

**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 September 30, 2023

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: 001-39252

Clover Health Investments, Corp.

(Exact Name of Registrant as Specified in its Charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

98-1515192
(I.R.S. Employer
Identification No.)

3401 Mallory Lane, Suite 210

Franklin, Tennessee
(Address of principal executive offices)

37067
(Zip Code)

Registrant's telephone number, including area code: (201) 432-2133

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A Common Stock, par value \$0.0001 per share	CLOV	The NASDAQ Stock Market LLC

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	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

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

At November 1, 2023, the registrant had 399,776,205 shares of Class A Common Stock, \$0.0001 par value per share, and 87,867,732 shares of Class B Common Stock, \$0.0001 par value per share, issued and outstanding.

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As used in this report, "Company," "Clover," "Clover Health," "we," "us," "our," "our company," and similar terms refer to Clover Health Investments, Corp. and its consolidated subsidiaries, unless otherwise noted or the context otherwise requires.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). All statements contained in this document other than statements of historical fact, including statements regarding our future results of operations, financial position, market size and opportunity, our business strategy and plans, the factors affecting our performance and our objectives for future operations, are forward-looking statements. The words "believe," "may," "will," "estimate," "continue," "anticipate," "intend," "could," "should," "would," "can," "expect," "project," "outlook," "forecast," "objective," "plan," "potential," "seek," "grow," "target," "if," and the negative or plural of these words and similar expressions are intended to identify forward-looking statements. We have based these forward-looking statements largely on our current expectations and projections about future events and trends that we believe may affect our financial condition, results of operations, business strategy, short-term and long-term business operations and objectives and financial needs. These forward-looking statements are subject to a number of risks, uncertainties and assumptions, including the risk factors described in our filings with the Securities and Exchange Commission (the "SEC"). Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties and assumptions, the future events and trends discussed in this document may not occur, and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements. Forward-looking statements contained in this document involve a number of judgments, risks and uncertainties, including, without limitation, risks related to:

- our expectations regarding results of operations, financial condition, and cash flows;
- our expectations regarding the development and management of our Insurance and Non-Insurance businesses;
- our ability to successfully enter new service markets and manage our operations;
- anticipated trends and challenges in our business and in the markets in which we operate;
- our ability to effectively manage our beneficiary base and provider network;
- our ability to maintain and increase adoption and use of Clover Assistant;
- the anticipated benefits associated with the use of Clover Assistant, including our ability to utilize the platform to manage our medical care ratios;
- our ability to maintain or improve our Star Ratings or otherwise continue to improve the financial performance of our business;
- our ability to develop new features and functionality that meet market needs and achieve market acceptance;
- our ability to retain and hire necessary employees and staff our operations appropriately;
- the timing and amount of certain investments in growth;
- the outcome of any known and unknown litigation and regulatory proceedings;
- any current, pending, or future legislation, regulations or policies that could have a negative effect on our revenue and businesses, including rules, regulations, and policies relating to healthcare and Medicare;
- fluctuations in the price of our Class A common stock and our continued compliance with Nasdaq's listing requirements;
- our ability to maintain, protect, and enhance our intellectual property;
- general economic conditions and uncertainty, including the societal and economic impact of the COVID-19 pandemic and its variants;
- persistent high inflation and interest rates; and
- geopolitical uncertainty and instability.

We caution you that the foregoing list of judgments, risks, and uncertainties that may cause actual results to differ materially from those in the forward-looking statements may not be complete. You should not rely upon forward-looking statements as predictions of future events. The events and circumstances reflected in the forward-looking statements may not be achieved or occur or may be materially different from what we expect. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance, or achievements. Except as required by law, we undertake no obligation to update any of these forward-looking statements after the date of this document or to conform these statements to actual results or revised expectations.

This document contains estimates, projections, and other information concerning our industry, our business, and the markets for our products. We obtained the industry, market, and similar data set forth in this document from our own internal estimates and research and from industry research, publications, surveys, and studies conducted by third parties, including governmental agencies, and such information is inherently subject to uncertainties. Actual events or circumstances may differ materially from events and circumstances that are assumed in this information. You are cautioned not to give undue weight to any such information, projections, or estimates.

As a result of a number of known and unknown risks and uncertainties, including without limitation, the important factors described in our reports filed with the SEC, including the discussion under "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2022, as filed with the SEC, our actual results or performance may be materially different from those expressed or implied by these forward-looking statements.

Additional Information

Our website address is www.cloverhealth.com. Our filings with the SEC are posted on our website and available free of charge as soon as reasonably practical after they are electronically filed with, or furnished to, the SEC. The content on our website or on any other website referred to in this document is not incorporated by reference in this document. Further, the Company's references to website URLs are intended to be inactive textual references only.

Channels for Disclosure of Information

Investors and others should note that we routinely announce material information to investors and the marketplace using filings with the SEC, press releases, public conference calls, presentations, webcasts, and the investor relations page of our website. We use the investor relations page of our website for purposes of compliance with Regulation FD and as a routine channel for distribution of important information, including news releases, analyst presentations, financial information, and corporate governance practices. We also use certain social media channels as a means of disclosing information about the Company and our products to our customers, investors, and the public, including @CloverHealth and #CloverHealth on X (formerly Twitter), and the LinkedIn account of our Chief Executive Officer, Andrew Toy. The information posted on social media channels is not incorporated by reference in this report or in any other report or document we file with the SEC. While not all of the information that we post to the investor relations page of our website or to social media accounts is of a material nature, some information could be deemed to be material. Accordingly, we encourage investors, the media, and others interested in the Company to review the information that we share at the "Investors" link located on our webpage at <https://investors.cloverhealth.com/investor-relations> and to sign up for and regularly follow our social media accounts. Users may automatically receive email alerts and other information about the Company when enrolling an email address by visiting "Email Alerts" in the "Investor Resources" section of our website at <https://investors.cloverhealth.com/investor-relations>.

Part I

Item 1. Financial Statements and Supplementary Data

CLOVER HEALTH INVESTMENTS, CORP.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except share amounts)

	September 30, 2023 (Unaudited)	December 31, 2022
Assets		
Current assets		
Cash and cash equivalents	\$ 299,014	\$ 103,791
Short-term investments	14,830	41,457
Investment securities, available-for-sale (Amortized cost: 2023: \$197,766; 2022: \$193,300)	196,381	189,498
Investment securities, held-to-maturity (Fair value: 2023: \$6,692; 2022: \$15)	6,896	15
Accrued retrospective premiums	15,646	20,387
Other receivables	14,760	23,596
Healthcare receivables	52,073	70,607
Non-Insurance performance year receivable	185,404	—
Non-Insurance receivable	64,228	52,955
Surety bonds and deposits	50,209	100,502
Prepaid expenses	15,226	18,146
Other assets, current	1,033	4,043
Total current assets	915,700	624,997
Investment securities, available-for-sale (Amortized cost: 2023: \$105,087; 2022: \$142,940)	101,400	137,368
Investment securities, held-to-maturity (Fair value: 2023: \$673; 2022: \$636)	792	742
Property and equipment, net	4,572	5,753
Operating lease right-of-use assets	3,620	4,025
Goodwill and other intangible assets	19,190	20,000
Other assets, non-current	14,523	15,735
Total assets	\$ 1,059,797	\$ 808,620

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

CLOVER HEALTH INVESTMENTS, CORP.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except share amounts)

	September 30, 2023 (Unaudited)	December 31, 2022
Liabilities and Stockholders' Equity		
Current liabilities		
Unpaid claims	\$ 114,415	\$ 141,947
Due to related parties, net	1,251	1,566
Non-Insurance performance year obligation, current	254,419	73,844
Non-Insurance payable	182,435	148,191
Accounts payable and accrued expenses	35,296	32,445
Accrued salaries and benefits	24,333	23,962
Deferred revenue	103,295	—
Operating lease liabilities	1,668	1,827
Premium deficiency reserve	683	7,239
Other liabilities, current	901	486
Total current liabilities	718,696	431,507
Long-term operating lease liabilities	3,292	4,033
Other liabilities, non-current	15,957	16,193
Total liabilities	737,945	451,733
Commitments and Contingencies (Note 14)		
Stockholders' equity		
Class A Common Stock, \$0.0001 par value; 2,500,000,000 shares authorized at September 30, 2023 and December 31, 2022; 399,374,685 and 383,998,718 issued and outstanding at September 30, 2023 and December 31, 2022, respectively	38	37
Class B Common Stock, \$0.0001 par value; 500,000,000 shares authorized at September 30, 2023 and December 31, 2022; 87,867,732 and 94,394,852 issued and outstanding at September 30, 2023 and December 31, 2022, respectively	9	9
Additional paid-in capital	2,428,101	2,319,157
Accumulated other comprehensive loss	(5,072)	(9,374)
Accumulated deficit	(2,089,322)	(1,946,433)
Less: Treasury stock, at cost; 7,096,160 and 2,072,752 shares held at September 30, 2023 and December 31, 2022, respectively	(11,902)	(6,509)
Total stockholders' equity	321,852	356,887
Total liabilities and stockholders' equity	\$ 1,059,797	\$ 808,620

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

CLOVER HEALTH INVESTMENTS, CORP.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS (Unaudited)
(Dollars in thousands, except per share and share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Revenues:				
Premiums earned, net (Net of ceded premiums of \$106 and \$116, for the three months ended September 30, 2023 and 2022, respectively; net of ceded premiums of \$341 and \$354 for the nine months ended September 30, 2023 and 2022, respectively)	\$ 301,230	\$ 267,892	\$ 932,699	\$ 814,566
Non-Insurance revenue	176,038	585,311	575,311	1,757,579
Other income	4,798	3,614	15,459	5,751
Total revenues	482,066	856,817	1,523,469	2,577,896
Operating expenses:				
Net medical claims incurred	418,959	839,799	1,328,403	2,560,307
Salaries and benefits	60,567	70,142	193,211	209,724
General and administrative expenses	41,747	47,832	141,588	152,569
Premium deficiency reserve expense (benefit)	392	(27,476)	(6,556)	(82,428)
Depreciation and amortization	557	616	1,835	2,028
Restructuring costs	1,313	—	7,870	—
Total operating expenses	523,535	930,913	1,666,351	2,842,200
Loss from operations	(41,469)	(74,096)	(142,882)	(264,304)
Interest expense	—	404	7	1,197
Amortization of notes and securities discounts	—	9	—	27
Loss (gain) on investment	—	980	—	(10,187)
Net loss	\$ (41,469)	\$ (75,489)	\$ (142,889)	\$ (255,341)
Per share data:				
Net loss per share attributable to Class A and Class B common stockholders – basic and diluted ⁽¹⁾	\$ (0.09)	\$ (0.16)	\$ (0.30)	\$ (0.54)
Weighted average number of common shares outstanding				
Basic and diluted weighted average number of Class A and Class B common shares and common share equivalents outstanding ⁽¹⁾	480,770,283	477,690,204	480,921,520	475,609,571
Net unrealized gain (loss) on available-for-sale investments	1,643	(2,407)	4,302	(8,826)
Comprehensive loss	\$ (39,826)	\$ (77,896)	\$ (138,587)	\$ (264,167)

⁽¹⁾ Because the Company had a net loss during the nine months ended September 30, 2023 and 2022, the Company's potentially dilutive securities, which include stock options, restricted stock, preferred stock, and warrants to purchase shares of common stock and preferred stock, have been excluded from the computation of diluted net loss per share, as the effect would be anti-dilutive.

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

CLOVER HEALTH INVESTMENTS, CORP.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY
(Unaudited)
(Dollars in thousands, except share amounts)

	Convertible Preferred Stock		Class A Common Stock		Class B Common Stock		Treasury Stock		Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive income (loss)	Noncontrolling interest	Total stockholders' equity (deficit)
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount					
Balance, December 31, 2021	—	\$ —	352,645,626	\$ 34	118,206,768	\$ 12	14,730	\$ (147)	\$ 2,154,187	\$ (1,616,738)	\$ (1,934)	\$ 3,903	\$ 539,317
Change in accounting policy	—	—	—	—	—	—	—	—	—	723	—	—	723
Adjusted balance, beginning of period	—	\$ —	352,645,626	\$ 34	118,206,768	\$ 12	14,730	\$ (147)	\$ 2,154,187	\$ (1,616,015)	\$ (1,934)	\$ 3,903	\$ 540,040
Stock issuance for exercise of stock options, net of early exercise liability	—	—	151,620	—	—	—	—	—	331	—	—	—	331
Stock-based compensation	—	—	—	—	—	—	—	—	40,640	—	—	—	40,640
Vested restricted stock units	—	—	396,883	—	1,677,873	—	—	—	—	—	—	—	—
Vested performance stock units	—	—	8,951	—	—	—	—	—	—	—	—	—	—
Unrealized holdings gain on investment securities, available for sale	—	—	—	—	—	—	—	—	—	—	(5,324)	—	(5,324)
Conversion from Class B Common Stock to Class A Common Stock	—	—	25,436,433	3	(25,436,433)	(3)	—	—	—	—	—	—	—
Treasury stock acquired	—	—	—	—	—	—	1,879,063	(5,939)	—	—	—	—	(5,939)
Issuance of common stock under Employee Stock Purchase Plan	—	—	214,797	—	—	—	—	—	—	—	—	—	—
Derecognition of noncontrolling interest	—	—	—	—	—	—	—	—	—	—	—	(3,903)	(3,903)
Net loss	—	—	—	—	—	—	—	—	—	(75,490)	—	—	(75,490)
Balance, March 31, 2022	—	\$ —	378,854,310	\$ 37	94,448,208	\$ 9	1,893,793	\$ (6,086)	\$ 2,195,158	\$ (1,691,505)	\$ (7,258)	\$ —	\$ 490,355
Stock issuance for exercise of stock options, net of early exercise liability	—	—	4,016,336	—	—	—	—	—	563	—	—	—	563
Stock-based compensation	—	—	—	—	—	—	—	—	41,927	—	—	—	41,927
Vested restricted stock units	—	—	84,928	—	—	—	—	—	—	—	—	—	—
Unrealized holdings gain on investment securities, available for sale	—	—	—	—	—	—	—	—	—	—	(1,095)	—	(1,095)
Treasury stock acquired	—	—	—	—	—	—	37,744	(105)	—	—	—	—	(105)
Net loss	—	—	—	—	—	—	—	—	—	(104,362)	—	—	(104,362)
Balance, June 30, 2022	—	\$ —	382,955,574	\$ 37	94,448,208	\$ 9	1,931,537	\$ (6,191)	\$ 2,237,648	\$ (1,795,867)	\$ (8,353)	\$ —	\$ 427,283
Stock issuance for exercise of stock options, net of early exercise liability	—	—	190,052	—	—	—	—	—	408	—	—	—	408
Stock-based compensation	—	—	—	—	—	—	—	—	42,641	—	—	—	42,641
Vested RSUs and PSUs	—	—	438,063	—	—	—	—	—	—	—	—	—	—
Treasury Stock Unrealized	—	—	(110,411)	—	—	—	110,411	(276)	—	—	—	—	(276)

holdings gain on investment securities, available-for-sale	—	—	—	—	—	—	—	—	—	—	—	(2,407)	—	(2,407)
Conversion from Class A Common Stock to Class B Common Stock	—	—	316	—	(316)	—	—	—	—	—	—	—	—	—
Net loss	—	—	—	—	—	—	—	—	—	—	(75,489)	—	—	(75,489)
Balance, September 30, 2022	—	\$ —	383,473,594	\$ 37	94,447,892	\$ 9	2,041,948	\$(6,467)	\$2,280,697	\$ (1,871,356)	\$ (10,760)	\$ —	\$ —	\$ 392,160

	Convertible Preferred Stock		Class A Common Stock		Class B Common Stock		Treasury Stock		Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive income (loss)	Noncontrolling interest	Total stockholders' equity (deficit)
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount					
Balance, December 31, 2022	—	\$ —	383,998,718	\$ 37	94,394,852	\$ 9	2,072,752	\$ (6,509)	\$2,319,157	\$ (1,955,582)	\$ (9,374)	\$ —	\$ 347,738
Change in accounting policy	—	—	—	—	—	—	—	—	—	9,149	—	—	9,149
Adjusted balance, beginning of period	—	\$ —	383,998,718	\$ 37	94,394,852	\$ 9	2,072,752	\$ (6,509)	\$2,319,157	\$ (1,946,433)	\$ (9,374)	\$ —	\$ 356,887
Stock issuance for exercise of stock options, net of early exercise liability	—	—	1,240	—	—	—	—	—	848	—	—	—	848
Stock-based compensation	—	—	—	—	—	—	—	—	38,617	—	—	—	38,617
Vested restricted stock units	—	—	5,390,973	—	1,773,104	—	—	—	—	—	—	—	—
Unrealized holdings gain on investment securities, available for sale	—	—	—	—	—	—	—	—	—	—	2,343	—	2,343
Conversion from Class B Common Stock to Class A Common Stock	—	—	7,672,463	—	(7,672,463)	—	—	—	—	—	—	—	—
Treasury stock acquired	—	—	(2,933,721)	—	—	—	2,933,721	(2,982)	—	—	—	—	(2,982)
Net loss	—	—	—	—	—	—	—	—	—	(72,606)	—	—	(72,606)
Balance, March 31, 2023	—	\$ —	394,129,673	\$ 37	88,495,493	\$ 9	5,006,473	\$ (9,491)	\$2,358,622	\$ (2,019,039)	\$ (7,031)	\$ —	\$ 323,107
Stock issuance for exercise of stock options, net of early exercise liability	—	—	1,241	—	—	—	—	—	270	—	—	—	270
Stock-based compensation	—	—	—	—	—	—	—	—	36,108	—	—	—	36,108
Vested restricted stock units	—	—	1,180,084	—	—	—	—	—	—	—	—	—	—
Unrealized holdings gain on investment securities, available for sale	—	—	—	—	—	—	—	—	—	—	316	—	316
Conversion from Class B Common Stock to Class A Common Stock	—	—	627,761	—	(627,761)	—	—	—	—	—	—	—	—
Treasury stock acquired	—	—	(439,241)	—	—	—	439,241	(417)	—	—	—	—	(417)
Issuance of Common Stock under Employee Stock Purchase Plan	—	—	271,152	—	—	—	—	—	—	—	—	—	—
Net loss	—	—	—	—	—	—	—	—	—	(28,814)	—	—	(28,814)
Balance, June 30, 2023	—	\$ —	395,770,670	\$ 37	87,867,732	\$ 9	5,445,714	\$ (9,908)	\$2,395,000	\$ (2,047,853)	\$ (6,715)	\$ —	\$ 330,570
Stock issuance for exercise of stock options, net of early exercise liability	—	—	76,156	—	—	—	—	—	31	—	—	—	31
Stock-based compensation	—	—	—	—	—	—	—	—	33,070	—	—	—	33,070
Vested restricted stock units	—	—	5,178,305	1	—	—	—	—	—	—	—	—	1
Unrealized holdings gain on investment securities, available for sale	—	—	—	—	—	—	—	—	—	—	1,643	—	1,643
Treasury Stock	—	—	(1,650,446)	—	—	—	1,650,446	(1,994)	—	—	—	—	(1,994)
Net loss	—	—	—	—	—	—	—	—	—	(41,469)	—	—	(41,469)
Balance, September 30, 2023	—	\$ —	399,374,685	\$ 38	87,867,732	\$ 9	7,096,160	\$ (11,902)	\$2,428,101	\$ (2,089,322)	\$ (5,072)	\$ —	\$ 321,852

CLOVER HEALTH INVESTMENTS, CORP.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(Dollars in thousands)

	Nine Months Ended September 30,	
	2023	2022
Cash flows from operating activities:		
Net loss	\$ (142,889)	\$ (255,341)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization expense	1,835	2,028
Amortization of notes and securities discounts and debt issuance costs	—	27
Stock-based compensation expense	107,795	125,211
Accretion, net of amortization	(3,096)	(730)
Net realized losses on investment securities	(20)	18
Gain on investment	—	(10,187)
Premium deficiency reserve	(6,556)	(82,428)
Changes in operating assets and liabilities:		
Accrued retrospective premiums	4,741	21,029
Other receivables	8,836	(8,803)
Surety bonds and deposits	20,601	769
Prepaid expenses	2,920	(8,407)
Other assets	4,227	(19,263)
Healthcare receivables	18,534	(10,844)
Non-Insurance receivable	(11,273)	—
Operating lease right-of-use assets	405	1,750
Unpaid claims	(27,847)	1,013
Accounts payable and accrued expenses	2,851	9,606
Accrued salaries and benefits	371	4,489
Deferred revenue	103,295	96,358
Other liabilities	179	(1,005)
Performance year obligation	(4,829)	33,057
Non-Insurance payable	34,244	109,359
Operating lease liabilities	(900)	(2,264)
Net cash provided by (used in) operating activities	<u>113,424</u>	<u>5,442</u>
Cash flows from investing activities:		
Purchases of short-term investments, available-for-sale, and held-to-maturity securities	(142,359)	(276,848)
Proceeds from sales of short-term investments and available-for-sale securities	60,436	9,710
Proceeds from maturities of short-term investments, available-for-sale, and held-to-maturity securities	139,122	350,455
Purchases of property and equipment	(848)	(590)
Acquisition of Character Biosciences, Inc. Series A preferred shares	—	(250)
Net cash provided by investing activities	<u>56,351</u>	<u>82,477</u>
Cash flows from financing activities:		
Issuance of common stock, net of early exercise liability	1,149	1,302
Treasury stock acquired	(5,393)	(6,320)
Net cash used in financing activities	<u>(4,244)</u>	<u>(5,018)</u>
Net increase in cash, cash equivalents, and restricted cash	165,531	82,901
Cash, cash equivalents, and restricted cash, beginning of period	186,213	299,968
Cash, cash equivalents, and restricted cash, end of period	<u>\$ 351,744</u>	<u>\$ 382,869</u>
Reconciliation of cash and cash equivalents and restricted cash		
Cash and cash equivalents	\$ 299,014	\$ 382,869
Restricted cash	52,730	—
Total cash, cash equivalents, and restricted cash	<u>\$ 351,744</u>	<u>\$ 382,869</u>
Supplemental disclosure of non-cash activities		
Performance year receivable	\$ (185,404)	\$ (585,901)
Performance year obligation	185,404	585,901
Right-of-use assets obtained in exchange for lease liabilities	—	642
Recognition of equity method investments and preferred stock	—	8,644
Derecognition of noncontrolling interest	—	3,903
Conversion of Character Biosciences, Inc. convertible note to preferred stock	—	250

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

CLOVER HEALTH INVESTMENTS, CORP. AND SUBSIDIARIES
Notes to Unaudited Condensed Consolidated Financial Statements

1. Organization and Operations

Clover Health Investments, Corp. (collectively with its affiliates and subsidiaries, "Clover" or the "Company") is focused on empowering physicians to identify and manage chronic diseases early. Clover has centered its strategy on building and deploying technology through its flagship software platform, Clover Assistant, to help America's seniors receive better care at lower costs.

Clover aims to provide affordable, high-quality Medicare Advantage plans, including Preferred Provider Organization ("PPO") and Health Maintenance Organization ("HMO") plans, through its regulated insurance subsidiaries. The Company's regulated insurance subsidiaries consist of Clover Insurance Company and Clover HMO of New Jersey Inc., which operate the Company's PPO and HMO health plans, respectively. On April 1, 2021, the Company's subsidiary, Clover Health Partners, LLC ("Health Partners"), began participating as a Direct Contracting Entity ("DCE") in the Global and Professional Direct Contracting Model ("DC Model") of the Centers for Medicare and Medicaid Services ("CMS"), an agency of the United States Department of Health and Human Services, through which the Company provides care to aligned Medicare fee-for-service ("FFS") beneficiaries (the "Non-Insurance Beneficiaries"). CMS redesigned the DC Model and renamed it the Accountable Care Organization ("ACO") Realizing Equity, Access, and Community Health ("REACH") ("ACO REACH") Model effective January 1, 2023. Medical Service Professionals of NJ, LLC, houses Clover's employed physicians and the related support staff for Clover's in-home care program. Clover's administrative functions and insurance operations are primarily operated by its Clover Health, LLC and Clover Health Labs, LLC subsidiaries.

For any information following the aforementioned paragraph, the Company will refer to its participation in ACO REACH Model or the Company's participation in the predecessor DC Model as ACO REACH Model henceforth.

Clover's approach is to combine technology, data analytics, and preventive care to lower costs and increase the quality of health and life of Medicare beneficiaries. Clover's technology platform is designed to use machine learning-powered systems to deliver data and insights to physicians in order to improve outcomes for beneficiaries through the early identification and management of chronic disease and drive down costs. Clover's MA plans generally provide access to a wide network of primary care providers, specialists, and hospitals, enabling its members to see any doctor participating in Medicare willing to accept them. Clover focuses on minimizing members' out-of-pocket costs and offers many plans that allow members to pay the same co-pays for primary care provider visits regardless of whether their physician is in- or out-of-network. Through its Non-Insurance operations, the Company assumes full risk (i.e., 100.0% shared savings and shared losses) for the total cost of care of aligned Non-Insurance Beneficiaries, empowers providers with Clover Assistant, and offers a variety of programs aimed at reducing expenditures and preserving or enhancing the quality of care for Non-Insurance Beneficiaries. For additional information related to the Company's Non-Insurance operations, see Note 15 (Non-Insurance) in these financial statements.

For additional information, see Note 1 included in the Company's Annual Report on Form 10-K for the year ended December 31, 2022 (the "2022 Form 10-K").

2. Summary of Significant Accounting Policies

Basis of presentation

The Company's interim unaudited condensed consolidated financial statements have been prepared in conformity with Generally Accepted Accounting Principles ("GAAP") and include the accounts of the Company and its wholly-owned subsidiaries. In the opinion of management, the Company has made all necessary adjustments, which include normal recurring adjustments necessary for a fair presentation of its financial position and its results of operations for the interim periods presented. All material intercompany balances and transactions have been eliminated in consolidating these financial statements. Investments over which the Company exercise significant influence, but do not control, are accounted for using the applicable accounting treatment based on the nature of the investment. These interim unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes to the financial statements included in the 2022 Form 10-K.

Use of estimates

The preparation of the interim unaudited condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that impact the amounts reported in the interim unaudited condensed consolidated financial statements and the accompanying notes.

The area involving the most significant use of estimates is the amount of incurred but not reported claims. Many factors can cause actual outcomes to deviate from these assumptions and estimates, such as changes in economic conditions, changes in government healthcare policy, advances in medical technology, changes in treatment patterns, and changes in average lifespan. Accordingly, the Company cannot determine with precision the ultimate amounts that it will pay for, or the timing of payment of actual claims, or whether the assets supporting the liabilities will grow to the level the Company assumes prior to payment of claims. If the Company's actual experience is different from its assumptions or estimates, the Company's reserves may prove inadequate. As a result, the Company would incur a charge to operations in the period in which it determines such a shortfall exists, which could have a material adverse effect on the Company's business, results of operations, and financial condition. Other areas involving significant estimates include risk adjustment provisions related to Medicare contracts and the valuation of the Company's investment securities, goodwill and other intangible assets, reinsurance, premium deficiency reserve, warrants, stock-based compensation, recoveries from third parties for coordination of benefits, ACO REACH Benchmark, specifically cost trend and risk score estimates that can develop over time, and final determination of medical cost adjustment pools.

Reclassifications

Certain amounts in the prior years' Condensed Consolidated Balance Sheets and Condensed Consolidated Statements of Cash Flows have been reclassified to conform to the current year's presentation, primarily related to Non-Insurance receivable, Other assets, current, and Performance year obligation. In addition amounts in the prior years' Condensed Consolidated Statements of Cash Flows have been reclassified to conform with the current year's presentation associated with the Performance year obligation.

Change in Accounting Policy

In the first quarter of 2023, the Company changed the method for determining premium deficiency reserves, whereby the anticipated future investment income from funds made available by unearned premiums is now included in the determination of premium deficiency reserves. The accounting policy election to include the anticipated future investment income is preferable because it provides a better representation of the Company's business model reflecting the fact that all cash flows, including investment income, are used to meet the Company's obligations. The Company also believes that this change improves comparability with industry peers. This change is considered a change in accounting principle that requires retrospective application to all financial statement periods presented. This change decreased Accumulated deficit by \$0.7 million to \$1,616 million at January 1, 2022.

The cumulative effect of the changes made to the Company's Condensed Consolidated Balance Sheets was as follows:

September 30, 2023	As Reported	As computed excluding anticipated net investment income	Effect of Change
		(in thousands)	
Premium deficiency reserve	\$ 683	\$ 1,154	\$ (471)
Total current liabilities	718,696	719,167	\$ (471)
Total liabilities	737,945	738,416	\$ (471)
Accumulated deficit	(2,089,322)	(2,089,793)	\$ 471
Total stockholders' equity	321,852	321,381	\$ 471
Total liabilities and stockholders' equity	\$ 1,059,797	\$ 1,059,797	\$ —

December 31, 2022	As Reported	Effect of Change	As Adjusted
	(in thousands)		
Premium deficiency reserve	\$ 16,388	\$ (9,149)	\$ 7,239
Total current liabilities	440,656	(9,149)	431,507
Total liabilities	460,882	(9,149)	451,733
Accumulated deficit	(1,955,582)	9,149	(1,946,433)
Total stockholders' equity	347,738	9,149	356,887
Total liabilities and stockholders' equity	\$ 808,620	\$ —	\$ 808,620

December 31, 2021	As Reported	Effect of Change	As Adjusted
	(in thousands)		
Premium deficiency reserve	\$ 110,628	\$ (723)	\$ 109,905
Total current liabilities	372,624	(723)	371,901
Total liabilities	411,487	(723)	410,764
Accumulated deficit	(1,616,738)	723	(1,616,015)
Total stockholders' equity	539,317	723	540,040
Total liabilities and stockholders' equity	\$ 950,804	\$ —	\$ 950,804

The effect of the changes made to the Company's Condensed Consolidated Statements of Comprehensive Loss was as follows:

Three Months Ended September 30, 2023	As Reported	As computed excluding anticipated net investment income	Effect of Change
	(in thousands)		
Premium deficiency reserve expense (benefit)	\$ 392	\$ (1,527)	\$ 1,919
Total operating expenses	523,535	521,616	1,919
Loss from operations	(41,469)	(39,550)	(1,919)
Net loss	\$ (41,469)	\$ (39,550)	\$ (1,919)

Per share data:

Net loss per share attributable to Class A and B common stockholders - basic and diluted	\$ (0.09)	\$ (0.08)	\$ (0.01)
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Three Months Ended September 30, 2022	As Reported	Effect of Change	As Adjusted
	(in thousands)		
Premium deficiency reserve expense (benefit)	\$ (27,657)	\$ 181	\$ (27,476)
Total operating expenses	930,732	181	930,913
Loss from operations	(73,915)	(181)	(74,096)
Net loss	\$ (75,308)	\$ (181)	\$ (75,489)

Per share data:

Net loss per share attributable to Class A and B common stockholders - basic and diluted	\$ (0.16)	\$ —	\$ (0.16)
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Nine Months Ended September 30, 2023	As Reported	As computed excluding anticipated net investment income		Effect of Change
		(in thousands)		
Premium deficiency reserve expense (benefit)	\$ (6,556)	\$ (15,234)	\$	8,678
Total operating expenses	1,666,351	1,657,673	\$	8,678
Loss from operations	(142,882)	(134,204)	\$	(8,678)
Net loss	\$ (142,889)	(134,211)	\$	(8,678)
Per share data:				
Net loss per share attributable to Class A and B common stockholders - basic and diluted	\$ (0.30)	\$ (0.28)	\$	(0.02)

Nine Months Ended September 30, 2022	As Reported	Effect of Change	As Adjusted
Premium deficiency reserve expense (benefit)	\$ (82,971)	\$ 543	\$ (82,428)
Total operating expenses	2,841,657	543	2,842,200
Loss from operations	(263,761)	(543)	(264,304)
Net loss	\$ (254,798)	(543)	(255,341)
Per share data:			
Net loss per share attributable to Class A and B common stockholders - basic and diluted	\$ (0.54)	\$ —	(0.54)

There was no impact on the Condensed Consolidated Statements of Cash Flows.

Equity method of accounting and variable interest entities

Investments in entities in which the Company does not have control but its ownership falls between 20.0% and 50.0%, or it has the ability to exercise significant influence over operating and financial policies, are accounted for under the equity method of accounting.

The Company continuously assesses its partially-owned entities to determine if these entities are variable interest entities ("VIEs") and, if so, whether the Company is the primary beneficiary and, therefore, required to consolidate the VIE. To make this determination, the Company applies a qualitative approach to determine whether the Company has both the power to direct the activities of the VIE that most significantly impact the VIE's economic performance and the obligation to absorb losses of, or the rights to receive benefits from the VIE that could potentially be significant to that VIE. If the Company has an interest in a VIE but is determined to not be the primary beneficiary, the Company accounts for the interest under the equity method of accounting.

When the Company's carrying value in an equity method investee company is reduced to zero, no further losses are recorded in the Company's interim unaudited condensed consolidated financial statements unless the Company guaranteed obligations of the investee company or has committed additional funding. When the investee company subsequently reports income, the Company will not record its share of such income until it equals the amount of its share of losses not previously recognized.

Segment information

Operating segments are defined as components of an enterprise for which separate financial information is available that is evaluated on a regular basis by the chief operating decision maker ("CODM") in deciding how to allocate resources to an individual segment and in assessing performance. The Company's CODM is its Chief Executive Officer. The Company has two reporting segments: Insurance and Non-Insurance.

Performance guarantees

In April 2021, the Company began participating in the DC Model of the Centers for Medicare & Medicaid Services ("CMS"), which is a model intended to reduce expenditures and preserve or enhance quality of care for beneficiaries in FFS. CMS redesigned the DC Model and renamed the model the ACO Realizing Equity, Access, and Community Health (REACH) Model ("ACO REACH Model") effective January 1, 2023. As a participating entity in ACO REACH Model at January 1, 2023, with a global risk arrangement, the Company assumes the responsibility of guaranteeing the performance of its care network. The ACO REACH Model is intended to reduce administrative burden and support a focus on complex, chronically ill patients. The Company's operations in connection with the ACO REACH Model are included in the Non-Insurance operating segment. See Note 16 (Operating Segments) for additional information.

Certain of the Company's arrangements with third-party providers require it to guarantee the performance of its care network to CMS. As a result of the Company's participation in the ACO REACH model, the Company determined that it was making a performance guarantee with respect to providers under the Non-Insurance arrangement that should be recognized in the financial statements. The performance guarantee identified relates to the Company guaranteeing the performance of the third-party medical providers. Thus, the contract with CMS is accounted for as a performance guarantee under ASC 460-Guarantees. At the inception of the performance year, the Company measures and recognizes the performance guarantee receivable and obligation, issued in this standalone arm's length transaction, using the practical expedient to fair value as set forth in ASC 460-10-30-2(a). The Company estimates the annualized benchmark, which is the amount recognized in both the Non-Insurance performance year receivable and the Non-Insurance performance year obligation, current. This is consistent with ASC 460-10-25-4, which provides that a guarantor shall recognize in its statement of financial position a liability for that guarantee. In addition, when the guarantee is issued in a standalone transaction for a premium, the offsetting entry should be considered received (such as cash or a receivable) according to ASC 460-10-25-4. Thus the Company recognizes the Non-Insurance performance year receivable on its Condensed Consolidated Balance Sheets.

To subsequently measure and recognize the performance guarantee, the Company follows ASC 460-10-35-2(b) and applies a systematic and rational approach to reflect its release from risk. Under this approach, the Company amortizes on a straight-line basis over the performance year, the obligation. The Company has determined this systematic and rational method is appropriate, as it matches the period in which the guarantee is fulfilled. In addition, ASC 460-10-35-2 provides further guidance on the subsequent measurement related to the Company's performance guarantee. Per ASC 460-10-35-2, depending on the nature of the guarantee, the guarantor's release from risk typically can be recognized over the term of the guarantee using one of three methods: (1) upon expiration or settlement, (2) by systematic or rational amortization, or (3) as the fair value of the guarantee changes. The Company has determined that method (2) is the appropriate method of recognition as discussed above.

With respect to each performance year in which the ACO is a participant, the final consideration due to the ACO from CMS ("shared savings") or the consideration due to CMS from the ACO ("shared loss") is reconciled in the subsequent years following the performance year. The shared savings or loss is measured periodically and will be applied to the Non-Insurance performance obligation, current or Non-Insurance performance receivable if the Company is in a probable loss position or probable savings position, respectively.

Capitalized software development costs - cloud computing arrangements

The Company's cloud computing arrangements are mostly comprised of hosting arrangements that are service contracts, whereby the Company gains remote access to use enterprise software hosted by the vendor or another third party on an as-needed basis for a period of time in exchange for a subscription fee. Implementation costs for cloud computing arrangements are capitalized if certain criteria are met and consist of internal and external costs directly attributable to developing and configuring cloud computing software for its intended use. These capitalized implementation costs are presented in the Condensed Consolidated Balance Sheets within Prepaid expenses, and are generally amortized over the fixed, non-cancelable term of the associated hosting arrangement on a straight-line basis.

Deferred acquisition costs

Acquisition costs directly related to the successful acquisition of new business, which are primarily made up of commissions costs, are deferred and subsequently amortized. Deferred acquisition costs are recorded within Other assets, current on the Condensed Consolidated Balance Sheets and are amortized over the estimated life of the related contracts. The amortization of deferred acquisition costs is recorded within General and administrative expenses within the Condensed Consolidated Statements of Operations and Comprehensive Loss. At September 30, 2023 and December 31, 2022, there were no deferred acquisition costs as a result of the acceleration of amortization for deferred acquisition costs due to the recognition of a premium deficiency reserve. For the three months ended September 30, 2023 and 2022, there were charges related to deferred acquisition costs of \$0.6 million and \$1.9 million, respectively. For the nine months ended September 30, 2023 and 2022, there were charges related to deferred acquisition costs of \$5.8 million, and \$15.6 million, respectively, both periods were recognized within General and administrative expenses.

Restructuring Activities

Restructuring related expenses, which are recorded within Restructuring costs on the Condensed Consolidated Statements of Operations, include employee termination benefits, vendor costs associated with restructuring activities, and other costs associated with the business transformation initiatives. Restructuring costs are determined based on estimates, which are prepared at the time the restructuring actions are approved by management and are periodically reviewed and updated for changes in estimates. The Company applies the provisions of ASC 420, Exit or Disposal Cost Obligations ("ASC 420") as these costs meet the criteria of a one-time benefit. Under ASC 420-10, the Company establishes a liability for a cost associated with an exit or disposal activity, including employee termination benefits and other restructuring related costs, when the liability is incurred, rather than at the date that the Company commits to an exit plan. At each reporting date, there is an evaluation of the liability to ensure the amount is still appropriate. See Note 18 (Restructuring costs) for further discussion.

Recent accounting pronouncements

Recently adopted accounting pronouncements

In August 2018, the FASB issued ASU 2018-12, *Financial Services - Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts*, which was subsequently amended by ASU 2019-09, *Financial Services—Insurance (Topic 944): Effective Date* and ASU 2020-11, *Financial Services—Insurance (Topic 944): Effective Date and Early Application*. ASU 2020-11 was issued in consideration of the implications of COVID-19 and to provide transition relief and additional time for implementation by deferring the effective date by one year. The amendments in ASU 2018-12 make changes to a variety of areas to simplify or improve the existing recognition, measurement, presentation, and disclosure requirements for long-duration contracts issued by an insurance entity. The amendments require insurers to annually review the assumptions they make about their policyholders and update the liabilities for future policy benefits if the assumptions change. The amendments also simplify the amortization of deferred acquisition costs and add new disclosure requirements about the assumptions used to measure liabilities and the potential impact to future cash flows. The amendments related to the liability for future policy benefits for traditional and limited-payment contracts and deferred acquisition costs are to be applied to contracts in force at the beginning of the earliest period presented, with an option to apply such amendments retrospectively with a cumulative-effect adjustment to the opening balance of retained earnings at the earliest period presented. The amendments for market risk benefits are to be applied retrospectively. ASU 2020-11 is effective for public entities for periods beginning after December 15, 2022. The Company adopted this standard on January 1, 2023. The adoption of ASU 2018-12 and related amendments did not have a material impact on the Company's financial statements.

Accounting pronouncements effective in future periods

None.

3. Investment Securities

The following tables present amortized cost and fair values of investments at September 30, 2023 and December 31, 2022, respectively:

September 30, 2023	Amortized cost	Accumulated unrealized gains	Accumulated unrealized losses	Fair value
	(in thousands)			
Investment securities, held-to-maturity				
U.S. government and government agencies and authorities	\$ 7,688	\$ —	\$ (323)	\$ 7,365
Investment securities, available-for-sale				
U.S. government and government agencies and authorities	195,029	1	(4,505)	190,525
Corporate debt securities	107,824	12	(580)	107,256
Total held-to-maturity and available-for-sale investment securities	<u>\$ 310,541</u>	<u>\$ 13</u>	<u>\$ (5,408)</u>	<u>\$ 305,146</u>

December 31, 2022	Amortized cost	Accumulated unrealized gains	Accumulated unrealized losses	Fair value
	(in thousands)			
Investment securities, held-to-maturity				
U.S. government and government agencies and authorities	\$ 757	\$ —	\$ (106)	\$ 651
Investment securities, available-for-sale				
U.S. government and government agencies and authorities	237,457	10	(9,000)	228,467
Corporate debt	98,783	38	(422)	98,399
Total held-to-maturity and available-for-sale investment securities	<u>\$ 336,997</u>	<u>\$ 48</u>	<u>\$ (9,528)</u>	<u>\$ 327,517</u>

The following table presents the amortized cost and fair value of debt securities at September 30, 2023, by contractual maturity:

September 30, 2023	Held-to-maturity		Available-for-sale	
	Amortized cost	Fair value	Amortized cost	Fair value
	(in thousands)			
Due within one year	\$ 6,896	\$ 6,692	\$ 197,766	\$ 196,381
Due after one year through five years	681	588	105,087	101,400
Due after five years through ten years	—	—	—	—
Due after ten years	111	85	—	—
Total	<u>\$ 7,688</u>	<u>\$ 7,365</u>	<u>\$ 302,853</u>	<u>\$ 297,781</u>

For the three and nine months ended September 30, 2023 and 2022, respectively, net investment income, which is included within Other income within the Condensed Consolidated Statements of Operations and Comprehensive Loss, was derived from the following sources:

	Three Months Ended September 30,		Nine Months Ended September 30, 2023	
	2023	2022	2023	2022
	(in thousands)		(in thousands)	
Cash and cash equivalents	\$ 1,944	\$ 1,428	\$ 5,978	\$ 1,567
Short-term investments	605	879	1,920	1,001
Investment securities	1,840	543	5,322	1,057
Investment income, net	<u>\$ 4,389</u>	<u>\$ 2,850</u>	<u>\$ 13,220</u>	<u>\$ 3,625</u>

Gross unrealized losses and fair values aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position were as follows at September 30, 2023, and December 31, 2022, respectively:

September 30, 2023	Less than 12 months		Greater than 12 months		Total	
	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss
	(in thousands, except number of positions)					
U.S. government and government agencies and authorities	\$ 39,425	\$ (163)	\$ 160,305	\$ (4,671)	\$ 199,730	\$ (4,834)
Corporate debt securities	91,165	(532)	9,874	(42)	101,039	(574)
Total	<u>\$ 130,590</u>	<u>\$ (695)</u>	<u>\$ 170,179</u>	<u>\$ (4,713)</u>	<u>\$ 300,769</u>	<u>\$ (5,408)</u>
Number of positions	109		38		147	

December 31, 2022	Less than 12 months		Greater than 12 months		Total	
	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss
	(in thousands, except number of positions)					
U.S. government and government agencies and authorities	\$ 64,261	\$ (958)	\$ 147,757	\$ (8,148)	\$ 212,018	\$ (9,106)
Corporate debt securities	78,292	(422)	—	—	78,292	(422)
Total	\$ 142,553	\$ (1,380)	\$ 147,757	\$ (8,148)	\$ 290,310	\$ (9,528)
Number of positions		92		24		116

The Company did not record any credit allowances for debt securities that were in an unrealized loss position at September 30, 2023 and December 31, 2022.

At September 30, 2023, all securities were investment grade, with credit ratings of BBB+ or higher by S&P Global or as determined by other credit rating agencies within the Company's investment policy. Unrealized losses on investment grade securities are principally related to changes in interest rates or changes in issuer or sector related credit spreads since the securities were acquired. The gross unrealized investment losses at September 30, 2023, were assessed, based on, among other things:

- The relative magnitude to which fair values of these securities have been below their amortized cost was not indicative of an impairment loss;
- The absence of compelling evidence that would cause the Company to call into question the financial condition or near-term prospects of the issuer of the applicable security; and
- The Company's ability and intent to hold the applicable security for a period of time sufficient to allow for any anticipated recovery.

Proceeds from sales and maturities of investment securities, inclusive of Short-term investments, and related gross realized gains (losses) which are included within Other income within the Condensed Consolidated Statements of Operations and Comprehensive Loss, were as follows for the three and nine months ended September 30, 2023 and 2022, respectively:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
	(in thousands)		(in thousands)	
Proceeds from sales of investment securities	\$ —	\$ 3,829	\$ 60,436	\$ 9,710
Proceeds from maturities of investment securities	32,240	60,000	139,122	350,455
Gross realized gains	—	—	39	5
Gross realized losses	—	(2)	(19)	(23)
Net realized losses	<u>\$ —</u>	<u>\$ (2)</u>	<u>\$ 20</u>	<u>\$ (18)</u>

At September 30, 2023 and December 31, 2022, the Company had \$14.6 million and \$14.3 million, respectively, in deposits with various states and regulatory bodies that are included as part of the Company's investment balances.

4. Fair Value Measurements

The following tables present a summary of fair value measurements for financial instruments at September 30, 2023 and December 31, 2022, respectively:

September 30, 2023	Level 1	Level 2	Level 3	Total fair value
	(in thousands)			
U.S. government and government agencies	\$ —	\$ 190,525	\$ —	\$ 190,525
Corporate debt securities	—	107,256	—	107,256
Warrants receivable	—	—	900	900
Total assets at fair value	<u>\$ —</u>	<u>\$ 297,781</u>	<u>\$ 900</u>	<u>\$ 298,681</u>

December 31, 2022	Level 1	Level 2	Level 3	Total fair value
	(in thousands)			
U.S. government and government agencies	\$ —	\$ 228,467	\$ —	\$ 228,467
Corporate debt securities	—	98,399	—	98,399
Warrants receivable	—	—	900	900
Total assets at fair value	<u>\$ —</u>	<u>\$ 326,866</u>	<u>\$ 900</u>	<u>\$ 327,766</u>

There were no changes in the balances of the Company's Level 3 financial assets and liabilities during the three months ended September 30, 2022. The changes in balances of the Company's Level 3 financial assets and liabilities during the nine months ended September 30, 2023 were as follows:

	Warrants receivable	Total
	(in thousands)	
Balance, December 31, 2022	\$ 900	\$ 900
Receipts	—	—
Settlements	—	—
Transfers in	—	—
Transfers out	—	—
Total realized losses (gains)	—	—
Balance, September 30, 2023	<u>\$ 900</u>	<u>\$ 900</u>

There were no transfers in or out of the Company's Level 3 financial assets or liabilities for the nine months ended September 30, 2023 or September 30, 2022.

Private Warrants

At September 30, 2023, the Company had exercisable private warrants which were embedded in several agreements as derivatives. These private warrants were accounted for as assets in accordance with ASC 815-40 and are presented within Other assets, non-current on the Condensed Consolidated Balance Sheets. The warrant assets are measured at fair value at inception and on a recurring basis until redeemed, with changes in fair value presented within Change in fair value of warrants within the Condensed Consolidated Statements of Operations and Comprehensive Loss. These private warrants were classified within Level 3 due to the subjectivity and use of estimates in the calculation of their fair value. These warrants at initial measurement date, December 31, 2022, were assessed to have a fair value of \$0.9 million. At September 30, 2023, these warrants had a fair value of \$0.9 million.

5. Healthcare Receivables

Healthcare receivables include pharmaceutical rebates that are accrued as they are earned and estimated based on contracted rebate rates, eligible amounts submitted to the manufacturers by the Company's pharmacy manager, pharmacy utilization volume, and historical collection patterns. Also included within Healthcare receivables are Medicare Part D settlement receivables, member premium receivables, and other CMS receivables. The Company reported \$52.1 million and \$70.6 million within Healthcare receivables at September 30, 2023, and December 31, 2022, respectively.

6. Related Party Transactions

Related party agreements

The Company has various contracts with IJKG Opco LLC (d/b/a CarePoint Health - Bayonne Medical Center), Hudson Hospital Opco, LLC (d/b/a CarePoint Health - Christ Hospital) and Hoboken University Medical Center Opco LLC (d/b/a CarePoint Health - Hoboken University Medical Center), which collectively do business as the CarePoint Health System ("CarePoint Health"), for the provision of inpatient and hospital-based outpatient services. CarePoint Health was ultimately held and controlled by Vivek Garipalli, the Company's Executive Chairman and a significant stockholder of the Company. In May 2022, Mr. Garipalli and his family completed a donation of their interest in CarePoint Health to a non-profit organization called CarePoint Health Systems, Inc. Following the donation, Mr. Garipalli has remained a Manager of Hudson Hospital Propco, LLC, an affiliate of Hudson Hospital Opco, LLC. Additionally, certain affiliates of Mr. Garipalli are owed certain money from CarePoint Health for prior obligations, and Mr. Garipalli has an indirect interest in Sequoia Healthcare Services, LLC and Sequoia Healthcare Management, LLC, which both provide services to CarePoint Health. Expenses and fees incurred related to Clover's contracts with CarePoint Health, recorded within Net medical claims incurred, were \$3.2 million and \$3.2 million, for the three months ended September 30, 2023 and 2022, respectively, and \$9.7 million and \$8.9 million, for the nine months ended September 30, 2023 and 2022, respectively. Additionally, \$1.3 million and \$1.6 million were payable to CarePoint Health at September 30, 2023, and December 31, 2022, respectively.

The Company has a contract with Medical Records Exchange, LLC (formerly known as "ChartFast," now d/b/a Credo) pursuant to which the Company receives administrative services related to medical records retrieval via Credo's electronic applications and web portal platform. Mr. Garipalli holds an equity interest of approximately ten percent (10%) of that entity. Expenses and fees incurred related to this agreement were \$0.3 million and \$0.1 million for the three months ended September 30, 2023 and 2022, respectively, \$0.6 million and \$0.2 million for the nine months ended September 30, 2023 and 2022, respectively.

Since July 2, 2021, the Company has contracted with Thyme Care, Inc. ("Thyme Care"), an oncology care management company, through which Thyme Care was engaged to provide cancer care management services to the Company's Insurance members in New Jersey and develop a provider network to help ensure member access to high-value oncology care. The Company and Thyme Care have amended the terms of the engagement, effective April 1, 2023, to include additional clinical services available to Clover members as well as the value based payment terms. The Company entered into an agreement with Thyme Care effective September 23, 2020 where the Company purchased 1,773,049 shares (less than five percent (5%) of its class A common stock) for a nominal amount. This amount is recorded within Other assets, non-current on the Condensed Consolidated Balance Sheet. Mr. Garipalli is a member of the board of directors of Thyme Care and holds an equity interest of less than five percent (5%) of that entity. Expenses and fees incurred related to this agreement were \$0.9 million and \$0.5 million for the three months ended September 30, 2023 and 2022, respectively, and \$1.7 million and \$1.3 million for the nine months ended September 30, 2023 and 2022, respectively. Additionally, \$0.2 million and \$0.3 million were payable to Thyme Care at September 30, 2023, and December 31, 2022, respectively.

7. Unpaid Claims

Activity within the liability for Unpaid claims, including claims adjustment expenses, for the nine months ended September 30, 2023 and 2022, respectively, is summarized as follows:

Nine Months Ended September 30,	2023		2022	
	(in thousands)			
Gross and net balance, beginning of period ⁽¹⁾	\$	137,395	\$	136,317
Incurred related to:				
Current year		750,705		773,530
Prior years		(7,689)		(36,149)
Total incurred		743,016		737,381
Paid related to:				
Current year		646,322		649,223
Prior years		120,859		89,055
Total paid		767,181		738,278
Gross and net balance, end of period ⁽¹⁾⁽²⁾	\$	113,230	\$	135,420

⁽¹⁾ Includes amounts due to related parties.

⁽²⁾ Differs from the total Unpaid claims amount reported on the Condensed Consolidated Balance Sheets due to the fact the figure here excludes unpaid claims for the Company's Non-Insurance operations of \$2.4 million and \$6.5 million at September 30, 2023 and 2022, respectively.

The Company uses a variety of standard actuarial techniques to establish unpaid claims reserves. Management estimates are supported by the Company's actuarial analysis. The Company utilizes an internal actuarial team to review the adequacy of unpaid claim and unpaid claim adjustment expense. The estimation of claim costs is inherently difficult and requires significant judgment. The estimation has considerable inherent variability and can fluctuate significantly depending upon several factors, including medical cost trends and claim payment patterns, general economic conditions, and regulatory changes. The time value of money is not taken into account for the purposes of calculating the liability for unpaid claims. Management believes that the current reserves are adequate based on currently available information.

Unpaid Claims for Insurance Operations

Unpaid claims for Insurance operations were \$113.2 million at September 30, 2023. During the nine months ended September 30, 2023, \$120.9 million was paid for incurred claims attributable to insured events of prior years. A favorable development of \$7.7 million was recognized during the nine months ended September 30, 2023, resulting from the Company's actual experience with claims developing differently as compared to the Company's estimates at December 31, 2022. A favorable development of \$36.1 million was recognized during the nine months ended September 30, 2022, resulting from the Company's actual experience with claims developing differently as compared to the Company's estimates at December 31, 2021. Original estimates are increased or decreased, as additional information becomes known regarding individual claims. The ratio of current year medical claims paid as a percentage of current year Net medical claims incurred was 86.1% for the nine months ended September 30, 2023, and 83.9% for the nine months ended September 30, 2022. This ratio serves as an indicator of claims processing speed, indicating that claims were processed at a faster rate during the nine months ended September 30, 2023, than during the nine months ended September 30, 2022.

8. Letter of Credit

On April 19, 2018, the Company entered into a secured letter of credit agreement (the "Letter") required for its subsidiary, the Company, for an aggregate amount of up to \$2.5 million. The Letter is with a commercial lender and it renews on an annual basis. The Letter bears interest at a rate of 0.75%. On April 19, 2023, the Letter expired and at the time of expiration there was an unused balance of \$2.5 million which was released to the Company. There was an unused balance of \$2.5 million at December 31, 2022.

9. Stockholders' Equity and Convertible Preferred Stock

Stockholders' Equity

The Company was authorized to issue up to 2,500,000,000 shares of Class A common stock at September 30, 2023 and December 31, 2022, respectively, and up to 500,000,000 shares of Class B common stock at September 30, 2023 and December 31, 2022. At September 30, 2023 and December 31, 2022, there were 399,374,685 and 383,998,718 shares of Class A common stock issued and outstanding, respectively. There were 87,867,732 and 94,394,852 shares of Class B common stock issued and outstanding at September 30, 2023 and December 31, 2022, respectively. Class B common stock has 10 votes per share, and Class A common stock has one vote per share. The Company had 7,096,160 and 2,072,752 shares held in treasury at September 30, 2023 and December 31, 2022, respectively. These amounts represent shares withheld to cover taxes upon vesting of employee stock-based awards.

At September 30, 2023, the Company was authorized to issue 25,000,000 shares of preferred stock having a par value of \$0.0001 per share, and the Company's Board has the authority to determine the rights, preferences, privileges, and restrictions, including voting rights, of those shares. At September 30, 2023, there were no shares of preferred stock issued and outstanding.

10. Variable Interest Entity and Equity Method of Accounting

On February 4, 2022, Character Biosciences, Inc. (f/k/a Clover Therapeutics Company) ("Character Biosciences"), an affiliate of the Company, completed a private capital transaction in which it raised \$17.9 million from the issuance of 16,210,602 shares of its preferred stock. Upon completion of the transaction, the Company owned approximately 25.46% of Character Biosciences. As a result, the Company reassessed its interest in Character Biosciences and determined that while Character Biosciences is a VIE, the Company is not considered as the primary beneficiary of the VIE because it does not have the power, through voting or similar rights and the license agreements, to direct the activities of Character Biosciences that most significantly impact Character Biosciences' economic performance.

The Company determined that it does have a significant influence over Character Biosciences and, therefore, it began accounting for its common stock investment in Character Biosciences using the equity method on February 4, 2022. The Company derecognized all of Character Biosciences' assets and liabilities from its balance sheet and its noncontrolling interest related to Character Biosciences, and recognized the retained common stock and preferred stock equity interests at fair values of \$3.7 million and \$4.9 million, respectively, which are included in Equity method investment and Other assets, non-current on the Condensed Consolidated Balance Sheets, and recognized a loss of \$1.0 million for the three months ended September 30, 2022, which is included within Loss (gain) on investment on the Condensed Consolidated Statements of Operations and Comprehensive Loss.

As the Company applies the equity method to account for its common stock interest in Character Biosciences, the initial value of the investment is adjusted periodically to recognize (i) the proportionate share of the investee's net income or losses after the date of investment, (ii) additional contributions made and dividends or distributions received, and (iii) impairment losses resulting from adjustments to net realizable value. The Company eliminates all intercompany transactions in accounting for equity method investments and records the proportionate share of the investee's net income or loss in equity within gain on investment on the Condensed Consolidated Statements of Operations and Comprehensive Loss.

With respect to the Company's preferred stock equity interest in Character Biosciences, the Company elected the measurement alternative to value this equity investment without a readily determinable fair value in accordance with ASC 321, *Investments – Equity Securities*. The carrying amount of the investment is included within Other assets, non-current in the Condensed Consolidated Balance Sheets. In accordance with ASC 321, for each reporting period, the Company completes a qualitative assessment considering impairment indicators to evaluate whether the investment is impaired.

In accordance with ASC 323, the Company recognized the proportionate share of Character Bioscience's net losses up to the investment carrying amount, at December 31, 2022, the Company discontinued applying the equity method to account for its common stock interest in Character Biosciences as the Company's net losses exceeded the Company's investment carrying amount. The equity method investment in Character Biosciences was reduced to zero and no further losses were recorded in the Company's interim unaudited condensed consolidated financial statements as the Company did not guarantee obligations of the investee company nor has not committed additional funding. The Company will begin recognizing its share of net income only when it is greater than the cumulative net losses not recognized during the period the equity method was suspended.

On January 23, 2023, Character Biosciences, completed a second private capital transaction in which it raised an additional capital from the issuance of additional shares of its preferred stock. Upon completion of this transaction, the Company's ownership percentage in Character Biosciences decreased to 23.92%.

11. Employee Benefit Plans

Employee Retirement Savings Plan

The Company has a defined contribution retirement savings plan (the "401(k) Plan") covering eligible employees, which includes safe harbor matching contributions based on the amount of employees' contributions to the 401(k) Plan. The Company contributes to the 401(k) Plan annually 100.0% of the first 4.0% compensation that is contributed by the employee up to 4.0% of eligible annual compensation after one year of service. The Company's service contributions to the 401(k) Plan amounted to approximately \$0.5 million and \$0.4 million for the three months ended September 30, 2023 and 2022, respectively, and \$1.4 million and \$1.1 million for the nine months ended September 30, 2023 and 2022, respectively, and are included within Salaries and benefits on the Condensed Consolidated Statements of Operations and Comprehensive Loss. The Company's cash match is invested pursuant to the participant's contribution direction. Employer contributions are immediately 100.0% vested.

Stock-based Compensation

The Company's 2020 Equity Incentive Plan (the "2020 Plan") provides for grants of restricted stocks units ("RSUs") and stock options to acquire shares of the Company's common stock, par value \$0.0001 per share, to employees, directors, officers, and consultants of the Company, and the Company's 2020 Management Incentive Plan (the "2020 MIP") provides for grants of RSUs to the Company's Executive Chair and CEO. During the year ended December 31, 2021, the Company approved the 2020 Plan and the 2020 MIP, and the Company's 2014 Equity Incentive Plan (the "2014 Plan") was terminated. On March 9, 2022, the Board adopted the 2022 Inducement Award Plan (the "Inducement Plan" and, collectively with the 2020 Plan, the 2020 MIP, and the 2014 Plan, the "Plans") and reserved 11,000,000 shares of Class A common stock for issuance under the Inducement Plan. The Inducement Plan was adopted by the Board without stockholder approval pursuant to Rule 5635(c)(4) of the Nasdaq Listing Rules. In accordance with Rule 5635(c)(4) of the Nasdaq Listing Rules, awards under the Inducement Plan may be made only to an employee who has not previously been an employee or member of the Board, or following a bona fide period of non-employment, if he or she is granted such award in connection with his or her commencement of employment with the Company, and such grant is an inducement material to his or her entering into employment with the Company.

The 2020 Plan has an evergreen provision that requires the number of shares available for issuance under the plan to be increased on the first day of each fiscal year beginning with the 2022 fiscal year and ending on (and including) the last day of the 2024 fiscal year, in each case, in an amount equal to the lesser of (i) seven percent (7%) of the outstanding shares of Class A Common Stock on the last day of the immediately preceding fiscal year and (ii) such number of shares of Class A Common Stock determined by the Board; provided that for each fiscal year beginning with the 2025 fiscal year through the fiscal year that includes the expiration date of the plan, each such increase shall be reduced to the lesser of five percent (5%) of the outstanding shares of Class A Common Stock on the last day of the immediately preceding fiscal year or such number of shares as determined by the Board.

The maximum number of shares of the Company's common stock reserved for issuance over the term of the Plans, shares outstanding under the Plans, and shares remaining under the Plans at September 30, 2023 and December 31, 2022, respectively, were as follows:

	Shares Authorized Under Plans	Shares Outstanding Under Plans	Shares Remaining Under Plans
September 30, 2023			
2014 Plan	54,402,264	34,864,267	N/A
2020 Plan	58,521,709	43,767,670	5,193,626
2020 MIP	33,426,983	26,741,587	—
Inducement Plan	11,000,000	5,536,822	2,131,783
December 31, 2022			
2014 Plan	54,402,264	36,378,558	N/A
2020 Plan	31,884,272	29,805,319	242,473
2020 MIP	33,426,983	30,084,285	—
Inducement Plan	11,000,000	11,000,000	—

The Plans are administered by the Talent and Compensation Committee of the Board (the "Compensation Committee"). Stock options granted under the Plans are subject to the terms and conditions described in the applicable Plan and the applicable stock option grant agreement. The exercise prices, vesting, and other restrictions applicable to the stock options are determined at the discretion of the Compensation Committee, except that the exercise price per share of incentive stock options may not be less than 100.0% of the fair value of a share of common stock on the date of grant. Stock options awarded under the Plans expire 10 years after the grant date. Incentive stock options and non-statutory options granted to employees, directors, officers, and consultants of the Company typically vest over four or five years. RSU awards are subject to the terms and conditions set forth in the Plans and the applicable RSU grant agreement. Vesting and other restrictions applicable to RSU awards are determined at the discretion of the Compensation Committee. The number of shares of common stock subject to an RSU award is determined by dividing the cash value of an RSU award by the average closing price of a share of the Company's Class A common stock over a specified period through the date of grant, and such awards typically vest over four years from the grant date. The total estimated fair value is amortized as an expense over the requisite service period as approved by the Compensation Committee.

The Company recorded stock-based compensation expense for options, RSUs, and restricted units with performance-based vesting ("PRSUs") granted under the Plans, and discounts offered in connection with the Company's 2020 Employee Stock Purchase Plan ("ESPP") of \$33.1 million and \$42.6 million during the three months ended September 30, 2023 and 2022, respectively, and \$107.8 million and \$125.2 million during the nine months ended September 30, 2023 and 2022, respectively, and such expenses are presented within Salaries and benefits in the accompanying Condensed Consolidated Statements of Operations and Comprehensive Loss.

Compensation cost presented within Salaries and benefits within the accompanying Condensed Consolidated Statements of Operations and Comprehensive Loss were as follows:

Three Months Ended September 30,	2023	2022
	(in thousands)	
Stock options	\$ 559	\$ 1,051
RSUs	20,603	19,499
PRSUs	11,851	21,903
ESPP	57	188
Total compensation cost recognized for stock-based compensation plans	<u>\$ 33,070</u>	<u>\$ 42,641</u>

Nine Months Ended September 30,	2023	2022
	(in thousands)	
Stock options	\$ 2,648	\$ 3,530
RSUs	62,539	54,782
PRSUs	42,444	66,461
ESPP	164	435
Total compensation cost recognized for stock-based compensation plans	<u>\$ 107,795</u>	<u>\$ 125,208</u>

At September 30, 2023, there was approximately \$452.0 million of unrecognized stock-based compensation expense related to unvested stock options, unvested RSUs, unvested PRSUs, and the ESPP, estimated to be recognized over a period of four years. The Company recognized \$11.9 million and \$21.9 million in share-based compensation related to PRSUs for the three months ended September 30, 2023 and 2022, respectively, and \$42.4 million and \$66.5 million for the nine months ended September 30, 2023 and 2022, respectively. The Company has granted PRSUs to certain executives, which become eligible to vest if prior to the vesting date the average closing price of one share of the Company's common stock for 90 consecutive days equals or exceeds a specified price (the "Market PRSUs"). The expense referenced above is mainly attributable to Market PRSUs that vest based on pre-established milestones including Company performance. These milestones primarily consist of the volume-weighted average stock closing price ranging from \$20 to \$30 for 90 consecutive days. The grant date fair value of the Market PRSUs is recognized as expense over the vesting period under the accelerated attribution method and is not adjusted in future periods for the success or failure to achieve the specified market condition. At September 30, 2023, the market condition component of these awards has not been met, so the awards have not been earned. This expense represents approximately 40% of the total compensation cost recognized for the nine months ended September 30, 2023 related to stock-based compensation plans which is presented within Salaries and benefits in the accompanying Condensed Consolidated Statements of Operations and Comprehensive Loss.

Stock Options

A summary of option activity under the 2020 Plan during the nine months ended September 30, 2023, was as follows:

	Number of stock options	Weighted- average exercise price
Outstanding, January 1, 2023	1,364,822	\$ 8.88
Granted during 2023	—	—
Exercised	—	—
Forfeited	(341,734)	8.88
Outstanding, September 30, 2023	<u>1,023,088</u>	<u>\$ 8.88</u>

A summary of stock option activity under the 2014 Plan during the nine months ended September 30, 2023, was as follows:

	Number of stock options	Weighted- average exercise price
Outstanding, January 1, 2023	25,631,686	\$ 2.35
Granted during 2023	—	—
Exercised	(78,637)	1.14
Forfeited	(1,437,790)	2.42
Outstanding, September 30, 2023	<u>24,115,259</u>	<u>\$ 2.72</u>

The aggregate intrinsic value of stock options is calculated as the difference between the exercise price of the stock options and the fair value of the Company's common stock for those stock options that had exercise prices lower than the fair value of the Company's common stock.

At September 30, 2023, outstanding stock options, substantially all of which are expected to vest, had an aggregate intrinsic value of less than \$0.1 million, and a weighted-average remaining contractual term of four years. At September 30, 2023, there were 22,838,047 stock options exercisable under the Plans, with an aggregate intrinsic value of less than \$0.1 million, a weighted-average exercise price of \$2.86 per share, and a weighted-average remaining contractual term of 5.59 years. The total value of stock options exercised during the nine months ended September 30, 2023 and 2022, was \$0.1 million and \$11.3 million, respectively. Cash received from stock option exercises during the nine months ended September 30, 2023 and 2022, was none and \$1.0 million, respectively.

Pursuant to the terms of the applicable Plan and stock option award agreement, employees may exercise stock options at any time after grant while maintaining the original vesting period. The proceeds from exercise of unvested stock options are recorded as a liability until the stock option vests at which time the liability is reclassified to equity. If the employee terminates or otherwise forfeits an unvested stock option that has been exercised early, the Company must redeem those shares at the original exercise price and remit payment of the forfeited portion of shares back to the employee.

Restricted Stock Units

A summary of total RSU activity is presented below:

	Number of RSUs	Weighted- average grant date fair value per share
Outstanding, January 1, 2022	21,294,841	\$ 14.60
Granted during 2022	30,094,480	2.62
Released	(4,518,984)	14.31
Forfeited	(1,460,459)	5.31
Outstanding, September 30, 2022	45,409,878	\$ 6.99
Outstanding, January 1, 2023	49,617,199	\$ 6.48
Granted during 2023	23,443,658	1.00
Released	(12,568,029)	6.58
Forfeited	(4,947,831)	3.12
Outstanding, September 30, 2023	55,544,997	\$ 4.45

Performance Restricted Stock Units

Additionally, the Company has granted PRSUs that vest based on pre-established milestones including Company performance. The grant date fair value of the Market PRSUs is recognized as expense over the vesting period under the accelerated attribution method and is not adjusted in future periods for the success or failure to achieve the specified market condition. The Company has also determined the requisite service period for the PRSUs with multiple performance conditions to be the longest of the explicit, implicit, or derived service period for each tranche.

The grant date fair value of Market PRSUs was determined using a Monte Carlo simulation model that incorporated multiple valuation assumptions, including the probability of achieving the specified market condition and the following assumptions:

Nine months ended September 30, 2023

Expected volatility ⁽¹⁾	40.7 %
Risk-free interest rate ⁽²⁾	0.5
Dividend yield ⁽³⁾	—

⁽¹⁾ Expected volatility is based on a blend of peer group company historical data adjusted for the Company's leverage.

⁽²⁾ Risk-free interest rate based on U.S. Treasury yields with a term equal to the remaining Performance Period at the grant date.

⁽³⁾ Dividend yield was assumed to be zero as the Company does not anticipate paying dividends.

A summary of PRSU activity is presented below:

	Number of PRSUs	Weighted-average grant date fair value per share
Non-vested, January 1, 2022	27,818,524	\$ 9.58
Granted during 2022	—	—
Vested	(13,264)	8.90
Forfeited	(265,306)	9.11
Non-vested at September 30, 2022	27,539,954	\$ 9.58
Non-vested, January 1, 2023	29,945,235	\$ 8.92
Granted during 2023	1,294,247	0.94
Vested	(958,951)	1.23
Forfeited	(55,665)	5.48
Non-vested at September 30, 2023	30,224,866	\$ 8.83

At September 30, 2023, there was \$47.6 million of unrecognized share-based compensation expense related to PRSUs, which is expected to be recognized over a period of approximately four years.

2020 Employee Stock Purchase Plan

On January 6, 2021, stockholders approved the ESPP. The ESPP provides a means by which eligible employees and/or eligible service providers of either the Company or designated related companies and affiliates may be given an opportunity to purchase shares of Class A common stock at a 15.0% discount from the fair market value of the common stock as determined on specific dates at specified intervals. Subject to adjustments provided in the ESPP that are discussed below, the maximum number of shares of common stock that may be purchased under the ESPP is 10,152,025 shares, and the maximum number of shares that may be purchased on any single purchase date by any one participant is 5,000 shares. At September 30, 2023, 9,311,065 shares of Class A common stock were available for issuance under the ESPP.

The ESPP includes an evergreen provision that sets the maximum number of shares of Class A common stock that may be issued under the plan, to 2,785,582 shares, plus the number of shares of Class A common stock that are automatically added on the first day of each fiscal year beginning with the 2022 fiscal year and ending on (and including) the first day of the 2030 fiscal year, in an amount equal to the lesser of (i) one percent (1%) of the total number of shares of Class A common stock outstanding on the last day of the calendar month prior to the date of such automatic increase, and (ii) such number of shares of Class A common stock as determined by the Board; provided that the maximum number of shares of Class A common stock reserved under the ESPP shall not exceed 10.0% of the total outstanding capital stock of the Company (inclusive of the shares reserved under the ESPP) at January 7, 2021, on an as-converted basis.

The initial offering period for the ESPP was five months, which commenced on September 1, 2021, and ended on January 31, 2022. The second offering period began on March 14, 2022, and ended November 22, 2022, and the third offering period began on November 23, 2022, and ended on May 21, 2023. The fourth offering period began on May 22, 2023 and is scheduled to end on November 21, 2023.

At September 30, 2023, 840,960 shares of the Company's Class A common stock have been purchased or distributed pursuant to the ESPP.

The assumptions that the Company used in the Black-Scholes option-pricing model to determine the fair value of the purchase rights under the ESPP for the nine months ended September 30, 2023, are as follows:

Nine months ended September 30, 2023

Weighted-average risk-free interest rate	5.4 %
Expected term (in years)	0.50
Expected volatility	69.8 %

12. Income Taxes

The consolidated effective tax rate of the Company for the three and nine months ended September 30, 2023 and 2022, was 0.0%. The Company continues to be in a net operating loss and net deferred tax asset position. As a result, and in accordance with accounting standards, the Company recorded a valuation allowance to reduce the value of the net deferred tax assets to zero. The Company believes that at September 30, 2023, it had no material uncertain tax positions. Interest and penalties related to unrecognized tax expense (benefits) are recognized in income tax expense, when applicable.

There were no material liabilities for interest and penalties accrued at September 30, 2023 and December 31, 2022.

13. Net Loss per Share

Net Loss per Share

Basic and diluted net loss per share attributable to Class A common stockholders and Class B common stockholders (collectively, "Common Stockholders") for the years indicated was calculated as follows:

	Three Months Ended September 30,	
	2023	2022
	(in thousands, except per share and share amounts)	
Net loss	\$ (41,469)	\$ (75,489)
Net loss attributable to Common Stockholders	(41,469)	(75,489)
Basic and diluted weighted average number of common shares and common share equivalents outstanding	480,770,283	477,690,204
Net loss per share attributable to Common Stockholders—basic and diluted	<u>\$ (0.09)</u>	<u>\$ (0.16)</u>

	Nine Months Ended September 30,	
	2023	2022
	(in thousands, except per share and share amounts)	
Net loss	\$ (142,889)	\$ (255,341)
Net loss attributable to Common Stockholders	(142,889)	(255,341)
Basic and diluted weighted average number of common shares and common share equivalents outstanding	480,921,520	475,609,571
Net loss per share attributable to Common Stockholders—basic and diluted	<u>\$ (0.30)</u>	<u>\$ (0.54)</u>

Because the Company had a Net loss during the three and nine months ended September 30, 2023 and 2022, the Company's potentially dilutive securities, which include stock options, RSUs, PRSUs, preferred stock, and warrants to purchase shares of common stock and preferred stock, have been excluded from the computation of diluted net loss per share, as the effect would be anti-dilutive. Therefore, during these periods, the diluted common shares outstanding equals the average common shares outstanding. The Company excluded the following potential common shares, presented based on amounts outstanding at each period end, from the computation of diluted net loss per share attributable to Common Stockholders for the periods indicated because including them would have had an anti-dilutive effect:

	Three Months Ended September 30,	
	2023	2022
Options to purchase common stock	25,138,347	27,373,475
RSUs	55,544,997	45,409,878
PRSUs	30,224,866	27,539,954
Total anti-dilutive shares excluded from computation of net loss per share	<u>110,908,210</u>	<u>100,323,307</u>

	Nine Months Ended September 30,	
	2023	2022
Options to purchase common stock	25,138,347	27,373,475
RSUs	55,544,997	45,409,878
PRSUs	30,224,866	27,539,954
Total anti-dilutive shares excluded from computation of net loss per share	<u>110,908,210</u>	<u>100,323,307</u>

14. Commitments and Contingencies

Legal Actions

Various lawsuits against the Company may arise in the ordinary course of the Company's business. Contingent liabilities arising from ordinary course litigation, income taxes and other matters are not expected to be material in relation to the financial position of the Company. At September 30, 2023, and December 31, 2022, respectively, there were no material known contingent liabilities arising outside the normal course of business other than as set forth below.

Securities Class Actions, Derivative Litigation and Investigations

Since February 2021, the Company has received subpoenas from the SEC related to certain disclosures and aspects of our business as well as certain matters described in an article issued on February 4, 2021, by Hindenburg Research LLC (the "Hindenburg Article"). The Company is cooperating with the SEC's investigation. The Hindenburg Article, which discussed, among other things, an inquiry by the U.S. Attorney's Office for the Eastern District of Pennsylvania relating to, among other things, certain of the Company's arrangements with providers participating in its network and programs, and Clover Assistant, was the subject of the Company's Current Report on Form 8-K dated February 5, 2021.

In February 2021, the Company and certain of its directors and officers were named as defendants in putative class actions filed in the United States District Court for the Middle District of Tennessee: Bond v. Clover Health Investments, Corp. et al., Case No. 3:21-cv-00096 (M.D. Tenn.); Kaul v. Clover Health Investments, Corp. et al., Case No. 3:21-cv-00101 (M.D. Tenn.); Yaniv v. Clover Health Investments, Corp. et al., Case No. 3:21-cv-00109 (M.D. Tenn.); and Tremblay v. Clover Health Investments, Corp. et al., Case No. 3:21-cv-00138 (M.D. Tenn.). The complaints assert violations of sections 10(b) and 20(a) of the Exchange Act and Rule 10b-5 promulgated under the Exchange Act. The Kaul action asserts additional claims under sections 11 and 15 of the Securities Act. The complaints generally relate to allegations published in the Hindenburg Article. The complaints seek unspecified damages on behalf of all persons and entities who purchased or acquired Clover securities during the class period (which begins on October 6, 2020, and, depending on the complaint, ends on February 3, 2021, or February 4, 2021), as well as certain other costs. In April 2021, the Middle District of Tennessee class actions were consolidated under Bond v. Clover Health Investments, Corp. et al., Case No. 3:21-cv-00096 (M.D. Tenn.) as the lead case. On June 28, 2021, the plaintiffs filed an amended complaint, which also generally relates to allegations published in the Hindenburg Article, but adds, among other things, allegations from confidential witnesses who purport to be former employees of the Company. The Company moved to dismiss the amended complaint on August 28, 2021; that motion was denied on February 28, 2022. On February 14, 2023, the court granted the plaintiffs' motion for class certification.

On April 21, 2023, the parties to the securities class action entered into a memorandum of understanding providing for the settlement of the action. The Court approved the settlement and dismissed the action with prejudice on October 3, 2023. Under the settlement, the class will receive \$22 million dollars (less an award of fees and expenses to the plaintiffs' counsel), and the defendants (including the Company) received customary releases. The Company used \$19.5 million in insurance proceeds to fund the settlement. On June 29, 2023, the Company deposited \$7.7 million, in an escrow account for settlement purposes, and on July 3, 2023, it deposited the remaining \$14.3 million. The Company previously filed a lawsuit in Delaware state court against certain of its insurers for full payment of its liabilities related to this securities litigation. The Company intends to oppose any efforts by the carrier defendants to recoup insurance proceeds that they have advanced to date.

Shareholder derivative actions parallel to the securities class action have also been filed, naming Clover as a nominal defendant. The first action was filed in the United States District Court for the District of Delaware and is captioned *Furman v. Garipalli, et al.*, Case No. 1:21-cv-00191 (D. Del.). The complaint asserts violations of sections 10(b) and 21D of the Exchange Act, breach of fiduciary duty, and waste of corporate assets against certain of the Company's directors. It seeks unspecified damages and an order requiring Clover to take certain actions to enhance Clover's corporate governance policies, and procedures. The second and third actions were filed in the United States District Court for the Middle District of Tennessee and are captioned *Sun v. Garipalli, et al.*, Case No. 3:21-cv-00311 (M.D. Tenn.), and *Luthra v. Garipalli, et al.*, Case No. 3:21-cv-00320 (M.D. Tenn.). The complaints assert violations of section 14(a) of the Exchange Act, breach of fiduciary duty, and aiding and abetting a breach of fiduciary duty. The Sun action also asserts unjust enrichment, abuse of control, gross mismanagement, waste of corporate assets, and contribution under section 11(f) of the Securities Act, and sections 10(b) and 21D of the Exchange Act. The complaints name certain current and former officers and directors as defendants. They seek unspecified damages and an order requiring Clover to take certain actions to enhance Clover's corporate governance policies and procedures.

The fourth action was filed in the United States District of Delaware and is captioned *Wiegand v. Garipalli, et al.*, Case No. 1:21-cv-01053 (D. Del.). The initial complaint asserted violations of sections 14(a) and 20(a) of the Exchange Act, breach of fiduciary duty, unjust enrichment, and waste of corporate assets. The complaint names certain current and former officers and directors as defendants. It seeks, among other things, unspecified damages and an order requiring Clover to take certain actions to improve Clover's corporate governance and internal procedures. The fifth action was filed in the Supreme Court of the State of New York and is captioned *Sankaranarayanan v. Palihapitiya, et al.*, Index No. 655420/2021 (N.Y. Sup. Ct., N.Y. Cnty.). The complaint asserts breach of fiduciary duty and unjust enrichment. The complaint names certain former officers and directors as defendants. It seeks, among other things, unspecified damages and an order directing Clover to take certain actions to reform and improve its corporate governance and internal procedures.

The sixth action was filed in the Delaware Court of Chancery and is captioned *Davies v. Garipalli, et al.*, No. 2021-1016-SG (Del. Ch.). The complaint asserts breach of fiduciary duty. The complaint names certain current and former officers and directors as defendants. It seeks, among other things, unspecified damages and an order directing Clover to take certain actions to reform and improve its corporate governance and internal procedures. The seventh action was filed in the Supreme Court of the State of New York and is captioned *Uvaydov v. Palihapitiya, et al.*, Index No. 656978/2021 (N.Y. Sup. Ct., N.Y. Cnty.). The complaint asserts breach of fiduciary duty, unjust enrichment, and aiding and abetting a breach of fiduciary duty. The complaint names certain current and former officers and directors as defendants. It seeks, among other things, unspecified damages, restitution, and disgorgement of profits obtained by defendants.

On May 10, 2021, the Middle District of Tennessee shareholder derivative actions described above were consolidated under *Sun v. Garipalli, et al.*, Case No. 3:21-cv-00311 (M.D. Tenn.) as lead case. On November 30, 2021, the Sun and Luthra plaintiffs filed an amended complaint, asserting violations of section 14(a) of the Exchange Act, breach of fiduciary duty, aiding and abetting a breach of fiduciary duty, unjust enrichment, abuse of control, gross mismanagement, waste of corporate assets, and contribution under sections 10(b) and 21D of the Exchange Act. The amended complaint generally relates to the allegations published in the Hindenburg Article, and names certain current and former officers and directors as defendants. It seeks, among other things, unspecified damages and an order requiring Clover to take certain actions to enhance Clover's corporate governance policies and procedures.

On September 16, 2021, the two District of Delaware derivative actions were consolidated under *In re Clover Health Investments, Corp. Derivative Litigation*, Case No. 1:21-cv-00191-LPS (Consolidated). The Furman complaint was deemed the operative complaint. On April 19, 2022, the plaintiff in the Wiegand action filed an amended complaint, asserting violations of Sections 10(b), 20(a), and 21D of the Exchange Act, breach of fiduciary duty, waste of corporate assets, and unjust enrichment against certain current and former officers and directors. The amended complaint seeks, among other things, unspecified damages and an order requiring Clover to take certain actions to improve Clover's corporate governance and internal procedures.

On August 19, 2022, the two derivative actions filed in New York state court were consolidated under *In re Clover Health Investments, Corp. Stockholder Derivative Litig.*, Index No. 655420/2021. On November 3, 2022, the plaintiffs in this action filed a consolidated complaint, asserting breach of fiduciary duty, and unjust enrichment, and naming certain former officers and directors as defendants. The complaint seeks, among other things, unspecified damages, restitution, the disgorgement of profits obtained by defendants, and an order directing Clover to take certain actions to reform and improve its corporate governance and internal procedures.

On June 21, 2023, the plaintiffs in the derivative lawsuits, on the one hand, and the Company, on the other hand, entered into a binding memorandum of understanding providing for the settlement of the derivative actions. Subject to negotiation of definitive documentation and final court approval, the defendants in the derivative lawsuits will receive customary releases and the Company will implement a suite of corporate governance enhancements. The settlement does not involve any monetary payment, other than payment of an award of fees and expenses to plaintiffs' counsel, which has not yet been determined.

Guaranty Assessments

Under state guaranty assessment laws, including those related to state cooperative failures in the industry, the Company may be assessed, up to prescribed limits, for certain obligations to the policyholders and claimants of insolvent insurance companies that write the same line or lines of business as the Company.

15. Non-Insurance

In April 2021, the Company began participating in the Global and Professional Direct Contracting of the Centers for Medicare & Medicaid Services ("CMS"), which utilizes a structured model intended to reduce expenditures and preserve or enhance quality of care for people with Medicare fee-for-service ("FFS"). CMS redesigned the DC Model and renamed the model the ACO Realizing Equity, Access, and Community Health (REACH) Model ("ACO REACH Model") effective January 1, 2023. As a participating entity in the DC Model, referred to as the ACO REACH Model at January 1, 2023, with a global risk arrangement, the Company assumes the responsibility of guaranteeing the performance of its care network. The ACO REACH Model is intended to reduce administrative burden and support a focus on complex, chronically ill patients. The Company's operations in connection with the ACO REACH Model is included in the Non-Insurance operating segment. See Note 16 (Operating Segments) for additional information.

Performance Guarantees

Certain of the Company's arrangements with third-party providers require it to guarantee the performance of its care network to CMS, which, if not obtained, could potentially result in payment to CMS. The Non-Insurance performance year obligation and receivable are amortized on a straight-line basis for the amount that represents the completed performance. The Company is unable to estimate the maximum potential amount of future payments under the guarantee. This is attributable to the stop-loss arrangement and the corridors (tiered levels) in the arrangement. A certain percentage of these arrangements will still be the responsibility of the Company, in addition to a number of variables that are not reasonable for the Company to estimate, such as, but not limited to, risk ratings and benchmark trends that have an inestimable impact on the estimate of future payments.

For additional information, see Note 2 (Summary of Significant Accounting Policies) and Note 22 (Non-Insurance) in the 2022 Form 10-K.

The tables below include the financial statement impacts of the performance guarantee:

	September 30, 2023	December 31, 2022
	(in thousands)	
Non-Insurance performance year receivable	\$ 185,404	\$ —
Non-Insurance performance year obligation ⁽¹⁾	254,419	73,844

⁽¹⁾ This obligation represents the consideration due to providers, net of the shared savings or loss for the period and amortization of the liability.

	Nine months ended September 30, 2023	Nine months ended September 30, 2022
	(in thousands)	
Amortization of the Non-Insurance performance year receivable	\$ (556,211)	\$ (1,757,702)
Amortization of the Non-Insurance performance year obligation	556,211	1,757,702
Non-Insurance revenue	575,311	1,757,579

16. Operating Segments

The Company manages its operations based on two reportable operating segments: Insurance and Non-Insurance. Through the Insurance segment, the Company provides PPO and HMO plans to Medicare Advantage members in several states. The Company's Non-Insurance segment consists of its operations in connection with its participation in CMS' Global and Professional Direct Contracting and ACO REACH programs. All other clinical services and all corporate overhead not included in the Insurance or Non-Insurance segments are included within Corporate/Other. These segment groupings are consistent with information used by the Chief Executive Officer, the Company's CODM, to assess performance and allocate resources.

The operations of the Company are organized into the following two segments:

- **Insurance Segment** includes operations related to the Company's MA plans, which generally provide access to a wide network of primary care providers, specialists, and hospitals.
- **Non-Insurance Segment** includes the Company's operations relating to CMS' ACO REACH Model, which provides options aimed at reducing expenditures and preserving or enhancing quality of care for beneficiaries.

Corporate/Other includes other clinical services not included in Medicare Advantage and Global and Professional Direct Contracting Model and all other corporate overhead. Clinical services is comprised of Clover Home Care and other clinical services that are offered to eligible beneficiaries.

During the first quarter of 2022, the Company updated the names of its Medicare Advantage and Global and Professional Direct Contracting Model segments to the Insurance and Non-Insurance segments, respectively. The Company believes that this approach better reflects each segment's current role and contribution to its business. There has been no change to the existing composition of these segments, and previously reported consolidated and segment-level financial results of the Company were not impacted by these changes.

The table below summarizes the Company's results by operating segment:

	Insurance	Non-Insurance	Corporate/Other	Eliminations	Consolidated Total
Three months ended September 30, 2023					
(in thousands)					
Premiums earned, net (net of ceded premiums of \$106)	301,230	—	—	—	301,230
Non-Insurance revenue	—	176,038	—	—	176,038
Other income	3,338	(478)	14,696	(12,758)	4,798
Intersegment revenues	—	—	43,335	(43,335)	—
Net medical claims incurred	236,533	183,173	4,691	(5,438)	418,959
Gross profit (loss)	68,035	(7,613)	53,340	(50,655)	63,107
Total assets	464,942	374,817	905,477	(685,439)	1,059,797
Nine months ended September 30, 2023					
(in thousands)					
Premiums earned, net (net of ceded premiums of \$341)	932,699	—	—	—	932,699
Non-Insurance revenue	—	575,311	—	—	575,311
Other income	7,192	1,266	44,466	(37,465)	15,459
Intersegment revenues	—	—	112,220	(112,220)	—
Net medical claims incurred	753,877	573,566	11,821	(10,861)	1,328,403
Gross profit (loss)	186,014	3,011	144,865	(138,824)	195,066
Total assets	464,942	374,817	905,477	(685,439)	1,059,797

	Insurance	Non-Insurance	Corporate/Other	Eliminations	Consolidated Total
Three months ended September 30, 2022					
	(in thousands)				
Premiums earned, net (net of ceded premiums of \$116)	267,892	—	—	—	267,892
Non-Insurance revenue	—	585,311	—	—	585,311
Other income	957	457	15,494	(13,294)	3,614
Intersegment revenues	—	—	29,954	(29,954)	—
Net medical claims incurred	231,211	609,650	1,980	(3,042)	839,799
Gross profit (loss)	37,638	(23,882)	43,468	(40,206)	17,018
Total assets	476,025	715,672	859,637	(493,655)	1,557,679

	Insurance	Non-Insurance	Corporate/Other	Eliminations	Consolidated Total
Nine months ended September 30, 2022					
	(in thousands)				
Premiums earned, net (net of ceded premiums of \$354)	814,566	—	—	—	814,566
Non-Insurance revenue	—	1,757,579	—	—	1,757,579
Other income	1,448	477	58,334	(54,508)	5,751
Intersegment revenues	—	—	76,119	(76,119)	—
Net medical claims incurred	746,612	1,815,771	7,155	(9,231)	2,560,307
Gross profit (loss)	69,402	(57,715)	127,298	(121,396)	17,589
Total assets	476,025	715,672	859,637	(493,655)	1,557,679

A reconciliation of the reportable segments' gross profit to the Net loss included in the Consolidated Statements of Operations and Comprehensive Loss is as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
	(in thousands)			
Gross profit	\$ 63,107	\$ 17,018	\$ 195,066	\$ 17,589
Salaries and benefits		60,567	70,142	193,211
General and administrative expenses		41,747	47,832	141,588
Premium deficiency reserve benefit		392	(27,476)	(6,556)
Depreciation and amortization		557	616	1,835
Restructuring costs		1,313	—	7,870
Interest expense		—	404	7
Amortization of notes and securities discounts		—	9	—
Loss (gain) on investment		—	980	—
Net loss	\$ (41,469)	\$ (75,489)	\$ (142,889)	\$ (255,341)

17. Dividend Restrictions

The Company's regulated insurance subsidiaries are subject to regulations and standards in their respective jurisdictions. These standards, among other things, require these subsidiaries to maintain specified levels of statutory capital and limit the timing and amount of dividends and other distributions that may be paid to their parent companies. Therefore, the Company's regulated insurance subsidiaries' ability to declare and pay dividends is limited by state regulations including obtaining prior approval by the New Jersey Department of Banking and Insurance. At September 30, 2023 and December 31, 2022, neither of the regulated insurance subsidiaries had been authorized nor paid any dividends.

18. Restructuring costs

On April 17, 2023, the Company announced it would implement certain business transformation initiatives, including an agreement to move its core plan operations to UST HealthProof's ("UST HealthProof") integrated technology platform and additional corporate restructuring actions. The agreement with UST HealthProof includes the transition of certain of the Company's plan operation functions in support of its Medicare Advantage members pursuant to a master services agreement. In addition to the arrangement with UST HealthProof, the Company also announced a recently conducted reduction in force to better align its Selling, General, and Administrative cost structure with its revenue base. This restructuring resulted in the elimination of approximately 10% of the Company's workforce. The Company incurred costs related to these business transformation initiatives, which consisted of employee termination benefits, vendor related costs, and other costs, which are accounted for as exit and disposal costs and recorded pursuant to ASC 420, *Exit or Disposal Cost Obligations*. For those costs determined to be one-time termination benefits the Company established a liability for the restructuring related expenses when the plan was established, the remaining costs will be expensed as incurred.

The Restructuring costs are presented in the Company's Condensed Consolidated Statement of Operations and Comprehensive Loss, which were as follows:

	Three Months Ended September 30,	Nine Months Ended September 30,
	2023	
	(in thousands)	
Employee termination benefits	\$ 58	\$ 4,620
Vendor related costs	1,245	3,166
Other	10	84
Total Restructuring costs	<u>\$ 1,313</u>	<u>\$ 7,870</u>

As of September 30, 2023, the liability for employee termination benefits was recorded in Accrued salaries and benefits and the liability for vendor related costs and other expenses were recorded in Accounts payable and accrued expenses in the Condensed Consolidated Balance Sheets. The liability recorded reflects the Company's best estimate, which may be revised in subsequent periods as the restructuring progresses. The restructuring costs are recorded within the Corporate/Other operating segment. In addition, the Company incurred costs related to software impairment, these costs are recognized within Depreciation and amortization in the Condensed Consolidated Statement of Operations and Comprehensive Loss, these costs totaled \$0.1 million for the three and nine months ended September 30, 2023.

	Employee Termination Benefits	Vendor related costs	Other	Total
	(in thousands)			
Liability as of December 31, 2022	\$ —	\$ —	\$ —	\$ —
Charges	4,620	3,166	84	7,870
Cash payments	(2,893)	(1,043)	(84)	(4,020)
Liability as of September 30, 2023	<u>\$ 1,727</u>	<u>\$ 2,123</u>	<u>\$ —</u>	<u>\$ 3,850</u>
Total cumulative costs incurred as of September 30, 2023	<u>\$ 4,620</u>	<u>\$ 3,166</u>	<u>\$ 84</u>	<u>\$ 7,870</u>

19. Subsequent Events

None.

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

The following discussion and analysis provides information that management believes is relevant to an assessment and understanding of our consolidated results of operations and financial condition. The discussion should be read in conjunction with the interim unaudited condensed consolidated financial statements and notes thereto for the nine months ended September 30, 2023, contained in this Quarterly Report on Form 10-Q (the "Form 10-Q") and the consolidated financial statements and notes thereto for the year ended December 31, 2022, contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2022, filed with the Securities and Exchange Commission (the "SEC") on March 1, 2023 (the "2022 Form 10-K"). This discussion contains forward-looking statements and involves numerous risks and uncertainties, including, but not limited to, those described in the "Risk Factors" section of the 2022 Form 10-K. Actual results may differ materially from those contained in any forward-looking statements. See "Cautionary Note Regarding Forward-Looking Statements" for additional information. Unless the context otherwise requires, references in this "Management's Discussion and Analysis of Financial Condition and Results of Operations" to "we," "us," "our," "Clover," "Clover Health," and the "Company" mean the business and operations of Clover Health Investments, Corp. and its consolidated subsidiaries.

Overview

At Clover Health, our vision is to empower Medicare physicians to identify and manage chronic diseases early. Our strategy is to improve the care of people with Medicare, develop wide physician networks, and provide technology to help empower physicians. Our proprietary software platform, Clover Assistant, helps us execute this strategy by enabling physicians to detect, identify, and manage chronic diseases earlier than they otherwise could. This technology is a cloud-based software platform that provides physicians with access to data-driven and personalized insights for the patients they treat. This software is used in both our Insurance segment and our Non-Insurance segment.

We operate Preferred Provider Organization ("PPO") and Health Maintenance Organization ("HMO") Medicare Advantage ("MA") plans for Medicare-eligible individuals. We aim to provide high-quality, affordable healthcare for all Medicare beneficiaries. We offer most members in our MA plans (the "members") among the lowest average out-of-pocket costs for primary care provider and specialist co-pays, drug deductibles and drug costs in their markets. We strongly believe in providing our members provider choice, and we consider our PPO plan to be our flagship insurance product. An important feature of our MA product is wide network access. We believe the use of Clover Assistant and related data insights allows us to improve clinical decision-making through a highly scalable platform. At September 30, 2023, we operated our MA plans in eight states and 220 counties, with 81,275 members.

On April 1, 2021, our subsidiary, Clover Health Partners, LLC ("Health Partners"), began participating as a Direct Contracting Entity ("DCE") in the Global and Professional Direct Contracting Model ("DC Model") of the Centers for Medicare and Medicaid Services ("CMS"), which transitioned to the Accountable Care Organization Realizing Equity, Access, and Community Health Model ("ACO REACH Model" or "ACO REACH") in January 2023. Our DCE assumes full risk (i.e., 100.0% shared savings and shared losses) for the total cost of care of aligned Medicare fee-for-service ("FFS") beneficiaries (the "Non-Insurance Beneficiaries" and, collectively with the members, "Lives under Clover Management" or the "beneficiaries"). Through our Direct Contracting operations, we focus on leveraging Clover Assistant to enhance healthcare delivery, reduce expenditures, and improve care for our Non-Insurance Beneficiaries. At the beginning of January 2023, we had approximately 605 contracted participant providers who manage primary care for our Non-Insurance Beneficiaries in 13 states. Additionally, at the beginning of January 2023, we had approximately 1,540 preferred providers and preferred facilities in our ACO REACH network. At September 30, 2023, we had approximately 615 contracted participant providers who manage primary care for our Non-Insurance Beneficiaries in 12 states. Additionally, at September 30, 2023, we had approximately 1,555 preferred providers and preferred facilities in our ACO REACH network. Our participation in the DC Model has enabled us to move beyond the MA market and serve the Medicare fee-for-service ("FFS") market, which is the largest segment of Medicare. We believe that expanding into the FFS market is not only a strategic milestone for Clover but also demonstrates the scalability of Clover Assistant.

For any information following the aforementioned paragraph, the Company will refer to its participation in ACO REACH Model or the Company's participation in the predecessor DC Model as ACO REACH Model.

At September 30, 2023, we were partnering with providers to care for 132,803 Lives under Clover Management, which included 81,275 Insurance members and 51,528 aligned Non-Insurance beneficiaries.

Recent Developments

Geographic Presence

Beginning in 2024, our MA plans will be available in a total of 200 counties and 5 states.

Certain Business Transformation Initiatives

On April 17, 2023, the Company announced it would implement certain business transformation initiatives, including an agreement to move its core plan operations to UST HealthProof's ("UST HealthProof") integrated technology platform and additional corporate restructuring actions. The agreement with UST HealthProof includes the transition of certain of the Company's plan operation functions in support of its Medicare Advantage members pursuant to a master services agreement. In addition to the arrangement with UST HealthProof, the Company also announced a recently conducted reduction in force to better align its Selling, General, and Administrative cost structure with its revenue base. For the three and nine months ended September 30, 2023 the Company recorded \$1.3 million and \$7.9 million of restructuring charges related to these business transformation initiatives, which consisted of employee termination benefits, vendor related costs, and other costs. Refer to Note 18 "Restructuring costs" of the notes to interim unaudited condensed consolidated financial statements included in Part I, Item 1 of this Form 10-Q.

CMS Stars Ratings

Pursuant to CMS's Medicare Advantage Star ratings system, CMS annually awards between 1.0 and 5.0 Stars to Medicare Advantage plans based on performance in several categories. CMS released the Company's 2024 Star ratings in October 2023, related to the 2022 measurement year, which will impact the 2025 payment year. For both of the Company's plans (PPO and HMO), CMS gave a rating of 3.0 Stars for measurement year 2022, impacting the 2025 payment year. This represents a 0.5 Star rating decrease for both plans. In the calendar year 2024, the Company will be paid on the basis of 3.5 Stars for both our PPO and HMO plans, which ratings were previously awarded.

ACO REACH Participating Physicians

In connection with the 2024 performance year, we again expect a reduction in the number of ACO REACH participating physicians, which will also result in a decrease in beneficiaries.

Key Performance Measures of Our Operating Segments

Operating Segments

We manage our operations based on two reportable operating segments: Insurance and Non-Insurance. Through our Insurance segment, we provide PPO and HMO plans to Medicare Advantage members in several states. Our Non-Insurance segment consists of our operations in connection with our participation in the ACO REACH Model. All other clinical services and all corporate overhead not included in the reportable segments are included within Corporate/Other.

These segment groupings are consistent with the information used by our Chief Executive Officer (identified as our chief operating decision maker) to assess performance and allocate the Company's resources.

We review several key performance measures, discussed below, to evaluate our business and results, measure performance, identify trends, formulate plans, and make strategic decisions. We believe that the presentation of such metrics is useful to management and counterparties to model the performance of healthcare companies such as Clover.

Insurance segment

Through our Insurance segment, we provide PPO and HMO plans to members in several states. We seek to improve care and lower costs for our Insurance members by empowering providers with data-driven, personalized insights to support treatment of members through our software platform, Clover Assistant.

Nine Months Ended September 30,	2023		2022	
	Total	PMPM ⁽¹⁾	Total	PMPM ⁽¹⁾
	(Premium and expense amounts in thousands, except PMPM amounts)			
Insurance members at period end (#)	81,275	N/A	88,136	N/A
Premiums earned, gross	\$ 933,040	\$ 1,252	\$ 814,920	\$ 1,050
Premiums earned, net	932,699	1,251	814,566	1,049
Insurance medical claim expense incurred, gross	754,422	1,012	747,250	962
Insurance net medical claims incurred	753,877	1,011	746,612	962
Medical care ratio, gross ⁽²⁾	80.9 %	N/A	91.7 %	N/A
Medical care ratio, net	80.8	N/A	91.7	N/A

⁽¹⁾ Calculated per member per month ("PMPM") figures are based on the applicable amount divided by member months in the given period. Member months represents the number of months members are enrolled in a Clover Health plan in the period.

⁽²⁾ Defined as Insurance gross medical claims incurred divided by premiums earned, gross.

Membership and associated premiums earned and medical claim expenses.

We define new and returning members on a calendar year basis. Any member who is active on July 1 of a given year is considered a returning member in the following year. Any member who joins a Clover plan after July 1 in a given year is considered a new member for the entirety of the following calendar year. We view our number of members and associated PMPM premiums earned and medical claim expenses, in the aggregate and on a PMPM basis, as useful metrics to assess our financial performance; member growth and retention aligns with our mission, drives our Total revenues, expands brand awareness, deepens our market penetration, creates additional opportunities to inform our data-driven insights to improve care and decrease medical claim expenses, and generates additional data to continue to improve the functioning of Clover Assistant. Among other things, the longer a member is enrolled in one of our insurance plans, the more data we collect and synthesize and the more actionable insights we generate. We believe these data-driven insights lead to better care delivery as well as improved identification, documentation and management of members' chronic conditions, helping to lower PMPM medical claim expenses.

Premiums earned, gross.

Premiums earned, gross is the amount received, or to be received, for insurance policies written by us during a specific period of time without reduction for premiums ceded to reinsurance. We believe premiums earned, gross provides useful insight into the gross economic benefit generated by our business operations and allows us to evaluate our underwriting performance without regard to changes in our underlying reinsurance structure. Premiums earned, gross excludes the effects of premiums ceded to reinsurers, and therefore should not be used as a substitute for Premiums earned, net, Total revenues, or any other measure presented in accordance with generally accepted accounting principles in the United States ("GAAP").

Premiums earned, net.

Premiums earned, net represents the earned portion of our premiums earned, gross, less the earned portion that is ceded to third-party reinsurers under our reinsurance agreements. Premiums are earned in the period in which members are entitled to receive services, and are net of estimated uncollectible amounts, retroactive membership adjustments, and any adjustments to recognize rebates under the minimum benefit ratios required under the Patient Protection and Affordable Care Act.

Premiums earned, gross is the amount received, or to be received, for insurance policies written by us during a specific period of time without reduction for premiums ceded to reinsurance. We earn premiums through our plans offered under contracts with CMS. We receive premiums from CMS on a monthly basis based on our actuarial bid and the risk-adjustment model used by CMS. Premiums anticipated to be received within twelve months based on the documented diagnostic criteria of our members are estimated and included in revenues for the period, including the member months for which the payment is designated by CMS.

Premiums ceded is the amount of premiums earned, gross ceded to reinsurers. From time to time, we enter into reinsurance contracts to limit our exposure to potential losses as well as to provide additional capacity for growth. Under these agreements, the "reinsurer," agrees to cover a portion of the claims of another insurer, i.e., us, the "primary insurer," in return for a portion of their premium. Ceded earned premiums are earned over the reinsurance contract period in proportion to the period of risk covered. The volume of our ceded earned premium is impacted by the level of our premiums earned, gross and any decision we make to adjust our reinsurance agreements.

Insurance gross medical claims incurred.

Insurance gross medical claims incurred reflects claims incurred, excluding amounts ceded to reinsurers, and the costs associated with processing those claims. We believe gross medical claims incurred provides useful insight into the gross medical expense incurred by members and allows us to evaluate our underwriting performance without regard to changes in our underlying reinsurance structure.

Insurance gross medical claims incurred excludes the effects of medical claims and associated costs ceded to reinsurers, and therefore should not be used as a substitute for Net claims incurred, Total operating expenses, or any other measure presented in accordance with GAAP.

Insurance net medical claims incurred.

Insurance net medical claims incurred are our medical expenses and consist of the costs of claims, including the costs incurred for claims net of amounts ceded to reinsurers. We enter into reinsurance contracts to limit our exposure to potential catastrophic losses. These expenses generally vary based on the total number of members and their utilization rate of our services.

Medical care ratio, gross and net.

We calculate our medical care ratio ("MCR") by dividing total Insurance medical claim expenses incurred by premiums earned, in each case on a gross or net basis, as the case may be, in a given period. We believe our MCR is an indicator of our gross margin for our Insurance plans and the ability of our Clover Assistant platform to capture and analyze data over time to generate actionable insights for returning members to improve care and reduce medical expenses.

Non-Insurance segment

Our Non-Insurance segment consists of operations in connection with our participation in the Direct Contracting program, which we began in April 2021 and which transitioned to the ACO REACH Model beginning in 2023. As part of our Non-Insurance operations, we empower providers with Clover Assistant and offer a variety of programs aimed at reducing expenditures and preserving or enhancing the quality of care for our Non-Insurance Beneficiaries.

Nine months ended September 30, 2023

	2023		2022	
	Total	PBPM ⁽¹⁾	Total	PBPM ⁽¹⁾
	(Revenue and claims amounts in thousands, except PBPM amounts)			
Non-Insurance Beneficiaries at period end	51,528	N/A	166,432	N/A
Non-Insurance revenue	\$ 575,311	\$ 1,209	\$ 1,757,579	\$ 1,148
Non-Insurance net medical claims incurred	573,566	1,206	1,815,771	1,186
Non-Insurance MCR ⁽²⁾	99.7 %	N/A	103.3 %	N/A

⁽¹⁾ Calculated per beneficiary per month ("PBPM") figures are based on the applicable amount divided by beneficiary months in the given period. Beneficiary months represents the number of months beneficiaries are aligned to our ACO REACH Model.

⁽²⁾ Defined as Non-Insurance net medical claims incurred divided by Non-Insurance revenues.

Non-Insurance Beneficiaries.

A Non-Insurance Beneficiary is defined as an eligible FFS covered life that has been aligned to our ACO REACH, Health Partners, via attribution to an ACO REACH-participant provider through alignment based on claims data or by beneficiary election through voluntary alignment. A beneficiary alignment is effective at the first of the month, for the full calendar month, regardless of whether eligibility is lost during the course of the month.

Non-Insurance revenue.

Non-Insurance revenue represents CMS' total expense incurred for medical services provided on behalf of Non-Insurance Beneficiaries during months in which they were alignment eligible during the performance year. Non-Insurance revenue is the sum of the capitation payments made to us for services within the scope of our capitation arrangement and FFS payments made to providers directly from CMS. Non-Insurance revenue is also known in the DC Model and ACO REACH Model as performance year expenditures and is the primary component used to calculate shared savings or shared loss versus the performance year benchmark. Non-Insurance revenue includes a direct reduction or increase of shared savings or loss, as applicable. Premiums and recoupments incurred in direct relation to the ACO REACH Model are recognized as a reduction or increase in Non-Insurance revenue, as applicable. We believe Non-Insurance revenue provides useful insight into the gross economic benefit generated by our business operations and allows us to evaluate our performance without regard to changes in our underlying reinsurance structure.

Non-Insurance net medical claims incurred.

Non-Insurance net medical claims incurred consist of the total incurred expense that CMS and we will remit for medical services provided on behalf of Non-Insurance Beneficiaries during the months in which they are alignment eligible and aligned to ACO REACH. Additionally, Non-Insurance net medical claims incurred are inclusive of fees paid to providers for Clover Assistant usage, care coordination, and any shared savings or shared loss agreements with providers.

Non-Insurance MCR.

We calculate our MCR by dividing Non-Insurance net medical claims incurred by Non-Insurance revenue in a given period. We believe our MCR is an indicator of our gross profitability and the ability to capture and analyze data over time to generate actionable insights for returning beneficiaries to improve care and reduce medical expenses.

Results of Operations

Comparison of the Three Months Ended September 30, 2023 and 2022

The following table summarizes our condensed consolidated results of operations for the three months ended September 30, 2023 and 2022. The period-to-period comparison of results is not necessarily indicative of results for future periods.

	Three Months Ended September 30, 2023		Change between 2023 and 2022	
	2023	2022	(\$)	(%)
(in thousands)				
Revenues				
Premiums earned, net (Net of ceded premiums of \$106 and \$116 for the three months ended September 30, 2023 and 2022, respectively)	\$ 301,230	\$ 267,892	\$ 33,338	12.4 %
Non-Insurance revenue	176,038	585,311	(409,273)	(69.9)
Other income	4,798	3,614	1,184	32.8
Total revenues	482,066	856,817	(374,751)	(43.7)
Operating expenses				
Net medical claims incurred	418,959	839,799	(420,840)	(50.1)
Salaries and benefits	60,567	70,142	(9,575)	(13.7)
General and administrative expenses	41,747	47,832	(6,085)	(12.7)
Premium deficiency reserve benefit	392	(27,476)	27,868	(101.4)
Depreciation and amortization	557	616	(59)	(9.6)
Restructuring costs	1,313	—	1,313	*
Total operating expenses	523,535	930,913	(407,378)	(43.8)
Loss from operations	(41,469)	(74,096)	32,627	(44.0)
Interest expense				
Interest expense	—	404	(404)	*
Amortization of notes and securities discount				
Amortization of notes and securities discount	—	9	(9)	*
Loss on investment				
Loss on investment	—	980	(980)	*
Net loss	\$ (41,469)	\$ (75,489)	\$ 34,020	(45.1)%

* Not presented because the current or prior period amount is zero or the amount for the line item changed from a gain to a loss (or vice versa) and thus yields a result that is not meaningful.

Premiums earned, net

Premiums earned, net increased \$33.3 million, or 12%, to \$301.2 million for the three months ended September 30, 2023, compared to the three months ended September 30, 2022. The increase was primarily due to the increased CMS premiums as a result of the 3.0 to 3.5 star rating effective January 1, 2023 and an increase in our risk adjustment revenue driving favorability as a result of the Company focusing on member retention.

Non-Insurance revenue

Non-Insurance revenue decreased \$409.3 million, or 70%, to \$176.0 million for the three months ended September 30, 2023, compared to the three months ended September 30, 2022. The decrease was primarily driven by a decrease in the number of our aligned Non-Insurance Beneficiaries from 166,432 at September 30, 2022, to 51,528 at September 30, 2023 primarily driven by the strategic reduction in Non-insurance Beneficiaries which occurred during the 2023 performance year.

Other income

Other income increased \$1.2 million, or 33%, to \$4.8 million for the three months ended September 30, 2023, compared to the three months ended September 30, 2022. The increase was primarily attributable to an increase from investment income partially impacted by a more favorable interest rate environment as compared to the prior period.

Net medical claims incurred

Total Net medical claims incurred for both Insurance and Non-Insurance decreased \$420.8 million, or 50%, to \$419.0 million for the three months ended September 30, 2023, compared to the three months ended September 30, 2022. The decrease was primarily driven by a decrease in net medical claims related to our strategic reduction in Non-Insurance Beneficiaries from \$609.7 million for the three months ended September 30, 2022, to \$183.2 million for the three months ended September 30, 2023. This was driven by a decrease in the number of our aligned Non-Insurance Beneficiaries from 166,432 at September 30, 2022, to 51,528 at September 30, 2023.

Salaries and benefits

Salaries and benefits decreased \$9.6 million, or 14%, to \$60.6 million for the three months ended September 30, 2023, compared to the three months ended September 30, 2022. This decrease was primarily driven by the Company's restructuring activity which resulted in an approximate 10% decrease in overall headcount starting in April 2023.

General and administrative expenses

General and administrative expenses decreased \$6.1 million, or 13%, to \$41.7 million for the three months ended September 30, 2023, compared to the three months ended September 30, 2022. The decrease was primarily driven by a reduction in legal fees incurred.

Premium deficiency reserve benefit

An approximately \$0.4 million premium deficiency reserve benefit was recorded for the three months ended September 30, 2023, which was primarily driven by the release of the reserve related to our PPO plans, with the remaining balance entirely related to our HMO plan.

Loss on investment

In February 2022, Character Biosciences completed a private capital transaction in which it raised \$17.9 million from the issuance of 16,210,602 shares of its preferred stock. After the Company evaluated its ownership interest in Character Biosciences, it began applying the equity method of accounting during the three months ended March 31, 2022, and for the three months ended September 30, 2022 recorded a loss on investment of \$1.0 million, which is attributable to its proportionate share of the loss on equity of that entity during that period. Prior to the first quarter of 2022, this entity was consolidated on Clover's financial statements, and therefore the Company did not recognize a loss or gain on investment. In accordance with ASC 323, for the year ended December 31, 2022, the Company recognized the proportionate share of Character Bioscience's net losses up to the investment carrying amount. At December 31, 2022, the Company discontinued applying the equity method to account for our common stock interest in Character Biosciences as its net losses exceeded the investment carrying amount. The equity method investment in Character Biosciences was reduced to zero and no further losses were recorded in the Company's interim unaudited condensed consolidated financial statements as Clover did not guarantee obligations of the investee company or commit additional funding.

Restructuring costs

On April 17, 2023, the Company announced business transformation initiatives to accelerate the company's path to profitability, including an agreement to move its core plan operations to UST HealthProof's integrated technology platform, reduction in force, and corporate restructuring actions. We recorded \$1.3 million of restructuring charges for the three months ended September 30, 2023. As a result, we are incurring certain charges for non-retirement employee benefits and outside service contracts.

Comparison of the Nine Months Ended September 30, 2023 and 2022

The following table summarizes our condensed consolidated results of operations for the nine months ended September 30, 2023 and 2022. The period-to-period comparison of results is not necessarily indicative of results for future periods.

	Nine Months Ended September 30,		Change between 2023 and 2022	
	2023	2022	(\$)	(%)
	(in thousands)			
Revenues				
Premiums earned, net (Net of ceded premiums of \$341 and \$354 for the nine months ended September 30, 2023 and 2022, respectively)	\$ 932,699	\$ 814,566	\$ 118,133	14.5 %
Non-Insurance revenue	575,311	1,757,579	(1,182,268)	(67.3)
Other income	15,459	5,751	9,708	168.8
Total revenues	1,523,469	2,577,896	(1,054,427)	(40.9)
Operating expenses				
Net medical claims incurred	1,328,403	2,560,307	(1,231,904)	(48.1)
Salaries and benefits	193,211	209,724	(16,513)	(7.9)
General and administrative expenses	141,588	152,569	(10,981)	(7.2)
Premium deficiency reserve benefit	(6,556)	(82,428)	75,872	(92.0)
Depreciation and amortization	1,835	2,028	(193)	(9.5)
Restructuring costs	7,870	—	7,870	*
Total operating expenses	1,666,351	2,842,200	(1,175,849)	(41.4)
Loss from operations	(142,882)	(264,304)	121,422	(45.9)
Interest expense				
Interest expense	7	1,197	(1,190)	(99.4)
Amortization of notes and securities discount				
Amortization of notes and securities discount	—	27	(27)	*
Gain on investment				
Gain on investment	—	(10,187)	10,187	*
Net loss	\$ (142,889)	\$ (255,341)	\$ 112,452	(44.0)%

* Not presented because the current or prior period amount is zero or the amount for the line item changed from a gain to a loss (or vice versa) and thus yields a result that is not meaningful.

Premiums earned, net

Premiums earned, net increased \$118.1 million, or 14.5%, to \$932.7 million for the nine months ended September 30, 2023, compared to the nine months ended September 30, 2022. The increase was primarily due to the increased CMS premiums as a result of the 3.0 to 3.5 star rating effective January 1, 2023 and an increase in our risk adjustment revenue driving favorability as a result of the Company focusing on member retention.

Non-Insurance revenue

Non-Insurance revenue decreased \$1,182.3 million, or 67.3%, to \$575.3 million for the nine months ended September 30, 2023, compared to the nine months ended September 30, 2022. The decrease was primarily driven by a decrease in the number of our aligned Non-Insurance Beneficiaries from 166,432 at September 30, 2022, to 51,528 at September 30, 2023 primarily driven by the strategic reduction in Non-insurance Beneficiaries which occurred during the 2023 performance year.

Other income

Other income increased \$9.7 million, or 168.8%, to \$15.5 million for the nine months ended September 30, 2023, compared to the nine months ended September 30, 2022. The increase was primarily attributable to an increase from investment income partially impacted by a more favorable interest rate environment as compared to the prior period.

Net medical claims incurred

Total Net medical claims incurred for both Insurance and Non-Insurance decreased \$1,231.9 million, or 48.1%, to \$1,328.4 million for the nine months ended September 30, 2023, compared to the nine months ended September 30, 2022. The decrease was primarily driven by a decrease in net medical claims related to our strategic reduction in Non-Insurance Beneficiaries from \$1,815.8 million for the nine months ended September 30, 2022, to \$573.6 million for the nine months ended September 30, 2023. This was driven by a decrease in the number of our aligned Non-Insurance Beneficiaries from 166,432 at September 30, 2022, to 51,528 at September 30, 2023.

Salaries and benefits

Salaries and benefits decreased \$16.5 million, or 7.9%, to \$193.2 million for the nine months ended September 30, 2023, compared to the nine months ended September 30, 2022. This decrease was primarily driven by the Company's restructuring activity which resulted in an approximate 10% decrease in overall headcount starting in April 2023.

General and administrative expenses

General and administrative expenses decreased \$11.0 million, or 7.2%, to \$141.6 million for the nine months ended September 30, 2023, compared to the nine months ended September 30, 2022. The decrease was primarily driven by a reduction in customer acquisition costs incurred.

Premium deficiency reserve benefit

An approximately \$6.6 million premium deficiency reserve benefit was recorded for the nine months ended September 30, 2023, which was primarily driven by the release of the reserve related to our PPO plans, with the remaining balance entirely related to our HMO plans.

Gain on investment

In February 2022, Character Biosciences completed a private capital transaction in which it raised \$17.9 million from the issuance of 16,210,602 shares of its preferred stock. After the Company evaluated its ownership interest in Character Biosciences, it began applying the equity method of accounting during the three months ended March 31, 2022, and for the nine months ended September 30, 2022 recorded a gain on investment of \$10.2 million, which is attributable to its proportionate share of the gain on equity of that entity during that period. Prior to the first quarter of 2022, this entity was consolidated on Clover's financial statements, and therefore the Company did not recognize a loss or gain on investment. In accordance with ASC 323, for the year ended December 31, 2022, the Company recognized the proportionate share of Character Bioscience's net losses up to the investment carrying amount. At December 31, 2022, the Company discontinued applying the equity method to account for our common stock interest in Character Biosciences as its net losses exceeded the investment carrying amount. The equity method investment in Character Biosciences was reduced to zero and no further losses were recorded in the Company's interim unaudited condensed consolidated financial statements as Clover did not guarantee obligations of the investee company or commit additional funding.

Restructuring costs

On April 17, 2023, the Company announced business transformation initiatives to accelerate the company's path to profitability, including an agreement to move its core plan operations to UST HealthProof's integrated technology platform, reduction in force, and corporate restructuring actions. We recorded \$7.9 million of restructuring charges for the nine months ended September 30, 2023. As a result, we are incurring certain charges for non-retirement employee benefits and outside service contracts.

Liquidity and Capital Resources

We manage our liquidity and financial position in the context of our overall business strategy. We continually forecast and manage our cash, investments, working capital balances, and capital structure to meet the short-term and long-term obligations of our businesses while seeking to maintain liquidity and financial flexibility.

Historically, we have financed our operations primarily from the proceeds we received through public and private sales of equity securities, funds received in connection with the business combination which occurred early in 2021, issuances of convertible notes, premiums earned under our MA plans, and with our Non-Insurance revenue. We expect that our cash, cash equivalents, restricted cash, short-term investments, and our current projections of cash flows, taken together, will be sufficient to meet our projected operating and regulatory requirements for the next 12 months based on our current plans. Our future capital requirements will depend on many factors, including our needs to support our business growth, to respond to business opportunities, challenges or unforeseen circumstances, or for other reasons. We may be required to seek additional equity or debt financing to provide the capital required to maintain or expand our operations. Any future equity financing may be dilutive to our existing investors, and any future debt financing may include debt service requirements and financial and other restrictive covenants that may constrain our operations and growth strategies. If additional financing is required from outside sources, we may not be able to raise it on terms acceptable to us, or at all. If we are unable to raise additional capital when desired, our business, results of operations, and financial condition would be adversely affected.

Consolidated Entities

At September 30, 2023, total restricted and unrestricted cash, cash equivalents, and investments were \$672.0 million. Of this total, \$305.5 million was specifically related to available-for-sale and held-to-maturity investment securities. At December 31, 2022, we had cash, cash equivalents, restricted cash, and investments of \$555.3 million. Of this total, \$327.6 million was specifically related to available-for-sale and held-to-maturity investment securities. Our cash equivalents and investment securities consist primarily of money market funds, U.S. government debt securities, and corporate debt securities.

Unregulated Entities

At September 30, 2023 and December 31, 2022, total restricted and unrestricted cash, cash equivalents, and investments for the parent company, Clover Health Investments, Corp., and unregulated subsidiaries were \$308.2 million and \$331.7 million, respectively. This decrease at the parent company primarily reflects operating expenses. We operate as a holding company in a highly regulated industry. As such, we may receive dividends and administrative expense reimbursements from our subsidiaries, two of which are subject to regulatory restrictions. We continue to maintain significant levels of aggregate excess statutory capital and surplus in our state-regulated insurance subsidiaries. Cash, cash equivalents, and investments at the parent company, Clover Health Investments, Corp., were \$166.7 million and \$238.0 million at September 30, 2023 and December 31, 2022, respectively. Our unregulated subsidiaries held \$141.5 million and \$93.7 million of cash, cash equivalents, restricted cash, and investments at September 30, 2023 and December 31, 2022, respectively.

Regulated Entities

At September 30, 2023 and December 31, 2022 total cash, cash equivalents, restricted cash, and investments for our regulated subsidiaries were \$363.8 million and \$223.6 million, respectively. Additionally, our regulated insurance subsidiaries held \$196.8 million and \$191.1 million of available-for-sale and held-to-maturity investment securities at September 30, 2023 and December 31, 2022, respectively. Our use of operating cash derived from our unregulated subsidiaries is generally not restricted by departments of insurance (or comparable state regulatory agencies). Our regulated insurance subsidiaries have not paid dividends to the parent, and applicable insurance laws restrict the ability of our regulated insurance subsidiary to declare and pay dividends to the parent. Insurance regulators have broad powers to prevent reduction of statutory surplus to inadequate levels, and there is no assurance that dividends of the maximum amounts calculated under any applicable formula would be permitted. State insurance regulatory authorities that have jurisdiction over the payment of dividends by our regulated insurance subsidiary may in the future adopt statutory provisions more restrictive than those currently in effect.

For a detailed discussion of our regulatory requirements, including aggregate statutory capital and surplus as well as dividends paid from the subsidiaries to the parent, please refer to Notes 24, 25, and 26 in the 2022 Form 10-K.

Cash Flows

The following table summarizes our condensed consolidated cash flows for the nine months ended September 30, 2023 and 2022.

Nine Months Ended September 30,	2023	2022
	(in thousands)	
Cash Flows Data:		
Net cash provided by (used in) operating activities	\$ 113,424	\$ 5,442
Net cash provided by investing activities	56,351	82,477
Net cash used in financing activities	(4,244)	(5,018)
Increase (decrease) in cash, cash equivalents, and restricted cash	\$ 165,531	\$ 82,901

Cash Requirements

Our cash requirements within the next twelve months include medical claims payable, accounts payable and accrued liabilities, current liabilities, purchase commitments, and other obligations. We expect the cash required to meet these obligations to be primarily generated through cash, cash equivalents, restricted cash, short-term investments, and our current projections of cash flows from operations.

Operating Activities

Our largest source of operating cash flows is capitated payments from CMS. Our primary uses of cash from operating activities are payments for medical benefits and payments of operating expenses.

For the nine months ended September 30, 2023, Net cash provided by operating activities was \$113.4 million, which reflects a Net loss of \$142.9 million. Non-cash activities included a \$107.8 million charge to Stock-based compensation expense, approximately \$6.6 million of amortization of the 2023 Premium deficiency reserve. A prepayment of \$103.3 million was received during the period from CMS for October 2023. Payments due to CMS related to our Non-Insurance operations increased by \$34.2 million.

For the nine months ended September 30, 2022, Net cash used in operating activities was \$5.4 million, which reflects a Net loss of \$255.3 million. Non-cash activities included a \$125.2 million charge to Stock-based compensation expense, \$82.4 million amortization of the 2022 Premium deficiency reserve, and a \$10.2 million Gain on investment related to the change in the equity structure of Clover Therapeutics. Payments due to CMS related to our Non-Insurance operations increased by \$109.4 million. Change in our working capital included an increase in Unpaid claims of \$1.0 million.

Investing Activities

Net cash provided by investing activities for the nine months ended September 30, 2023, of \$56.4 million was primarily due to \$199.6 million provided from the sale and maturity of investment securities. This was offset by \$142.4 million used to purchase investments.

Net cash used in investing activities for the nine months ended September 30, 2022, of \$82.5 million was primarily due to \$276.8 million used to purchase investment securities, offset by \$360.2 million provided from the sale and maturity of investment securities.

For additional information regarding our investing activities, please refer to Note 3 (Investment Securities) to the interim unaudited condensed consolidated financial statements included in this Form 10-Q.

Financing Activities

Net cash used in financing activities for the nine months ended September 30, 2023 of \$4.2 million was primarily the result of the acquisition of \$5.4 million in Treasury stock.

Net cash provided by financing activities for the nine months ended September 30, 2022 of \$5.0 million was primarily the result of the acquisition of \$6.3 million in Treasury stock.

Financing Arrangements

There have been no material changes to our financing arrangements at September 30, 2023, as compared to those disclosed in the 2022 Form 10-K.

Contractual Obligations and Commitments

We believe that funds from projected future operating cash flows, cash, cash equivalents, and investments will be sufficient for future operations and commitments, and for capital acquisitions and other strategic transactions, over at least the next 12 months.

Material cash requirements from known contractual obligations and commitments at September 30, 2023 include: (1) the recognition of a performance guarantee of \$254.4 million in connection with the Company's participation in the ACO REACH Model and (2) operating lease obligations of \$5.0 million. These commitments are associated with contracts that were enforceable and legally binding at September 30, 2023, and that specified all significant terms, including fixed or minimum serves to be used, fixed, minimum, or variable price provisions, and the approximate timing of the actions under the contracts. There were no other material cash requirements from known contractual obligations and commitments at September 30, 2023. For additional information regarding our remaining estimated contractual obligations and commitments, see Note 12 (Notes and Securities Payable), Note 15 (Leases), Note 21 (Commitments and Contingencies), and Note 22 (Non-Insurance) to the consolidated financial statements included in the 2022 Form 10-K.

Indemnification Agreements

In the ordinary course of business, we enter into agreements, with various parties (providers, vendors, consultants, etc.), with varying scope and terms, pursuant to which we may agree to defend, indemnify, and hold harmless the other parties from any claim, demand, loss, lawsuit, settlement, judgment, fine, or other liability, and all related expenses that may accrue therefrom (including reasonable attorneys' fees), arising from or in connection with third party claims, including, but not limited to, negligence, recklessness, willful misconduct, fraud, or otherwise wrongful act or omission with respect to our obligations under the applicable agreements.

Off-balance Sheet Arrangements

We do not have any off-balance sheet arrangements, as defined by applicable regulations of the SEC, that are reasonably likely to have a current or future material effect on our financial condition, results of operations, liquidity, capital expenditures, or capital resources.

Critical Accounting Policies and Estimates

We believe that the accounting policies and estimates involve a significant degree of judgment and complexity. For the three months ended September 30, 2023, the Company has made one significant accounting policy change related to its calculation of premium deficiency reserve, as compared to the critical accounting policies and estimates disclosed in the section titled "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" included in the 2022 Form 10-K with the exception of a voluntary change to the method of determining our premium deficiency reserves. For more information on this change please see Note 2 (Summary of Significant Accounting Policies).

Recently Issued and Adopted Accounting Pronouncements

See Note 2 (Summary of Significant Accounting Policies) to the financial statements in this report for a discussion of accounting pronouncements recently adopted and recently issued accounting pronouncements not yet adopted and their potential impact to our financial statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market risk is the risk of economic losses due to adverse changes in the estimated fair value of a financial instrument as the result of changes in equity prices, interest rates, foreign currency exchange rates and commodity prices. Our Condensed Consolidated Balance Sheets include assets and liabilities with estimated fair values that are subject to market risk. Our primary market risk has been interest rate risk associated with investments in instruments with fixed maturities. We do not have material exposure to commodity risk.

We are also exposed to credit risk on our investment portfolio. We manage the exposure to credit risk in our portfolio by investing in high quality securities and diversifying our holdings.

We monitor our investment portfolio to ensure that credit risk does not exceed prudent levels. Our investment policy is focused on preservation of capital, liquidity and earning a modest yield. Substantially all of our investment portfolio is invested in U.S. Treasury fixed maturity securities. At September 30, 2023, none of our fixed maturity securities portfolio was unrated or rated below investment grade.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Disclosure controls are procedures that are designed with the objective of ensuring that information required to be disclosed in our reports filed under the Exchange Act, such as this report, is recorded, processed, summarized, and reported within the time period specified in the SEC's rules and forms. Disclosure controls are also designed with the objective of ensuring that such information is accumulated and communicated to our management, including the chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure. Our management evaluated, with the participation of our current chief executive officer and chief financial officer (our "Certifying Officers"), the effectiveness of our disclosure controls and procedures at September 30, 2023, pursuant to Rule 13a-15(b) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based upon that evaluation, our Certifying Officers concluded that, at September 30, 2023, our disclosure controls and procedures were effective.

We do not expect that our disclosure controls and procedures will prevent all errors and all instances of fraud. Disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Further, the design of disclosure controls and procedures must reflect the fact that there are resource constraints, and the benefits must be considered relative to their costs. Because of the inherent limitations in all disclosure controls and procedures, no evaluation of disclosure controls and procedures can provide absolute assurance that we have detected all our control deficiencies and instances of fraud, if any. The design of disclosure controls and procedures also is based partly on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II

Item 1. Legal Proceedings

From time to time, in the normal course of business, we are subject to various legal proceedings, investigations (both formal and informal), and claims incidental to the conduct of a highly regulated business. Such proceedings can be costly, time consuming, and unpredictable. Therefore, no assurance can be given on the outcome of any proceeding or the potential impact on our financial condition or results of operation.

Information concerning legal proceedings can be found in Note 14 (Commitments and Contingencies) to the interim unaudited condensed consolidated financial statements included in Part I, Item 1 of this Form 10-Q, which information is incorporated by reference into this item.

Item 1A. Risk Factors

Except as set forth below, there have been no material changes in our risk factors from those disclosed in Part I, Item 1A of the 2022 Form 10-K and Part II, Item 1A of our Quarterly Report on Form 10-Q for the period ended March 31, 2023 (the "Q1 10-Q"). In the course of conducting our business operations, we are exposed to a variety of recurring and new risks, any of which have affected or could materially adversely affect our business, financial condition, and results of operations. The market price of our Class A common stock could decline, possibly significantly or permanently, if one or more of these risks and uncertainties occurs. Any factor described in this report or in any of our other SEC filings could by itself, or together with other factors, adversely affect our financial results and condition. For a discussion of risk factors that could adversely affect our financial results and condition, and the value of, and return on, an investment in the Company, please see the "Item 1A. Risk Factors" included in the 2022 Form 10-K and Q1 10-Q, as well as the factors identified under "Cautionary Note Regarding Forward-Looking Statements" at the beginning of Part I, Item 1 of this Form 10-Q and as may be updated in subsequent filings with the SEC.

The following risk factor is intended to update the risk factors of the Company previously disclosed in the 2022 Form 10-K.

If the trading price of our Class A common stock price does not satisfy The NASDAQ Stock Market LLC ("NASDAQ") minimum price requirement, our Class A common stock may be subject to delisting from NASDAQ.

If the closing bid price of our Class A common stock is less than \$1.00 per share for 30 consecutive trading days, we may receive a notice from Nasdaq staff stating that our Class A common stock will be delisted unless we are able to regain compliance with the minimum price Nasdaq Listing Rule requirement. During 2023, our Class A common stock closing bid price has been below \$1.00 on multiple occasions, including most recently from October 16, 2023 to November 1, 2023. If we were to receive a notice from Nasdaq regarding the continued listing requirements, in order to regain compliance, generally, the listing requirement provides that we must maintain a closing bid price for our Class A common stock of at least \$1.00 per share for a minimum of 10 consecutive business days (subject to Nasdaq's staff discretion in certain instances). We cannot guarantee that our stock price will satisfy the \$1.00 per share requirement or otherwise meet Nasdaq's continued listing requirements. Therefore, our Class A common stock may in the future be subject to delisting. If our Class A common stock is delisted, this would, among other things, substantially impair our ability to raise additional funds and could result in a loss of institutional investor interest and fewer development opportunities for us and would have an adverse impact on the trading, liquidity, and market price of our Class A common stock.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information.

During the three months ended September 30, 2023, none of the Company's directors or officers (as defined in Rule 16a-1(f) of the Exchange Act) adopted or terminated a Rule 10b5-1 trading arrangement or non-Rule 10b5-1 trading arrangement (as such terms are defined in Item 408(a) of Regulation S-K of the Securities Act).

Item 6. Exhibits and Financial Statement Schedules

A list of exhibits to this Form 10-Q is set forth below:

Exhibit No.	Description
31.1*	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1†	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2†	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

* Filed herewith.

† Furnished herewith.

**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 Clover Health Investments, Corp. (the "Company") for the period ended September 30, 2023, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report 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 Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 6, 2023

By: _____ /s/ Andrew Toy
Andrew Toy
Chief Executive Officer

**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 Clover Health Investments, Corp. (the "Company") for the period ended September 30, 2023, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report 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 Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 6, 2023

By: _____ /s/ Scott J. Leffler

Scott J. Leffler
**Chief Financial Officer (Principal Financial Officer and
Principal Accounting Officer)**