing on the New York Stock Exchange of the shares of Centene common stock to be issued in connection with the Centene Transaction, (d) the receipt of U.S. federal antitrust clearance and certain other required regulatory approvals, (e) the absence of any law or order prohibiting the consummation of the Centene Transaction or the Centene Stock Issuance, (f) the effectiveness of the registration statement on Form S-4 to be filed with the Securities and Exchange Commission by Centene for the registration of the Centene Stock Issuance under the Securities Act of 1933 (which occurred on May 23, 2019), (g) the absence of a material adverse effect on us or Centene, (h) no burdensome condition being a condition to the receipt of the U.S. federal antitrust clearance or the other required regulatory approvals and none of the U.S. federal antitrust clearance or the other required regulatory approvals containing, including or imposing any burdensome condition and (i) other conditions customary for a transaction of this type, which each and together make the timing and completion of the Centene Transaction uncertain.

Also, either we or Centene may terminate the Merger Agreement if the Centene Transaction has not been consummated by March 26, 2020 (subject to an automatic extension to August 26, 2020 in certain circumstances), except that this right to terminate the Merger Agreement will not be available to any party whose failure to perform any obligation under the Merger Agreement has been the cause of or the primary factor that resulted in the failure of the Centene Transaction to be consummated on or before that date.

If the Centene Transaction is not completed, our business, results of operations, financial condition and cash flows may be materially adversely affected and, without realizing any of the benefits of having completed the Centene Transaction, we will be subject to a number of risks, including the following:

- the market price of our common stock could decline;
- we could owe substantial termination fees to Centene under certain circumstances;
- if the Merger Agreement is terminated and our board of directors seeks another business combination, our stockholders cannot be certain that we will be able to find a party willing to enter into a transaction on terms equivalent to or more attractive than the terms that Centene has agreed to in the Merger Agreement;
- time and resources committed by our management to matters relating to the Centene Transaction could otherwise have been devoted to pursuing other beneficial opportunities for us;
- we may experience negative reactions from the financial markets or from our customers or employees; and
- we will be required to pay our costs relating to the Centene Transaction, such as legal, accounting, financial advisory and printing fees, whether or not the Centene Transaction is completed.

In addition, if the Centene Transaction is not completed, we could be subject to litigation related to any failure to complete the Centene Transaction or related to any enforcement proceeding commenced against us to perform our obligations under the Merger Agreement. The materialization of any of these risks could have material adverse effects on our business, results of operations, financial condition and cash flows.

Similarly, delays in the completion of the Centene Transaction could, among other things, result in additional transaction costs, loss of revenue or other negative effects associated with uncertainty about completion of the Centene Transaction.

The Centene Transaction is subject to the expiration or termination of applicable waiting periods and the receipt of approvals, consents or clearances from regulatory authorities that may impose conditions that could have an adverse effect on us or, if not obtained, could prevent completion of the Centene Transaction.

Before the Centene Transaction may be completed, any waiting period (or extension thereof) under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 applicable to the Centene Transaction must have expired or been terminated and any approvals, consents or clearances required in connection with the Centene Transaction must have been obtained under applicable law. The terms and conditions of the approvals, consents and clearances that are granted may impose requirements, limitations or costs or place restrictions on the conduct of the combined company's business.

Under the Merger Agreement, we and Centene have agreed to use our respective reasonable best efforts to obtain such approvals, consents and clearances and therefore may be required to comply with conditions or limitations imposed by governmental authorities, except that Centene and its subsidiaries are not required to take actions that, individually or in the aggregate, would result in or would reasonably be expected to result in a burdensome condition.

In addition, regulators may impose conditions, terms, obligations or restrictions in connection with their approval of or consent to the Centene Transaction, including potential divestiture of assets, and such conditions, terms, obligations or restrictions may delay completion of the Centene Transaction or impose additional material costs on or materially limit the revenues of the combined company following the completion of the Centene Transaction. There can be no assurance that regulators will choose not to impose such conditions, terms, obligations or restrictions, and, if imposed, such conditions, terms, obligations or restrictions may delay or lead to the abandonment of the Centene Transaction.

We are subject to business uncertainties and contractual restrictions while the Centene Transaction is pending, which could materially adversely affect our business, results of operations, financial condition and cash flows.

In connection with the pendency of the Centene Transaction, it is possible that some customers, suppliers and other persons with whom we have a business relationship may delay or defer certain business decisions or might decide to seek to terminate, change or renegotiate their relationships with us as a result of the Centene Transaction, which could negatively affect our business, results of operations, financial condition and cash flows, as well as the market price of our common stock, regardless of whether the Centene Transaction is completed.

Under the terms of the Merger Agreement, we are subject to certain restrictions on the conduct of our business prior to completing the Centene Transaction, which may adversely affect our ability to execute certain of our business strategies, including the ability in certain cases to enter into or amend contracts, acquire or dispose of assets, incur indebtedness or incur capital expenditures. Such limitations could materially adversely affect our business, results of operations, financial condition and cash flows prior to the completion of the Centene Transaction.

Each of the risks described above may be exacerbated by delays or other adverse developments with respect to the completion of the Centene Transaction.

Uncertainties associated with the Centene Transaction may cause a loss of management personnel and other key employees, and we may have difficulty attracting and motivating management personnel and other key employees, which could materially adversely affect our business, results of operations, financial condition and cash flows.

We are dependent on the experience and industry knowledge of their management personnel and other key employees to execute our business plans. Our success depends in part upon our ability to attract, motivate and retain key management personnel and other key employees. Prior to completion of the Centene Transaction, current and prospective employees may experience uncertainty about their roles within the combined company following the completion of the Centene Transaction, which may have an adverse effect on our ability to attract, motivate or retain management personnel and other key employees.

Lawsuits have been filed against us and Centene and we and Centene may be targets of additional securities class action and derivative lawsuits that could result in substantial costs and may delay or prevent the Centene Transaction from being completed.

Between May 7 and May 9, 2019, three putative class action lawsuits were filed by purported stockholders of WellCare against WellCare and members of the WellCare Board in the United States District Court for the District of Delaware (Stein v. WellCare Health Plans, Inc., et al., Case No. 1:19-cv-00855-LPS ("Stein v. WellCare"); Kent v. WellCare Health Plans, Inc., et al., Case No. 1:19-cv-00865-LPS ("Kent v. WellCare"); and Clarke v. WellCare Health Plans, Inc., et al., Case No. 1:19-

cv-00873-LPS “Clark v. WellCare”). The complaint in Kent v. WellCare also names Centene, Merger Sub I and Merger Sub II as defendants. The complaints in Stein v. WellCare, Kent v. WellCare and Clark v. WellCare purport to assert claims under Sections 14(a) and 20(a) of the Securities Exchange Act of 1934 and allege that the Joint Proxy Statement filed with the SEC on May 23, 2019 contained certain material omissions.

In addition, on May 10, 2019, a putative class action lawsuit was filed by a purported stockholder of WellCare against WellCare, members of the WellCare Board, Centene, Merger Sub 1 and Merger Sub 2 in the Circuit Court of the 13th Judicial Circuit in and for Hillsborough County, Florida (Seabaugh v. WellCare Health Plans, Inc., et al., Case No. 2019CA004942 (“Seabaugh v. WellCare” and, together with Stein v. WellCare, Kent v. WellCare and Clark v. WellCare, the “Lawsuits”). The complaint in Seabaugh v. WellCare alleges that members of the WellCare Board breached their fiduciary duties by, among other things, agreeing to an allegedly unfair and inadequate price, agreeing to deal protection devices that allegedly impede their ability to investigate or obtain higher offers, allegedly failing to protect against certain purported conflicts of interest, and allegedly failing to disclose material information in the Joint Proxy Statement. The complaint further alleges that WellCare, Centene, Merger Sub 1 and Merger Sub 2 aided and abetted these alleged breaches of fiduciary duties. The complaint seeks to enjoin or rescind the mergers and requests an award of attorneys’ fees and damages in an unspecified amount.

On July 1, 2019, the plaintiffs in Stein v. WellCare and Kent v. WellCare filed notices of voluntary dismissal. On September 24, 2019, the plaintiff in Clark v. WellCare filed a notice of voluntary dismissal. On October 8, 2019, the plaintiff in Seabaugh v. WellCare filed a notice of voluntary dismissal.

An adverse judgment in any lawsuits arising out of or relating to the Merger Agreement, the Proxy Statement and/or the Centene Transaction could result in monetary damages, which could have a negative impact on our and Centene’s respective liquidity and financial condition. One of the conditions to completion of the Centene Transaction is the absence of any applicable injunction or other order being in effect that prohibits completion of the Centene Transaction. Accordingly, if a plaintiff is successful in obtaining an injunction prohibiting completion of the Centene Transaction, then that injunction may delay or prevent the Centene Transaction from being completed, or from being completed within the expected timeframe, which may adversely affect our business, financial position and results of operation.

We derive a significant portion of our cash flow and gross margin from our PDP operations, for which we submit annual bids for participation. The results of our bids could materially affect our results of operations, financial condition and cash flows.

A significant portion of our PDP membership is obtained from the auto-assignment of beneficiaries in CMS-designated regions where our PDP premium bids are below benchmarks of other plans’ bids. In general, our premium bids are based on assumptions regarding PDP membership, utilization, drug costs, drug rebates and other factors for each region. Our 2020 PDP bids resulted in 32 of 34 CMS regions in which we were below the benchmarks, and within the *de minimis* range in two other regions, compared with our 2019 PDP bids in which we were below the benchmarks in 21 of the 34 CMS regions, and within the *de minimis* range in ten other regions. For those regions in which we are within the *de minimis* range, we will not be eligible to have new members auto-assigned to us, but we will not lose our existing auto-assigned membership.

If our future Part D premium bids are not below the CMS benchmarks, we risk losing PDP members who were previously assigned to us and we may not have additional PDP members auto-assigned to us, which could materially reduce our revenue and profits.

We are offering a new enhanced PDP product in 2019. In connection with the new business, the actual costs of providing prescription drugs may be higher than we estimated. If our actual costs of providing prescription drugs are higher than our estimated costs of providing prescription drugs when we provided our bids to CMS, our funds receivable from CMS could be higher than we anticipated, which could have a material adverse effect on our cash flows and liquidity.

Any failure by us to manage acquisitions, expansions, divestitures or other significant transactions successfully may have a material adverse effect on our quality scores, results of operations, financial condition and cash flows.

Our business and membership has grown substantially due to acquisitions, such as that of Universal American Corp. ("Universal American") in April 2017, the acquisition of Meridian Health Plan of Michigan, Inc., Meridian Health Plan of Illinois, Inc., and MeridianRx, a pharmacy benefit manager ("PBM") (collectively, “Meridian”) in September 2018, geographic expansions and organic growth, such as the statewide expansion of Medicaid in Missouri. We may not be successful in enhancing our infrastructure to support this continued growth, and delays in infrastructure improvements may have a material adverse effect on our quality scores, results of operations, financial condition and cash flows. In addition, due to the substantial initial costs related to acquisitions and expansions, such growth could adversely affect our short-term profitability and liquidity.

As part of our growth strategy, we identify potential acquisition targets, bid and negotiate acquisition terms, work with regulators to receive regulatory approval for the acquisition and once the transaction is closed, we must integrate the acquisition into our operations. For example, we completed our acquisition of Universal American in April 2017 and our acquisition of Meridian in September 2018 and our acquisition of the entire stand-alone Medicare Part D prescription drug plan membership of Aetna Inc. in November 2018.

Once an attractive acquisition target is identified, we may not be successful in bidding against competitors. Furthermore, we may incur significant transaction expenses in connection with a potential acquisition or expansion opportunity that is not successful. If we are unable to effectively execute our acquisition strategy or integrate acquired businesses, our future growth may suffer and our profitability may decrease.

Even if we are successful in bidding against competitors, we may not be able to complete an acquisition or completion may be delayed. We may not be able to obtain regulatory approval from federal and state agencies required to complete the acquisition. We also may not be able to comply with the regulatory requirements or conditions necessary for approval of the acquisition or state regulators may give preference to competing offers made by locally-owned entities, competitors with higher quality scores or not-for-profit entities. Depending on the transaction size, we also may not be able to obtain appropriate financing.

If we are unable to consummate the acquisitions we pursue, our ongoing business may be materially and adversely affected and, without realizing any of the benefits that we could have realized had the acquisition been completed, we will be subject to a number of risks, including the following:

- the market price of our common stock could decline;
- time and resources committed by our management to matters relating to the acquisition could otherwise have been devoted to pursuing other beneficial opportunities;
- we may experience negative reactions from the financial markets or from our customers or employees;
- we will be required to pay our costs relating to the acquisition, such as termination fees and legal, accounting and financial advisory expenses; and
- we could be subject to litigation related to any failure to complete the acquisition or related to any enforcement proceeding commenced against us to perform our obligations under the transaction agreement.

Similarly, delays in the completion of acquisitions could, among other things, result in additional transaction costs or other negative effects associated with uncertainty about completion of the acquisition and cause us not to realize some or all of the benefits that we expect to achieve if the acquisition is successfully completed within its expected timeframe.

Once acquired, we may have difficulties integrating acquired businesses, such as Meridian and the Aetna Part D membership, within our existing operations, due to factors such as:

- new associates who must become familiar with our operations and company culture;
- difficulty retaining legacy employees and/or attracting new employees because of potential uncertainty in our business relating to the business combination;
- acquired provider networks that operate on different terms than our existing networks and whose contracts may need to be renegotiated;
- existing members who decide to switch to another health care plan;
- separate administrative and information technology systems; and
- difficulties implementing our operations strategy to operate the acquired businesses profitably.

As a result, our acquired businesses may not perform as we anticipated, or in line with our existing businesses, may result in unforeseen expenses, and the anticipated benefits of the integration plan may be delayed or not be realized, which could materially affect our financial position, results of operations and cash flows. In addition, if the expected future profitability of the acquired business declines, we may need to write down or incur impairment charges of the acquired assets. In the future, we may incur material expenses in connection with the integration and execution of acquisitions, expansions, and other significant transactions, including the Meridian acquisition.

Our rate of expansion into new products or other geographic areas may also be affected by factors such as:

- the time and costs associated with obtaining the necessary licenses and approvals to operate;
- lower quality scores compared to our competitors;
- loss of our right to participate in government-sponsored programs, including Medicaid and Medicare;
- participation in fewer lines of business compared to our competitors;
- our inability to develop a network of physicians, hospitals and other health care providers that meets our requirements and those of government regulators;
- delays in the procurement, renewal or implementation of Medicaid or similar programs in new or existing states;
- our ability to serve increased membership;
- CMS or state contract provisions regarding quality measures, such as CMS Star Ratings;
- loss of our ability to expand Medicaid and Medicare programs;
- competition, which increases the cost of recruiting members;
- the cost of providing health care services in those areas;
- demographics and population density; and
- applicable state regulations that, among other things, require the maintenance of minimum levels of capital and surplus.

In any program start-up, acquisition, expansion or re-bid, the implementation of the contract, as designed, may be affected by factors beyond our control. These include political considerations, network development, contract appeals, incumbent Medicaid contractors, participation in other lines of business, membership assignment (allocation of members who do not self-select), errors in the bidding process, changes to the program design or implementation timing, enrollment caps, difficulties experienced by other private vendors involved in the implementation, such as enrollment brokers, and noncompliance with contractual requirements with which we do not yet have experience and similar risks. As a result, our business, particularly plans for expansion or increased membership levels, could be negatively affected.

In addition, when making award determinations and evaluating proposed acquisitions and expansions, regulators frequently consider the plan's historical regulatory compliance, litigation and reputation and we are required to disclose material investigations and litigation, including in some cases investigations and litigation that occurred in the past. As a result of our previous federal and state investigations, stockholder and derivative litigation, the restatement during 2009 of our previously issued financial statements and related matters, and the criminal trial of certain of our former executives and employees that concluded in the second quarter of 2013, we have been, and may continue to be, the subject of negative publicity. Continuing negative publicity and other negative perceptions regarding these matters may adversely affect our ability to grow.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Recent Sales of Unregistered Securities

None.

Issuer Purchases of Equity Securities

None.

Dividends

We have never paid cash dividends on our common stock. We currently intend to retain any future earnings to fund our business, and we do not anticipate paying cash dividends in the foreseeable future. In addition, our Amended and Restated Credit Agreement, the Indentures governing the 2026 Notes and the 2025 Notes and the Centene Merger Agreement include certain restrictions on our ability to pay cash dividends.

Our ability to pay dividends is partially dependent on, among other things, our receipt of cash dividends from our regulated subsidiaries. The ability of our regulated subsidiaries to pay dividends to us is limited by the state departments of insurance in the states in which we operate or may operate, as well as requirements of the government-sponsored health programs in which we participate. Any future determination to pay dividends will be at the discretion of our board and will depend upon, among other factors, our results of operations, financial condition, capital requirements and contractual restrictions. For more information regarding restrictions on the ability of our regulated subsidiaries to pay dividends to us, please see Part I – Financial Information, Item 2 – *Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources.*

Item 3. Defaults Upon Senior Securities.

Not Applicable.

Item 4. Mine Safety Disclosures.

Not Applicable.

Item 5. Other Information.

Not Applicable.

Item 6. Exhibits.

Exhibits are incorporated herein by reference or are filed with this report as set forth in the Exhibit Index.

EXHIBIT INDEX

Exhibit Number	Description	INCORPORATED BY REFERENCE		
		Form	Filing Date with SEC	Exhibit Number
31.1	Certification of Chief Executive Officer pursuant to Section 302 of Sarbanes-Oxley Act of 2002 †			
31.2	Certification of Chief Financial Officer pursuant to Section 302 of Sarbanes-Oxley Act of 2002 †			
32.1	Certification of Chief Executive Officer pursuant to Section 906 of Sarbanes-Oxley Act of 2002 †			
32.2	Certification of Chief Financial Officer pursuant to Section 906 of Sarbanes-Oxley Act of 2002 †			
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document ††			
101.SCH	XBRL Taxonomy Extension Schema Document ††			
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document ††			
101.LAB	XBRL Taxonomy Extension Label Linkbase Document ††			
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document ††			
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document ††			
104	Cover Page Interactive Data File - formatted as inline XBRL and contained in Exhibit 101 ††			

* Denotes a management contract or compensatory plan, contract or arrangement

† Filed herewith.

†† Furnished herewith and not filed for purposes of Section 11 and Section 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934.

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized on October 30, 2019.

WELLCARE HEALTH PLANS, INC.

By: /s/ Andrew L. Asher

Andrew L. Asher

Executive Vice President and Chief Financial Officer (Principal Financial Officer)

By: /s/ Michael Troy Meyer

Michael Troy Meyer

Vice President and Chief Accounting Officer (Principal Accounting Officer)

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Section 2: EX-31.1 (302 CERTIFICATION OF CEO)

EXHIBIT 31.1

CERTIFICATION

I, Kenneth A. Burdick, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of WellCare Health Plans, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 30, 2019

/s/ Kenneth A. Burdick

Kenneth A. Burdick
Chief Executive Officer
(Principal Executive Officer)

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Section 3: EX-31.2 (302 CERTIFICATION OF CFO)

EXHIBIT 31.2

CERTIFICATION

I, Andrew L. Asher, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of WellCare Health Plans, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 30, 2019

/s/ Andrew L. Asher

Andrew L. Asher
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

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Section 4: EX-32.1 (906 CERTIFICATION OF CEO)

EXHIBIT 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of WellCare Health Plans, Inc. (the "Company") for the period ended September 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Form 10-Q"), I, Kenneth A. Burdick, Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Form 10-Q fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: October 30, 2019

/s/ Kenneth A. Burdick

Kenneth A. Burdick
Chief Executive Officer
(Principal Executive Officer)

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Section 5: EX-32.2 (906 CERTIFICATION OF CFO)

EXHIBIT 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of WellCare Health Plans, Inc. (the "Company") for the period ended September 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Form 10-Q"), I, Andrew L. Asher, Executive Vice President and Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Form 10-Q fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: October 30, 2019

/s/ Andrew L. Asher

Andrew L. Asher
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

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