

CENTENE CORP
Form 10-Q
April 25, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2017

OR

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

For the transition period from _____ to _____

Commission file number: 001-31826

CENTENE CORPORATION
(Exact name of registrant as specified in its charter)

Delaware 42-1406317
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification Number)

7700 Forsyth Boulevard
St. Louis, Missouri 63105
(Address of principal executive offices) (Zip Code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). x Yes o No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "small reporting company" in Rule 12b-2 of the Exchange Act. Large accelerated filer x Accelerated filer o Non-accelerated filer o (do not check if a smaller reporting company) Smaller reporting company o Emerging growth company o

Edgar Filing: CENTENE CORP - Form 10-Q

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 April 14, 2017, the registrant had 172,277,703 shares of common stock outstanding.

CENTENE CORPORATION
 QUARTERLY REPORT ON FORM 10-Q
 TABLE OF CONTENTS

| | PAGE |
|---|-----------|
| Part I | |
| Financial Information | |
| Item 1. <u>Financial Statements</u> | <u>1</u> |
| <u>Consolidated Balance Sheets as of March 31, 2017 (unaudited) and December 31, 2016</u> | <u>1</u> |
| <u>Consolidated Statements of Operations for the Three Months Ended March 31, 2017 and 2016 (unaudited)</u> | <u>2</u> |
| <u>Consolidated Statements of Comprehensive Earnings for the Three Months Ended March 31, 2017 and 2016 (unaudited)</u> | <u>3</u> |
| <u>Consolidated Statement of Stockholders' Equity for the Three Months Ended March 31, 2017 (unaudited)</u> | <u>4</u> |
| <u>Consolidated Statements of Cash Flows for the Three Months Ended March, 31 2017 and 2016 (unaudited)</u> | <u>5</u> |
| <u>Notes to the Consolidated Financial Statements (unaudited)</u> | <u>6</u> |
| Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | <u>17</u> |
| Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u> | <u>27</u> |
| Item 4. <u>Controls and Procedures</u> | <u>27</u> |
| Part II | |
| Other Information | |
| Item 1. <u>Legal Proceedings</u> | <u>28</u> |
| Item 1A. <u>Risk Factors</u> | <u>28</u> |
| Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | <u>40</u> |
| Item 6. <u>Exhibits</u> | <u>41</u> |
| <u>Signatures</u> | <u>42</u> |

Table of Contents

CAUTIONARY STATEMENT ON FORWARD-LOOKING STATEMENTS

All statements, other than statements of current or historical fact, contained in this filing or incorporated by reference herein are forward-looking statements. We intend such forward looking statements to be covered by the safe-harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and we are including this statement for purposes of complying with these safe-harbor provisions. We have attempted to identify these statements by terminology including “believe,” “anticipate,” “plan,” “expect,” “estimate,” “intend,” “seek,” “target,” “may,” “will,” “would,” “could,” “should,” “can,” “continue” and other similar words or expressions (and the negative thereof) in connection with, among other things, any discussion of future operating or financial performance. In particular, these statements include without limitation statements about our market opportunity, our growth strategy, competition, expected activities and future acquisitions, investments and the adequacy of our available cash resources. These statements may be found in the various sections of this filing, such as Part I, Item 2. “Management's Discussion and Analysis of Financial Condition and Results of Operations,” Part II, Item 1. “Legal Proceedings,” and Part II, Item 1A. “Risk Factors.” Readers are cautioned that matters subject to forward-looking statements involve known and unknown risks and uncertainties, including economic, regulatory, competitive and other factors that may cause our or our industry’s actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. These statements are not guarantees of future performance and are subject to risks, uncertainties and assumptions.

All forward-looking statements included in this filing are based on information available to us on the date of this filing. Except as may be otherwise required by law, we undertake no obligation to update or revise the forward-looking statements included in this filing, whether as a result of new information, future events or otherwise, after the date of this filing. You should not place undue reliance on any forward looking statements, as actual results may differ materially from projections, estimates, or other forward-looking statements due to a variety of important factors, including but not limited to:

- our ability to accurately predict and effectively manage health benefits and other operating expenses and reserves;
- competition;
- membership and revenue declines or unexpected trends;
- changes in healthcare practices, new technologies, and advances in medicine;
- increased health care costs;
- changes in economic, political or market conditions;
 - changes in federal or state laws or regulations, including changes with respect to government health care programs as well as changes with respect to the Patient Protection and Affordable Care Act and the Health Care and Education Affordability Reconciliation Act and any regulations enacted thereunder that may result from changing political conditions;
- rate cuts or other payment reductions or delays by governmental payors and other risks and uncertainties affecting our government businesses;
- our ability to adequately price products on federally facilitated and state based Health Insurance Marketplaces;
- tax matters;
- disasters or major epidemics;
- the outcome of legal and regulatory proceedings;
- changes in expected contract start dates;
- provider, state, federal and other contract changes and timing of regulatory approval of contracts;
 - the expiration, suspension, or termination of our contracts with federal or state governments (including but not limited to Medicaid, Medicare, and TRICARE);
- challenges to our contract awards;
- cyber-attacks or other privacy or data security incidents;

the possibility that the expected synergies and value creation from acquired businesses, including, without limitation, the acquisition of Health Net, Inc. (Health Net), will not be realized, or will not be realized within the expected time period, including, but not limited to, as a result of conditions, terms, obligations or restrictions imposed by regulators in connection with their approval of, or consent to, the acquisition;

the exertion of management's time and our resources, and other expenses incurred and business changes required in connection with complying with the undertakings in connection with certain regulatory approvals;

disruption from the acquisition making it more difficult to maintain business and operational relationships;

the risk that unexpected costs will be incurred in connection with, among other things, the acquisition and/or the integration;

changes in expected closing dates, estimated purchase price and accretion for acquisitions;

the risk that acquired businesses will not be integrated successfully;

our ability to maintain or achieve improvement in the Centers for Medicare and Medicaid Services (CMS) Star ratings and other quality scores that impact revenue;

availability of debt and equity financing, on terms that are favorable to us;

Table of Contents

inflation; and
foreign currency fluctuations.

This list of important factors is not intended to be exhaustive. We discuss certain of these matters more fully, as well as certain other risk factors that may affect our business operations, financial condition and results of operations, in our filings with the Securities and Exchange Commission, including our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K. Item 1A. "Risk Factors" of Part II of this filing contains a further discussion of these and other important factors that could cause actual results to differ from expectations. Due to these important factors and risks, we cannot give assurances with respect to our future performance, including without limitation our ability to maintain adequate premium levels or our ability to control our future medical costs.

Table of Contents

Non-GAAP Financial Presentation

The Company is providing certain non-GAAP financial measures in this report as the Company believes that these figures are helpful in allowing investors to more accurately assess the ongoing nature of the Company's operations and measure the Company's performance more consistently across periods. 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.

Specifically, the Company believes the presentation of non-GAAP financial information that excludes amortization of acquired intangible assets, Health Net acquisition related expenses, as well as other items, allows investors to develop a more meaningful understanding of the Company's performance over time. The tables below provide reconciliations of non-GAAP items (\$ in millions, except per share data):

| | Three Months Ended March 31, 2017 2016 | |
|---|---|----------|
| GAAP net earnings (loss) from continuing operations | \$139 | \$(15) |
| Amortization of acquired intangible assets | 40 | 9 |
| Health Net acquisition related expenses | 5 | 189 |
| Penn Treaty assessment expense | 47 | — |
| Income tax effects of adjustments ⁽¹⁾ | (34) | (87) |
| Adjusted net earnings from continuing operations | \$197 | \$96 |
| | | |
| GAAP diluted earnings (loss) per share (EPS) | \$0.79 | \$(0.12) |
| Amortization of acquired intangible assets ⁽²⁾ | 0.14 | 0.04 |
| Health Net acquisition related expenses ⁽³⁾ | 0.02 | 0.82 |
| Penn Treaty assessment expense ⁽⁴⁾ | 0.17 | — |
| Adjusted Diluted EPS from continuing operations | \$1.12 | \$0.74 |

(1) The income tax effects of adjustments are based on the effective income tax rates applicable to adjusted (non-GAAP) results.

(2) The amortization of acquired intangible assets per diluted share are net of an income tax benefit of \$0.09 and \$0.03 for the three months ended March 31, 2017 and 2016, respectively.

(3) The Health Net acquisition related expenses per diluted share are net of an income tax benefit of \$0.01 and \$0.64 for the three months ended March 31, 2017 and 2016, respectively.

(4) The Penn Treaty assessment expense per diluted share is net of an income tax benefit of \$0.09 for the three months ended March 31, 2017. For a further discussion of the Penn Treaty assessment, see Note 9, Contingencies.

| | Three Months Ended March 31, 2017 2016 | |
|---|--|-------|
| GAAP selling, general and administrative expenses | \$1,091 | \$722 |
| Health Net acquisition related expenses | 5 | 189 |

Edgar Filing: CENTENE CORP - Form 10-Q

| | | |
|---|---------|-------|
| Penn Treaty assessment expense | 47 | — |
| Adjusted selling, general and administrative expenses | \$1,039 | \$533 |

iii

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

| | March 31, 2017 | December 31, 2016 |
|---|-------------------|----------------------|
| | (Unaudited) | |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 4,839 | \$ 3,930 |
| Premium and related receivables | 3,121 | 3,098 |
| Short-term investments | 725 | 505 |
| Other current assets | 723 | 832 |
| Total current assets | 9,408 | 8,365 |
| Long-term investments | 4,636 | 4,545 |
| Restricted deposits | 140 | 138 |
| Property, software and equipment, net | 841 | 797 |
| Goodwill | 4,712 | 4,712 |
| Intangible assets, net | 1,504 | 1,545 |
| Other long-term assets | 121 | 95 |
| Total assets | \$ 21,362 | \$ 20,197 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Medical claims liability | \$ 4,290 | \$ 3,929 |
| Accounts payable and accrued expenses | 4,275 | 4,377 |
| Unearned revenue | 633 | 313 |
| Current portion of long-term debt | 4 | 4 |
| Total current liabilities | 9,202 | 8,623 |
| Long-term debt | 4,643 | 4,651 |
| Other long-term liabilities | 1,295 | 869 |
| Total liabilities | 15,140 | 14,143 |
| Commitments and contingencies | | |
| Redeemable noncontrolling interests | 138 | 145 |
| Stockholders' equity: | | |
| Preferred stock, \$0.001 par value; authorized 10,000,000 shares; no shares issued or outstanding at March 31, 2017 and December 31, 2016 | — | — |
| Common stock, \$0.001 par value; authorized 400,000,000 shares; 178,669,935 issued and 172,271,202 outstanding at March 31, 2017, and 178,134,306 issued and 171,919,071 outstanding at December 31, 2016 | — | — |
| Additional paid-in capital | 4,224 | 4,190 |
| Accumulated other comprehensive loss | (21 |) (36 |
| Retained earnings | 2,059 | 1,920 |
| Treasury stock, at cost (6,398,733 and 6,215,235 shares, respectively) | (192 |) (179 |
| Total Centene stockholders' equity | 6,070 | 5,895 |
| Noncontrolling interest | 14 | 14 |

Edgar Filing: CENTENE CORP - Form 10-Q

| | | |
|--|-----------|-----------|
| Total stockholders' equity | 6,084 | 5,909 |
| Total liabilities and stockholders' equity | \$ 21,362 | \$ 20,197 |

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

1

Table of ContentsCENTENE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

(In millions, except share data)

(Unaudited)

| | Three Months Ended March 31, | | |
|---|---------------------------------|----------|---|
| | 2017 | 2016 | |
| Revenues: | | | |
| Premium | \$10,638 | \$ 5,986 | |
| Service | 527 | 425 | |
| Premium and service revenues | 11,165 | 6,411 | |
| Premium tax and health insurer fee | 559 | 542 | |
| Total revenues | 11,724 | 6,953 | |
| Expenses: | | | |
| Medical costs | 9,322 | 5,311 | |
| Cost of services | 441 | 367 | |
| Selling, general and administrative expenses | 1,091 | 722 | |
| Amortization of acquired intangible assets | 40 | 9 | |
| Premium tax expense | 590 | 450 | |
| Health insurer fee expense | — | 74 | |
| Total operating expenses | 11,484 | 6,933 | |
| Earnings from operations | 240 | 20 | |
| Other income (expense): | | | |
| Investment and other income | 41 | 15 | |
| Interest expense | (62 |) (33 |) |
| Earnings from continuing operations, before income tax expense | 219 | 2 | |
| Income tax expense | 87 | 16 | |
| Earnings (loss) from continuing operations, net of income tax expense | 132 | (14 |) |
| Discontinued operations, net of income tax (benefit) | — | (1 |) |
| Net earnings (loss) | 132 | (15 |) |
| (Earnings) loss attributable to noncontrolling interests | 7 | (1 |) |
| Net earnings (loss) attributable to Centene Corporation | \$139 | \$ (16 |) |
| Amounts attributable to Centene Corporation common shareholders: | | | |
| Earnings (loss) from continuing operations, net of income tax expense | \$139 | \$ (15 |) |
| Discontinued operations, net of income tax (benefit) | — | (1 |) |
| Net earnings (loss) | \$139 | \$ (16 |) |
| Net earnings (loss) per common share attributable to Centene Corporation: | | | |
| Basic: | | | |
| Continuing operations | \$0.81 | \$ (0.12 |) |
| Discontinued operations | — | (0.01 |) |
| Basic earnings (loss) per common share | \$0.81 | \$ (0.13 |) |
| Diluted: | | | |
| Continuing operations | \$0.79 | \$ (0.12 |) |
| Discontinued operations | — | (0.01 |) |
| Diluted earnings (loss) per common share | \$0.79 | \$ (0.13 |) |

Edgar Filing: CENTENE CORP - Form 10-Q

Weighted average number of common shares outstanding:

| | | |
|---------|-------------|------------|
| Basic | 172,073,968 | 25,543,076 |
| Diluted | 175,836,290 | 25,543,076 |

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

2

Table of ContentsCENTENE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS

(In millions)

(Unaudited)

| | Three Months Ended March 31, | |
|--|---------------------------------------|--------|
| | 2017 | 2016 |
| Net earnings (loss) | \$132 | \$(15) |
| Reclassification adjustment, net of tax | — | 1 |
| Change in unrealized gain on investments, net of tax | 14 | 18 |
| Foreign currency translation adjustments | 1 | 1 |
| Other comprehensive earnings | 15 | 20 |
| Comprehensive earnings | 147 | 5 |
| Comprehensive (earnings) loss attributable to noncontrolling interests | 7 | (1) |
| Comprehensive earnings attributable to Centene Corporation | \$154 | \$4 |

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

Table of Contents

CENTENE CORPORATION AND SUBSIDIARIES
 CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
 (In millions, except share data)
 (Unaudited)

Three Months Ended March 31, 2017

| | Centene Stockholders' Equity | | | | Treasury Stock | | | | Total |
|--|------------------------------|----------------------------|-------------------------------------|-------------------|-------------------------|---------|--------------------------|----------|-------|
| | Common Stock | | Accumulated | | Treasury Stock | | Non-controlling Interest | | |
| | \$.001 Par Value Shares | Additional Paid-in Capital | Other Comprehensive Earnings (Loss) | Retained Earnings | \$.001 Par Value Shares | Amt | | | |
| Balance, December 31, 2016 | 178,134,306 | \$ -4,190 | \$ (36) | \$ 1,920 | 6,215,235 | \$(179) | \$ 14 | \$ 5,909 | |
| Comprehensive Earnings: | | | | | | | | | |
| Net earnings | — | — | — | 139 | — | — | — | 139 | |
| Other comprehensive earnings, net of \$8 tax | — | — | 15 | — | — | — | — | 15 | |
| Common stock issued for employee benefit plans | 535,629 | 2 | — | — | — | — | — | 2 | |
| Common stock repurchases | — | — | — | — | 183,498 | (13) | — | (13) | |
| Stock compensation expense | — | 32 | — | — | — | — | — | 32 | |
| Balance, March 31, 2017 | 178,669,935 | \$ -4,224 | \$ (21) | \$ 2,059 | 6,398,733 | \$(192) | \$ 14 | \$ 6,084 | |

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

Table of ContentsCENTENE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

(Unaudited)

| | Three Months Ended March 31, | |
|---|---------------------------------|----------|
| | 2017 | 2016 |
| Cash flows from operating activities: | | |
| Net earnings (loss) | \$ 132 | \$(15) |
| Adjustments to reconcile net earnings (loss) to net cash provided by operating activities | | |
| Depreciation and amortization | 86 | 35 |
| Stock compensation expense | 32 | 51 |
| Deferred income taxes | (51) | (17) |
| Gain on contingent consideration | — | (1) |
| Changes in assets and liabilities | | |
| Premium and related receivables | 59 | (174) |
| Other assets | 89 | (46) |
| Medical claims liabilities | 358 | 196 |
| Unearned revenue | 320 | (64) |
| Accounts payable and accrued expenses | (237) | 35 |
| Other long-term liabilities | 459 | 192 |
| Other operating activities, net | 1 | 4 |
| Net cash provided by operating activities | 1,248 | 196 |
| Cash flows from investing activities: | | |
| Capital expenditures | (83) | (45) |
| Purchases of investments | (594) | (212) |
| Sales and maturities of investments | 349 | 203 |
| Investments in acquisitions, net of cash acquired | — | (782) |
| Other investing activities, net | (1) | — |
| Net cash used in investing activities | (329) | (836) |
| Cash flows from financing activities: | | |
| Proceeds from long-term debt | 560 | 3,790 |
| Payments of long-term debt | (560) | (1,388) |
| Common stock repurchases | (13) | (22) |
| Debt issuance costs | — | (51) |
| Other financing activities, net | 3 | (13) |
| Net cash (used in) provided by financing activities | (10) | 2,316 |
| Net increase in cash and cash equivalents | 909 | 1,676 |
| Cash and cash equivalents, beginning of period | 3,930 | 1,760 |
| Cash and cash equivalents, end of period | \$4,839 | \$3,436 |
| Supplemental disclosures of cash flow information: | | |
| Interest paid | \$72 | \$3 |
| Income taxes paid | \$2 | \$33 |
| Equity issued in connection with acquisitions | \$— | \$3,105 |

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

Table of Contents

CENTENE CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions, except share data)
(Unaudited)

1. Organization and Operations

Basis of Presentation

The accompanying interim financial statements have been prepared under the presumption that users of the interim financial information have either read or have access to the audited financial statements included in the Form 10-K for the fiscal year ended December 31, 2016. The unaudited interim financial statements herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, footnote disclosures which would substantially duplicate the disclosures contained in the December 31, 2016 audited financial statements have been omitted from these interim financial statements where appropriate. In the opinion of management, these financial statements reflect all adjustments, consisting only of normal recurring adjustments, which are necessary for a fair presentation of the results of the interim periods presented.

Certain 2016 amounts in the consolidated financial statements and notes to the consolidated financial statements have been reclassified to conform to the 2017 presentation. The Company adopted Accounting Standards Update (ASU) 2016-09, Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting during the fourth quarter of 2016. The ASU simplifies several aspects of the accounting for employee share-based payment transactions. Among other elements, the ASU requires an entity to recognize all excess tax benefits and deficiencies related to stock-based compensation expense as income tax expense or benefit in the statements of operations. The ASU requires adjustments be reflected as of the beginning of the fiscal year of adoption and as a result, prior periods have been restated accordingly. The adoption resulted in a decrease to income tax expense of \$1 million for the three months ended March 31, 2016.

In January 2017, the Company reclassified Cenpatco Behavioral Health of Arizona, LLC and the related Cenpatco Integrated Care health plan from the Specialty Services segment to the Managed Care segment due to a reorganization of the Arizona management structure following the Health Net integration. As a result, the financial results of Cenpatco Behavioral Health of Arizona, LLC and the related Cenpatco Integrated Care health plan have been reclassified from the Specialty Services segment to the Managed Care segment for all periods presented.

On March 24, 2016, the Company completed the acquisition of Health Net, Inc. (Health Net) for \$6.0 billion, including the assumption of debt. The acquisition was accounted for as a business combination, which requires that assets acquired and liabilities assumed be recognized at their fair values as of the acquisition date. The valuation of all the assets acquired and liabilities assumed was finalized in the fourth quarter of 2016. As a result of the completion of the Health Net acquisition, the Company's results of operations for the three months ended March 31, 2016 include the results of operations of Health Net from March 24, 2016 to March 31, 2016.

Accounting Guidance Not Yet Adopted

In March 2017, the Financial Accounting Standards Board (FASB) issued an ASU which changes the period over which premiums on callable debt securities are amortized. The new standard requires the premiums on callable debt securities to be amortized to the earliest call date rather than to the contractual maturity date of the instrument. The new guidance more closely aligns the amortization period of premiums to expectations incorporated in the market pricing on the underlying securities. The new guidance is effective for annual and interim periods beginning after December 15, 2018. Early adoption is permitted. The new guidance is not expected to have a material impact on the

Company's consolidated financial position, results of operations or cash flows.

6

Table of Contents

In May 2014, the FASB issued an ASU which supersedes existing revenue recognition standards with a single model unless those contracts are within the scope of other standards (e.g., an insurance entity's insurance contracts). Under the new standard, recognition of revenue occurs when a customer obtains control of promised goods or services in an amount that reflects the consideration which the entity expects to receive in exchange for those goods or services. In addition, the standard requires disclosure of the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The new effective date is for annual and interim periods beginning after December 15, 2017. Early adoption is permitted. The Company is currently analyzing selected contracts to determine the impact of the new guidance and anticipates adopting the new guidance in the first quarter of 2018 using the modified retrospective approach with a cumulative-effect adjustment to retained earnings in the period of initial application. The Company also plans to elect the practical expedient of applying the new guidance only to contracts that are not completed as of the date of initial application. The majority of the Company's revenues are derived from insurance contracts and are excluded from the new standard; therefore, the new guidance is not expected to have a material impact on the Company's consolidated financial position, results of operations or cash flows.

2. Short-term and Long-term Investments, Restricted Deposits

Short-term and long-term investments and restricted deposits by investment type consist of the following (\$ in millions):

| | March 31, 2017 | | | | December 31, 2016 | | | |
|---|-------------------|------------------------------|-------------------------------|---------------|-------------------|------------------------------|-------------------------------|---------------|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| U.S. Treasury securities and obligations of U.S. government corporations and agencies | \$365 | \$ | —\$ (1) | \$364 | \$364 | \$ | —\$ (1) | \$363 |
| Corporate securities | 2,034 | 14 | (9) | 2,039 | 1,933 | 12 | (13) | 1,932 |
| Restricted certificates of deposit | 5 | — | — | 5 | 5 | — | — | 5 |
| Restricted cash equivalents | 12 | — | — | 12 | 6 | — | — | 6 |
| Municipal securities | 1,908 | 3 | (22) | | | | | |