

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549**

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 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 May 1, 2023, the registrant had 394,162,057 shares of Class A Common Stock, \$0.0001 par value per share, and 88,492,309 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 expansion 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 expand 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 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 effect of uncertainties related to the global COVID-19 pandemic on our business, results of operations, and financial condition;
- 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;
- our ability to maintain or improve our Star Ratings or otherwise continue to improve the financial performance of our business;
- fluctuations in the price of our Class A common stock and our 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;
- inflation; 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 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)

	March 31, 2023 (Unaudited)	December 31, 2022
Assets		
Current assets		
Cash and cash equivalents	\$ 190,562	\$ 103,791
Short-term investments	69,478	41,457
Investment securities, available-for-sale (Amortized cost: 2023: \$159,062; 2022: \$193,300)	156,542	189,498
Investment securities, held-to-maturity (Fair value: 2023: \$15; 2022: \$15)	15	15
Accrued retrospective premiums	70,185	20,387
Other receivables	24,291	23,596
Healthcare receivables	56,943	70,607
Non-Insurance performance year receivable	552,620	—
Non-Insurance receivable	53,625	52,955
Surety bonds and deposits	80,329	100,502
Prepaid expenses	16,898	18,146
Other assets, current	2,771	4,043
Total current assets	1,274,259	624,997
Investment securities, available-for-sale (Amortized cost: 2023: \$139,643; 2022: \$142,940)	135,132	137,368
Investment securities, held-to-maturity (Fair value: 2023: \$651; 2022: \$636)	741	742
Property and equipment, net	4,547	5,753
Operating lease right-of-use assets	4,109	4,025
Goodwill and other intangible assets	20,000	20,000
Other assets, non-current	14,801	15,735
Total assets	\$ 1,453,589	\$ 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)

	March 31, 2023 (Unaudited)	December 31, 2022
Liabilities and Stockholders' Equity		
Current liabilities		
Unpaid claims	\$ 141,258	\$ 141,947
Due to related parties, net	1,331	1,566
Non-Insurance performance year obligation, current	613,057	73,844
Non-Insurance payable	160,942	148,191
Accounts payable and accrued expenses	47,452	32,445
Accrued salaries and benefits	30,306	23,962
Deferred revenue	107,563	—
Operating lease liabilities	1,862	1,827
Premium deficiency reserve	5,430	7,239
Other liabilities, current	1,173	486
Total current liabilities	1,110,374	431,507
Long-term operating lease liabilities	3,908	4,033
Other liabilities, non-current	16,200	16,193
Total liabilities	1,130,482	451,733
Commitments and Contingencies (Note 14)		
Stockholders' equity		
Class A Common Stock, \$0.0001 par value; 2,500,000,000 shares authorized at March 31, 2023 and December 31, 2022; 394,129,673 and 383,998,718 issued and outstanding at March 31, 2023 and December 31, 2022, respectively	37	37
Class B Common Stock, \$0.0001 par value; 500,000,000 shares authorized at March 31, 2023 and December 31, 2022; 88,495,493 and 94,394,852 issued and outstanding at March 31, 2023 and December 31, 2022, respectively	9	9
Additional paid-in capital	2,358,622	2,319,157
Accumulated other comprehensive loss	(7,031)	(9,374)
Accumulated deficit	(2,019,039)	(1,946,433)
Less: Treasury stock, at cost; 5,006,473 and 2,072,752 shares held at March 31, 2023 and December 31, 2022, respectively	(9,491)	(6,509)
Total stockholders' equity	323,107	356,887
Total liabilities and stockholders' equity	\$ 1,453,589	\$ 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 March 31,	
	2023	2022
Revenues:		
Premiums earned, net (Net of ceded premiums of \$122 and \$119, for the three months ended March 31, 2023 and 2022, respectively)	\$ 317,086	\$ 278,169
Non-Insurance revenue	205,783	594,898
Other income	4,906	1,312
Total revenues	<u>527,775</u>	<u>874,379</u>
Operating expenses:		
Net medical claims incurred	472,490	861,722
Salaries and benefits	70,207	69,091
General and administrative expenses	59,215	57,697
Premium deficiency reserve benefit	(1,810)	(27,476)
Depreciation and amortization	279	826
Total operating expenses	<u>600,381</u>	<u>961,860</u>
Loss from operations	(72,606)	(87,481)
Interest expense	—	403
Gain on investment	—	(12,394)
Net loss	<u>\$ (72,606)</u>	<u>\$ (75,490)</u>
Per share data:		
Net loss per share attributable to Class A and Class B common stockholders – basic and diluted ⁽¹⁾	\$ (0.15)	\$ (0.16)
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⁾	478,805,067	473,028,651
Net unrealized gain (loss) on available-for-sale investments	<u>\$ 2,343</u>	<u>\$ (5,324)</u>
Comprehensive loss	<u>\$ (70,263)</u>	<u>\$ (80,814)</u>

⁽¹⁾ Because the Company had a net loss during the three months ended March 31, 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.

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

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

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

	Three Months Ended March 31,	
	2023	2022
Cash flows from operating activities:		
Net loss	\$ (72,606)	\$ (75,490)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization expense	279	826
Stock-based compensation expense	38,617	40,640
Accretion, net of amortization	(923)	(17)
Gain on investment	—	(12,394)
Premium deficiency reserve	(1,810)	(27,476)
Changes in operating assets and liabilities:		
Accrued retrospective premiums	(49,798)	(22,758)
Other receivables	(695)	551
Surety bonds and deposits	20,481	(2,156)
Prepaid expenses	1,248	(11,934)
Other assets	3,391	876
Healthcare receivables	13,664	5,863
Non-Insurance receivable	(670)	(38)
Operating lease right-of-use assets	(84)	1,015
Unpaid claims	(924)	25,266
Accounts payable and accrued expenses	15,007	(678)
Accrued salaries and benefits	6,344	(3,557)
Deferred revenue	107,563	—
Other liabilities	694	(894)
Performance year obligation	(13,407)	(16,738)
Non-Insurance payable	12,751	43,230
Operating lease liabilities	(90)	(1,179)
Net cash provided by (used in) operating activities	79,032	(57,042)
Cash flows from investing activities:		
Purchases of short-term investments, available-for-sale, and held-to-maturity securities	(67,893)	(113,079)
Proceeds from sales of short-term investments and available-for-sale securities	15,001	—
Proceeds from maturities of short-term investments, available-for-sale, and held-to-maturity securities	63,324	150,000
Purchases of property and equipment	(251)	(158)
Acquisition of Character Biosciences, Inc. Series A preferred shares	—	(250)
Net cash provided by investing activities	10,181	36,513
Cash flows from financing activities:		
Issuance of common stock, net of early exercise liability	848	331
Treasury stock acquired	(2,982)	(5,939)
Net cash used in financing activities	(2,134)	(5,608)
Net (decrease) increase in cash, cash equivalents, and restricted cash	87,079	(26,137)
Cash, cash equivalents, and restricted cash, beginning of period	186,213	299,968
Cash, cash equivalents, and restricted cash, end of period	\$ 273,292	\$ 273,831
Reconciliation of cash and cash equivalents and restricted cash		
Cash and cash equivalents	\$ 190,562	\$ 273,831
Restricted cash	82,730	—
Total cash, cash equivalents, and restricted cash	\$ 273,292	\$ 273,831
Supplemental disclosure of non-cash activities		
Performance year receivable	\$ (552,620)	\$ (1,743,406)
Performance year obligation	552,620	1,743,406
Right-of-use assets obtained in exchange for lease liabilities	—	648
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 Original Medicare 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" or "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.

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 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 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 we 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 condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that impact the amounts reported in the 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, embedded derivative related to convertible securities, 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' Consolidated Balance Sheets and 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' Consolidated Statements of Cash Flows have been reclassified to confirm with the current year's presentation related to cash used by Performance year obligation.

Change in Accounting Policy

In the first quarter of 2023, the Company changed the method for determining premium deficiency reserves whereby anticipated net investment income is now included in the determination of premium deficiency reserves. The accounting policy election to include net 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 effect of the changes made to the Company's Condensed Consolidated Statements of Comprehensive Income was as follows:

Three Months Ended March 31, 2022	As Reported	Effect of Change	As Adjusted
	(in thousands)		
Premium deficiency reserve benefit	\$ (27,657)	\$ 181	\$ (27,476)
Total operating expenses	961,679	181	961,860
Loss from operations	(87,300)	(181)	(87,481)
Net loss	\$ (75,309)	\$ (181)	\$ (75,490)
Per share data:			
Net loss per share attributable to Class A and B common stockholders - basic and diluted	\$ (0.16)	\$ —	\$ (0.16)

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

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

There was no impact on total net cash used in operating activities.

The following table compares the amounts currently reported to amounts that would have been reported where the determination of the premium deficiency reserves excludes anticipated net investment income in the Condensed Consolidated Statements of Comprehensive Income.

Three Months Ended March 31, 2023	As Reported	As computed excluding anticipated net investment income	Effect of Change
	(in thousands)		
Premium deficiency reserve benefit	\$ (1,810)	\$ (4,097)	\$ 2,287
Total operating expenses	600,381	598,094	2,287
Loss from operations	(72,606)	(70,319)	(2,287)
Net loss	\$ (72,606)	\$ (70,319)	\$ (2,287)
Per share data:			
Net loss per share attributable to Class A and B common stockholders - basic and diluted	\$ (0.15)	\$ (0.15)	\$ —

The following table compares the amounts currently reported to amounts that would have been reported where the determination of the premium deficiency reserves excludes anticipated net investment income in the Condensed Consolidated Balance Sheets.

March 31, 2023	As Reported	As computed excluding anticipated net investment income	Effect of Change
	(in thousands)		
Premium deficiency reserve	\$ 5,430	\$ 12,292	\$ (6,862)
Total current liabilities	1,110,374	1,117,236	(6,862)
Total liabilities	1,130,482	1,137,344	(6,862)
Accumulated deficit	(2,019,039)	(2,025,901)	6,862
Total stockholders' equity	323,107	316,245	6,862
Total liabilities and stockholders' equity	1,453,589	1,453,589	—

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 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 utilizes a structured model intended to reduce expenditures and preserve or enhance quality of care for beneficiaries in 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 the administrative burden, support a focus on complex, chronically ill patients, and encourage physician organizations that have not typically participated in Medicare FFS to serve beneficiaries in Medicare FFS. The Company's operations in connection with both the DC Model and 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 DC 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 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 DCE is a participant, the final consideration due to the DCE from CMS ("shared savings") or the consideration due to CMS from the DCE ("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 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 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 Consolidated Statements of Operations and Comprehensive Loss. At March 31, 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 March 31, 2023 and 2022, charges related to deferred acquisition costs of \$3.9 million, and \$11.8 million, respectively, were recognized within General and administrative expenses.

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 March 31, 2023 and December 31, 2022, respectively:

March 31, 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	\$ 756	\$ —	\$ (90)	\$ 666
Investment securities, available-for-sale				
U.S. government and government agencies and authorities	192,016	60	(6,687)	185,389
Corporate debt securities	106,689	95	(499)	106,285
Total held-to-maturity and available-for-sale investment securities	<u>\$ 299,461</u>	<u>\$ 155</u>	<u>\$ (7,276)</u>	<u>\$ 292,340</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 March 31, 2023, by contractual maturity:

March 31, 2023	Held-to-maturity		Available-for-sale	
	Amortized cost	Fair value	Amortized cost	Fair value
	(in thousands)			
Due within one year	\$ 15	\$ 15	\$ 159,062	\$ 156,542
Due after one year through five years	631	553	139,643	135,132
Due after five years through ten years	—	—	—	—
Due after ten years	110	98	—	—
Total	<u>\$ 756</u>	<u>\$ 666</u>	<u>\$ 298,705</u>	<u>\$ 291,674</u>

For the three months ended March 31, 2023 and 2022, respectively, net investment income, which is included within Other income within the Consolidated Statements of Operations and Comprehensive Loss, was derived from the following sources:

	Three Months Ended March 31,	
	2023	2022
	(in thousands)	
Cash and cash equivalents	\$ 1,629	\$ 2
Short-term investments	492	71
Investment securities	1,814	237
Investment income, net	<u>\$ 3,935</u>	<u>\$ 310</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 March 31, 2023, and December 31, 2022, respectively:

March 31, 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	\$ 11,535	\$ (76)	\$ 155,066	\$ (6,701)	\$ 166,601	\$ (6,777)
Corporate debt securities	72,854	(499)	—	—	72,854	(499)
Total	<u>\$ 84,389</u>	<u>\$ (575)</u>	<u>\$ 155,066</u>	<u>\$ (6,701)</u>	<u>\$ 239,455</u>	<u>\$ (7,276)</u>
Number of positions		79		25		104

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	<u>\$ 142,553</u>	<u>\$ (1,380)</u>	<u>\$ 147,757</u>	<u>\$ (8,148)</u>	<u>\$ 290,310</u>	<u>\$ (9,528)</u>
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 March 31, 2023 and December 31, 2022.

At March 31, 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 March 31, 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 Consolidated Statements of Operations and Comprehensive Loss, were as follows for the three months ended March 31, 2023 and 2022, respectively:

	Three Months Ended March 31,	
	2023	2022
	(in thousands)	
Proceeds from sales of investment securities	\$ 15,001	\$ —
Proceeds from maturities of investment securities	63,324	150,000
Gross realized gains	—	—
Gross realized losses	—	—
Net realized losses	<u>\$ —</u>	<u>\$ —</u>

At March 31, 2023 and December 31, 2022, the Company had \$14.4 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 March 31, 2023 and December 31, 2022, respectively:

March 31, 2023	Level 1	Level 2	Level 3	Total fair value
	(in thousands)			
U.S. government and government agencies	\$ —	\$ 185,389	\$ —	\$ 185,389
Corporate debt securities	—	106,285	—	106,285
Warrants receivable	—	—	900	900
Total assets at fair value	<u>\$ —</u>	<u>\$ 291,674</u>	<u>\$ 900</u>	<u>\$ 292,574</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 Clover's Level 3 financial assets and liabilities during the three months ended March 31, 2022. The changes in balances of Clover's Level 3 financial assets and liabilities during the three months ended March 31, 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, March 31, 2023	<u>\$ 900</u>	<u>\$ 900</u>

There were no transfers in or out of Level 3 financial assets or liabilities for the three months ended March 31, 2023 or March 31, 2022.

Private Warrants

At March 31, 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 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 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 March 31, 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 \$56.9 million and \$70.6 million within Healthcare receivables at March 31, 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, which provides healthcare services to CarePoint Health. Expenses and fees incurred related to Clover's contracts with CarePoint Health, recorded within Net medical claims incurred, were \$3.7 million and \$2.6 million, for the three months ended March 31, 2023 and 2022, respectively. Additionally, \$1.3 million and \$1.6 million were payable to CarePoint Health at March 31, 2023, and December 31, 2022, respectively.

The Company has a contract with Medical Records Exchange, LLC (d/b/a ChartFast) pursuant to which the Company receives administrative services related to medical records via ChartFast's electronic applications and web portal platform. ChartFast is ultimately owned and controlled by Mr. Garipalli. Expenses and fees incurred related to this agreement were less than \$0.1 million and \$0.1 million for the three months ended March 31, 2023 and 2022, respectively.

On July 2, 2021, the Company entered into a contract with Thyme Care, Inc. ("Thyme Care"), an oncology benefit management company, through which Thyme Care was engaged to provide concierge cancer coordination 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. 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 \$0.5 million and \$0.4 million for the three months ended March 31, 2023 and 2022, respectively. Additionally, \$0.2 million and \$0.3 million were payable to Thyme Care at March 31, 2023, and December 31, 2022, respectively.

7. Unpaid Claims

Activity within the liability for Unpaid claims, including claims adjustment expenses, for the three months ended March 31, 2023 and 2022, respectively, is summarized as follows:

Three Months Ended March 31,	2023	2022
	(in thousands)	
Gross and net balance, beginning of period ⁽¹⁾	\$ 137,395	\$ 136,137
Incurred related to:		
Current year	272,258	272,151
Prior years	804	(7,056)
Total incurred	273,062	265,095
Paid related to:		
Current year	167,360	164,034
Prior years	104,581	84,180
Total paid	271,941	248,214
Gross and net balance, end of period ⁽¹⁾⁽²⁾	\$ 138,516	\$ 153,018

⁽¹⁾ Includes amounts due to related parties.

⁽²⁾ Differs from the total Unpaid claims amount reported on the Consolidated Balance Sheets due to the fact the figure here excludes unpaid claims for the Company's Non-Insurance operations of \$4.1 million and \$13.2 million at March 31, 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 \$138.5 million at March 31, 2023. During the three months ended March 31, 2023, \$104.6 million was paid for incurred claims attributable to insured events of prior years. An unfavorable development of \$0.8 million was recognized during the three months ended March 31, 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 \$7.1 million was recognized during the three months ended March 31, 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 61.5% for the three months ended March 31, 2023, and 60.3% for the three months ended March 31, 2022. This ratio serves as an indicator of claims processing speed, indicating that claims were processed at a faster rate during the three months ended March 31, 2023, than during the three months ended March 31, 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, Clover HMO of New Jersey Inc., 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%. There was an unused balance of \$2.5 million at both March 31, 2023, and December 31, 2022.

9. Stockholders' Equity and Convertible Preferred Stock

Stockholders' Equity

The Company was authorized to issue up to 2,500,000,000 and 2,500,000,000 shares of Class A common stock at March 31, 2023 and December 31, 2022, respectively, and up to 500,000,000 shares of Class B common stock at March 31, 2023 and December 31, 2022. At March 31, 2023 and December 31, 2022, there were 394,129,673 and 383,998,718 shares of Class A common stock issued and outstanding, respectively. There were 88,495,493 and 94,394,852 shares of Class B common stock issued and outstanding at March 31, 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 5,006,473 and 2,072,752 shares held in treasury at March 31, 2023 and December 31, 2022, respectively. These amounts represent shares withheld to cover taxes upon vesting of employee stock-based awards.

At March 31, 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 March 31, 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 Consolidated Balance Sheets, and recognized a gain of \$12.4 million for the three months ended March 31, 2022, which is included within Gain on investment on the 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 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 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 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 \$0.3 million for the three months ended March 31, 2023 and 2022, respectively, and are included within Salaries and benefits on the 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 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 our 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 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 March 31, 2023 and December 31, 2022, respectively, were as follows:

	Shares Authorized Under Plans	Shares Outstanding Under Plans	Shares Remaining Under Plans
March 31, 2023			
2014 Plan	54,402,264	35,353,101	N/A
2020 Plan	58,521,709	42,687,562	11,726,676
2020 MIP	33,426,983	26,741,587	—
Inducement Plan	11,000,000	9,449,612	—
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"). The options are subject to the terms and conditions applicable to options granted under the Plans, as 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, the Inducement Plan, and discounts offered in connection with the Company's 2020 Employee Stock Purchase Plan ("ESPP") of \$38.6 million and \$40.6 million during the three months ended March 31, 2023 and 2022, respectively, and such expenses are presented within Salaries and benefits in the accompanying Consolidated Statements of Operations and Comprehensive Loss.

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

Three Months Ended March 31,	2023	2022
	(in thousands)	
Stock options	\$ 1,341	\$ 1,304
RSUs	21,000	16,915
PRsUs	16,195	22,361
ESPP	81	60
Total compensation cost recognized for stock-based compensation plans	\$ 38,617	\$ 40,640

At March 31, 2023, there was approximately \$507.5 million of unrecognized stock-based compensation expense related to unvested stock options, RSUs, PRsUs, and the ESPP, estimated to be recognized over a period of 4 years. The Company recognized \$16.2 million and \$22.4 million in share-based compensation related to PRsUs for the three months ended March 31, 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 March 31, 2023, the market condition component of these awards has not been met, so the awards have not been earned. This expense represents more than 40% of the total compensation cost recognized for stock-based compensation plans presented within Salaries and benefits within the accompanying Consolidated Statements of Operations and Comprehensive Loss.

Stock Options

There were no stock options granted for the three months ended March 31, 2023 and 2022.

A summary of option activity under the 2020 Plan during the three months ended March 31, 2023, was as follows:

	Number of options	Weighted- average exercise price
Outstanding, January 1, 2023	1,364,822	\$ 8.88
Granted during 2023	—	—
Exercised	—	—
Forfeited	(136,249)	8.88
Outstanding, March 31, 2023	<u>1,228,573</u>	<u>\$ 8.88</u>

A summary of option activity under the 2014 Plan during the three months ended March 31, 2023, was as follows:

	Number of options	Weighted- average exercise price
Outstanding, January 1, 2023	25,631,685	\$ 2.35
Granted during 2023	—	—
Exercised	(1,240)	1.52
Forfeited	(1,024,215)	2.24
Outstanding, March 31, 2023	<u>24,606,230</u>	<u>\$ 2.71</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 March 31, 2023, outstanding stock options, substantially all of which are expected to vest, had an aggregate intrinsic value of \$507.5 million, and a weighted-average remaining contractual term of 4 years. At March 31, 2023, there were 22,138,777 options exercisable under the Plan, with an aggregate intrinsic value of \$0.1 million, a weighted-average exercise price of \$2.88 per share, and a weighted-average remaining contractual term of 5.96 years. The total value of stock options exercised during the three months ended March 31, 2023 and 2022, was none and \$39.8 million, respectively. Cash received from stock option exercises during the three months ended March 31, 2023 and 2022, was none and \$6.4 million, respectively.

Pursuant to the terms of the applicable Plan and stock option award agreement, employees may exercise options at any time after grant while maintaining the original vesting period. The proceeds from exercise of unvested options are recorded as a liability until the option vests at which time the liability is reclassified to equity. If the employee terminates or otherwise forfeits an unvested 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	14,276,763	2.57
Released	(3,949,754)	15.10
Forfeited	(109,453)	12.07
Outstanding, March 31, 2022	31,512,397	\$ 9.10
Outstanding, January 1, 2023	49,617,199	\$ 6.48
Granted during 2023	16,194,103	0.98
Released	(7,164,077)	9.39
Forfeited	(904,620)	3.18
Outstanding, March 31, 2023	57,742,605	\$ 4.63

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:

Three months ended March 31, 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 March 31, 2022	27,539,954	\$ 9.58
Non-vested, January 1, 2023	29,945,235	\$ 8.92
Granted during 2023	—	—
Vested	—	—
Forfeited	—	—
Non-vested at March 31, 2023	29,945,235	\$ 8.92

At March 31, 2023, there was \$68.7 million of unrecognized share-based compensation expense related to PRSUs, which is expected to be recognized over a period of 4 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 10,512,025 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 March 31, 2023, 9,582,217 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 will end on May 21, 2023.

At March 31, 2023, 569,808 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 three months ended March 31, 2023, are as follows:

Three months ended March 31, 2023

Weighted-average risk-free interest rate	4.7 %
Expected term (in years)	0.49
Expected volatility	78.4 %

12. Income Taxes

The consolidated effective tax rate of the Company for the three months ended March 31, 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 March 31, 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 March 31, 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 March 31,	
	2023	2022
	(in thousands, except per share and share amounts)	
Net loss	\$ (72,606)	\$ (75,490)
Net loss attributable to Common Stockholders	(72,606)	(75,490)
Basic and diluted weighted average number of common shares and common share equivalents outstanding	478,805,067	473,028,651
Net loss per share attributable to Common Stockholders—basic and diluted	\$ (0.15)	\$ (0.16)

Because the Company had a Net loss during the three months ended March 31, 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 March 31,	
	2023	2022
Options to purchase common stock	25,834,803	32,410,176
RSUs	57,742,605	31,512,397
PRSUs	29,945,235	27,539,954
Total anti-dilutive shares excluded from computation of net loss per share	113,522,643	91,462,527

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 March 31, 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 class action. Subject to negotiation of definitive documentation and final court approval, the class will receive \$22 million dollars (less an award of fees and expenses to the plaintiffs' counsel, as determined by the court), the defendants (including the Company) will receive customary releases, and the litigation will be concluded. The Company will use insurance proceeds totaling \$19.5 million that have been advanced or have been committed to be advanced by the Company's insurers to fund the settlement. The Company expects to pay \$2.5 million of out-of-pocket costs to fund the settlement. As of March 31, 2023 and December 31, 2022 the Company has recorded reserves of \$2,500,000 and \$500,000, respectively. 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 continue to pursue that litigation against the insurance carrier defendants to seek to recover additional funds, and it intends to oppose any efforts by the carrier defendants to recoup any insurance proceeds that they have advanced or committed to advance to date. See "Note 18—Subsequent Events."

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. The court designated co-lead counsel and liaison counsel and ordered the parties to submit a proposed schedule for the initial stage of the 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.

All of these derivative actions remain in the preliminary stages. Given the inherent uncertainty of litigation and the legal standards that must be met, including class certification and success on the merits, the Company has determined that it is not probable or estimable that an unfavorable outcome or potential loss will occur. Clover intends to vigorously defend itself against the claims asserted against it.

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 DC Model 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 beneficiaries in 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 the administrative burden, support a focus on complex, chronically ill patients, and encourage physician organizations that have not typically participated in Medicare FFS to serve beneficiaries in Medicare FFS. The Company's operations in connection with both the DC Model and ACO REACH Model are 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:

	<u>March 31, 2023</u>	<u>December 31, 2022</u>
	(in thousands)	
Non-Insurance performance year receivable	\$ 552,620	\$ —
Non-Insurance performance year obligation ⁽¹⁾	613,057	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.

	<u>Three months ended March 31, 2023</u>	<u>Three months ended March 31, 2022</u>
	(in thousands)	
Amortization of the Non-Insurance performance year receivable	\$ (184,207)	\$ (586,715)
Amortization of the Non-Insurance performance year obligation	184,207	586,715
Non-Insurance revenue	205,783	594,898

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' 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 and DC 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 Direct Contracting 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 Direct Contracting 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 March 31, 2023					
	(in thousands)				
Premiums earned, net (net of ceded premiums of \$122)	\$ 317,086	\$ —	\$ —	\$ —	\$ 317,086
Non-Insurance revenue	—	205,783	—	—	205,783
Other income	1,839	428	17,310	(14,671)	4,906
Intersegment revenues	—	—	23,231	(23,231)	—
Net medical claims incurred	274,504	197,701	3,448	(3,163)	472,490
Gross profit (loss)	\$ 44,421	\$ 8,510	\$ 37,093	\$ (34,739)	\$ 55,285
Total assets	\$ 467,392	\$ 716,104	\$ 936,903	\$ (666,810)	\$ 1,453,589
Three months ended March 31, 2022					
	(in thousands)				
Premiums earned, net (net of ceded premiums of \$119)	\$ 278,169	\$ —	\$ —	\$ —	\$ 278,169
Non-Insurance revenue	—	594,898	—	—	594,898
Other income	271	—	27,399	(26,358)	1,312
Intersegment revenues	—	—	19,136	(19,136)	—
Net medical claims incurred	268,126	593,999	2,628	(3,031)	861,722
Gross profit (loss)	\$ 10,314	\$ 899	\$ 43,907	\$ (42,463)	\$ 12,657
Total assets	\$ 406,167	\$ 1,859,741	\$ 1,113,735	\$ (699,749)	\$ 2,679,894

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 March 31,	2023	2022
	(in thousands)	
Gross profit	\$ 55,285	\$ 12,657
Salaries and benefits	70,207	69,091
General and administrative expenses	59,215	57,697
Premium deficiency reserve benefit	(1,810)	(27,476)
Depreciation and amortization	279	826
Interest expense	—	403
Gain on investment	—	(12,394)
Net loss	\$ (72,606)	\$ (75,490)

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 March 31, 2023 and December 31, 2022, neither of the regulated insurance subsidiaries had been authorized nor paid any dividends.

18. Subsequent Events

Certain Business Transformation Initiatives

On April 17, 2023, Clover 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 (the "Master Services Agreement").

On April 16, 2023, the Company entered into the Master Services Agreement, effective as of April 14, 2023, pursuant to which UST HealthProof will perform certain of the Company's plan operation functions in support of its Medicare Advantage members, including claims, enrollment, contact center, medical management, payment integrity, revenue integrity, print, fulfillment, and related configuration and certain IT functions (the "Services"). The initial term of the services UST HealthProof will provide under the Master Services Agreement continues through December 31, 2028, and is then renewable at the option of the Company for two successive one-year terms unless earlier terminated by either party in accordance with the terms of the Master Services Agreement. The Company will pay UST HealthProof for the Services primarily through a fixed monthly charge per member. The Company may also engage UST HealthProof on a time and materials basis to perform discretionary enhancements and other ancillary project work. The Master Services Agreement is non-exclusive and the Company is entitled to remove any of the Services from UST HealthProof, subject to payment of certain minimum charges.

In addition to its arrangement with UST HealthProof, the Company also announced a recently conducted reduction in force to better align its SG&A cost structure with its revenue base. This restructuring resulted in the elimination of approximately 10% of the Company's workforce.

Notice of Potential Nasdaq Delisting

On April 20, 2023, Clover received a written notice (the "Notice") from The Nasdaq Stock Market LLC ("Nasdaq") notifying the Company that, for the last 30 consecutive business days, the bid price for the Company's Class A common stock (the "Common Stock") had closed below the \$1.00 per share minimum bid price requirement for continued inclusion on The Nasdaq Global Select Market pursuant to Nasdaq Listing Rule 5450(a)(1) (the "Minimum Bid Price Requirement"). The Notice has no immediate effect on the listing of the Common Stock, which continues to trade on The Nasdaq Global Select Market under the symbol "CLOV".

In accordance with Nasdaq Listing Rule 5810(c)(3)(A), the Company has a period of 180 calendar days, or until October 17, 2023, to regain compliance with the Minimum Bid Price Requirement. To regain compliance, the closing bid price of the Company's Common Stock must be at least \$1.00 per share for a minimum of 10 consecutive business days as required under Nasdaq Listing Rule 5810(c)(3)(A) (unless the Nasdaq staff exercises its discretion to extend this 10-day period pursuant to Nasdaq Listing Rule 5810(c)(3)(H)) during the 180-day period prior to October 17, 2023.

If the Company does not regain compliance by October 17, 2023, the Company may be eligible for an additional 180-calendar day compliance period if it elects (and meets the listing standards) to transfer to The Nasdaq Capital Market to take advantage of the additional compliance period offered on that market. To qualify, the Company would be required, among other things, to meet the continued listing requirement for market value of publicly held shares as well as all other standards for initial listing on The Nasdaq Capital Market, with the exception of the bid price requirement, and would need to provide written notice of its intention to cure the bid price deficiency during the second compliance period. If the Company fails to regain compliance during the compliance period (including a second compliance period provided by a transfer to The Nasdaq Capital Market, if applicable), then Nasdaq will notify the Company of its determination to delist its Common Stock, at which point the Company may appeal Nasdaq's delisting determination to a Nasdaq hearing panel.

Agreement to Settle Securities Class Action Litigation

On April 24, 2023, the Company announced that, on April 21, 2023, it entered into a memorandum of understanding providing for the settlement of the securities class action captioned Bond v. Clover Health Investments, Corp. et al., Case No. 3:21-CV-00096 (M.D. Tenn.) (the "securities class action"), which was filed in February 2021. The proposed settlement contains no admission of liability or wrongdoing by any of the defendants, including the Company, and is subject to definitive documentation and final court approval.

Subject to negotiation of definitive documentation and final court approval, the class will receive \$22 million dollars (less an award of fees and expenses to the plaintiffs' counsel, as determined by the court), the defendants (including the Company) will receive customary releases, and the litigation will be concluded. The Company will use insurance proceeds totaling \$19.5 million that have been advanced or have been committed to be advanced by the Company's insurers to fund the settlement. The Company expects to pay \$2.5 million of out-of-pocket costs to fund the settlement. As of March 31, 2023 and December 31, 2022 the Company has recorded reserves of \$2,500,000 and \$500,000, respectively.

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 class action, as well as certain liabilities relating to other matters. The Company intends to continue to pursue that litigation against the insurance carrier defendants to seek to recover additional funds, and it intends to oppose any efforts by the carrier defendants to recoup any insurance proceeds that they have advanced or committed to advance to date.

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 unaudited condensed consolidated financial statements and notes thereto for the three months ended March 31, 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 our Medicare beneficiaries, 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 consumers. 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 March 31, 2023, we operated our MA plans in eight states and 220 counties, with 83,794 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 Original Medicare 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 March 31, 2023, we had approximately 615 contracted participant providers who manage primary care for our Non-Insurance Beneficiaries in 13 states. Additionally, at March 31, 2023, we had approximately 1,400 preferred providers and preferred facilities in our ACO REACH network. In connection with the 2023 performance year, we strategically reduced the number of ACO REACH participating physicians, which resulted in a shift in our beneficiary alignment. Our participation in the DC Model has enabled us to move beyond the MA market and target 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. Furthermore, we believe that offering providers multiple options within CMS' "Pathways to Success" will enable us to be accessible to more practices. Beyond ACO REACH, exploring other additional plans such as MSSP-A ("Medicare Shared Savings Program BASIC level A") and Medicare Shared Savings Plan ENHANCED ("MSSP Enhanced"), would diversify our portfolio, allow for potential growth in lives under management, and provide an opportunity for better balancing the overall risk profile of the business.

At March 31, 2023, we were partnering with providers to care for 137,410 Lives under Clover Management, which included 83,794 Insurance members and 53,616 aligned Non-Insurance beneficiaries.

Recent Developments

Geographic Expansion

On July 14, 2022, we announced plans to make our MA plans available in 13 new counties beginning in 2023. This expansion makes our MA plans available in a total of 220 counties across eight states.

Impact of COVID-19

The Coronavirus Disease 2019 ("COVID-19") pandemic and its variants continues to evolve, and the impact on our business, results of operations, financial condition, and cash flows stabilized during the year ended December 31, 2022. We are continuing to monitor the ongoing impact of COVID-19 on our business and operations and are making adjustments accordingly. A large portion of our membership is elderly and generally in the high-risk category for COVID-19, and we have worked closely with our network of providers to ensure that members are receiving necessary care. During the years ended December 31, 2022 and 2021, we incurred elevated costs as compared to prior to the outbreak of the pandemic in 2020 to diagnose and care for those members who had contracted the virus. Indirect costs attributable to the COVID-19 pandemic were elevated as well, as deferral of services and increased costs related to conditions that were exacerbated by a lack of diagnosis and treatment in the earlier periods of the pandemic contributed to increased utilization.

Reduction in Force

The Company announced a recently conducted reduction in force to better align its SG&A cost structure with its revenue base. This restructuring resulted in the elimination of approximately 10% of the Company's workforce.

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 DC Model, which transitioned to the ACO REACH Model beginning in 2023. 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.

Three Months Ended March 31,	2023		2022	
	Total	PMPM ⁽¹⁾	Total	PMPM ⁽¹⁾
	(Premium and expense amounts in thousands, except PMPM amounts)			
Insurance members at period end (#)	83,794	N/A	85,026	N/A
Premiums earned, gross	\$ 317,208	\$ 1,259	\$ 278,288	\$ 1,094
Premiums earned, net	317,086	1,258	278,169	1,094
Insurance medical claim expense incurred, gross	274,557	1,090	268,214	1,055
Insurance net medical claims incurred	274,504	1,089	268,126	1,054
Medical care ratio, gross ⁽²⁾	86.6 %	N/A	96.4 %	N/A
Medical care ratio, net	86.6	N/A	96.4	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 important metrics to assess our financial performance; member growth 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 and documentation 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.

Three months ended March 31, 2023

	2023		2022	
	Total	PBPM ⁽¹⁾	Total	PBPM ⁽¹⁾
	(Revenue and claims amounts in thousands, except PBPM amounts)			
Non-Insurance Beneficiaries at period end	53,616	N/A	172,416	N/A
Non-Insurance revenue	\$ 205,783	\$ 1,268	\$ 594,898	\$ 1,140
Non-Insurance net medical claims incurred	197,701	1,219	593,999	1,138
Non-Insurance MCR ⁽²⁾	96.1 %	N/A	99.8 %	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 DCE model and ACO REACH model in the period.

⁽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 Original Medicare covered life that has been aligned to our DCE and ACO REACH, Health Partners, via attribution to a DCE-participant and 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 DC model and 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 the DCE and 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 March 31, 2023 and 2022

The following table summarizes our consolidated results of operations for the three months ended March 31, 2023 and 2022. The period-to-period comparison of results is not necessarily indicative of results for future periods.

	Three Months Ended March 31,		Change between 2023 and 2022	
	2023	2022	(\$)	(%)
(in thousands)				
Revenues				
Premiums earned, net (Net of ceded premiums of \$122 and \$119 for the three months ended March 31, 2023 and 2022, respectively)	\$ 317,086	\$ 278,169	\$ 38,917	14.0 %
Non-Insurance revenue	205,783	594,898	(389,115)	(65.4)
Other income	4,906	1,312	3,594	273.9
Total revenues	527,775	874,379	(346,604)	(39.6)
Operating expenses				
Net medical claims incurred	472,490	861,722	(389,232)	(45.2)
Salaries and benefits	70,207	69,091	1,116	1.6
General and administrative expenses	59,215	57,697	1,518	2.6
Premium deficiency reserve benefit	(1,810)	(27,476)	25,666	(93.4)
Depreciation and amortization	279	826	(547)	(66.2)
Total operating expenses	600,381	961,860	(361,479)	(37.6)
Loss from operations	(72,606)	(87,481)	14,875	(17.0)
Interest expense	—	403	(403)	*
Gain on investment	—	(12,394)	12,394	*
Net loss	\$ (72,606)	\$ (75,490)	\$ 2,884	(3.8)%

* 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 \$38.9 million, or 14.0%, to \$317.1 million for the three months ended March 31, 2023, compared to the three months ended March 31, 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 \$389.1 million, or 65.4%, to \$205.8 million for the three months ended March 31, 2023, compared to the three months ended March 31, 2022. The decrease was primarily driven by a decrease in the number of our aligned Non-Insurance Beneficiaries from 172,416 at March 31, 2022, to 53,616 at March 31, 2023 primarily driven by the strategic reduction in Non-insurance Beneficiaries which occurred during the 2023 performance year.

Other income

Other income increased \$3.6 million, or 273.9%, to \$4.9 million for the three months ended March 31, 2023, compared to the three months ended March 31, 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 \$389.2 million, or 45.2%, to \$472.5 million for the three months ended March 31, 2023, compared to the three months ended March 31, 2022. The decrease was primarily driven by a decrease in net medical claims related to our strategic reduction in Non-Insurance Beneficiaries from \$594.0 million for the three months ended March 31, 2022, to \$197.7 million for the three months ended March 31, 2023. This, was driven by a decrease in the number of our aligned Non-Insurance Beneficiaries from 172,416 at March 31, 2022, to 53,616 at March 31, 2023.

Salaries and benefits

Salaries and benefits increased \$1.1 million, or 1.6%, to \$70.2 million for the three months ended March 31, 2023, compared to the three months ended March 31, 2022. This impact was consistent for the three months ended March 31, 2023 as compared to the three months ended March 31, 2022.

General and administrative expenses

General and administrative expenses increased \$1.5 million, or 2.6%, to \$59.2 million for the three months ended March 31, 2023, compared to the three months ended March 31, 2022. The increase was primarily driven by an increase in expenses related to our new LiveHealthy rewards program; this increase was partially offset by a decrease in professional fees and broker commissions expenses for the three months ended March 31, 2023, compared to the three months ended March 31, 2022.

Premium deficiency reserve benefit

An approximately \$1.8 million premium deficiency reserve benefit was recorded for the three months ended March 31, 2023, which was primarily driven by amortization associated with the 2022 recorded reserve. In addition, we recorded an additional benefit of \$9.1 million as a result of our change in accounting policy, which allows us to include anticipated net investment income in our premium deficiency reserve calculation, for more information please see Note 2 (Summary of Significant Accounting Policies). A \$27.5 million premium deficiency reserve expense was recorded for the three months ended March 31, 2022, associated with amortization of the reserve that was deemed necessary as of the end of fiscal year 2021 for fiscal year 2022.

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 evaluating our ownership interest in Character Biosciences, we began applying the equity method of accounting during the three months ended March 31, 2022, and recorded a gain on investment of \$12.4 million, which is attributable to our 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 our financial statements, and therefore we did not recognize a loss or gain on investment. In accordance with ASC 323, for the year ended December 31, 2022, we recognized the proportionate share of Character Bioscience's net losses up to the investment carrying amount. At December 31, 2022, we discontinued applying the equity method to account for our common stock interest in Character Biosciences as our 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 our consolidated financial statements as we did not guarantee obligations of the investee company or commit additional funding.

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 March 31, 2023, total restricted and unrestricted cash, cash equivalents, and investments were \$635.2 million. At December 31, 2022, we had cash, cash equivalents, restricted cash, and investments of \$555.3 million. Additionally, at March 31, 2023, we had \$292.4 million of 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 March 31, 2023, total restricted and unrestricted cash, cash equivalents, and investments for the parent company, Clover Health Investments, Corp., and unregulated subsidiaries were \$331.1 million. 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 short-term investments at the parent company, Clover Health Investments, Corp., were \$76.7 million and \$101.4 million at March 31, 2023 and December 31, 2022, respectively. This decrease at the parent company primarily reflects operating expenses and capital contributions made to our regulated insurance subsidiaries. Additionally, the parent company held \$122.7 million and \$136.5 million of available-for-sale and held-to-maturity investment securities at March 31, 2023 and December 31, 2022. Our unregulated subsidiaries held \$131.7 million and \$93.7 million of cash, cash equivalents, restricted cash, and short-term investments at March 31, 2023 and December 31, 2022, respectively. Our unregulated subsidiaries held no available-for-sale and held-to-maturity securities at either March 31, 2023 or December 31, 2022.

Regulated Entities

At March 31, 2023 total cash, cash equivalents, restricted cash, and investments for our regulated subsidiaries were \$304.1 million. Additionally, our regulated insurance subsidiaries held \$169.8 million and \$191.1 million of available-for-sale and held-to-maturity investment securities at March 31, 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 our 2022 Form 10-K.

Cash Flows

The following table summarizes our consolidated cash flows for the three months ended March 31, 2023 and 2022.

Three Months Ended March 31,	2023	2022
	(in thousands)	
Cash Flows Data:		
Net cash provided by (used in) operating activities	\$ 79,032	\$ (57,042)
Net cash provided by investing activities	10,181	36,513
Net cash used in financing activities	(2,134)	(5,608)
Increase (decrease) in cash, cash equivalents, and restricted cash	\$ 87,079	\$ (26,137)

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 three months ended March 31, 2023, Net cash provided by operating activities was \$79.0 million, which reflects a Net loss of \$72.6 million. Non-cash activities included a \$38.6 million charge to Stock-based compensation expense, approximately \$1.8 million of amortization of the 2023 Premium deficiency reserve. A prepayment of \$107.6 million was received during the period from CMS for April 2023. Payments due to CMS related to our Non-Insurance operations increased by \$12.8 million.

For the three months ended March 31, 2022, Net cash used in operating activities was \$57.0 million, which reflects a Net loss of \$75.5 million. Non-cash activities included a \$40.6 million charge to Stock-based compensation expense, \$27.5 million amortization of the 2022 Premium deficiency reserve, and a \$12.4 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 \$43.2 million. Change in our working capital included an increase in Unpaid claims of \$25.3 million.

Investing Activities

Net cash provided by investing activities for the three months ended March 31, 2023, of \$10.2 million was primarily due to \$78.3 million provided from the sale and maturity of investment securities. This was offset by \$67.9 million used to purchase investments.

Net cash used in investing activities for the three months ended March 31, 2022, of \$36.5 million was primarily due to \$113.1 million used to purchase investment securities, offset by \$150.0 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 our condensed consolidated financial statements included in this Form 10-Q.

Financing Activities

Net cash used in financing activities for the three months ended March 31, 2023 of \$2.1 million was primarily the result of the acquisition of \$3.0 million in Treasury stock.

Net cash provided by financing activities for the three months ended March 31, 2022 of \$5.6 million was primarily the result of the acquisition of \$5.9 million in Treasury stock.

Financing Arrangements

There have been no material changes to our financing arrangements at March 31, 2023, as compared to those disclosed in our 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 March 31, 2023 include: (1) the recognition of a performance guarantee of \$613.1 million in connection with the Company's participation in the ACO REACH model and (2) operating lease obligations of \$5.8 million. These commitments are associated with contracts that were enforceable and legally binding at March 31, 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 March 31, 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 March 31, 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 March 31, 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 March 31, 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 March 31, 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 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

The following risk factors are provided to update the risk factors of the Company previously disclosed in the 2022 Form 10-K. In the course of conducting our business operations, we are exposed to a variety of 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 "Risk Factors" section in the 2022 Form 10-K.

We have been notified by The Nasdaq Stock Market LLC of our failure to comply with certain continued listing requirements and, if we are unable to regain compliance with all applicable continued listing requirements and standards of Nasdaq, our Class A common stock could be delisted from Nasdaq, which would have an adverse impact on the trading, liquidity, and market price of our Class A common stock.

On April 20, 2023, we received a written notice from The Nasdaq Stock Market LLC ("Nasdaq") notifying us that, because the bid price for our Class A common stock has fallen below \$1.00 per share for 30 consecutive business days, we no longer comply with the \$1.00 Minimum Bid Price requirement set forth in Nasdaq Listing Rule 5450(a)(1) for continued listing on The Nasdaq Global Select Market (the "Minimum Bid Price Requirement"). In accordance with Nasdaq Listing Rule 5810(c)(3)(A), the Company has a period of 180 calendar days, or until October 17, 2023, to regain compliance with the Minimum Bid Price Requirement. To regain compliance, the closing bid price of the Company's Class A common stock must be at least \$1.00 per share for a minimum of 10 consecutive business days as required under Nasdaq Listing Rule 5810(c)(3)(A) (unless the Nasdaq staff exercises its discretion to extend this 10-day period pursuant to Nasdaq Listing Rule 5810(c)(3)(H)) during the 180-day period prior to October 17, 2023.

If the Company does not regain compliance by October 17, 2023, the Company may be eligible for an additional 180-calendar day compliance period if it elects (and meets the listing standards) to transfer to The Nasdaq Capital Market to take advantage of the additional compliance period offered on that market. To qualify, the Company would be required, among other things, to meet the continued listing requirement for market value of publicly held shares as well as all other standards for initial listing on The Nasdaq Capital Market, with the exception of the bid price requirement, and would need to provide written notice of its intention to cure the bid price deficiency during the second compliance period. If the Company fails to regain compliance during the compliance period (including a second compliance period provided by a transfer to The Nasdaq Capital Market, if applicable), then Nasdaq will notify the Company of its determination to delist its Class A common stock, at which point the Company may appeal Nasdaq's delisting determination to a Nasdaq hearing panel.

We intend to continue to monitor the bid price levels for our Class A common stock and will consider appropriate alternatives to achieve compliance with the Minimum Bid Price Requirement within the compliance period, including, among other things, a potential reverse stock split. However, we cannot assure you that the price of our Class A common stock will subsequently remain in compliance with the required listing standard or that we will remain in compliance with any of the other applicable continued listing standards of Nasdaq. Any continuing failure to remain in compliance with Nasdaq's continued listing standards, and any subsequent failure to timely resume compliance with Nasdaq's continued listing standards within the applicable cure period could have adverse consequences, and 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. Furthermore, a delisting would likely have a negative effect on the price of our Class A common stock and would impair the ability of stockholders to sell or purchase our Class A common stock when they wish to do so. In the event of a delisting, we would expect to take actions to restore our compliance with Nasdaq's listing requirements, but we can provide no assurance that any such action taken by us would allow our Class A common stock to become listed again, lead to stability in the market price of our Class A common stock, improve the liquidity of our Class A common stock, prevent our Class A common stock from dropping below the Nasdaq minimum bid price requirement, or prevent future non-compliance with Nasdaq's listing requirements. As a result of these factors, a delisting of our Class A common stock from Nasdaq would have an adverse impact on the trading, liquidity, and market price of our Class A common stock.

Our growth depends in part on the success of our strategic relationships with third parties.

In order to grow our business, we anticipate that we will continue to depend on our relationships with third parties to perform certain operational functions and services, to support and use our Clover Assistant and technology platforms, and to support our general services and administration functions. These third parties include, for example, insurance brokers, our information technology system providers, data submission providers, coders, quality metrics auditors, pharmacy benefit management ("PBM"), services suppliers, enrollment administration providers, and customer service, provider support line, call center and claim and billing service providers. We also rely on integrations with EHR providers and clinical software developers. We have entered into agreements with our PBM services suppliers to provide us and certain of our beneficiaries with certain PBM services, such as claims processing, mail pharmacy services, specialty pharmacy services, retail network pharmacy network services, participating pharmacy audit services, reporting, and formulary services. In April 2023, we entered into an agreement with UST HealthProof pursuant to which UST HealthProof will perform certain of our plan operation functions in support of our Medicare Advantage members, including claims, enrollment, contact center, medical management, payment integrity, revenue integrity, print, fulfillment, and related configuration and certain IT functions. However, we may be unable to realize all of the expected benefits, including cost savings, in connection with this agreement within the expected time frame, or at all, and we may incur additional and/or unexpected costs to realize them. If the services become unavailable or are not adequately performed, our operations and business strategies could be significantly disrupted which could have a material adverse effect on our business, brand, reputation, and results of operations.

Additionally, if any such agreements were to terminate for any reason or one of our PBM services supplier's ability to perform their respective obligations under their agreements with us were impaired, we may not be able to find an alternative supplier in a timely manner or on acceptable financial terms. As a result, our costs may increase, we would not realize the anticipated benefits of our agreements for PBM services, we could become overly dependent on such agreements, which could cause us to lose core competencies and we may not be able to meet the full demands of our beneficiaries. Any of these events could have a material adverse effect on our business, brand, reputation, and results of operations. Furthermore, certain legislative authorities have in recent years discussed or proposed legislation that would restrict outsourcing of certain services. In addition, we may be held accountable for any failure of performance by our vendors. Significant failure by a third party to perform in accordance with the terms of our contracts or applicable law could subject us to fines or other sanctions or otherwise have a material adverse effect on our business and results of operations. A termination of our agreements with, or disruption in the performance of, one or more of these service providers could result in service disruption or unavailability, and harm our ability to continue to develop, maintain and improve Clover Assistant. This could decrease the usefulness of Clover Assistant and result in decreased adoption by providers and potentially higher medical costs for our beneficiaries, increased or duplicative costs for us, and our inability to meet our obligations to our beneficiaries; it could also require us to seek alternative service providers on less favorable contract terms, any of which can adversely affect our business, brand, reputation and results of operating. Additionally, if our service partners and vendors do not utilize industry standards with respect to privacy and data requirements, or other applicable safeguards, we may be exposed to additional liability, the breach of our patient data, or loss of our ability to provide plans and services.

Identifying partners, and negotiating and documenting relationships with them, requires significant time and resources. In addition, acquisitions of our partners by our competitors could result in a decrease in the number of our beneficiaries and provider users, as our partners may no longer facilitate the enrollment of Medicare-eligible beneficiaries into, or the effective and efficient operations of, our Insurance and Non-Insurance businesses or the adoption of Clover Assistant by providers. If we are unsuccessful in establishing or maintaining our relationships with third parties, our ability to compete in the marketplace or to grow our revenues could be impaired and our results of operations may suffer. Even if we are successful, we cannot assure you that these relationships will result in increased revenues or an increase in the number of beneficiaries or provider users of Clover Assistant.

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.

None.

Item 6. Exhibits and Financial Statement Schedules

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

Exhibit No.	Description
10.1	Board Observer Agreement dated as of March 16, 2023 between the Registrant and Zach Weinberg** (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on March 17, 2023)
10.2*	Employment Agreement dated as of February 24, 2022 between the Registrant and Conrad Wai**
10.3	Separation and Consulting Agreement, dated as of February 23, 2023, between the Registrant and Prabhdeep Singh (incorporated by reference to Exhibit 10.1 to the Company's Annual Report on Form 10-K filed March 1, 2023)
18.1*	Preferability letter from Ernst & Young LLP regarding change in accounting principle
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.

** Certain identified information has been excluded from this exhibit because it is not material and is the type of information that the Registrant customarily and actually treats as private and confidential. Redacted information is indicated by [***].

† Furnished herewith.

SIGNATURES

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

CLOVER HEALTH INVESTMENTS, CORP.

Date: May 9, 2023

By: _____
/s/ Andrew Toy
Andrew Toy
Chief Executive Officer (Principal Executive Officer)

Date: May 9, 2023

By: _____
/s/ Scott J. Leffler
Scott J. Leffler
Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)

Certain identified information has been excluded from this exhibit because it is not material and is the type of information that the Registrant customarily and actually treats as private and confidential. Redacted information is indicated by [***].

CONFIDENTIAL
February 24, 2022

Clover Health Investments, Corp. 725 Cool Springs Blvd, Suite 300
Franklin, Tennessee 37067

Re: EMPLOYMENT AGREEMENT

Dear Conrad Wai,

This Employment Agreement (the “**Agreement**”) between you (referred to hereinafter as the “**Executive**”) and Clover Health Labs, LLC (the “**Company**”) sets forth the terms and conditions that shall govern Executive’s employment with the Company (referred to hereinafter as “**Employment**” or the “**Employment Period**”), effective as of February 28, 2022.

1. Duties and Scope of Employment.

- a. **At-Will Employment.** Executive’s Employment with the Company is for no specified period and constitutes “at will” employment. Except as otherwise set forth herein, Executive is free to terminate Employment at any time, with or without advance notice, and for any reason or for no reason. Similarly, the Company is free to terminate Executive’s Employment at any time, with or without advance notice, and with or without Cause (as defined below). Furthermore, although terms and conditions of Executive’s Employment with the Company may change over time, nothing shall change the at-will nature of Executive’s Employment.
- b. **Position and Responsibilities.** During the Employment Period, the Company agrees to employ Executive in the position of Chief Technology Officer. Executive will report to the Company’s President, Andrew Toy, or to such other Person as the Company subsequently may determine (Executive’s “**Supervisor**”), and Executive will be working remotely and based out of California. Executive will perform the duties and have the responsibilities and authority customarily performed and held by an employee in Executive’s position or as otherwise may be assigned or delegated to Executive by Executive’s Supervisor.
- c. **Obligations to the Company.** During the Employment Period, Executive shall perform Executive’s duties faithfully and to the best of Executive’s ability and will devote Executive’s full business efforts and time to the Company. During the Employment Period, without the prior written approval of Executive’s Supervisor,

Executive shall not render services in any capacity to any other Person and shall not act as a sole proprietor, advisor or partner of any other Person or own more than five percent (5%) of the stock of any other corporation. Notwithstanding the foregoing, Executive may serve on civic or charitable boards or committees, deliver lectures, fulfill speaking engagements, teach at educational institutions, or manage personal investments without advance written consent of Executive's Supervisor; provided that such activities do not individually or in the aggregate interfere with the performance of Executive's duties under this Agreement or create a potential business or fiduciary conflict. Executive shall comply with the Company's policies and rules, as they may be in effect from time to time during Executive's Employment. Executive represents and warrants to the Company that Executive has returned all property and confidential information belonging to any prior employer.

2. Cash and Incentive Compensation.

- a. **Base Salary.** The Company shall pay Executive, as compensation for Executive's services, a base salary at a gross annual rate of \$450,000, less all required tax withholdings and other applicable deductions, in accordance with the Company's standard payroll procedures. The annual compensation specified in this subsection (a), together with any modifications in such compensation that the Company may make from time to time, is referred to in this Agreement as the "**Base Salary.**" Executive's Base Salary will be subject to review and adjustments that will be made based upon the Company's normal performance review practices. Effective as of the date of any change to Executive's Base Salary, the Base Salary as so changed shall be considered the new Base Salary for all purposes of this Agreement.

- b. **Cash Incentive Bonus.** Executive will be eligible to be considered for an annual cash incentive bonus (the "**Cash Bonus**") each calendar year during the Employment Period (the "**Performance Period**") based upon the achievement of certain objective or subjective criteria (collectively, the "**Performance Goals**"). In compliance with all relevant legal requirements and based on Executive's level within the Company, the Performance Goals for Executive's Cash Bonus for a particular year will be established by, and in the sole discretion of, the Company's Board of Directors (the "**Board**"), any Compensation Committee of the Board (the "**Committee**"), or a delegate of either the Board or the Committee (the "**Delegate**"), as applicable. The initial target amount for any such Cash Bonus will be up to 60% of Executive's Base Salary (the "**Target Bonus Percentage**"), less all required tax withholdings and other applicable deductions. The determinations of the Board, the Committee or the Delegate, as applicable, with respect to such Cash Bonus or the Target Bonus Percentage shall be final and binding. Executive's Target Bonus Percentage for any subsequent year may be adjusted up or down, as determined in the sole discretion of the Board, the Committee or the Delegate, as applicable. Executive shall not earn a Cash Bonus unless Executive (i) has been employed by the Company for a minimum of three (3) months of the Performance Period and (ii) is employed by and in good standing with the Company on the date when such

Cash Bonus is actually paid by the Company. If Executive has not been employed by the Company for the full Performance Period associated with the Cash Bonus, Executive will not be eligible for the full Cash Bonus that year; instead, Executive's Cash Bonus will be prorated based on the number of completed months Executive has been employed with the Company.

- c. **Restricted Stock Units.** As an inducement for the Executive to accept the offer of employment with the Company as contemplated by this Agreement, subject to the approval of the Board, or the Committee, as applicable, the Company shall grant Executive restricted stock units with a grant date fair value (the "**RSU Cash Value**") of \$8,000,000 (eight million dollars) of the Company's [Class A] common stock (the "**RSU Award**"). The number of shares subject to the RSU Awards will be determined based on dividing the RSU Cash Value by the average closing price of a share for the thirty trading days ending on the date of grant, as publicly reported. The RSU Awards shall be granted on the first day of your employment, pending Compensation Committee approval. Subject to any vesting acceleration rights Executive may have, the RSU Award shall vest and become payable over four (4) years from Executive's start date in equal annual installments over the four (4) years on the anniversary of the start date, subject to Executive continuing to provide services to the Company through the relevant vesting dates. The RSU Award will be subject to the terms, definitions and provisions of the applicable equity plan of the Company and a restricted stock unit agreement by and between Executive and the Company (the "**RSU Agreement**"). In addition, for future years, Executive will be eligible for a target Annual Award (the "**Annual Award**") in the form of a combination of restricted stock units and performance stock units with a combined grant date fair value of \$2,000,000 (two million dollars) and future awards under the terms of the Company's 2020 Equity Plan in line with your peers, as determined in the sole discretion of the Committee.
3. **Employee Benefits.** During the Employment Period, Executive shall be eligible to (a) receive paid time off ("**PTO**") in accordance with the Company's PTO policy, as it may be amended from time to time and (b) participate in the employee benefit plans maintained by the Company and generally available to similarly situated employees of the Company, subject in each case to the generally applicable terms and conditions of the plan or policy in question and to the determinations of any Person or committee administering such employee benefit plan or policy. The Company reserves the right to cancel or change the employee benefit plans, policies and programs it offers to its employees at any time.
4. **Business Expenses.** The Company will reimburse Executive for necessary and reasonable business expenses incurred in connection with Executive's duties hereunder upon presentation of an itemized account and appropriate supporting documentation, all in accordance with the Company's generally applicable expense reimbursement policies as in effect from to time.

5. **Rights Upon Termination.** Except as expressly provided in Section 6, upon the termination of Executive's Employment, for the period preceding the effective date of the termination of Employment, Executive shall only be entitled to the following: (i) the accrued but unpaid Base Salary compensation and PTO, (ii) the reimbursements for outstanding and unpaid business expenses described in Section 4 of this Agreement, and (iii) such other vested benefits earned under any Company-provided plans, policies, and arrangements in accordance with the governing documents and policies of any such, plans, policies and arrangements (collectively, the "**Accrued Benefits**"). The Accrued Benefits described in clauses (i) and (ii) of the preceding sentence shall be paid within thirty (30) days after the date of termination of Executive's Employment (or such earlier date as may be required by applicable law) and the Accrued Benefits described in clause (iii) of the preceding sentence shall be paid in accordance with the terms of the governing plan, policy or arrangement.

6. **Termination Benefits.**

- a. **Termination without Cause outside of Change in Control Protection Period.** If the Company (or any parent, subsidiary or successor of the Company) terminates Executive's employment with the Company for a reason other than (i) Cause, (ii) Executive becoming Disabled or (iii) Executive's death, in each case, outside of the Change in Control Protection Period, then, subject to Section 7 (other than with respect to the Accrued Benefits), Executive will be entitled to the following:
- i. **Accrued Compensation.** The Company will pay Executive all Accrued Benefits.
 - ii. **Severance Payment.** In exchange for Executive timely signing and not revoking the Release in accordance with the terms therein and in this Agreement, Executive will receive semi-monthly continuing payments of severance pay at a rate equal to Executive's Base Salary, as then in effect, for twelve (12) months (the "**Severance Period**"), less all required tax withholdings and other applicable deductions, which will be paid in accordance with the Company's regular payroll procedures commencing on the Release Deadline (as defined in Section 7(a)); provided that the first payment shall include any amounts that would have been paid to Executive if payment had commenced on the date of Executive's separation from service.
 - iii. **Continued Employee Benefits.** If Executive elects continuation coverage pursuant to the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("**COBRA**") for Executive and Executive's eligible dependents, within the time period prescribed pursuant to COBRA, the Company will reimburse Executive for the COBRA premiums for such coverage (at the coverage levels in effect immediately prior to Executive's termination or resignation) until the earlier of (A) the end of the Severance Period, or (B) the date upon which Executive and/or Executive's eligible dependents become covered under similar plans.

COBRA reimbursements will be made by the Company to Executive consistent with the Company's normal expense reimbursement policy and will be taxable to the extent required to avoid adverse consequences to Executive or the Company under either Code Section 105(h) or the Patient Protection and Affordable Care Act of 2010.

- b. **Termination without Cause or Resignation for Good Reason within the Change in Control Protection Period.** If, during the Change in Control Protection Period, (x) the Company terminates Executive's employment with the Company without Cause, or (y) Executive resigns from such employment for Good Reason, then, subject to Section 7 (other than with respect to the Accrued Benefits), Executive will receive the following severance benefits from the Company in lieu of the benefits described in Section 6(a) above:
- i. **Accrued Compensation.** The Company will pay Executive all Accrued Benefits.
 - ii. **Severance Payment.** In exchange for Executive timely signing and not revoking the Release in accordance with the terms therein and in this Agreement, Executive will receive a lump sum severance payment equal to twelve (12) months (the "***CIC Severance Period***") of Executive's Base Salary as in effect immediately prior to the date of Executive's termination of employment plus applicable Cash Bonus, less all required tax withholdings and other applicable deductions, which will be paid in accordance with the Company's regular payroll procedures, but no later than thirty (30) days following the Release Deadline.
 - iii. **Continued Employee Benefits.** If Executive elects continuation coverage pursuant to COBRA for Executive and Executive's eligible dependents, within the time period prescribed pursuant to COBRA, the Company will reimburse Executive for the COBRA premiums for such coverage (at the coverage levels in effect immediately prior to Executive's termination or resignation) until the earlier of (A) the end of the CIC Severance Period, or (B) the date upon which Executive and/or Executive's eligible dependents become covered under similar plans. COBRA reimbursements will be made by the Company to Executive consistent with the Company's normal expense reimbursement policy and will be taxable to the extent required to avoid adverse consequences to Executive or the Company under either Code Section 105(h) or the Patient Protection and Affordable Care Act of 2010.
 - iv. **Equity.** All of Executive's unvested and outstanding time-based equity awards shall immediately vest and become exercisable as of the date of Executive's termination and any unvested and outstanding performance-based awards shall be subject to the terms and conditions of the Equity Plan and the award agreement by and between Executive and the Company pursuant to which such award was granted.

- c. **Disability; Death; Voluntary Resignation; Termination for Cause**. If Executive's employment with the Company is terminated due to (i) Executive becoming Disabled or Executive's death, (ii) Executive's voluntary resignation (other than for Good Reason during the twelve (12) month period immediately following a Change in Control), or (iii) the Company's termination of Executive's employment with the Company for Cause, then Executive or Executive's estate (as the case may be) will receive the Accrued Benefits, but will not be entitled to any other compensation or benefits from the Company except to the extent required by law (for example, COBRA).
- d. **Timing of Payments**. Subject to any specific timing provisions in Section 6(a), 6(b), or 6(c), as applicable, or the provisions of Section 7, payment of the severance and benefits hereunder shall be made or commence to be made as soon as practicable following Executive's termination of employment.
- e. **Exclusive Remedy**. In the event of a termination of Executive's employment with the Company (or any parent, subsidiary or successor of the Company), the provisions of this Section 6 are intended to be and are exclusive and in lieu of any other rights or remedies to which Executive or the Company may otherwise be entitled, whether at law, tort or contract, in equity, or under this Agreement (other than the payment of accrued but unpaid wages, as required by law, and any unreimbursed reimbursable expenses). Executive will be entitled to no other severance, benefits, compensation or other payments or rights upon a termination of employment, including, without limitation, any severance payments and/or benefits provided in the Employment Agreement, other than those benefits expressly set forth in Section 6 of this Agreement or pursuant to written equity award agreements with the Company.
- f. **No Duty to Mitigate**. Executive will not be required to mitigate the amount of any payment contemplated by this Agreement, nor will any earnings that Executive may receive from any other source reduce any such payment.

7. Conditions to Receipt of Severance.

- a. **Release of Claims Agreement**. The receipt of any severance payments or benefits pursuant to Section 6 of this Agreement is subject to Executive signing and not revoking a separation agreement and release of claims in a form substantially similar, as determined by the Company, as that attached hereto as Attachment [A] (the "**Release**"), which must become effective no later than the sixtieth (60th) day following Executive's termination of employment (the "**Release Deadline**"), and if not, Executive will forfeit any right to severance payments or benefits under this Agreement. To become effective, the Release must be timely executed by Executive and any revocation periods (as required by statute, regulation, or otherwise) must have expired without Executive having revoked the Release. In addition, in no event will severance payments or benefits be paid or provided until the Release actually becomes effective. If the termination of employment occurs at a time during the calendar year where the Release Deadline could occur in the calendar year following the calendar year in which Executive's termination of employment occurs, then any severance

payments or benefits under this Agreement that would be considered Deferred Payments (as defined in Section 7(c)(i)) will be paid on the first payroll date to occur during the calendar year following the calendar year in which such termination occurs, or such later time as required by (i) the payment schedule applicable to each payment or benefit as set forth in Section 6, (ii) the date the Release becomes effective, or (iii) Section 7(c)(ii); provided that the first payment shall include all amounts that would have been paid to Executive if payment had commenced on the date of Executive's termination of employment.

b. **Confidentiality Agreement.** Executive's receipt of any payments or benefits under Section 6 will be subject to Executive continuing to comply with the terms of the Confidentiality Agreement (as defined in Section 11(a) below).

c. **Section 409A.**

- i. Notwithstanding anything to the contrary in this Agreement, no severance pay or benefits to be paid or provided to Executive, if any, pursuant to this Agreement that, when considered together with any other severance payments or separation benefits, are considered deferred compensation not exempt under Section 409A (together, the "**Deferred Payments**") will be paid or otherwise provided until Executive has a "separation from service" within the meaning of Section 409A. And for purposes of this Agreement, any reference to "termination of employment," "termination" or any similar term shall be construed to mean a "separation from service" within the meaning of Section 409A. Similarly, no severance payable to Executive, if any, pursuant to this Agreement that otherwise would be exempt from Section 409A pursuant to Treasury Regulation Section 1.409A-1(b)(9) will be payable until Executive has a "separation from service" within the meaning of Section 409A.
- ii. Notwithstanding anything to the contrary in this Agreement, if Executive is a "**specified employee**" within the meaning of Section 409A at the time of Executive's termination of employment (other than due to death), then the Deferred Payments, if any, that are payable within the first six (6) months following Executive's separation from service, will become payable on the first payroll date that occurs on or after the date six (6) months and one (1) day following the date of Executive's separation from service. All subsequent Deferred Payments, if any, will be payable in accordance with the payment schedule applicable to each payment or benefit. Notwithstanding anything herein to the contrary, if Executive dies following Executive's separation from service, but prior to the six (6) month anniversary of the separation from service, then any payments delayed in accordance with this paragraph will be payable in a lump sum as soon as administratively practicable after the date of Executive's death and all other Deferred Payments will be payable in accordance with the payment schedule applicable to each payment or benefit. Each payment, installment and benefit payable under this Agreement is intended to

constitute a separate payment for purposes of Section 1.409A-2(b)(2) of the Treasury Regulations.

- iii. Without limitation, any amount paid under this Agreement that satisfies the requirements of the “short-term deferral” rule set forth in Section 1.409A-1(b)(4) of the Treasury Regulations is not intended to constitute Deferred Payments for purposes of clause (i) above.
- iv. Without limitation, any amount paid under this Agreement that qualifies as a payment made as a result of an involuntary separation from service pursuant to Section 1.409A-1(b)(9)(iii) of the Treasury Regulations that does not exceed the Section 409A Limit is not intended to constitute Deferred Payments for purposes of clause (i) above. Any payment intended to qualify under this exemption must be made within the allowable time period specified in Section 1.409A-1(b)(9)(iii) of the Treasury Regulations.
- v. To the extent that reimbursements or in-kind benefits under this Agreement constitute non-exempt “nonqualified deferred compensation” for purposes of Section 409A, (1) all reimbursements hereunder shall be made on or prior to the last day of the calendar year following the calendar year in which the expense was incurred by Executive, (2) any right to reimbursement or in-kind benefits shall not be subject to liquidation or exchange for another benefit, and (3) the amount of expenses eligible for reimbursement or in-kind benefits provided in any calendar year shall not in any way affect the expenses eligible for reimbursement or in-kind benefits to be provided, in any other calendar year.
- vi. The payments and benefits provided under Sections 6(a) and 6(b) are intended to be exempt from or comply with the requirements of Section 409A so that none of the severance payments and benefits to be provided hereunder will be subject to the additional tax imposed under Section 409A, and any ambiguities or ambiguous terms herein will be interpreted to be exempt or so comply. The Company and Executive agree to work together in good faith to consider amendments to this Agreement and to take such reasonable actions that are necessary, appropriate or desirable to avoid imposition of any additional tax or income recognition prior to actual payment to Executive under Section 409A.

8. **Definition of Terms.** The following terms referred to in this Agreement will have the following meanings:

a. **Cause.** “Cause” means:

- i. Executive’s gross negligence or willful misconduct in the performance of his or her duties and responsibilities to the Company or Executive’s violation of any written Company policy;

- ii. Executive's commission of any act of fraud, theft, embezzlement, financial dishonesty, misappropriation from the Company or any other willful misconduct that has caused or is reasonably expected to result in injury to the Company;
 - iii. Executive's conviction of, or pleading guilty or nolo contendere to, any felony or a lesser crime involving dishonesty or moral turpitude;
 - iv. Executive's unlawful use (including being under the influence) or possession of illegal drugs on the premises of the Company or while performing Executive's duties and responsibilities for the Company
 - v. Executive's unauthorized use or disclosure of any proprietary information or trade secrets of the Company or any other party to whom Executive owes an obligation of nondisclosure as a result of his or her relationship with the Company; or
 - vi. Executive's material breach of any of his or her obligations under any written agreement or covenant with the Company.
- b. **Change in Control**. "Change in Control" shall have the meaning ascribed to such term in the Equity Plan.
- c. **Change in Control Protection Period**. "Change in Control Protection Period" means the period beginning one month prior to and ending twelve (12) months immediately following the consummation of a Change in Control
- d. **Code**. "Code" means the Internal Revenue Code of 1986, as amended.
- e. **Disability**. "Disability" or "Disabled" means that Executive is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted, or can be expected to last, for a continuous period of not less than one (1) year.
- f. **Good Reason**. "Good Reason" means Executive's resignation or termination of employment within thirty (30) days following the expiration of any cure period (discussed below) following the occurrence of one or more of the following without Executive's consent:
- i. A material reduction of Executive's duties, authority or responsibilities, relative to Executive's duties, authority or responsibilities in effect immediately prior to such reduction; provided, however, that a reduction in duties, authority or responsibilities solely by virtue of the Company being acquired and made part of a larger entity (as, for example, when the Chief Technology Officer of the Company remains as such following a Change in Control but is not made the Chief Technology Officer of the acquiring corporation) will not constitute Good Reason;

- ii. A material reduction in Executive's Base Salary (except where there is a reduction applicable to all similarly situated executive officers generally); provided, that a reduction of less than ten percent (10%) will not be considered a material reduction in Base Salary;
- iii. A material change in the geographic location of Executive's primary work facility or location; provided, that a relocation of less than fifty (50) miles from Executive's then-present work location will not be considered a material change in geographic location; or
- iv. A material breach by the Company of a material provision of this Agreement.

Executive will not resign for Good Reason without first providing the Company with written notice of the acts or omissions constituting the grounds for Good Reason within thirty (30) days of the initial existence of the grounds for Good Reason and a reasonable cure period of not less than thirty (30) days following the date the Company receives such notice during which such condition must not have been cured.

- g. **Governmental Authority.** "Governmental Authority" means any federal, state, municipal, foreign or other government, governmental department, commission, board, bureau, agency or instrumentality, or any private or public court or tribunal.
- h. **Person.** "Person" shall be construed in the broadest sense and means and includes any natural person, a partnership, a corporation, an association, a joint stock company, a limited liability company, a trust, a joint venture, an unincorporated organization and other entity or Governmental Authority.
- i. **Section 409A.** "Section 409A" means Section 409A of the Code, and the final regulations and any guidance promulgated thereunder or any state law equivalent.
- j. **Section 409A Limit.** "Section 409A Limit" shall mean two (2) times the lesser of: (i) Executive's annualized compensation based upon the annual rate of pay paid to Executive during Executive's taxable year preceding Executive's taxable year of his or her separation from service as determined under Treasury Regulation Section 1.409A-1(b)(9)(iii)(A)(1) and any Internal Revenue Service guidance issued with respect thereto; or (ii) the maximum amount that may be taken into account under a qualified plan pursuant to Section 401(a)(17) of the Code for the year in which Executive's separation from service occurred.

9. **Golden Parachute.**

- a. Anything in this Agreement to the contrary notwithstanding, if any payment or benefit Executive would receive from the Company or otherwise ("**Payment**") would (i) constitute a "parachute payment" within the meaning of Section 280G of the Code; and (ii) but for this sentence, be subject to the excise tax imposed by

Section 4999 of the Code (the "**Excise Tax**"), then such Payment shall be equal to the Reduced Amount. The "**Reduced Amount**" shall be either (x) the largest portion of the Payment that would result in no portion of the Payment being subject to the Excise Tax; or (y) the largest portion, up to and including the total, of the Payment, whichever amount, after taking into account all applicable federal, state and local employment taxes, income taxes, and the Excise Tax (all computed at the highest applicable marginal rate), results in Executive's receipt, on an after-tax basis, of the greater amount of the Payment. Any reduction made pursuant to this Section 9(a) shall be made in accordance with the following order of priority: (i) stock options whose exercise price exceeds the fair market value of the optioned stock ("**Underwater Options**") (ii) Full Credit Payments (as defined below) that are payable in cash, (iii) non-cash Full Credit Payments that are taxable, (iv) non-cash Full Credit Payments that are not taxable (v) Partial Credit Payments (as defined below) and (vi) non-cash employee welfare benefits. In each case, reductions shall be made in reverse chronological order such that the payment or benefit owed on the latest date following the occurrence of the event triggering the excise tax will be the first payment or benefit to be reduced (with reductions made pro- rata in the event payments or benefits are owed at the same time). "**Full Credit Payment**" means a payment, distribution or benefit, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise, that if reduced in value by one dollar reduces the amount of the parachute payment (as defined in Section 280G of the Code) by one dollar, determined as if such payment, distribution or benefit had been paid or distributed on the date of the event triggering the excise tax. "**Partial Credit Payment**" means any payment, distribution or benefit that is not a Full Credit Payment.

- b. A nationally recognized certified public accounting firm selected by the Company (the "**Accounting Firm**") shall perform the foregoing calculations related to the Excise Tax. If a reduction is required pursuant to Section 9(a), the Accounting Firm shall administer the ordering of the reduction as set forth in Section 9(a). The Company shall bear all expenses with respect to the determinations by such accounting firm required to be made hereunder.
- c. The Accounting Firm engaged to make the determinations hereunder shall provide its calculations, together with detailed supporting documentation, to Executive and the Company within fifteen (15) calendar days after the date on which Executive's right to a Payment is triggered. Any good faith determinations of the Accounting Firm made hereunder shall be final, binding, and conclusive upon Executive and the Company.

10. **Arbitration.** To the fullest extent permitted by applicable law, Executive and the Company agree that any and all disputes, demands, claims, or controversies ("**claims**") relating to, arising from or regarding Executive's employment, including claims by the Company, claims against the Company, and claims against any current or former parent, affiliate, subsidiary, successor or predecessor of the Company, and each of the Company's and these entities' respective officers, directors, agents or employees, shall be resolved by final and binding arbitration before a single arbitrator in the State of

California (or another mutually agreeable location). This does not prevent either Executive or the Company from seeking and obtaining temporary or preliminary injunctive relief in court to prevent irreparable harm to Executive's or its confidential information or trade secrets pending the conclusion of any arbitration. This arbitration agreement does not apply to any claims that have been expressly excluded from arbitration by a governing law not preempted by the Federal Arbitration Act and does not restrict or preclude Executive from communicating with, filing an administrative charge or claim with, or providing testimony to any governmental entity about any actual or potential violation of law or obtaining relief through a government agency process. The parties hereto agree that claims shall be resolved on an individual basis only, and not on a class, collective, or representative basis on behalf of other employees to the fullest extent permitted by applicable law ("**Class Waiver**"). Any claim that all or part of the Class Waiver is invalid, unenforceable, or unconscionable may be determined only by a court. In no case may class, collective or representative claims proceed in arbitration on behalf of other employees.

The parties agree that the arbitration shall be conducted by a single neutral arbitrator through JAMS in accordance with JAMS Employment Arbitration Rules and Procedures (available at www.jamsadr.com/rules-employment-arbitration). Except as to the Class Waiver, the arbitrator shall determine arbitrability. The Company will bear all JAMS arbitration fees and administrative costs in excess of the amount of administrative fees and costs that Executive otherwise would have been required to pay if the claims were litigated in court. The arbitrator shall apply the applicable substantive law in deciding the claims at issue. Claims will be governed by their applicable statute of limitations and failure to demand arbitration within the prescribed time period shall bar the claims as provided by law. The decision or award of the arbitrator shall be final and binding upon the parties. This arbitration agreement is enforceable under and governed by the Federal Arbitration Act. In the event that any portion of this arbitration agreement is held to be invalid or unenforceable, any such provision shall be severed, and the remainder of this arbitration agreement will be given full force and effect. By signing the offer letter, Executive acknowledges and agrees that Executive has read this arbitration agreement carefully, are bound by it and are WAIVING ANY RIGHT TO HAVE A TRIAL BEFORE A COURT OR JURY OF ANY AND ALL CLAIMS SUBJECT TO ARBITRATION UNDER THIS ARBITRATION AGREEMENT.

11. Pre-Employment Conditions.^[3]

- a. **Confidentiality Agreement.** Executive's acceptance of this offer and Executive's Employment with the Company is contingent upon the execution, and delivery to an officer of the Company, of the Company's Employee Nondisclosure, Non-Solicitation, Confidentiality and Developments Agreement, a copy of which is attached hereto as Attachment [B] for Executive's review and execution (the "**Confidentiality Agreement**"), prior to or on the Effective Date.
- b. **Right to Work.** For purposes of federal immigration law, Executive will be required, if Executive has not already, to provide to the Company documentary evidence of Executive's identity and eligibility for employment in the United States. Such documentation must be provided to the Company within three (3)

business days of the Effective Date, or the Employment relationship with Executive may be terminated.

- c. **Verification of Information**. This Agreement is also contingent upon the successful verification of the information Executive provided to the Company during Executive's application process, as well as a general background check performed by the Company to confirm Executive's suitability for Employment. By accepting this Agreement, Executive warrants that all information provided by Executive is true and correct to the best of Executive's knowledge, Executive agrees to execute any and all documentation necessary for the Company to conduct a background check and Executive expressly releases the Company from any claim or cause of action arising out of the Company's verification of such information.

12. Successors.

- a. **Company's Successors**. This Agreement shall be binding upon any successor (whether direct or indirect and whether by purchase, lease, merger, consolidation, liquidation or otherwise) to all or substantially all of the Company's business and/or assets. For all purposes under this Agreement, the term "**Company**" shall include any successor to the Company's business or assets that become bound by this Agreement or any affiliate of any such successor that employs Executive.
- b. **Executive's Successors**. This Agreement and all of Executive's rights hereunder shall inure to the benefit of, and be enforceable by, Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees.

13. Miscellaneous Provisions.

- a. **Indemnification**. The Company shall indemnify Executive to the maximum extent permitted by applicable law and the Company's Bylaws with respect to Executive's service and Executive shall also be covered under a directors and officers liability insurance policy paid for by the Company to the extent that the Company maintains such a liability insurance policy now or in the future.
- b. **Headings**. All captions and section headings used in this Agreement are for convenient reference only and do not form a part of this Agreement.
- c. **Notice**.
 - i. General. Notices and all other communications contemplated by this Agreement shall be in writing and shall be deemed to have been duly given when personally delivered or when mailed by U.S. registered or certified mail, return receipt requested and postage prepaid. In Executive's case, mailed notices shall be addressed to Executive at the home address that Executive most recently communicated to the

Company in writing. In the case of the Company, mailed notices shall be addressed to its corporate headquarters, and all notices shall be directed to the attention of its Secretary.

- ii. **Notice of Termination.** Any termination by the Company for Cause or by Executive for Good Reason will be communicated by a notice of termination to the other party hereto given in accordance with Section 13(c)(i) of this Agreement. Such notice will indicate the specific termination provision in this Agreement relied upon, will set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination under the provision so indicated, and will specify the termination date (which will be not more than thirty (30) days after the giving of such notice), subject to any applicable cure period. The failure by Executive or the Company to include in the notice any fact or circumstance which contributes to a showing of Good Reason or Cause, as applicable, will not waive any right of Executive or the Company, as applicable, hereunder or preclude Executive or the Company, as applicable, from asserting such fact or circumstance in enforcing his or her or its rights hereunder, as applicable. Any termination by Executive without Good Reason will be communicated by Executive to the Company upon sixty (60) days advance written notice.

- d. **Modifications and Waivers.** No provision of this Agreement shall be modified, waived or discharged unless the modification, waiver or discharge is agreed to in writing and signed by Executive and by an authorized officer of the Company (other than Executive). No waiver by either party of any breach of, or of compliance with, any condition or provision of this Agreement by the other party shall be considered a waiver of any other condition or provision or of the same condition or provision at another time.

- e. **Entire Agreement.** This Agreement and the Confidentiality Agreement contain the entire understanding of the parties with respect to the subject matter hereof and supersede all other prior or contemporaneous discussions, understandings and agreements, whether oral or written, between them relating to the subject matter hereof.

- f. **Withholding Taxes.** All payments made under this Agreement shall be subject to reduction to reflect taxes or other deductions required to be withheld by law.

- g. **Choice of Law and Severability.** This Agreement shall be interpreted in accordance with the laws of the State of California without giving effect to provisions governing the choice of law. If any provision of this Agreement becomes or is deemed invalid, illegal or unenforceable in any applicable jurisdiction by reason of the scope, extent or duration of its coverage, then such provision shall be deemed amended to the minimum extent necessary to conform to applicable law so as to be valid and enforceable or, if such provision cannot be so amended without materially altering the intention of the parties, then such provision shall be stricken and the remainder of this Agreement shall continue in full force and effect. If any provision of this Agreement is rendered

illegal by any present or future statute, law, ordinance or regulation (collectively, the "**Law**") then that provision shall be curtailed or limited only to the minimum extent necessary to bring the provision into compliance with the Law. All the other terms and provisions of this Agreement shall continue in full force and effect without impairment or limitation.

- h. **No Assignment.** This Agreement and all of Executive's rights and obligations hereunder are personal to Executive and may not be transferred or assigned by Executive at any time. The Company may assign its rights under this Agreement to any entity that assumes the Company's obligations hereunder in connection with any sale or transfer to such entity of all or a substantial portion of the Company's assets.
- i. **Acknowledgment.** Executive acknowledges that Executive has had the opportunity to discuss this matter with and obtain advice from Executive's personal attorney, has had sufficient time to, and has carefully read and fully understood all the provisions of this Agreement, and is knowingly and voluntarily entering into this Agreement.
- j. **Counterparts.** This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. Execution of a facsimile copy will have the same force and effect as execution of an original, and a facsimile signature will be deemed an original and valid signature.
- k. **Electronic Delivery.** The Company may, in its sole discretion, decide to deliver any documents or notices related to this letter, securities of the Company or any of its affiliates or any other matter, including documents and/or notices required to be delivered to Executive by applicable securities law or any other law or the Company's Certificate of Incorporation or Bylaws by email or any other electronic means. Executive hereby consents to (i) conduct business electronically (ii) receive such documents and notices by such electronic delivery and (iii) sign documents electronically and agree to participate through an on-line or electronic system established and maintained by the Company or a third party designated by the Company.

[Signature Page Follows]

After you have had an opportunity to review this Agreement, please feel free to contact me if you have any questions or comments. To indicate your acceptance of this Agreement, please sign and date this letter in the space provided below and return it to the Company.

Very truly yours,

/s/ Vivek Garipalli

Vivek Garipalli, CEO & Co-Founder

Agreed to and Accepted by

/s/ Conrad Wai

Conrad Wai

[***]

[***]

Address

Date: 2/25/2022

May 9, 2023

Board of Directors
Clover Health Investments, Corp.
3401 Mallory Lane, Suite 210
Franklin, Tennessee, 37067

Ladies and Gentlemen:

Note 2 to the Notes to the consolidated financial statements of Clover Health Investments, Corp. included in its Form 10-Q for the period ended March 31, 2023, describes a change in the method of accounting for premium deficiency reserves to include anticipated net investment income. There are no authoritative criteria for determining a 'preferable' method for including anticipated net investment income in the determination of premium deficiency reserves based on the particular circumstances; however, we conclude that such change in the method of accounting is to an acceptable alternative method which, based on your business judgment to make this change and for the stated reasons, is preferable in your circumstances. We have not conducted an audit in accordance with the standards of the Public Company Accounting Oversight Board (United States) of any financial statements of the Company as of any date or for any period subsequent to December 31, 2022, and therefore we do not express any opinion on any financial statements of Clover Health Investments, Corp. subsequent to that date.

Very truly yours,

/s/ Ernst & Young LLP
New York, New York

**CERTIFICATION 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**

I, Andrew Toy, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ended March 31, 2023, of Clover Health Investments, Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the periods covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 9, 2023

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

**CERTIFICATION 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**

I, Scott J. Leffler, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ended March 31, 2023, of Clover Health Investments, Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the periods covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 9, 2023

By: _____
 /s/ Scott J. Leffler
Scott J. Leffler
**Chief Financial Officer (Principal Financial Officer and
 Principal Accounting 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 March 31, 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: May 9, 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 March 31, 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: May 9, 2023

By: _____ /s/ Scott J. Leffler

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