

October 23, 2012



# Centene Corporation Reports 2012 Third Quarter Results

ST. LOUIS, Oct. 23, 2012 /PRNewswire/ -- Centene Corporation (NYSE: CNC) today announced its financial results for the quarter ended September 30, 2012.

During the third quarter of 2012, we recorded net earnings of \$0.07 per diluted share reflecting the following:

|   |    |               |
|---|----|---------------|
| Earnings excluding Kentucky operations      | \$ | 0.78          |
| Third quarter loss from Kentucky operations |    | <u>(0.31)</u> |
| Subtotal                                    |    | 0.47          |
| Kentucky premium deficiency reserve         |    | (0.69)        |
| Gains on sales of investments               |    | 0.21          |
| State tax benefit                           |    | <u>0.08</u>   |
| Net earnings per diluted share              | \$ | <u>0.07</u>   |

During the third quarter of 2012, we recorded a \$63.0 million pre-tax premium deficiency reserve for our Kentucky health plan contract covering the period from October 1, 2012 through July 5, 2013, or \$0.69 per diluted share. We recorded a \$17.9 million pre-tax gain on the sale of an investment in a convertible note and \$1.5 million in gains on the sale of investments in our Georgia health plan, or \$0.21 per diluted share during the third quarter of 2012. We also recorded a \$4.6 million tax benefit, or \$0.08 per diluted share, associated with the clarification by a state regarding the items included in the state income tax calculation.

## Third Quarter Highlights

- Quarter-end at-risk managed care membership of 2,503,000, an increase of 887,300 members, or 55% year over year.
- Premium and service revenues of \$2.2 billion, representing 75% growth year over year.
- Health Benefits Ratio of 93.3%, compared to 85.0% in 2011. Excluding our Kentucky operations, the HBR was 88.7% for the third quarter of 2012.
- General and Administrative expense ratio of 8.2%, compared to 11.3% in 2011.
- Operating cash flow of \$317.2 million for the third quarter of 2012.

## Other Events

- In July 2012, the Company began operating under a new contract with the Washington Health Care Authority to serve Medicaid beneficiaries in the state, initially operating as Coordinated Care.
- In July 2012, the Company's subsidiary, Home State Health Plan, began operating under a new contract with the Office of Administration for Missouri to serve Medicaid beneficiaries in the Eastern, Central, and Western Managed Care Regions of the state.
- In August 2012, we were notified by the Ohio Department of Job and Family Services that Buckeye Community Health Plan, our Ohio subsidiary, was selected to serve Medicaid members in a dual-eligible demonstration program in three of Ohio's pre-determined seven regions: Northeast (Cleveland), Northwest (Toledo) and West Central

(Dayton). This three-year program, which is part of the state of Ohio's Integrated Care Delivery System expansion, will serve those who have both Medicare and Medicaid eligibility. Enrollment is expected to begin in the second half of 2013.

- In October 2012, we announced that our subsidiary, Kentucky Spirit Health Plan (Kentucky Spirit), notified the Cabinet for Health and Family Services that it is exercising a contractual right that it believes allows Kentucky Spirit to terminate its Medicaid managed care contract with the Commonwealth of Kentucky effective July 5, 2013. We have also filed a formal dispute with the Cabinet for damages incurred under the contract. In addition, we have filed a lawsuit in Franklin Circuit Court against the Commonwealth of Kentucky seeking declaratory relief as a result of the Commonwealth's failure to completely and accurately disclose material information.

Michael F. Neidorff, Centene's Chairman and Chief Executive Officer, stated, "The third quarter results demonstrate our commitment to addressing issues identified in the second quarter. While progress has been made, there is more work to be done to achieve and sustain our targeted margins."

The following table sets forth the Company's membership by state for its managed care organizations:

|                          | <b>September 30,</b> |                  |
|--------------------------|----------------------|------------------|
|                          | <b>2012</b>          | <b>2011</b>      |
| Arizona                  | 23,800               | 22,800           |
| Florida                  | 209,600              | 188,600          |
| Georgia                  | 312,400              | 298,000          |
| Illinois                 | 17,900               | 13,600           |
| Indiana                  | 205,400              | 205,300          |
| Kentucky                 | 145,400              | —                |
| Louisiana                | 167,200              | —                |
| Massachusetts            | 28,000               | 34,700           |
| Mississippi              | 30,600               | 30,600           |
| Missouri                 | 53,900               | —                |
| Ohio                     | 173,800              | 162,200          |
| South Carolina           | 89,400               | 86,500           |
| Texas                    | 930,700              | 494,500          |
| Washington               | 42,000               | —                |
| Wisconsin                | 72,900               | 78,900           |
| Total at-risk membership | <u>2,503,000</u>     | <u>1,615,700</u> |
| Non-risk membership      | <u>—</u>             | <u>10,600</u>    |
| Total                    | <u>2,503,000</u>     | <u>1,626,300</u> |

The following table sets forth our membership by line of business:

|                          | <b>September 30,</b> |                  |
|--------------------------|----------------------|------------------|
|                          | <b>2012</b>          | <b>2011</b>      |
| Medicaid                 | 1,939,400            | 1,189,900        |
| CHIP & Foster Care       | 229,600              | 210,600          |
| ABD & Medicare           | 289,800              | 171,700          |
| Hybrid Programs          | 35,700               | 38,400           |
| Long-term Care           | 8,500                | 5,100            |
| Total at-risk membership | <u>2,503,000</u>     | <u>1,615,700</u> |
| Non-risk membership      | <u>—</u>             | <u>10,600</u>    |
| Total                    | <u>2,503,000</u>     | <u>1,626,300</u> |

The following table identifies the Company's dual eligible membership by line of business. The membership tables above include these members.

|                | <b>September 30,</b> |               |
|----------------|----------------------|---------------|
|                | <b>2012</b>          | <b>2011</b>   |
| ABD            | 76,900               | 34,000        |
| Long-term Care | 7,800                | 4,700         |
| Medicare       | 4,000                | 3,100         |
| Total          | <u>88,700</u>        | <u>41,800</u> |

## Statement of Operations: Three Months Ended September 30, 2012

- For the third quarter of 2012, Premium and Service Revenues increased 75% to \$2.2 billion from \$1.3 billion in the third quarter of 2011. The increase was primarily driven by the Texas and Arizona expansions, pharmacy carve-ins in Texas and Ohio, the additions between years of Kentucky, Louisiana, Missouri and Washington contracts and membership growth.
- Consolidated HBR of 93.3% for the third quarter of 2012 represents an increase from 85.0% in the comparable period in 2011 and 92.9% from the second quarter of 2012. The increase compared to last year primarily reflects the recognition of a \$63.0 million premium deficiency reserve for our Kentucky contract as well as increased medical costs in Kentucky. Excluding the Kentucky health plan operations, the third quarter 2012 HBR was 88.7%.
- Consolidated G&A expense ratio for the third quarter of 2012 was 8.2%, compared to 11.3% in the prior year. The year over year decrease reflects the leveraging of expenses over higher revenues and a reduction in performance based compensation expense which lowered the ratio by 50 basis points.
- Earnings from operations were \$(27.6) million in the third quarter 2012 compared to \$48.5 million in the third quarter 2011. Net earnings attributable to Centene Corporation were \$3.8 million in the third quarter 2012, compared to \$29.0 million in the third quarter of 2011.
- Earnings per diluted share were \$0.07 in the third quarter of 2012 compared to \$0.55 in the prior year.

## Balance Sheet and Cash Flow

At September 30, 2012, the Company had cash, investments and restricted deposits of \$1,529.8 million, including \$36.0 million held by its unregulated entities. Medical claims liabilities totaled \$919.0 million, representing 42.8 days in claims payable excluding the expense and liability for the Kentucky premium deficiency reserve. Total debt was \$395.3 million which includes \$40.0 million drawn on the \$350 million revolving credit facility at quarter end. Debt to capitalization was 25.0% at September 30, 2012, excluding the \$76.0 million non-recourse mortgage note. Cash flow from operations for the three months ended September 30, 2012 was \$317.2 million.

A reconciliation of the Company's change in days in claims payable from the immediately preceding quarter-end is presented below:

|  |             |
|--|-------------|
| Days in claims payable, June 30, 2012      | 41.4        |
| Timing of claim payments                   | 0.9         |
| Impact of new business                     | 0.5         |
| Days in claims payable, September 30, 2012 | <u>42.8</u> |

## Outlook

The table below depicts the Company's annual guidance for 2012.

|  | Low      |   | High     |   |
|--|----------|---|----------|---|
| Premium and Service Revenues (in millions) | \$ 8,100 |   | \$ 8,300 |   |
| Diluted EPS                                | \$ 0.56  |   | \$ 0.66  |   |
| Consolidated Health Benefits Ratio         | 90.0     | % | 91.0     | % |
| General & Administrative expense ratio     | 8.5      | % | 8.8      | % |
| Diluted Shares Outstanding (in thousands)  | 53,600   |   | 53,800   |   |

The Company's updated guidance reflect business expansion costs of \$0.12 to \$0.15 per diluted share in the fourth quarter, including business expansion costs for Kansas which is expected to commence in January 2013.

## **Conference Call**

As previously announced, the Company will host a conference call Tuesday, October 23, 2012, at 8:30 A.M. (Eastern Time) to review the financial results for the third quarter ended September 30, 2012, and to discuss its business outlook. Michael F. Neidorff and William N. Scheffel will host the conference call. Investors and other interested parties are invited to listen to the conference call by dialing 1-877-270-2148 in the U.S. and Canada; +1-412-902-6510 from abroad; or via a live, audio webcast on the Company's website at [www.centene.com](http://www.centene.com), under the Investors section. A webcast replay will be available for on-demand listening shortly after the completion of the call for the next twelve months or until 11:59 p.m. (Eastern Time) on Tuesday, October 22, 2013, at the aforementioned URL. In addition, a digital audio playback will be available until 9:00 a.m. (Eastern Time) on Tuesday, October 30, 2012, by dialing 1-877-344-7529 in the U.S. and Canada, or +1-412-317-0088 from abroad, and entering access code 10018806.

## **Non-GAAP Financial Presentation**

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

## **About Centene Corporation**

Centene Corporation, a Fortune 500 company, is a leading *multi-line* healthcare enterprise that provides programs and related services to the rising number of under-insured and uninsured individuals. Many receive benefits provided under Medicaid, including the State Children's Health Insurance Program (CHIP), as well as Aged, Blind or Disabled (ABD), Foster Care and long-term care, in addition to other state-sponsored/hybrid programs, and Medicare (Special Needs Plans). Centene's CeltiCare subsidiary offers states unique, "exchange based" and other cost-effective coverage solutions for low-income populations. The Company operates local health plans and offers a range of health insurance solutions. It also contracts with other healthcare and commercial organizations to provide specialty services including behavioral health, life and health management, managed vision, telehealth services, and pharmacy benefits management.

*The information provided in this press release contains forward-looking statements that relate to future events and future financial performance of Centene. Subsequent events and developments may cause the Company's estimates to change. The Company disclaims any obligation to update this forward-looking financial information in the future. Readers are cautioned that matters subject to forward-looking statements involve known and unknown risks and uncertainties, including economic, regulatory, competitive and other factors that may cause Centene's or its industry's actual results, levels of activity, performance or*

achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. Actual results may differ from projections or estimates due to a variety of important factors, including Centene's ability to accurately predict and effectively manage health benefits and other operating expenses and reserves, competition, membership and revenue projections, timing of regulatory contract approval, changes in healthcare practices, changes in federal or state laws or regulations, changes in expected contract start dates, inflation, provider and state contract changes, new technologies, reduction in provider payments by governmental payors, major epidemics, disasters and numerous other factors affecting the delivery and cost of healthcare, as well as those factors disclosed in the Company's publicly filed documents. The expiration, cancellation or suspension of Centene's Medicaid Managed Care contracts, or the loss of any appeal of or protest to any such expiration, cancellation or suspension, by state governments would also negatively affect Centene.

[Tables Follow]

**CENTENE CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(In thousands, except share data)  
(Unaudited)

|  | September 30,<br>2012 | December 31,<br>2011 |
|--|-----------------------|----------------------|
| <b>ASSETS</b>  |                       |                      |
| Current assets:  |                       |                      |
| Cash and cash equivalents  | \$ 796,621            | \$ 573,698           |
| Premium and related receivables  | 316,123               | 157,450              |
| Short-term investments   | 139,920               | 130,499              |
| Other current assets   | 123,841               | 78,363               |
| Total current assets   | 1,376,505             | 940,010              |
| Long-term investments  | 559,714               | 506,140              |
| Restricted deposits  | 33,509                | 26,818               |
| Property, software and equipment, net  | 381,781               | 349,622              |
| Goodwill   | 256,288               | 281,981              |
| Intangible assets, net   | 21,375                | 27,430               |
| Other long-term assets   | 61,764                | 58,335               |
| Total assets   | <u>\$ 2,690,936</u>   | <u>\$ 2,190,336</u>  |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                       |                      |
| Current liabilities:   |                       |                      |
| Medical claims liability   | \$ 919,032            | \$ 607,985           |
| Premium deficiency reserve   | 63,000                | —                    |
| Accounts payable and accrued expenses  | 162,778               | 216,504              |
| Unearned revenue   | 131,967               | 9,890                |
| Current portion of long-term debt  | 3,337                 | 3,234                |
| Total current liabilities  | 1,280,114             | 837,613              |
| Long-term debt   | 391,973               | 348,344              |
| Other long-term liabilities  | 61,785                | 67,960               |
| Total liabilities  | 1,733,872             | 1,253,917            |
| Commitments and contingencies  |                       |                      |
| Stockholders' equity:  |                       |                      |
| Common stock, \$.001 par value; authorized 100,000,000 shares; 54,405,296 issued and 51,632,704 outstanding at September 30, 2012, and 53,586,726 issued and 50,864,618 outstanding at December 31, 2011 | 54                    | 54                   |
| Additional paid-in capital   | 458,741               | 421,981              |
| Accumulated other comprehensive income:  |                       |                      |
| Unrealized gain on investments, net of tax   | 6,702                 | 5,761                |
| Retained earnings  | 557,759               | 564,961              |
| Treasury stock, at cost (2,772,592 and 2,722,108 shares, respectively)   | (59,277)              | (57,123)             |
| Total Centene stockholders' equity   | 963,979               | 935,634              |
| Noncontrolling interest  | (6,915)               | 785                  |
| Total stockholders' equity   | 957,064               | 936,419              |
| Total liabilities and stockholders' equity   | <u>\$ 2,690,936</u>   | <u>\$ 2,190,336</u>  |

**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(In thousands, except share data)

|  | (Unaudited)                      |                  | (Unaudited)                     |                  |
|--|----------------------------------|------------------|---------------------------------|------------------|
|  | Three Months Ended September 30, |                  | Nine Months Ended September 30, |                  |
|  | 2012                             | 2011             | 2012                            | 2011             |
| <b>Revenues:</b>   |                                  |                  |                                 |                  |
| Premium  | \$ 2,184,061                     | \$ 1,239,464     | \$ 5,853,469                    | \$ 3,640,829     |
| Service  | 28,403                           | 25,817           | 84,062                          | 81,629           |
| Premium and service revenues   | 2,212,464                        | 1,265,281        | 5,937,531                       | 3,722,458        |
| Premium tax  | 235,657                          | 36,754           | 333,484                         | 110,948          |
| Total revenues   | 2,448,121                        | 1,302,035        | 6,271,015                       | 3,833,406        |
| <b>Expenses:</b>   |                                  |                  |                                 |                  |
| Medical costs  | 2,036,999                        | 1,053,320        | 5,370,080                       | 3,091,007        |
| Cost of services   | 21,744                           | 20,229           | 66,897                          | 60,717           |
| General and administrative expenses  | 181,073                          | 142,934          | 512,322                         | 427,067          |
| Premium tax expense  | 235,946                          | 37,005           | 333,872                         | 111,668          |
| Impairment loss  | —                                | —                | 28,033                          | —                |
| Total operating expenses   | 2,475,762                        | 1,253,488        | 6,311,204                       | 3,690,459        |
| Earnings (loss) from operations  | (27,641)                         | 48,547           | (40,189)                        | 142,947          |
| <b>Other income (expense):</b>   |                                  |                  |                                 |                  |
| Investment and other income  | 23,244                           | 2,697            | 32,580                          | 9,379            |
| Debt extinguishment costs  | —                                | —                | —                               | (8,488)          |
| Interest expense   | (4,855)                          | (4,572)          | (14,393)                        | (15,523)         |
| Earnings (loss) from operations, before income tax expense                       | (9,252)                          | 46,672           | (22,002)                        | 128,315          |
| Income tax expense (benefit)   | (9,547)                          | 18,459           | (6,068)                         | 49,216           |
| Net earnings (loss)  | 295                              | 28,213           | (15,934)                        | 79,099           |
| <b>Noncontrolling interest</b>   | (3,524)                          | (774)            | (8,732)                         | (2,007)          |
| <b>Net earnings (loss) attributable to Centene Corporation</b>                   | <b>\$ 3,819</b>                  | <b>\$ 28,987</b> | <b>\$ (7,202)</b>               | <b>\$ 81,106</b> |
| <b>Net earnings (loss) per common share attributable to Centene Corporation:</b> |                                  |                  |                                 |                  |
| Basic earnings (loss) per common share   | \$ 0.07                          | \$ 0.58          | \$ (0.14)                       | \$ 1.62          |
| Diluted earnings (loss) per common share   | \$ 0.07                          | \$ 0.55          | \$ (0.14)                       | \$ 1.55          |
| <b>Weighted average number of common shares outstanding:</b>                     |                                  |                  |                                 |                  |
| Basic  | 51,584,860                       | 50,345,512       | 51,393,345                      | 50,089,845       |
| Diluted  | 53,806,197                       | 52,620,350       | 51,393,345                      | 52,320,906       |

**CENTENE CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In thousands)  
(Unaudited)

|   | (Unaudited) |           |
|---|-------------|-----------|
|   | 2012        | 2011      |
| <b>Cash flows from operating activities:</b>  |             |           |
| Net earnings (loss)   | \$ (15,934) | \$ 79,099 |
| Adjustments to reconcile net earnings (loss) to net cash provided by operating activities |             |           |
| Depreciation and amortization   | 49,892      | 43,055    |
| Stock compensation expense  | 18,417      | 13,263    |
| Impairment loss   | 28,033      | —         |
| Gain on sale of investment in convertible note  | (17,880)    | —         |
| Gain on sale of investments, net  | (1,460)     | (213)     |
| Debt extinguishment costs   | —           | 8,488     |
| Deferred income taxes   | (19,318)    | (223)     |
| Changes in assets and liabilities   |             |           |
| Premium and related receivables   | (139,414)   | (13,306)  |
| Other current assets  | (23,487)    | (6,667)   |
| Other assets  | 1,918       | (1,230)   |
| Medical claims liabilities  | 374,046     | 40,476)   |
| Unearned revenue  | 122,077     | (65,183)  |

|   |                   |                   |
|---|-------------------|-------------------|
| Accounts payable and accrued expenses                 | (59,872)          | (11,414)          |
| Other operating activities                            | (9,736)           | 3,528             |
| Net cash provided by operating activities             | <u>307,282</u>    | <u>89,673</u>     |
| <b>Cash flows from investing activities:</b>          |                   |                   |
| Capital expenditures                                  | (70,601)          | (56,938)          |
| Purchases of investments                              | (501,958)         | (201,145)         |
| Sales and maturities of investments                   | 434,009           | 180,124           |
| Investments in acquisitions, net of cash acquired     | —                 | (3,192)           |
| Net cash used in investing activities                 | <u>(138,550)</u>  | <u>(81,151)</u>   |
| <b>Cash flows from financing activities:</b>          |                   |                   |
| Proceeds from exercise of stock options               | 11,686            | 13,582            |
| Proceeds from borrowings                              | 215,000           | 419,183           |
| Payment of long-term debt                             | (177,422)         | (415,475)         |
| Excess tax benefits from stock compensation           | 6,049             | 1,632             |
| Common stock repurchases                              | (2,154)           | (1,280)           |
| Contribution from noncontrolling interest             | 1,032             | 569               |
| Debt issue costs                                      | —                 | (9,242)           |
| Net cash provided by financing activities             | <u>54,191</u>     | <u>8,969</u>      |
| Net increase in cash and cash equivalents             | <u>222,923</u>    | <u>17,491</u>     |
| <b>Cash and cash equivalents, beginning of period</b> | <u>573,698</u>    | <u>434,166</u>    |
| <b>Cash and cash equivalents, end of period</b>       | <u>\$ 796,621</u> | <u>\$ 451,657</u> |
| Supplemental disclosures of cash flow information:    |                   |                   |
| Interest paid   | \$ 12,127         | \$ 16,097         |
| Income taxes paid                                     | \$ 34,001         | \$ 49,996         |

**CENTENE CORPORATION  
SUPPLEMENTAL FINANCIAL DATA**

|                                     | <u>Q3<br/>2012</u> | <u>Q2<br/>2012</u> | <u>Q1<br/>2012</u> | <u>Q4<br/>2011</u> | <u>Q3<br/>2011</u> |
|-------------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| <b>MEMBERSHIP</b>                   |                    |                    |                    |                    |                    |
| Managed Care:                       |                    |                    |                    |                    |                    |
| Arizona                             | 23,800             | 24,000             | 23,100             | 23,700             | 22,800             |
| Florida                             | 209,600            | 204,100            | 199,500            | 198,300            | 188,600            |
| Georgia                             | 312,400            | 313,300            | 306,000            | 298,200            | 298,000            |
| Illinois                            | 17,900             | 17,800             | 17,400             | 16,300             | 13,600             |
| Indiana                             | 205,400            | 205,000            | 206,300            | 206,900            | 205,300            |
| Kentucky                            | 145,400            | 143,500            | 145,700            | 180,700            | —                  |
| Louisiana                           | 167,200            | 168,700            | 51,300             | —                  | —                  |
| Massachusetts                       | 28,000             | 41,400             | 36,000             | 35,700             | 34,700             |
| Mississippi                         | 30,600             | 30,100             | 29,500             | 31,600             | 30,600             |
| Missouri                            | 53,900             | —                  | —                  | —                  | —                  |
| Ohio                                | 173,800            | 166,800            | 161,000            | 159,900            | 162,200            |
| South Carolina                      | 89,400             | 87,800             | 86,700             | 82,900             | 86,500             |
| Texas                               | 930,700            | 919,200            | 811,000            | 503,800            | 494,500            |
| Washington                          | 42,000             | —                  | —                  | —                  | —                  |
| Wisconsin                           | 72,900             | 75,800             | 76,000             | 78,000             | 78,900             |
| Total at-risk membership            | <u>2,503,000</u>   | <u>2,397,500</u>   | <u>2,149,500</u>   | <u>1,816,000</u>   | <u>1,615,700</u>   |
| Non-risk membership                 | —                  | —                  | —                  | 4,900              | 10,600             |
| <b>TOTAL</b>                        | <u>2,503,000</u>   | <u>2,397,500</u>   | <u>2,149,500</u>   | <u>1,820,900</u>   | <u>1,626,300</u>   |
| Medicaid                            | 1,939,400          | 1,848,500          | 1,634,800          | 1,336,800          | 1,189,900          |
| CHIP & Foster Care                  | 229,600            | 222,600            | 218,800            | 213,900            | 210,600            |
| ABD & Medicare                      | 289,800            | 269,900            | 247,400            | 218,000            | 171,700            |
| Hybrid Programs                     | 35,700             | 48,100             | 41,500             | 40,500             | 38,400             |
| Long-term Care                      | 8,500              | 8,400              | 7,000              | 6,800              | 5,100              |
| Total at-risk membership            | <u>2,503,000</u>   | <u>2,397,500</u>   | <u>2,149,500</u>   | <u>1,816,000</u>   | <u>1,615,700</u>   |
| Non-risk membership                 | —                  | —                  | —                  | 4,900              | 10,600             |
| <b>TOTAL</b>                        | <u>2,503,000</u>   | <u>2,397,500</u>   | <u>2,149,500</u>   | <u>1,820,900</u>   | <u>1,626,300</u>   |
| Specialty Services <sup>(a)</sup> : |                    |                    |                    |                    |                    |
| Cenpatco Behavioral Health          |                    |                    |                    |                    |                    |
| Arizona                             | 162,000            | 159,900            | 162,100            | 168,900            | 175,500            |
| Kansas                              | 48,500             | 44,300             | 46,000             | 46,200             | 45,600             |
| <b>TOTAL</b>                        | <u>210,500</u>     | <u>204,200</u>     | <u>208,100</u>     | <u>215,100</u>     | <u>221,100</u>     |

<sup>(a)</sup> Includes external membership only.

|   |        |        |        |        |        |
|---|--------|--------|--------|--------|--------|
| <b>REVENUE PER MEMBER PER MONTH<sup>(b)</sup></b> | \$ 283 | \$ 279 | \$ 269 | \$ 262 | \$ 245 |
|---|--------|--------|--------|--------|--------|

**CLAIMS<sup>(b)</sup>**

|                                 |         |           |         |         |         |
|---------------------------------|---------|-----------|---------|---------|---------|
| Period-end inventory            | 826,804 | 1,195,000 | 735,000 | 495,500 | 482,900 |
| Average inventory               | 547,393 | 640,600   | 457,400 | 367,590 | 312,400 |
| Period-end inventory per member | 0.33    | 0.50      | 0.34    | 0.27    | 0.30    |

(b) Revenue per member and claims information are presented for the Managed Care at-risk members.

|                            |       |       |       |       |       |
|----------------------------|-------|-------|-------|-------|-------|
| <b>NUMBER OF EMPLOYEES</b> | 6,400 | 6,200 | 5,700 | 5,300 | 5,000 |
|----------------------------|-------|-------|-------|-------|-------|

|  | <u>Q3<br/>2012</u> | <u>Q2<br/>2012</u> | <u>Q1<br/>2012</u> | <u>Q4<br/>2011</u> | <u>Q3<br/>2011</u> |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|
|--|--------------------|--------------------|--------------------|--------------------|--------------------|

**DAYS IN CLAIMS**

|                              |      |      |      |      |      |
|------------------------------|------|------|------|------|------|
| <b>PAYABLE<sup>(c)</sup></b> | 42.8 | 41.4 | 44.7 | 45.3 | 43.6 |
|------------------------------|------|------|------|------|------|

(c) Days in Claims Payable is a calculation of Medical Claims Liabilities at the end of the period divided by average claims expense per calendar day for such period, excluding the Kentucky premium deficiency reserve expense and liability.

**CASH AND INVESTMENTS (in millions)**

|              |                   |                   |                   |                   |                   |
|--------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Regulated    | \$ 1,493.8        | \$ 1,198.2        | \$ 1,166.9        | \$ 1,198.9        | \$ 1,079.3        |
| Unregulated  | \$ 36.0           | \$ 40.6           | \$ 35.5           | \$ 38.2           | \$ 35.9           |
| <b>TOTAL</b> | <u>\$ 1,529.8</u> | <u>\$ 1,238.8</u> | <u>\$ 1,202.4</u> | <u>\$ 1,237.1</u> | <u>\$ 1,115.2</u> |

|                               |        |        |        |        |        |
|-------------------------------|--------|--------|--------|--------|--------|
| <b>DEBT TO CAPITALIZATION</b> | 29.2 % | 30.1 % | 26.4 % | 27.3 % | 28.0 % |
|-------------------------------|--------|--------|--------|--------|--------|

|   |        |        |        |        |        |
|---|--------|--------|--------|--------|--------|
| <b>DEBT TO CAPITALIZATION EXCLUDING NON-RECOURSE DEBT<sup>(d)</sup></b> | 25.0 % | 25.9 % | 21.8 % | 22.6 % | 23.2 % |
|---|--------|--------|--------|--------|--------|

Debt to Capitalization is calculated as follows: total debt divided by (total debt + total equity).

(d) The non-recourse debt represents the Company's mortgage note payable (\$76.0 million at September 30, 2012.)

**Operating Ratios:**

|  | <u>Three Months Ended September<br/>30,</u> |             | <u>Nine Months Ended September<br/>30,</u> |             |
|--|---|-------------|--|-------------|
|  | <u>2012</u>                                 | <u>2011</u> | <u>2012</u>                                | <u>2011</u> |
| Health Benefits Ratios:                      |   |             |  |             |
| Medicaid and CHIP                            | 91.8 %                                      | 81.5 %      | 90.8 %                                     | 82.3 %      |
| ABD and Medicare                             | 97.3  | 92.0        | 93.4                                       | 90.3        |
| Specialty Services                           | 89.5  | 87.9        | 92.5                                       | 87.4        |
| Total  | 93.3  | 85.0        | 91.7                                       | 84.9        |
| Total General & Administrative Expense Ratio | 8.2 %                                       | 11.3 %      | 8.6 %                                      | 11.5 %      |

**MEDICAL CLAIMS LIABILITY (In thousands)**

The changes in medical claims liability are summarized as follows:

|                                    |                   |
|------------------------------------|-------------------|
| <b>Balance, September 30, 2011</b> | \$ 498,705        |
| Incurred related to:               |                   |
| Current period                     | 6,659,744         |
| Prior period                       | (55,925)          |
| Total incurred                     | <u>6,603,819</u>  |
| Paid related to:                   |                   |
| Current period                     | 5,684,404         |
| Prior period                       | 436,088           |
| Total paid                         | <u>6,120,492</u>  |
| Less: Premium Deficiency Reserve   | \$ 63,000         |
| <b>Balance, September 30, 2012</b> | <u>\$ 919,032</u> |



Centene's claims reserving process utilizes a consistent actuarial methodology to estimate Centene's ultimate liability. Any reduction in the "Incurred related to: Prior period" amount may be offset as Centene actuarially determines "Incurred related to: Current period." As such, only in the absence of a consistent reserving methodology would favorable development of prior period claims liability estimates reduce medical costs. Centene believes it has consistently applied its claims reserving methodology in each of the periods presented.

The amount of the "Incurred related to: Prior period" above represents favorable development and includes the effects of reserving under moderately adverse conditions, new markets where we use a conservative approach in setting reserves during the initial periods of operations, receipts from other third party payors related to coordination of benefits and lower medical utilization and cost trends for dates of service prior to September 30, 2011.

SOURCE Centene Corporation

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