UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K
Amendment No. 1

CURRENT REPORT
PURSUANT TO SECTION 13 OR 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported): January 7, 2021

Clover Health Investments, Corp.
(Exact name of registrant as specified in its charter)

Delaware	001-39252	98-1515192
(State or other jurisdiction of incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)

725 Cool Springs Boulevard, Suite 320, Franklin, Tennessee	37067
(Address of principal executive offices)	(Zip Code)

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

Social Capital Hedosophia Holdings Corp. III
317 University Ave, Suite 200
Palo Alto, California 94301
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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**
Redeemable Warrants, each whole warrant exercisable for one Class A Common Stock at an exercise price of $11.50	**CLOVW**	**The Nasdaq Stock Market LLC**

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company ☒

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

Explanatory Note

This Amendment No. 1 to the Current Report on Form 8-K (the "Form 8-K") of Clover Health Investments, Corp. (the "Company") originally filed by the Company on January 12, 2021 is being filed solely for the purpose of supplementing the historical financial statements and pro forma condensed combined financial information provided under Items 9.01(a) and 9.01(b) in the Form 8-K to include the audited consolidated financial statements of Clover Health Investments, Corp. and its subsidiaries as of prior to the Transactions (collectively, "Clover") as of December 31, 2020 and 2019 and for the years ended December 31, 2020 and 2019, and the related Management's Discussion and Analysis of Financial Condition and Results of Operations of Clover for the year ended December 31, 2020. This Amendment No. 1 does not amend any other item of the Form 8-K or purport to provide an update or a discussion of any developments at the Company subsequent to the filing date of the Form 8-K.

Capitalized terms used but not defined herein have the meanings assigned to them in the Form 8-K.

Item 9.01 Financial Statements and Exhibits.

(a) Financial statements of businesses acquired.

The audited consolidated financial statements of Clover as of December 31, 2020 and 2019 and for the years ended December 31, 2020 and 2019 are included as Exhibit 99.5 and are incorporated by reference into this Item 9.01. The Management's Discussion and Analysis of Financial Condition and Results of Operations of Clover for the year ended December 31, 2020 is also included as Exhibit 99.6 and is incorporated by reference into this Item 9.01.

(b) Pro Forma Financial Information

The unaudited pro forma condensed combined financial information of the Company and Clover as of December 31, 2020 and for the year ended December 31, 2020 is set forth in Exhibit 99.7 hereto and is incorporated herein by reference into this Item 9.01.

(d) List of Exhibits.

		Incorporated by reference				
Exhibit No.	Exhibit title	Form	File No.	Exhibit No.	Filing date	Filed or furnished herewith
99.5	Audited consolidated financial statements of Clover Health Investments, Corp. as of December 31, 2020 and 2019 and for the years ended December 31, 2020 and 2019					X
99.6	Management's Discussion and Analysis of Financial Condition and Results of Operations of Clover Health Investments, Corp. for the year ended December 31, 2020					X
99.7	Unaudited pro forma condensed combined financial information of Social Capital Hedosophia Holdings Corp. III and Clover Health Investments, Corp. as of December 31, 2020 and for the year ended December 31, 2020					X

SIGNATURE

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 hereunto duly authorized.

Clover Health Investments, Corp.

Date: March 31, 2021	/s/ Joseph Wagner
	Name: Joseph Wagner
	Title: Chief Financial Officer

Clover Health Investments, Corp.
Index to consolidated financial statements

Consolidated Financial Statements (Audited)	
Years ended December 31, 2020 and December 31, 2019	
Report of Independent Registered Public Accounting Firm	2
Consolidated Balance Sheets	3
Consolidated Statements of Operations and Comprehensive Loss	4
Consolidated Statements of Changes in Convertible Preferred Stock and Stockholders' Deficit	5
Consolidated Statements of Cash Flows	6
Notes to Consolidated Financial Statements	7
Schedule II—Condensed Financial Information of Registrant—Parent Company Only	47
Schedule V—Valuation and Qualifying Accounts	51

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of
Clover Health Investments, Corp.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Clover Health Investments, Corp. and subsidiaries (the Company) as of December 31, 2020 and 2019, and the related consolidated statements of operations and comprehensive loss, changes in stockholders' deficit and cash flows for the years then ended, and the related notes and schedules (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2018.

New York, NY
March 31, 2021

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

	December 31, 2020	December 31, 2019
Assets:		
Current assets		
Cash and cash equivalents	$ 92,348	$ 67,598
Short-term investments	4,098	138,638
Investment securities, held-to-maturity (Fair value: 2020: $266; 2019: $0)	265	—
Accrued retrospective premiums	34,829	13,225
Other receivables	11,368	5,503
Reinsurance recoverable	—	481
Healthcare receivables	38,745	25,819
Other assets, current	8,129	1,692
Total current assets	189,782	252,956
Investment securities, available-for-sale, at fair value (Amortized cost: 2020: $53,953; 2019: $56,382)	53,963	56,428
Investment securities, held-to-maturity (Fair value: 2020: $471; 2019: $685)	429	663
Other assets	8,885	9,704
Property and equipment, net	2,078	1,940
Operating lease right-of-use assets	7,882	11,097
Goodwill	1,243	1,243
Other intangible assets	2,990	2,990
Total assets	$ 267,252	$ 337,021
Liabilities and stockholders' deficit		
Liabilities:		
Current liabilities		
Unpaid claims	$ 103,976	$ 77,886
Accounts payable and accrued expenses	30,671	19,826
Accrued salaries and benefits	3,978	3,792
Operating lease liabilities	4,795	4,761
Current portion of notes and securities payable	20,803	18,481
Premium deficiency reserve	—	17,128
Other liabilities, current	5	14
Total current liabilities	164,228	141,888
Other liabilities	13,116	11,729
Notes and securities payable, net of discount and deferred issuance costs	106,413	57,917
Derivative liabilities	44,810	138,561
Warrants payable	97,782	17,672
Long-term operating lease liabilities	6,349	10,044
Total liabilities	432,698	377,811
Commitments and contingencies (Note 21)		
Convertible Preferred stock (Series Seed A, A-1, B, C, and D), $0.0001 par value; 75,136,086 shares authorized as of December 31, 2020 and 2019; 67,427,138 shares issued and outstanding as of December 31, 2020 and 2019; aggregate liquidation preference of $470,256 as of December 31, 2020	447,747	447,747
Stockholders' deficit:		
Common stock, $0.0001 par value, 170,000,000 shares authorized; 43,505,291 and 42,877,665 issued; and 43,134,938 and 42,686,624 outstanding as of December 31, 2020 and December 31, 2019, respectively	4	4
Additional paid-in capital	411,872	403,046
Accumulated other comprehensive income	10	46
Accumulated deficit	(1,028,982)	(891,633)
Clover shareholders' deficit	(617,096)	(488,537)
Non-controlling interest	3,903	—
Total stockholders' deficit	(613,193)	(488,537)
Total liabilities, convertible preferred stock and stockholders' deficit	$ 267,252	$ 337,021

See accompanying notes to the consolidated financial statements

CLOVER HEALTH INVESTMENTS, CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(Dollars in thousands)

	For the years ended December 31, 2020	2019
Revenues:		
Premiums earned, net (Net of ceded premiums: 2020: $599; 2019: $832)	$ 665,698	$ 456,926
Other income	4,214	801
Investment income, net	2,976	4,539
Total revenues	672,888	462,266
Expenses:		
Net medical claims incurred	590,468	450,645
Salaries and benefits	71,256	91,626
General and administrative expenses	120,444	94,757
Premium deficiency reserve (benefit) expense	(17,128)	7,523
Depreciation and amortization	555	551
Other expense	—	363
Total expenses	765,595	645,465
Loss from operations	(92,707)	(183,199)
Change in fair value of warrants expense	80,328	2,909
Interest expense	35,990	23,155
Amortization of notes and securities discount	21,118	15,913
(Gain) loss on derivative	(93,751)	138,561
Net loss	$ (136,392)	$ (363,737)
Per share data:		
Net loss per share attributable to common shareholders – basic and diluted	$ (3.18)	$ (8.56)
Weighted average number of common shares outstanding:		
Basic and diluted weighted average number of common shares and common share equivalents outstanding	42,886,067	42,469,175
Unrealized (loss) gain on available-for-sale investments	(36)	46
Comprehensive loss	$ (136,428)	$ (363,691)

See accompanying notes to the consolidated financial statements

CLOVER HEALTH INVESTMENTS, CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN CONVERTIBLE
PREFERRED STOCK AND STOCKHOLDERS' DEFICIT
(Dollars in thousands)

	Convertible Preferred stock		Common stock		Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive income (loss)	Noncontrolling interest	Total stockholders' deficit
	Shares	**Amount**	**Shares**	**Amount**					
Balance, December 31, 2018	67,427,138	$ 447,747	42,243,445	$ 4	$ 25,318	$ (527,896)	—	—	$ (502,574)
Stock issuance for exercise of stock options, net of early exercise liability	—	—	443,179	—	601	—	—	—	601
Stock-based compensation	—	—	—	—	3,301	—	—	—	3,301
Unrealized holdings gain on investments securities, available-for-sale	—	—	—	—	—	—	46	—	46
Beneficial conversion feature	—	—	—	—	373,826	—	—	—	373,826
Net loss	—	—	—	—	—	(363,737)	—	—	(363,737)
Balance, December 31, 2019	67,427,138	447,747	42,686,624	4	403,046	(891,633)	46	—	(488,537)
Stock issuance for exercise of stock options, net of early exercise liability	—	—	627,626	—	1,748	—	—	—	1,748
Stock-based compensation	—	—	—	—	7,078	—	—	—	7,078
Buyback and subsequent cancellation of common stock	—	—	(179,312)	—	—	(957)	—	—	(957)
Unrealized holdings loss on investments securities, available-for-sale	—	—	—	—	—	—	(36)	—	(36)
Interests issued	—	—	—	—	—	—	—	3,903	3,903
Net loss	—	—	—	—	—	(136,392)	—	—	(136,392)
Balance, December 31, 2020	67,427,138	$ 447,747	43,134,938	$ 4	$ 411,872	$ (1,028,982)	$ 10	$ 3,903	$ (613,193)

See accompanying notes to the consolidated financial statements

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

	Years ended December 31, 2020	2019
Cash flows from operating activities		
Net loss	$(136,392)	$(363,737)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization expense	555	551
Amortization of notes and securities discount	21,084	15,807
Loss on disposal of property and equipment	—	23
Stock-based compensation expense	7,078	3,301
Paid in kind interest	28,334	11,633
Change in fair value of warrants expense	80,110	2,836
Change in derivative liabilities	(93,751)	138,561
Accretion, net of amortization	(195)	(2,857)
Net realized gains on investment securities	(1,114)	(107)
Amortization of warrants	218	73
Amortization of debt issuance costs	34	506
Asset impairment charges	—	1,632
Changes in operating assets and liabilities:		
Accrued retrospective premiums	(21,604)	7,546
Other receivables	(5,865)	4,115
Reinsurance recoverable	481	63,610
Other assets	(5,470)	(274)
Healthcare receivables	(12,926)	(14,511)
Operating lease right-of-use assets	3,257	(11,933)
Unpaid claims	26,090	23,882
Accounts payable and accrued expenses	10,845	6,298
Accrued salaries and benefits	186	(2,235)
Premium deficiency (benefit) reserve	(17,128)	7,523
Reinsurance premium payable	—	(64,414)
Deferred rent	—	(2,677)
Other liabilities	1,378	168
Operating lease liabilities	(3,703)	14,805
Net cash used in operating activities	(118,498)	(159,875)
Cash flows from investing activities		
Purchases of available-for-sale securities	(174,318)	(505,545)
Proceeds from sales of available-for-sale securities	248,664	269,205
Proceeds from maturities of available-for-sale securities	63,751	46,415
Proceeds from maturities of held-to-maturity securities	—	9,220
Acquisition of business, net of cash acquired	—	(1,180)
Purchases of property and equipment	(693)	(23)
Net cash provided by (used in) investing activities	137,404	(181,908)
Cash flows from financing activities		
Proceeds from issuance of convertible securities	20,000	343,410
Deferred financing costs	(98)	(363)
Payment of notes payable principal	(18,752)	(9,670)
Issuance of common stock, net of early exercise liability	1,748	601
Buyback and subsequent cancellation of common stock	(957)	—
Issuance of noncontrolling interest	3,903	—
Net cash provided by financing activities	5,844	333,978
Net increase (decrease) in cash and cash equivalents	24,750	(7,805)
Cash and cash equivalents, beginning of year	67,598	75,403
Cash and cash equivalents, end of year	$ 92,348	$ 67,598
Supplemental cash flow disclosures		
Cash paid during the year for interest	$ 4,578	$ 6,257
Cash paid during the year for health insurance industry fee	$ 8,022	$ —
Supplemental disclosure of non-cash investing and financing activities		
Fair value of warrants issued in connection with notes payable	$ —	$ 17,672
Settlement of bridge loan in connection with convertible securities	$ —	$ 30,416
Right-of-use assets obtained in exchange for lease liabilities	$ 42	$ 459

See accompanying notes to the consolidated financial statements

1. Organization and operations

Clover Health Investments, Corp., incorporated on July 17, 2014 in the state of Delaware, together with its affiliates and subsidiaries (collectively, the "Corporation" or "Clover"), provides affordable, high-quality Medicare Advantage ("MA") plans, including Preferred Provider Organization ("PPO") and Health Maintenance Organization ("HMO") plans through its regulated insurance subsidiaries. The Corporation's regulated insurance subsidiaries consist of Clover Insurance Company and Clover HMO of New Jersey Inc., which operate the PPO and HMO health plans, respectively. 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 combines technology, data analytics and preventive care to lower costs and increase the quality of health and life of its members. Clover's technology platform uses machine learning-powered systems to deliver data and insights to physicians at the point of care in order to improve outcomes for members and drive down costs. Clover provides access to a wide network of primary care physicians, specialists, and hospitals, enabling its members to see any doctor participating in Medicare willing to accept them. Clover focuses on keeping out-of-pocket costs for its members to a minimum and allows members to pay the same low cost-sharing regardless of whether their doctor is in- or out-of-network.

On October 5, 2020, Clover entered into a Merger Agreement ("Merger Agreement") with Social Capital Hedosophia Holdings Corp. III ("SCH"), a special purpose acquisition company ("SPAC"). The Business Combination is accounted for as a reverse capitalization in accordance with generally accepted accounting principles in the United States ("U.S. GAAP"). Under the guidance in Accounting Standards Codification ("ASC") 805, Clover Health Investments, Corp. is treated as the "acquirer" for financial reporting purposes. The Corporation is deemed the accounting predecessor of the combined business, and the parent company of the combined business is the successor SEC registrant, meaning that the Corporation's financial statements for previous periods will be disclosed in the registrant's future periodic reports filed with the SEC. As a result of the merger event, there were simultaneous changes to the Corporation's convertible securities agreement and certain of the warrant agreements. See Note 12 "Notes and securities payable" and Note 13 "Warrants payable" for additional information regarding these changes to the respective agreements. See also Note 25 "Subsequent events" for additional information related to the merger event.

2. Summary of significant accounting policies

Basis of presentation

The Corporation has prepared these Consolidated Financial Statements in accordance with U.S. GAAP, which differs materially from the statutory accounting practices prescribed by various insurance regulatory authorities. The Consolidated Financial Statements include the accounts of the Corporation and its subsidiaries. Intercompany balances and transactions have been eliminated in consolidating these financial statements.

Use of estimates

The preparation of the Consolidated Financial Statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the Consolidated Financial Statements and accompanying notes.

The areas involving the most significant use of estimates are the amounts incurred but not reported ("IBNR") claims, recoveries from third parties for coordination of benefits, and final determination of medical cost adjustment pools. 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 Corporation 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 Corporation assumes prior to payment of claims. The assumptions and estimates are based on the Corporation's knowledge of current events and anticipated future events; however, actual results may differ from the amounts recorded in the Consolidated Financial Statements, and the Corporation would incur a charge to operations in the period in which it determines a shortfall exists. Other areas involving significant estimates include risk adjustment provisions related to Medicare contracts and the valuation of investment securities, goodwill and other intangible assets, warrants, the embedded derivative related to the convertible securities, and stock-based compensation.

Reclassifications

Certain amounts in the prior years' Consolidated Statements of Cash Flows have been reclassified to conform to the current year's presentation, primarily related to the amortization of warrants, amortization of debt issuance costs, and paid in kind interest. These reclassifications had no effect on the previously reported Consolidated Financial Statements.

Segment information

The Corporation's chief operating decision maker is the Chief Executive Officer. The chief operating decision maker manages operations, allocates resources, and evaluates financial performance on a company-wide basis. The Corporation operates in one reporting segment.

COVID-19

The temporary deferral of non-essential care resulting from stay-at-home and physical distancing orders and other restrictions on movement and economic activity implemented throughout the country beginning in the second half of March 2020 to reduce the spread of the novel coronavirus ("COVID-19") has impacted the Corporation's business. Beginning in late March 2020 and trending throughout 2020, utilization of healthcare services began to experience reductions as a result of the stay-at-home orders and the closure of certain provider facilities, with some recovery in utilization taking place during times of more eased restrictions. The impact of the deferral of non-essential care was partially offset by additional costs incurred as a result of care for those members who have contracted COVID-19 as well as costs incurred for efforts related to the Corporation's pandemic response efforts.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, amounts due from banks, money market instruments and other highly liquid investments with original maturities of 90 days or less. The carrying values of these instruments approximate their respective fair value due to the short-term maturity of these investments.

At December 31, 2020 and 2019, the Corporation had cash and cash equivalents at financial institutions which are insured by the Federal Deposit Insurance Corporation ("FDIC"). At times, balances may exceed the FDIC insured limits. Management believes that credit risk related to those balances is minimal.

Investment securities

Short-term investments

Short-term investments consist of investments which the Corporation expects to convert into cash within one year of the balance sheet date, including time deposits and debt securities, which have original maturities greater than 90 days. Short-term investments are measured at their amortized cost. The carrying value of these instruments approximate their respective fair value due to the short-term maturity of these investments.

Investment securities, available-for-sale

Investment securities, which consist entirely of debt securities with fixed or determinable payments and fixed maturity dates, that the Corporation purchases with the intent and ability to sell before maturity, are classified as available-for-sale financial assets. The Corporation's available-for-sale investments are U.S. Treasury fixed maturity securities.

Available-for-sale investments are measured at fair value, and unrealized gains and losses, if any, are recorded in other comprehensive income, net of applicable income taxes, until realized from a sale or other-than-temporary impairment.

Investment securities, held-to-maturity

Investment securities, which consist entirely of debt securities with fixed or determinable payments and fixed maturity dates, where the Corporation has a positive intent and ability to hold to maturity, are classified as held-to-maturity financial assets. The Corporation's held-to-maturity investments are comprised of U.S. Treasury fixed maturity securities. Subsequent to initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest method less impairment. Unrealized holding gains or losses are not recognized.

Other-than-temporary impairment

The Corporation has a process in place to identify securities that could potentially have an impairment that is other-than-temporary. This process involves monitoring market events that could impact issuers' credit ratings, business climate, management changes, litigation and government actions, and other similar factors. This process also involves monitoring late payments, downgrades by rating agencies, key financial ratios, financial statements, revenue forecasts and cash flow projections as indicators of credit risks. The Corporation considers relevant facts and circumstances in evaluating whether the impairment of a security is other-than-temporary. Relevant facts and circumstances considered include (1) the length of time and extent to which the fair value has been below cost or amortized cost, (2) adverse conditions specifically to the financial condition of the issuer or related to the industry, (3) geographic area of the issuer, or the underlying collateral of a security including the current and future impact of any specific events, (4) the payment structure of the security, (5) changes in credit rating of the security by the rating agencies, (6) the volatility of the fair value changes, and (7) changes in fair value of the security after the balance sheet date and whether it is more likely than not that the Corporation will not be required to sell the security until maturity or until it recovers in value. There are a number of significant risks and uncertainties inherent in the process of monitoring impairments and determining if an impairment is other-than-temporary. These risks and uncertainties include (1) the risk that management's assessment of an issuer's ability to meet all of its contractual obligations will change based on changes in the credit characteristics of that issuer, (2) the risk that the economic outlook will be worse than expected or have more of an impact on the issuer than anticipated, (3) erroneous information or fraudulent financial statements could be provided to the Corporation's management to determine the fair value estimates and other-than-temporary impairments, and (4) the risk that new information obtained by the Corporation, or changes in other facts and circumstances lead the Corporation to change its intent to hold the security to maturity or until it recovers in value. Any of these situations could result in a charge to operations in a future period.

For a debt security in an unrealized loss position that the Corporation has the intent to sell, or it is more likely than not that the Corporation will have to sell the debt security before recovery of its amortized cost basis, the decline in value is deemed to be other-than-temporary and is recorded to other-than-temporary impairment losses, recognized in investment income, net in the Consolidated Statements of Operations and Comprehensive Loss.

For impaired debt securities that the Corporation does not intend to sell or it is more likely than not that it will not have to sell such securities, but the Corporation expects that it will not fully recover the amortized cost basis, the credit component of the other-than-temporary impairment is recognized in other-than-temporary impairment losses, recognized in investment income, net in the Consolidated Statements of Operations and Comprehensive Loss, and the non-credit component of the other-than-temporary impairment is recognized in other comprehensive income.

Expected cash flows to be received are evaluated as compared to amortized cost to determine if a credit loss has occurred. The amount of the credit loss component of the security is estimated as the difference between the amortized cost and the present value of the expected cash flows of the security. In developing the expected recovery analysis for debt securities, the Corporation reviews business prospects, credit ratings and available information from asset managers and rating agencies for individual securities. The present value is determined using the best estimate of future cash flows discounted at the implicit interest rate at the date of purchase. For the years ended December 31, 2020 and 2019, respectively, there has been no impairment loss reported.

Allowance for uncollectible receivables

The Corporation assesses outstanding receivables at each period for collection risk. The majority of collections are from the Center for Medicare and Medicaid Services ("CMS"), a United States government entity that presents very limited credit risk.

Investment income, net

Investment income includes interest, dividends received or accrued on investments, and realized gains or losses. Investment income is reported as earned and is presented net of related investment expenses and other-than-temporary impairment. Realized gains or losses are recognized based on the specific identification method. Purchases and sales are recorded on a trade-date basis.

Fair value measurements

Fair value is defined as the price that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between willing, able and knowledgeable market participants at the measurement date. Fair value measurements are not adjusted for transaction costs.

To determine the fair value of its investments, the Corporation utilizes third-party valuation service providers to gather, analyze and interpret market information and derive fair values based upon relevant methodologies and assumptions for individual instruments. Valuation service providers typically obtain data about market transactions and other key valuation model inputs from multiple sources and, through the use of widely accepted valuation models, provide a single fair value measurement for individual securities for which a fair value has been requested under the terms of service agreements. The inputs used by the valuation service providers include, but are not limited to, market prices from recently completed transactions and transactions of comparable securities, interest rate yield curves, credit spreads, currency rates and other market observable information, as applicable. The valuation models consider, among other things, observable market information as of the measurement date as well as the specific attributes of the security being valued including its term, interest rate, credit rating, industry sector and, when applicable, collateral quality and other issue or issuer specific information. When market transactions or other observable market data is limited, the extent to which judgment is applied in determining fair value is greatly increased.

Assets and liabilities measured at fair value are categorized into a fair value hierarchy based on whether the inputs to valuation techniques are observable or unobservable. Observable inputs are those that market participants operating within the same marketplace as the Corporation would use in pricing the Corporation's assets or liabilities based on independently derived and observable market data. Unobservable inputs are inputs that cannot be sourced from a broad active market in which assets or liabilities identical or similar to those of the Corporation are traded.

The fair value hierarchy includes three levels of inputs based on the degree to which the exit price is independently observable or determinable that may be used to measure fair value as described below:

Level 1 – Valuations are based on quoted (unadjusted) market prices in active markets for identical assets or liabilities. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment. An active market is defined as a market where transactions for the financial instrument occur with sufficient frequency and volume to provide pricing information on an ongoing basis;

Level 2 – Valuations are based on observable inputs other than Level 1 prices such as quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities;

Level 3 – Valuations are based on techniques that use significant inputs that are unobservable and reflect management's best estimate of what market participants would use when pricing the asset or liability, including assumptions about risk. The valuation of Level 3 assets and liabilities requires the greatest degree of judgment. These measurements may be made under circumstances in which there is little, if any, market activity for the asset or liability. The Corporation's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment. In making the assessment, the Corporation considers factors specific to the asset or liability. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement is classified is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

Fair values of actively traded investments securities are based on quoted market prices. Fair values of other investment securities are based on quoted market prices of identical or similar securities or based on observable inputs, like interest rates generally using a market valuation approach, or, less frequently, an income valuation approach, and are generally classified as Level 2. Clover obtains at least one price for each security from a third-party pricing service. These prices are generally derived from recently reported trades for identical or similar securities, including adjustments through the reporting date based upon observable market information. When quoted prices are not available, the third-party pricing service may use quoted market prices of comparable securities or a discounted cash flow analysis, incorporating inputs that are currently observable in the markets for similar securities. Inputs that are often used in the valuation methodologies include benchmark yields, reported trades, credit spreads, broker quotes, default rates, and prepayment speeds.

Fair values of warrants and derivative liabilities related to convertible securities are estimated using a probability-weighted expected return method, where the values of various instruments are estimated based on an analysis of future values for the Corporation, assuming various future outcomes. The resulting instruments' values are based upon the probability-weighted present value of expected future investment returns, considering each of the possible future outcomes available to the Corporation, as well as the economic benefits attributable to each class of instruments. The expected future investment returns are estimated using a variety of methodologies, including both the market approach and the income approach, where an observable quoted market does not exist, and are generally classified as Level 3. Such methodologies include reviewing values ascribed to the most recent financing by the Corporation, comparing the subject instrument with similar instruments of publicly traded companies in similar lines of business, and reviewing the underlying financial performance of the Corporation and subject instrument, including estimating discounted cash flows. To estimate the fair value attributable to the derivative liabilities, the with and without approach is used. An evaluation of multiple scenarios for future payoffs for the underlying convertible securities is performed using option pricing models, and probability-weighted average value indications are used to arrive at the estimated fair values.

Concentrations of credit risk

Financial instruments that potentially subject the Corporation to concentrations of credit risk consist principally of cash and cash equivalents. Cash and cash equivalents are held with financial institutions of high quality. Balances may exceed the amount of insurance provided on such balances.

The ceding of insurance does not legally discharge the Corporation from its primary liability for the full amount of the policy coverage, and therefore the Corporation will be required to pay the loss and bear collection risk if the reinsurer fails to meet its obligations under the reinsurance agreement. To minimize exposure to significant losses from reinsurance insolvencies, the Corporation evaluates the financial condition of its reinsurers and monitors concentrations of credit risk.

Acquisition costs

Acquisition costs that vary with and are directly related to the acquisition of new and renewal business, including commissions, are deferred and subsequently amortized. Deferred acquisition costs are recorded as other assets on the Consolidated Balance Sheets and are amortized over the estimated life of the related contracts. The amortization of deferred acquisition costs is recorded in general and administrative expenses in the Consolidated Statements of Operations and Comprehensive Loss.

To the extent that a premium deficiency is identified after writing down unamortized deferred acquisition costs, a liability for premium deficiency reserve is established and reported on the Consolidated Balance Sheets.

Property and equipment, net

Property and equipment, net is reported at cost less accumulated depreciation. Depreciation is recorded using the straight-line method over the estimated useful lives of the respective assets, which are generally three to seven years. Leasehold improvements are amortized over the shorter of the remaining lease term or estimated useful life of the leasehold improvement. Repairs and maintenance costs are expensed as incurred. Costs related to the development of internal-use software that do not meet capitalization criteria are expensed as incurred. Gains and losses on sales or disposals of property and equipment are included in other income (loss).

Property and equipment is reviewed for impairment periodically whenever adverse events or changes in circumstances indicate the carrying value of the asset may not be recoverable. Losses are recognized in operations when the undiscounted future cash flows expected to result from the use of the asset are less than its carrying value. An impairment loss is recognized based on the excess of the carrying value over the fair value of the asset.

Goodwill and other intangible assets

Goodwill represents the excess of the purchase price over the fair value of net assets acquired in business combinations. Goodwill is not amortized but is tested for impairment on an annual basis at a level of reporting referred to as the reporting unit, and more frequently if adverse events or changes in circumstances indicate that the asset may be impaired. A component is considered a reporting unit if the component constitutes a business for which discrete financial information is available that is regularly reviewed by management. Management aggregates components into one reporting unit if they have similar economic characteristics.

Goodwill is assigned to the reporting units that are expected to benefit from the specific synergies of the business combination. Management reviews goodwill for impairment to determine both the existence and amount of goodwill impairment, if any. Impairment tests are performed, at a minimum, in the fourth quarter of each year. Management first uses a qualitative assessment to determine if it is more likely than not that a reporting unit is impaired. The qualitative test is used as a screening to help determine if it is necessary to perform the quantitative test. If there are indicators that the fair value is less than the carrying amount of any reporting unit, management performs a quantitative assessment where management allocates the fair value of the reporting units to the assets and liabilities with the unallocated fair value representing an implied fair value of goodwill which is then compared to the carrying amount of goodwill. The impairment review requires management to make judgments in determining various assumptions with respect to changes in economic conditions, revenues, operating margins, growth rates and discount rates. There was no impairment of goodwill during the years ended December 31, 2020 and 2019, respectively.

Other intangible assets arising from business combinations are initially recognized at fair value at the date of acquisition. Other intangible assets with indefinite useful lives are tested for impairment at least annually, or more frequently if events or changes in circumstances indicate that the assets may be impaired. The annual impairment test for indefinite-lived intangible assets may be completed through a qualitative assessment to determine if the fair value of the indefinite-lived intangible assets is more likely than not greater than the carrying amount. The Corporation may elect to bypass a qualitative assessment, or if a qualitative assessment indicates it is more likely than not that the estimated carrying value exceeds the fair value, the Corporation will test for impairment using a quantitative process. If the Corporation determines that impairment of its intangible assets may exist, the amount of impairment loss is measured as the excess of carrying value over fair value. The estimates in the determination of the fair value of indefinite-lived intangible assets include the anticipated future revenues of the Corporation and the resulting cash flows. As of December 31, 2020 and 2019, respectively, there were no circumstances that indicate that the carrying amount of intangible assets deemed to have an indefinite useful life may not be recoverable.

Reinsurance

In the normal course of business, the Corporation seeks to reduce losses by reinsuring certain levels of risk in areas of exposure with other insurance enterprises or reinsurers. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy. To minimize exposure to losses related to a reinsurer's inability to pay, the financial condition of such reinsurer is evaluated initially upon placement of the reinsurance and periodically thereafter. In addition to considering the financial condition of a reinsurer, the collectability of the reinsurance recoverable is evaluated based upon a number of factors. Such factors include the amounts outstanding, length of collection periods, disputes, any collateral or letters of credit held and other relevant factors. To the extent that an allowance for uncollectible reinsurance recoverable is established, amounts deemed to be uncollectible would be written off against the allowance for estimated uncollectible reinsurance recoverable. The Corporation had no allowances for uncollectible reinsurance recoverable as of December 31, 2020 and 2019, respectively. Amounts recoverable from reinsurers are estimated in a manner consistent with the liability associated with the reinsured business and consistent with the terms of the underlying contracts. Although reinsurance agreements contractually obligate reinsurers to reimburse the Corporation for their share of losses, they do not discharge the primary liability of the Corporation. The Corporation remains liable for unpaid claims and claims adjustment expenses associated with ceded insured risks in the event the assuming reinsurers fail to meet their contractual obligations. The costs of the reinsurance are recognized over the life of the contract in a manner consistent with the earning of premiums on the underlying policies subject to the reinsurance contracts.

Unpaid claims

Unpaid claims and unpaid claims adjustment expenses include reported claims and IBNR, as well as the estimated expense of processing these claims. Management develops an estimate for IBNR using actuarial methodologies and assumptions, primarily based upon historical claim experience.

Although there is considerable variability in such estimates, management believes that the unpaid claims and unpaid claims adjustment expense liability is adequate and represents management's best estimate of the ultimate cost of all reported and unreported claims incurred through the balance sheet date. The estimates are continually reviewed and adjusted as experience develops or new information becomes known. Changes in estimates are reflected in current consolidated operating results.

Liabilities for both reported claims and IBNR not yet processed through the Corporation's systems are determined in the aggregate, employing actuarial methods that are commonly used by health insurance actuaries and meet Actuarial Standards of Practice. Actuarial Standards of Practice require that the claim liabilities be appropriate under moderately adverse circumstances. Clover determines the amount of the liability for incurred but not paid claims by following a detailed actuarial process that uses both historical claim payment patterns as well as emerging medical cost trends to project the best estimate of claim liabilities. Under this process, historical paid claims data is formatted into "claim triangles," which compare claim incurred dates to the dates of claim payments. This information is analyzed to create "completion factors" that represent the average percentage of total incurred claims that have been paid through a given date after being incurred. Completion factors are applied to claims paid through the period-end date to estimate the ultimate claim expense incurred for the period. Actuarial estimates of incurred but not paid claim liabilities are then determined by subtracting the actual paid claims from the estimate of the ultimate incurred claims. The Corporation's reserving practice is to consistently recognize an actuarial best estimate inclusive of a provision for moderately adverse conditions. This provision is reported as part of incurred claims.

Medical claims incurred

The Corporation recognizes the cost of medical claims in the period in which services are provided, including an estimate of the cost of medical claims IBNR. Medical claim expense reported in the Consolidated Statements of Operations and Comprehensive Loss includes direct medical expenses.

Direct medical expenses include amounts paid or payable to hospitals, physicians, pharmacy benefit managers, providers of ancillary services, mandatory supplemental benefits, and is inclusive of the medical expense related to the Corporation's employed clinicians providing in-home care. Recorded direct medical expenses are reduced by the amount of pharmacy rebates earned, which are estimated based on historical utilization of specific pharmaceuticals, current utilization and contract terms. Pharmacy rebates earned but not yet received from pharmaceutical manufacturers are included in healthcare receivable in the Consolidated Balance Sheets. Overpayments to providers are recognized as a contra medical expense and reported as other receivables in the Consolidated Balance Sheets.

Premium deficiency reserve

A liability for premium deficiency reserves is an actuarial estimate for anticipated losses on the Corporation's Medicare Advantage and Medicare Advantage Part D ("MAPD") business.

Management reassesses the profitability of contracts for providing insurance coverage to members when operating results or forecasts indicate probable future losses. Management establishes a premium deficiency reserve in current operations to the extent that the sum of expected future costs, claim adjustment expenses, and maintenance costs exceeds related future premiums under contracts without consideration of investment income.

For purposes of calculating premium deficiency reserves, management groups contracts in a manner consistent with the method of acquiring, servicing, and measuring the profitability of such contracts.

Losses recognized as a premium deficiency are recorded in the period in which such losses were identified and reflected in the Consolidated Statements of Operations and Comprehensive Loss. Losses recognized as a premium deficiency result in a beneficial effect in subsequent periods as operating losses under these contracts are charged to the liability previously established.

The Patient Protection and Affordable Care Act and The Health Care and Education Reconciliation Act of 2010 (the "Health Care Reform Law") enacted significant reforms to various aspects of the U.S. health insurance industry. As part of the Health Care Reform Law insurance industry assessments were established, including an annual health insurance industry fee ("HIF"), which became effective in 2014. The HIF was applicable in 2018, suspended in 2019, and resumed for calendar year 2020. The HIF is not deductible for income tax purposes. The 2019 premium deficiency reserve is inclusive of the 2020 HIF. The Corporation estimates a liability for the HIF and records it in full once qualifying insurance coverage is provided in the applicable calendar year in which the fee is payable, with a corresponding deferred cost that is amortized ratably to expense over the same calendar year. The deferred cost is recorded in other assets on the Consolidated Balance Sheets. The Corporation paid the federal government approximately $8.0 million for the HIF in 2020, which is reflected in the Consolidated Statements of Operations and Comprehensive Loss.

Notes and securities payable

Debt issuance costs

Costs incurred in connection with Corporation's debt financings are capitalized and amortized to interest expense over the life of the related debt using the effective interest method. Debt issuance costs are presented as a direct deduction from the carrying amount of the related debt liability, consistent with the presentation of debt discounts.

Non-convertible notes

The Corporation records the non-convertible notes at carrying value, net of discounts on the Consolidated Balance Sheets.

Convertible securities

The Corporation accounts for convertible securities in accordance with the accounting guidance for debt with conversion and other options, after determining whether embedded conversion options should be bifurcated from their host instruments.

Conversion options that are not bifurcated as a derivative and not accounted for as a separate equity component are evaluated to determine whether they are beneficial to the investor at inception, a beneficial conversion feature ("BCF"), or may become beneficial in the future due to potential adjustments. A BCF is defined as a nondetachable conversion feature that is in the money at the commitment date and the applicable accounting guidance requires recognition of the conversion option's intrinsic value in equity, with an offsetting reduction to the carrying amount of the instrument. The Corporation accretes the resulting discount using the effective interest method over the life of the instrument.

The Corporation records, as applicable, discounts to convertible securities for the intrinsic value of conversion options embedded in debt instruments. Discounts on the debt are amortized over the term of the notes, using the effective interest method.

Convertible securities are recorded at carrying value, net of discounts on the Consolidated Balance Sheets. The fair value of convertible securities is calculated for the purposes of determining the fair value of the related derivative liabilities.

Warrants payable

For warrants issued in connection with notes payable, the Corporation determines whether the warrants are considered freestanding instruments. The warrants are considered to be freestanding instruments if they meet either of the following conditions: (1) they are entered into separately and apart from any of the Corporation's other financial instruments or equity transactions or (2) they are entered into in conjunction with some other transaction and are legally detachable and separately exercisable. The Corporation considers its warrants to be legally detachable and separately exercisable from the simultaneous notes payable transactions they were issued with, and therefore accounts for them separately.

To determine the balance sheet classification for these warrants, the Corporation evaluates whether they qualify as liabilities per the debt accounting guidance. Financial instruments that do not qualify as liabilities under the debt accounting guidance may still be classified as liabilities if they do not meet the derivative guidance requirements for equity classification. Changes in the fair value of the warrant liability are recognized as changes in fair value of warrants in the Consolidated Statements of Operations and Comprehensive Loss.

Derivative liabilities

The Corporation evaluates the embedded features of its convertible securities by applying the derivatives accounting guidance. Derivatives embedded within non-derivative instruments, such as convertible securities, are bifurcated from the host instrument when the embedded derivative is not clearly and closely related to the host instrument. The Corporation's embedded derivatives associated with its convertible securities are recognized as derivative liabilities and recorded at fair value.

Revenue recognition

Premiums earned, net

Premiums revenue is recognized as income in the period members are entitled to receive services, and is net of estimated uncollectible amounts, retroactive membership adjustments, and any adjustments to recognize rebates under the minimum benefit ratios required under the Health Care Reform Law. Premiums received in advance of the service period are reported as other liabilities on the Consolidated Balance Sheets and recognized as revenue when earned.

Premiums anticipated to be received within twelve months based on the documented diagnostic criteria of the Corporation's enrollees are estimated and included in revenue for the period including the member months for which the payment is designated by CMS.

CMS uses a risk-adjustment model which adjusts premiums paid to MA contracts, based on risk scores that are compared with the overall average risk scores for the relevant state and market pool. Generally, if a risk score is below the average risk score the Corporation is required to make a risk adjustment payment into the risk pool, and if a risk score is above the average risk score the Corporation receives a risk adjustment payment from the risk pool. Risk adjustments can have a positive or negative retroactive impact to rates. Under this model, rates paid to MA plans are based on actuarially determined bids, which include a process whereby prospective payments are based on the Corporation's estimated cost of providing standard Medicare-covered benefits to a member with an average risk profile. That baseline payment amount is adjusted to reflect the health status of enrolled membership. Under the risk-adjustment methodology, all MA plans must collect and submit the necessary diagnosis code information to CMS within prescribed deadlines. Estimated audit settlements are recorded as a reduction of premiums revenue in the Corporation's Consolidated Statements of Operations and Comprehensive Loss, based upon available information.

Retrospective premiums involve the evaluation of past claims experience for the purpose of determining the actual cost of providing insurance for the customer. This evaluation is performed once every year and retrospective premiums are recognized in the year earned.

MAPD revenue

Payments received from CMS and members from Clover's participation in the MAPD program are determined from the Corporation's annual bid and represent amounts for providing prescription drug insurance coverage and are recognized as premium revenue ratably over the term of the annual contract. Such CMS payments are subject to risk sharing through risk corridor provisions. The risk corridor provisions compare costs targeted in bids to actual prescription drug costs, limited to actual costs that would have been incurred under the standard coverage as defined by CMS. Variances exceeding certain thresholds may result in CMS making additional payments to the Corporation or require the Corporation to refund to CMS a portion of the premiums received. As risk corridor provisions are considered in the overall annual bid process, management estimates and recognizes an adjustment to premiums revenue related to these provisions based upon pharmacy claims experience. Management records a receivable or payable at the contract level on the Consolidated Balance Sheets.

Reinsurance and low-income cost subsidies represent funding from CMS in connection with the MAPD program for which Clover assumes no risk. Reinsurance subsidies represent funding from CMS for its portion of prescription drug costs which exceed the member's out-of-pocket threshold, or the catastrophic coverage level. Low-income cost subsidies represent funding from CMS for all or a portion of the deductible, the coinsurance and co-payment amounts above the out-of-pocket threshold for low-income beneficiaries.

Payments from CMS for reinsurance and low-income cost subsidies are based on assumptions submitted with the annual bid. A reconciliation and related settlement of CMS's prospective subsidies against actual prescription drug costs paid is made after the end of the year. Consumer discounts of 50% on brand name prescription drugs for participants in the coverage gap are funded by CMS and pharmaceutical manufacturers. The Corporation accounts for these subsidies and discounts in other assets in the Consolidated Balance Sheets and as an operating activity in the Consolidated Statements of Cash Flows. The Corporation does not recognize premiums revenue or claim expenses for these subsidies or discounts.

Leases

At the inception of an arrangement, the Corporation determines whether the arrangement is or contains a lease based on the unique facts and circumstances present in the arrangement including the use of an identified asset(s) and the Corporation's control over the use of that identified asset. The Corporation does not recognize leases with a lease term of one year or less on its balance sheet. Leases with a term greater than one year are recognized on the balance sheet as right-of-use ("ROU") assets and lease liabilities. The Corporation has sublease arrangements and recognizes sublease income from leasing excess space. Sublease income is recognized on a straight-line basis over the sublease term. As of December 31, 2020 and 2019, respectively, the Corporation does not have any financing leases.

Lease liabilities and their corresponding ROU assets are initially recorded based on the present value of lease payments over the expected remaining lease term. Certain adjustments to the ROU asset may be required for items such as incentives received or initial direct costs. When an option to extend the lease exists, a determination is made whether that option is reasonably certain of exercise based on economic factors present at the measurement date and as circumstances may change. As of December 31, 2020 and 2019, respectively, the Corporation has not included optional extension periods in the measurement of its leases as they are not reasonably certain of exercise. The Corporation monitors its plans to renew its material leases on a quarterly basis.

Where the rates implicit in the Corporation's leases are not readily determinable, the Corporation utilizes the appropriate incremental borrowing rate, which is the rate incurred to borrow on a collateralized basis over a similar term, an amount equal to the lease payments in a similar economic environment over the lease term. Historically, the rate implicit in the leases has not been readily determinable and the appropriate incremental borrowing rate has been utilized. To estimate the appropriate incremental borrowing rate, a credit rating applicable to the Corporation is estimated using a synthetic credit rating analysis since the Corporation does not currently have a rating agency-based credit rating.

Components of a lease are split into three categories: lease components, non-lease components, and non-components. The fixed and in-substance fixed contract consideration (including any consideration related to non-components) are allocated, based on the respective relative fair values, to the lease components and non-lease components. The Corporation has elected to account for lease and non-lease components together as a single lease component for all underlying assets and allocate all of the contract consideration to the lease component only.

In determining the classification of a lease as operating or finance, ASC 842, *Leases*, allows for the use of judgment in determining whether the assumed lease term is for a major part of the remaining economic life of the underlying asset and whether the present value of lease payments represents substantially all of the fair value of the underlying asset. The Corporation applies the bright line thresholds referenced in the lease guidance of 75 percent to represent “a major part” and 90 percent to represent “substantially all” as allowed in ASC 842 in evaluating leases for appropriate classification. These are applied consistently to the Corporation’s entire portfolio of leases.

Stock-based compensation

The Corporation accounts for all stock-based payment awards granted to employees and non-employees as stock-based compensation expense at fair value. The Corporation’s stock-based payments include stock options and grants of common stock, including common stock subject to vesting. The measurement date for employee awards is the date of grant, and stock-based compensation costs are recognized as expense over the employees’ requisite service period, which is the vesting period, on a straight-line basis. The measurement date for non-employee awards is the date of grant without changes in the fair value of the award. Stock-based compensation costs for non-employees are recognized as expense over the vesting period on a straight-line basis. Stock-based compensation expense is classified in the accompanying Consolidated Statements of Operations and Comprehensive Loss in salaries and benefits. The Corporation recognizes stock-based compensation expense for the portion of awards that have vested. Forfeitures are recorded as they occur.

The fair value of each stock option grant is estimated on the date of grant using the Black-Scholes option-pricing model. As of December 31, 2020, the Corporation is a private entity and lacks entity-specific historical and implied volatility information. Therefore, it estimates its expected stock volatility based on the historical volatility of a publicly traded set of peer companies. The expected term of the Corporation’s stock options has been determined utilizing the “simplified” method for awards that qualify as “plain-vanilla” options. The risk-free interest rate is determined by reference to the U.S. Treasury yield curve in effect at the time of grant of the award for time periods approximately equal to the expected term of the award. Expected dividend yield is based on the fact that the Corporation has never paid cash dividends on common stock and does not expect to pay any cash dividends in the foreseeable future.

For warrants issued to non-employees as payments for services, the Corporation considers the warrants to be in scope of stock-based compensation guidance to non-employees. To determine whether the warrants should be classified as liabilities or equity awards, the Corporation evaluates the criteria for debt accounting guidance because share-based payments classified as liabilities under this guidance would also be classified as liabilities under the stock-based accounting guidance. As these warrants do not meet any of the criteria to be accounted for as debt, they are classified as equity awards. On the grant date, these warrants are measured by estimating the fair value of the equity instruments to be issued. Stock-based compensation expense is recorded for the vested portion of the warrants.

Comprehensive income

Comprehensive income is a measurement of certain changes in stockholders’ deficit that results from transactions and other economic events other than transactions with the stockholders. The cumulative amount of these changes is reported on the Consolidated Balance Sheets.

Contingent liabilities

The Corporation records a provision for a contingent liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. With respect to legal matters, provisions are reviewed and adjusted to reflect the impact of negotiations, estimated settlements, legal rulings, advice of legal counsel and other information and events pertaining to a particular matter.

Federal income taxes

The Corporation recognizes an asset or liability for the deferred tax consequences of temporary differences between the tax bases of assets or liabilities and their reported amounts in the Consolidated Financial Statements. These temporary differences will result in taxable or deductible amounts in future years when the reported amounts of the assets or liabilities are recovered or settled. The Corporation also recognizes the future tax benefits such as net operating and capital loss carryforwards as deferred tax assets. A valuation allowance is provided against these deferred tax assets if it is more likely than not that some portion or all of the deferred tax assets will not be realized. Future years' tax expense may be increased or decreased by adjustments to the valuation allowance or to the estimated accrual for income taxes. Deferred tax assets and deferred tax liabilities are further adjusted for changes in the enacted tax rates. As of December 31, 2020 and 2019, respectively, sufficient doubt existed over the Corporation's ability to generate sufficient taxable income to realize its deferred income tax assets, and accordingly, the Corporation has provided a full valuation allowance against its deferred tax assets.

The Corporation records tax benefits when it is more likely than not that the tax return position taken with respect to a particular transaction will be sustained. A liability for an uncertain tax position, if recorded, is not considered resolved until the statute of limitations for the relevant taxing authority to examine and challenge the tax position has expired, or the tax position is ultimately settled through examination, negotiation, or litigation. The Corporation did not have any material uncertain tax positions during the years ended December 31, 2020 and 2019, respectively. The Corporation classifies interest and penalties associated with uncertain tax positions in its provision for income taxes. The Corporation did not incur or record any interest and penalties related to uncertain tax positions as of or during the years ended December 31, 2020 and 2019, respectively.

General and administrative expenses

General and administrative expenses include professional service fees, outside legal, tax and accounting service fees, insurance, software application and system expenses, advertising and marketing, lease and occupancy costs and other overhead costs. General and administrative expenses also include claim adjudication and processing costs.

Net loss per share

The Corporation follows the two-class method when computing net loss per share as the Corporation has issued shares that meet the definition of participating securities. The two-class method determines net loss per share for each class of common and participating securities according to dividends declared or accumulated and participation rights in undistributed earnings. The two-class method requires income available to common stockholders for the period to be allocated between common and participating securities based upon their respective rights to receive dividends as if all income for the period had been distributed.

Basic net loss per share attributable to common stockholders is computed by dividing the net loss attributable to common stockholders by the weighted average number of common shares outstanding for the period. Diluted net loss attributable to common stockholders is computed by adjusting net loss attributable to common stockholders to reallocate undistributed earnings based on the potential impact of dilutive securities. Diluted net loss per share attributable to common stockholders is computed by dividing the diluted net loss attributable to common stockholders by the weighted average number of common shares outstanding for the period, including potential dilutive common shares. For purpose of this calculation, outstanding stock options, convertible preferred stock and warrants to purchase shares of convertible preferred stock are considered potential dilutive common shares.

The Corporation's convertible preferred stock contractually entitles the holders of such shares to participate in dividends but does not contractually require the holders of such shares to participate in losses of the Corporation. Accordingly, in periods in which the Corporation reports a net loss attributable to common stockholders, such losses are not allocated to such participating securities.

In periods in which the Corporation reports a net loss attributable to common stockholders, diluted net loss per share attributable to common stockholders is the same as basic net loss per share attributable to common stockholders, since dilutive common shares are not assumed to have been issued if their effect is anti-dilutive. The Corporation reported a net loss attributable to common stockholders for the years ended December 31, 2020 and 2019.

Recent accounting pronouncements

Recently adopted accounting pronouncements

Emerging Growth Company

The Corporation has elected to be treated as an "emerging growth company" under the Jumpstart Our Business Startups Act of 2012, or the JOBS Act. Accordingly, the Corporation is provided the option to adopt new or revised accounting guidance either (i) within the same periods as those otherwise applicable to non-emerging growth companies or (ii) within the same time periods as private companies.

The Corporation has elected to adopt new or revised accounting guidance within the same time period as private companies, unless, as indicated below, management determines it is preferable to take advantage of early adoption provisions offered within the applicable guidance.

Revenue recognition

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers (Topic 606)*, as modified by subsequently issued ASU's 2015-14, 2016-08, 2016-10, 2016-12 and 2016-20 (collectively, ASU 2014-09). ASU 2014-09 superseded existing revenue recognition standards with a single model unless those contracts are within the scope of other standards (e.g., an insurance entity's insurance contracts). The revenue recognition principle in ASU 2014-09 is that an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Adoption of ASU 2014-09 did not have a material impact on the Corporation's Consolidated Financial Statements.

Leases

In February 2016, the FASB issued ASU 2016-02, ASC 842, as amended, which superseded the lease accounting requirements in ASC 840 and created ASC 842. The Corporation elected to early adopt ASC 842, using the required modified retrospective approach and utilizing the effective date of January 1, 2019 as its date of initial application.

The Corporation elected the short-term lease expedient for leases with a term of one year or less, which permits a lessee to not recognize lease assets and lease liabilities for those leases. Lessees continue to differentiate between finance leases (previously referred to as capital leases) and operating leases using classification criteria that are substantially similar to the previous guidance. In addition, the Corporation elected to utilize the package of practical expedients which allowed it to not reassess the following: (i) whether any expired or existing contracts contained leases; (ii) the lease classification for any expired or existing leases; and (iii) the treatment of initial direct costs for any existing leases.

In transition, the Corporation elected to utilize the remaining lease term of its leases, as of the effective date, in determining the appropriate incremental borrowing rate. Lease cost for operating leases is recognized on a straight-line basis over the lease term as an operating expense. Variable lease costs are expensed as incurred as an operating expense.

The adoption of this standard resulted in the recognition of operating lease ROU assets of approximately $14.3 million and lease liabilities of approximately $17.4 million, on the Corporation's Consolidated Balance Sheets at adoption relating to its office leases in New Jersey and San Francisco. The difference between the ROU assets and lease liabilities was due to previously recorded net deferred rent liabilities and incentives that were de-recognized and reclassified into the ROU assets. The adoption of ASU 2016-02 did not have a material impact on the Corporation's liquidity or the Consolidated Statements of Operations and Comprehensive Loss.

Statement of cash flows

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. This update addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice in how certain cash receipts and cash payments are presented and classified. ASU 2016-15 is effective for nonpublic entities in fiscal years beginning after December 15, 2018. The Corporation adopted this ASU effective January 1, 2019. Adoption of ASU 2016-15 did not have a material impact on the Corporation's Consolidated Financial Statements.

Restricted cash

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. ASU 2016-18 is intended to clarify how entities present restricted cash in the statement of cash flows. The guidance requires entities to show the changes in the total of cash and cash equivalents and restricted cash in the statement of cash flows. As a result, entities will no longer present transfers between cash and cash equivalents and restricted cash in the statement of cash flows. When cash and cash equivalents and restricted cash are presented in more than one line-item on the balance sheet, the new guidance requires a reconciliation of the totals in the statement of cash flows to the related captions in the balance sheet. This reconciliation can be presented either on the face of the statement of cash flows or in the notes to the financial statements. ASU 2016-18 is effective for nonpublic entities in fiscal years beginning after December 15, 2018 and is to be applied retrospectively. The Corporation adopted ASU 2016-18 effective January 1, 2019. Adoption of ASU 2016-18 did not have a material impact on the Corporation's Consolidated Financial Statements.

Fair value measurements

In August 2018, the FASB issued ASU 2018-13, *Changes to Disclosure Requirements for Fair Value Measurements*, which improves the effectiveness of disclosure requirements for recurring and nonrecurring fair value measurements. The standard removes, modifies, and adds certain disclosure requirements, and is effective for all entities in fiscal years beginning after December 15, 2019. This standard became effective for the Corporation on January 1, 2020 and did not have a material impact on the Corporation's disclosures.

Accounting pronouncements effective in future periods

Credit losses

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which was subsequently modified by several ASUs issued in 2018 and 2019. This standard introduces a new current expected credit loss ("CECL") model for measuring expected credit losses for certain types of financial instruments measured at amortized cost and replaces the incurred loss model. The CECL model requires an entity to recognize an allowance for credit losses for the difference between the amortized cost basis of a financial instrument and the amount the entity expects to collect over the instrument's contractual life after consideration of historical experience, current conditions, and reasonable and supportable forecasts. This standard also introduces targeted changes to the available-for-sale debt securities impairment model. It eliminates the concept of other-than-temporary impairment and requires an entity to determine whether any impairment is the result of a credit loss or other factors. ASU 2016-13 is effective for nonpublic entities in fiscal years beginning after December 15, 2022. Early adoption is permitted. The Corporation has evaluated the impact of ASU 2016-13 on the Consolidated Financial Statements and determined the impact to be immaterial.

Goodwill and other intangible assets

In January 2017, the FASB issued ASU 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. This update removes Step 2 of the goodwill impairment test under current guidance, which requires a hypothetical purchase price allocation. The new guidance requires an impairment charge to be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value. Upon adoption, the guidance is to be applied prospectively. ASU 2017-04 is effective for nonpublic entities in fiscal years beginning after December 15, 2021, with early adoption permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Corporation is currently evaluating the impact of the adoption of ASU 2017-04 on the Consolidated Financial Statements.

Cloud computing arrangements

In August 2018, the FASB issued ASU 2018-15, *Intangibles – Goodwill and Other (Topic 350) – Internal Use Software*: *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. This update changes the accounting guidance for cloud computing arrangements. If a cloud computing arrangement includes a license to internal-use software, then the software license is accounted for by the customer by recognizing an intangible asset for the software license and, to the extent that the payments attributable to the software license are made over time, recognizing a corresponding liability. If a cloud computing arrangement does not include a software license, the entity should account for the arrangement as a service contract and should expense any fees associated with the hosting element (service) of the arrangement as incurred. ASU 2018-15 is effective for nonpublic entities for fiscal years beginning after December 15, 2020, with early adoption permitted. The Corporation is currently evaluating the impact of the adoption of ASU 2018-15 on the Consolidated Financial Statements.

Income taxes

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*. The amendments in ASU 2019-12 remove certain exceptions to the general principles in ASC Topic 740. The amendments also clarify and amend existing guidance to improve consistent application. The amendments are effective for nonpublic entities in fiscal years beginning after December 15, 2021, with early adoption permitted. The transition method (retrospective, modified retrospective, or prospective basis) related to the amendments depends on the applicable guidance, and all amendments for which there is no transition guidance specified are to be applied on a prospective basis. The Corporation is currently evaluating the impact of the adoption of ASU 2019-12 on the Consolidated Financial Statements.

Accounting for convertible instruments and contracts in an entity's own equity

In August 2020, the FASB issued ASU 2020-06, *Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40)*. The amendments in ASU 2020-06 simplify the accounting for convertible instruments by removing certain separation models for convertible instruments. Under the amendments in ASU 2020-06, the embedded conversion features no longer are separated from the host contract for convertible instruments with conversion features that are not required to be accounted for as derivatives, or that do not result in substantial premiums accounted for as paid-in capital. Consequently, a convertible debt instrument will be accounted for as a single liability measured at its amortized cost and a convertible preferred stock will be accounted for as a single equity instrument measured at its historical cost, as long as no other features require bifurcation and recognition as derivatives. ASU 2020-06 is effective for nonpublic entities for fiscal years beginning after December 15, 2023. Early adoption is permitted, but no earlier than fiscal years beginning after December 15, 2020. The Corporation is currently evaluating the impact of the adoption of ASU 2020-06 on the Consolidated Financial Statements.

3. Investment securities

The following tables present cost or amortized cost and fair values of investments as of December 31, 2020 and 2019, respectively:

December 31, 2020

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
	(in thousands)			
Investment securities, held-to-maturity:				
U.S. government and government agencies and authorities	$ 694	$ 43	$ —	$ 737
Investment securities, available-for-sale:				
U.S. government and government agencies and authorities	53,953	51	(41)	53,963
Total investment securities	$ 54,647	$ 94	$ (41)	$54,700

December 31, 2019

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
	(in thousands)			
Investment securities, held-to-maturity:				
U.S. government and government agencies and authorities	$ 663	$ 22	$ —	$ 685
Investment securities, available-for-sale:				
U.S. government and government agencies and authorities	56,382	46	—	56,428
Total investment securities	$ 57,045	$ 68	$ —	$57,113

The following tables present the amortized cost and fair value of debt securities as of December 31, 2020, by contractual maturity:

December 31, 2020

	Held-to-maturity		Available-for-sale	
	Amortized cost	Fair value	Amortized cost	Fair value
	(in thousands)			
Due within one year	$ 265	$266	$ —	$ —
Due after one year through five years	319	328	43,382	43,431
Due after five years through ten years	—	—	10,571	10,532
Due after ten years	110	143	—	—
Total	$ 694	$737	$ 53,953	$53,963

For the years ended December 31, 2020 and 2019, respectively, net investment income was derived from the following sources:

December 31,	2020	2019
	(in thousands)	
Cash and cash equivalents	$ 108	$1,249
Short-term investments	1,722	2,904
Investment securities	1,146	386
Net investment income	$2,976	$4,539

The Corporation has a process in place to identify securities that could potentially have an impairment that is other-than-temporary. This process involves monitoring market events that could impact issuers' credit ratings, business climate, management changes, litigation and government actions, and other similar factors. This process also involves monitoring late payments, downgrades by rating agencies, key financial ratios, financial statements, revenue forecasts and cash flow projections as indicators of credit issues.

There was an immaterial amount of investment securities in an unrealized loss position as of December 31, 2020 and no investment securities in an unrealized loss position as of December 31, 2019.

As of December 31, 2020 and 2019, all securities were investment grade, with credit ratings of AA+ or higher by S&P. 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.

Proceeds from sales and maturities of investment securities and related gross realized gains (losses) included within net investment income were as follows for the years ended December 31, 2020 and 2019, respectively:

December 31,	2020	2019
	(in thousands)	
Proceeds from sales of investment securities	$248,664	$269,205
Proceeds from maturities of investment securities	63,751	55,635
Gross realized gains	$ 1,117	$ 114
Gross realized losses	(3)	(3)
Net realized gains (losses)	$ 1,114	$ 111

As of December 31, 2020 and 2019, the Corporation had $7.5 million and $3.7 million, respectively, in deposits with various states and regulatory bodies.

4. Fair value measurements

The following table presents a summary of fair value measurements for items that are measured at fair value on a recurring basis as of December 31, 2020 and 2019, respectively:

December 31, 2020	Level 1	Level 2	Level 3	Total fair value
		(in thousands)		
U.S. government and government agencies	$ —	$53,963	$ —	$ 53,963
Total assets at fair value	$ —	$53,963	$ —	$ 53,963
Derivative liabilities	—	—	44,810	44,810
Warrants payable	—	—	97,782	97,782
Total liabilities at fair value	$ —	$ —	$142,592	$ 142,592

December 31, 2019	Level 1	Level 2	Level 3	Total fair value
		(in thousands)		
U.S. government and government agencies	$ —	$ 56,428	$ —	$ 56,428
Total assets at fair value	$ —	$ 56,428	$ —	$ 56,428
Derivative liabilities	—	—	138,561	138,561
Warrants payable	—	—	17,672	17,672
Total liabilities at fair value	$ —	$ —	$156,233	$ 156,233

See Note 12 “Notes and securities payable”, Note 13 “Warrants payable”, and Note 14 “Derivative liabilities” for additional information regarding liabilities.

The fair value of convertible securities is based on level 3 inputs. The estimated fair value of the convertible securities was $949.6 million at December 31, 2020 and $251.9 million at December 31, 2019. The estimated fair value of the convertible securities and derivative liabilities at December 31, 2020 were calculated as the product of (i) the number of conversion shares under the valuation date and (ii) the marketable value per common share at the valuation date. The significant unobservable inputs used in the Black-Scholes model to measure the convertible securities and derivative liabilities as of December 31, 2019, are as follows (the stock price and strike price are presented in thousands):

December 31, 2019	Convertible securities	Derivative liabilities
Beginning stock price (total value)	$305,132 - $357,802	$305,132 - $357,802
Strike price (total value)	$462,012 - $531,315	$462,012 - $965,184
Expected volatility	45% - 49%	45% - 49%
Expected term	2-3 years	2-3 years
Risk-free interest rate	1.58% -1.62%	1.58% - 1.62%
Discount factor	15%	15%

The stock price and strike price were used in multiple scenarios as part of the with and without approach to determine the fair value of convertible securities and the derivative liabilities were calculated on a total value basis. The stock price at December 31, 2019 was calculated as the product of (i) the estimated number of conversion shares under the scenarios and (ii) the value per Series D preferred share at the valuation date. The strike price at December 31, 2019 was equal to the effective value received by the holder upon the conversion of the convertible securities under the scenarios, calculated as the product of (i) principal and accrued interest at the conversion date and (ii) 1 / discount factor.

The significant unobservable inputs used in the Black-Scholes model to measure the warrants payable that are categorized within Level 3 of the fair value hierarchy, as of the years ended December 31, 2020 and 2019, respectively, are as follows:

December 31, 2020	Preferred stock purchase warrants	Common stock purchase warrants
Beginning stock price	N/A	$ 30.14
Strike price	N/A	$ 1.04
Expected volatility	N/A	56.0%
Expected term	N/A	0.02 years
Risk-free interest rate	N/A	0.09%
Discount factor	N/A	13%

December 31, 2019	Preferred stock purchase warrants	Common stock purchase warrants
Beginning stock price	$ 10.27	$ 7.19
Strike price	$ 17.27	$ 1.04
Expected volatility	45% - 49%	81.1% - 84.6%
Expected term	2-3 years	2-3 years
Risk-free interest rate	1.58% - 1.62%	1.58% - 1.62%
Discount factor	15%	15%

The changes in balances of Level 3 financial liabilities during 2020 and 2019, respectively, were as follows:

December 31, 2020	Convertible securities	Derivative liabilities	Warrants payable	Total
		(in thousands)		
Beginning balance	$ 251,885	$ 138,561	$ 17,672	$ 408,118
Issuances	—	—	—	—
Settlements	—	—	—	—
Transfers in	—	—	—	—
Transfers out	—	—	—	—
Total recognized losses (gains)	697,667	(93,751)	80,110	684,026
Ending balance	$ 949,552	$ 44,810	$ 97,782	$1,092,144

December 31, 2019	Convertible securities	Derivative liabilities	Warrants payable	Total
		(in thousands)		
Beginning balance	$ —	$ —	$ 14,836	$ 14,836
Issuances	237,362	—	—	237,362
Settlements	—	—	—	—
Transfers in	—	—	—	—
Transfers out	—	—	—	—
Total recognized losses	14,523	138,561	2,836	155,920
Ending balance	$ 251,885	$ 138,561	$ 17,672	$ 408,118

In addition to the Level 3 financial liabilities in the table above, on September 25, 2020, the Corporation issued the 2020 Convertible Note (see Note 12 “Notes and securities payable” for further details) with the carrying value approximating the fair value of $20.0 million. As of December 31, 2020, the carrying value and the fair value of the 2020 Convertible Note was $20.4 million and was considered a Level 3 financial liability.

There were no transfers in and out of Level 3 financial assets or liabilities during the years ended December 31, 2020 or 2019.

5. Acquisition

On February 28, 2019, the Corporation entered into a securities purchase agreement with Censeo Health, LLC to acquire 100% of the outstanding equity interests of Principium Health, LLC ("Principium") and Medical Service Professionals of NJ, LLC ("MSPNJ"), providers of in-home chronic care management services, for a total purchase price of approximately $1.4 million. The goodwill resulting from the transaction that was recorded by the Corporation was approximately $1.2 million.

6. Healthcare receivables

Included within healthcare receivables are pharmaceutical rebates which are accrued as they are earned and estimated based on contracted rebate rates, eligible amounts submitted to the manufacturers by the Corporation's pharmacy manager, pharmacy utilization volume and historical collection patterns. As of December 31, 2020 and 2019, the Corporation recognized rebate receivables of approximately $26.6 million and $17.5 million, respectively. In addition to pharmaceutical rebates, Medicare Part D settlement receivables, member premium receivables and other CMS receivables included in the balance totaled $12.1 million and $8.3 million at December 31, 2020 and 2019, respectively.

7. Related party transactions

Related party agreements

The Corporation 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 ("HUMC") Opco LLC (d/b/a CarePoint Health - Hoboken University Medical Center), which collectively do business as the CarePoint Health System ("CarePoint Health"). CarePoint Health is ultimately held and controlled by Mr. Vivek Garipalli, the Chief Executive Officer and stockholder of the Corporation. The Corporation contracts with CarePoint Health for the provision of inpatient and hospital-based outpatient services. Expenses and fees incurred related to these contracts, recorded in net medical claims incurred, were $11.1 million and $9.7 million for the years ended December 31, 2020 and 2019, respectively.

Securities payable to related parties

The Corporation has entered into various securities payable arrangements with certain related parties as further discussed in Note 12 "Notes and securities payable".

8. Property and equipment, net

Property and equipment, net consists of the following:

As of December 31,	2020	2019
	(in thousands)	
Capitalized software	$ 693	$ —
Leasehold improvements	3,088	3,088
Office furniture and fixtures	29	29
Equipment	104	104
Property and equipment, gross	3,914	3,221
Less: accumulated depreciation and amortization	(1,836)	(1,281)
Property and equipment, net	$ 2,078	$ 1,940

Depreciation expense recorded by the Corporation was approximately $0.5 million and $0.6 million for the years ended December 31, 2020 and 2019, respectively. Amortization expense recorded by the Corporation was approximately $0.1 million and $0 million for the years ended December 31, 2020 and 2019, respectively.

9. Goodwill and other intangible assets

Other intangible assets were $3.0 million and $3.0 million as of December 31, 2020 and 2019, respectively. The other intangible assets consist of licenses with indefinite useful lives that are related to Certificates of Operating Authority in 45 states and the District of Columbia. Goodwill was $1.2 million and $1.2 million as of December 31, 2020 and 2019, respectively. Intangible assets with indefinite useful lives and goodwill are not amortized but are tested for impairment at least annually, or more frequently if events or changes in circumstances indicate that the assets may be impaired. As of December 31, 2020 and 2019, respectively, there were no circumstances that indicate that the carrying amount of goodwill and intangible assets deemed to have an indefinite useful life may not be recoverable. No impairment was recorded during the years ended December 31, 2020 and 2019, respectively.

10. Unpaid claims

Activity in the liability for unpaid claims, including claims adjustment expenses, is summarized as follows:

Year ended December 31,	2020	2019
	(in thousands)	
Gross balance, beginning of year	$ 77,886	$ 54,004
Less: reinsurance recoverable, beginning of year	—	(12,344)
Net balance, beginning of year	77,886	41,660
Incurred related to:		
Current year	604,183	453,423
Prior years	(13,715)	(2,778)
Total incurred	590,468	450,645
Paid related to:		
Current year	501,339	376,677
Prior years	63,039	37,742
Total paid	564,378	414,419
Net balance, end of year	103,976	77,886
Plus: reinsurance recoverable, end of year	—	—
Gross balance, end of year	$103,976	$ 77,886

Unpaid claims as of December 31, 2020 were $104.0 million. As of December 31, 2020, $63.0 million has been paid for incurred claims and claims adjustment expenses attributable to insured events of prior years. The favorable development recognized in 2020 resulted from the actual experience developing differently from estimates as of December 31, 2019, partially attributable to the deferral of healthcare services as a result of the stay-at-home orders and closure of certain provider facilities throughout the year due to COVID-19 restrictions. Original estimates are increased or decreased, as additional information becomes known regarding individual claims. The ratio of current year medical claims paid as a percent of current year net medical claims incurred was 83.0% for 2020 and 83.1% for 2019.

The Corporation did not have any significant changes in methodologies or assumptions used in the calculation of the liability for unpaid claims or claims adjustment expenses.

The Corporation uses a variety of standard actuarial techniques to establish unpaid claims reserves. Management estimates are supported by the Corporation’s annual actuarial analysis. The Corporation utilized an in-house actuary to review the adequacy of unpaid claim and unpaid claim adjustment expense. Management believes that the reserves are adequate based on the available information. The estimation of claim costs is inherently difficult and requires significant judgement. The estimation has considerable inherent variability can vary significantly depending upon several factors, including medical cost trends and claim payment patterns, general economic conditions, regulatory changes, and known outbreaks of disease, including COVID-19. Only time and the eventual resolution of each claim will determine whether the claim reserves will ultimately prove to be adequate.

The following is information about incurred and paid claims development for medical claims, as well as cumulative claim frequency and the total of incurred but not reported liabilities as of December 31, 2020, respectively.

Cumulative incurred claims for the years ended December 31,

	(in thousands)			(in thousands, except for number of reported claims)	
Incurred year	2018*	2019*	2020	Total IBNR	Number of reported claims
2018 and prior	$552,456	$549,678	$ 549,649	$ 2	1,737,684
2019		412,695	399,009	1,130	1,188,472
2020			604,183	102,844	1,433,049
Total	$552,456	$962,373	$1,552,841	$103,976	4,359,205

Cumulative net paid claims through December 31,

	(in thousands)		
Paid year	2018*	2019*	2020
Incurred year			
2018 and prior	$511,459	$550,974	$ 549,647
2019		343,903	397,879
2020			501,339
Total	$511,459	$894,877	$1,448,865

* *Unaudited supplemental information*

The reconciliation of net incurred and paid claims development tables to unpaid claims and claims adjustment expenses on the Consolidated Balance Sheets is as follows:

December 31, 2020

	(in thousands)
Cumulative incurred claims, net	$1,552,841
Less: cumulative paid claims, net	1,448,865
Net unpaid claims, including claims adjustment expenses	$ 103,976

The time value of money is not taken into account for the purposes of calculating the liability for unpaid claims.

The Corporation counts a claim when either a claim or claim adjustment expense amount has been paid, or at any period end, when the Corporation has recorded a medical unpaid claim reserve. The cumulative number of reported claims for each claim year has been developed using historical data captured by claim systems. As such, the cumulative number of reported claims may not be comparable to similar measures reported by other companies.

11. Reinsurance

Effective January 1, 2018, the Corporation entered into a specific excess loss reinsurance agreement to reinsure liabilities in excess of approximately $0.5 million per covered person per agreement term for the years ended December 31, 2020 and 2019.

The effects of the reinsurance agreements on the accompanying Consolidated Financial Statements for the years ended December 31, 2020 and 2019, respectively, are as follows:

December 31,	2020	2019
	(in thousands)	
Premiums earned, gross	$666,297	$457,758
Premiums earned, ceded	(599)	(832)
Net premiums earned	$665,698	$456,926

December 31,	2020	2019
	(in thousands)	
Claims incurred, gross	$590,951	$452,261
Claims incurred, ceded	(483)	(1,616)
Net claims incurred and claims adjustment expense	$590,468	$450,645

Reinsurance recoverable and reinsurance premium payable as of December 31, 2020 and 2019, respectively, were comprised of the following:

December 31,	2020	2019
	(in thousands)	
Reinsurance recoverable on paid claims	$—	$481
Reinsurance recoverable on unpaid claims	—	—
Reinsurance premium payable	—	—
Reinsurance recoverable, net	$—	$481

Reinsurance recoverable represents the portion of paid claims and unpaid claims that are covered by reinsurance. Amounts recoverable from reinsurers are estimated in a manner consistent with the methods used to determine unpaid claims as detailed in Note 2 “Summary of significant accounting policies.”

Clover acquired certain policies and related reinsurance agreements with the purchase of stock of Union Life Labor Insurance Company (“Ullico”) in April 2016. Ullico originally underwrote those policies which are primarily life policies and annuity contracts, prior to entering “run-off”. All of the underwriting risk related to those policies and contracts has been ceded to third party reinsurers. A large portion of these cessions are in the form of 100% coinsurance where, in addition to the underwriting risk, administrative responsibilities, including premium collections and claim payments, are ceded to third party reinsurers.

Approximately $5.3 million and $5.2 million of life insurance reserves, as of December 31, 2020 and 2019, respectively, related to life insurance policies originally issued by Ullico are 100% coinsured with Southern Financial Life Insurance Company (“SFLIC”), a Louisiana domestic company, in full transfer of risk related to these policies. The life reserves are computed principally in accordance with Net Level Premium Method using mortality and persistency assumptions based upon the Corporation’s experience and industry data. Interest rate assumptions used in establishing such reserves range from less than 1% to 4.5%. Under the arrangement, SFLIC is required to hold in trust 100% of the outstanding liabilities as of the reporting date.

Approximately $0.9 million and $0.9 million of annuity reserves as of December 31, 2020 and 2019, respectively, related to annuity contracts originally issued by Ullico, are 100% ceded to Sagicor Life Insurance Company ("SLIC"), a Texas domestic company, in full transfer of risk related to these contracts. The annuity reserves are computed principally using assumptions based on the Corporation's experience and industry data. Interest rate assumptions used in establishing such reserves range from less than 1% to 5.5%. Ceded life insurance and annuity reserves are included in other assets and gross life insurance and annuity reserves are included in other liabilities on the Consolidated Balance Sheets, respectively.

A reinsurance agreement between two entities transfers the underwriting risk and liabilities to the reinsurer while the insurer retains the contractual relationship with the ultimate insured. As such, these reinsurance agreements do not completely relieve the Corporation of its potential liability to the ultimate insured. However, given the transfer of underwriting risk, such potential liability is limited to the credit exposure which exists should the reinsurer be unable to meet its obligations under these reinsurance agreements. The Corporation evaluates its reinsurers on a regular basis including their ratings and financial conditions.

12. Notes and securities payable

Non-convertible notes

On March 21, 2017, the Corporation entered into a loan facility (the "Loan Facility") for an aggregate principal amount of $60.0 million. In March 2017, the Corporation drew down $40.0 million under the Loan Facility. The proceeds were used to pay all obligations under a $30.0 million 2015 senior secured note, and to provide additional working capital for the Corporation's subsidiaries. The Loan Facility is secured by the assets of the Corporation. The initial obligation has a maturity date of March 1, 2022 and is subject to an interest rate of 11%, payable monthly, with the majority of principal payments commencing 36 months prior to the maturity date. In October 2017, the Corporation drew down the remaining $20.0 million under the Loan Facility. The additional obligation has a maturity date of October 1, 2022, and is subject to an interest rate of 11.25%, payable monthly, with the majority of principal payments commencing 36 months prior to the maturity date. In conjunction with the Loan Facility, the Corporation issued warrants. See Note 13 "Warrants payable" for additional information.

The Corporation capitalized approximately $0.3 million of debt issuance costs associated with the Loan Facility, which are being amortized using the effective interest method over the term of the Loan Facility.

The carrying amount of the Loan Facility was approximately $30.8 million and $49.3 million at December 31, 2020 and 2019, respectively. Amortization of debt discounts associated with the warrants and debt issuance costs was approximately $0.3 million and $0.4 million during the years ended December 31, 2020 and 2019, respectively. Interest expense was approximately $4.4 million and $6.2 million during the years ended December 31, 2020 and 2019, respectively. The effective interest rate was 11.78% and 11.77% during the years ended December 30, 2020 and 2019, respectively.

Bridge loan

In connection with the Convertible Securities Purchase Agreement (the "Convertible Agreement") effective December 27, 2018, discussed in the "Convertible securities" section below, the Corporation entered into a series of non-convertible promissory notes agreements ("Bridge Loan") with qualified institutional buyers for an aggregate principal amount of $30.0 million for the purpose of providing additional working capital for the Corporation's subsidiaries. The Bridge Loan was issued to the Corporation on a bridge basis upon execution of the Convertible Agreement and accrued interest at a rate of 10%. The outstanding Bridge Loan balance at February 21, 2019 of approximately $30.4 million, inclusive of accrued interest, was settled through the issuance of convertible securities under the first tranche of the Convertible Agreement. There was no interest expense for the year ended December 31, 2020 and interest expense of approximately $0.4 million for the year ended December 31, 2019.

Convertible securities

On December 27, 2018, the Corporation entered into a Convertible Agreement with qualified institutional buyers, including entities affiliated with the Corporation, for an aggregate principal amount of up to $500.0 million to support the Corporation's growth in the MA market. The convertible securities were issued during 2019 in multiple tranches and at December 31, 2019, the Corporation's principal balance of borrowings under the Convertible Agreement was approximately $373.8 million, consisting of $343.4 million proceeds and $30.4 million related to the settlement of the Bridge Loan. The convertible securities bear a yield ("interest") at the increasing rates noted below which compound semi-annually, and mature April 1, 2023 ("End Date"), unless earlier converted, repurchased, or extended, as discussed below.

The interest rate and embedded feature discount factor vary based on the length of time elapsed from the issue date of the securities. The interest rates begin at 6.5% for the first twelve-month period through the first anniversary of the security issue date, increasing ratably on a semi-annual basis, to 13.5% at the third anniversary of the security issue date until the convertible securities cease to be outstanding. The embedded feature discount factors begin at 75% for the first twelve-month period through the first anniversary of the security issue date, decreasing ratably on a semi-annual basis, to 55% at the forty-two month anniversary of the security issue date until the convertible securities cease to be outstanding.

The securities issued as part of the Convertible Agreement contain the following embedded features, some of which contain components of both conversion and redemption features: mandatory conversion in a qualified public offering ("QPO"), financing conversion (security holder election), extraordinary event conversion (security holder election), end date conversion (security holder election), redemption upon default, Corporation repurchase (Corporation election), and extended end date conversion (Corporation election).

In the mandatory conversion in a QPO, financing conversion, and extraordinary event conversion, the outstanding principal and accrued interest will convert into capital or preferred stock, pursuant to the terms of the Convertible Agreement based on a conversion price calculated as the lesser of (i) the price per share at which the Corporation's equity securities are issued to the public in the applicable transaction multiplied by the discount factor in effect and (ii) a price per share equal to (x) $2.5 billion, divided by (y) the number of shares of common stock outstanding as of the closing of the applicable transaction on an as-converted, as-exercised basis as defined in the Convertible Agreement.

In the end date conversion, the outstanding principal and accrued interest will convert into shares of senior preferred stock or most recent preferred stock. Shares are calculated as principal and accrued interest divided by the applicable conversion price. Conversion price is the lowest of (i) the product obtained by multiplying (x) the lowest price per share at which the Corporation issued applicable preferred stock, by (y) the discount factor, and (ii) the lowest price per share at which the Corporation issued its most recently authorized series of preferred stock and (iii) a price per share equal to (x) $2.5 billion, divided by (y) the number of shares of common stock outstanding as of the conversion on an as-converted, as-exercised basis as defined in the Convertible Agreement.

Upon the occurrence of any event of default, all accrued but unpaid expenses, and the principal and accrued interest will be immediately due and payable in full. In the event of Corporation repurchase, the Corporation would pay the security holders an amount equal to the portion being repurchased, divided by the discount factor and issuing to the security holders a warrant for a number of repurchase warrant shares equal to the repurchase amount divided by the repurchase warrant share price, with the warrant having an exercise price equal to the repurchase warrant share price. Repurchase warrant share price is calculated as the lower of (a) lowest price at which the repurchase warrant shares were originally issued and (b) the quotient obtained by dividing (x) $2.5 billion, divided by (y) the number of shares of common stock outstanding as of the date of issuance of the applicable repurchase warrant on an as-converted, as-exercised basis as defined in the Convertible Agreement.

The Corporation may elect to extend the end date until the earlier of (i) a deemed liquidation event and (ii) the end of a period designated by the Corporation of not less than 15 days and not more than 180 days (if the security holder is an original security holder or an affiliate of the original security holder), or otherwise 365 days (if the security holder is not an original security holder or an affiliate of such security holder), following the original end date.

On October 5, 2020, the Corporation entered into the Merger Agreement with SCH and simultaneously amended the Convertible Agreement whereby, the convertible securities convert into Class Z common stock upon the merger event with SCH (see Note 25 "Subsequent Events" for additional information on the merger event). Additionally, the conversion will incur a 9.35% charge to account for dilution after the merger event to convert the securities as if they had been converted under the mandatory QPO conversion.

Certain conversion features were determined to be share-settled redemption features. The Corporation analyzed the embedded features for derivative accounting consideration and determined the following:

- The redemption feature in the mandatory conversion in a QPO, financing conversion and extraordinary event conversion features meet the requirements to be accounted for separately from the debt host as a derivative because the feature is not clearly and closely related to the debt host, the debt host. See Note 14 "Derivative liabilities" for additional information.
- The extended end date feature requires separate accounting as a derivative. See Note 14 "Derivative liabilities" for additional information.
- The end date conversion feature represents a BCF with an intrinsic value that exceeded the approximately $373.8 million principal balance of the convertible securities. The BCF was recorded within equity in additional-paid-in-capital and as a discount to the convertible securities in an amount equal to the full principal amount of the securities, thus reducing the carrying value of the convertible securities to zero. The discount of $373.8 million is being accreted to the principal amount over the term of the securities, assuming a maturity of April 1, 2023, using the effective interest method. The accretion is recognized in amortization of notes and securities discounts on the Consolidated Statements of Operations and Comprehensive Loss.
- The other embedded features are clearly and closely related to the debt host and do not require separate accounting as a derivative.

Since the carrying amount of the convertible securities was initially recognized as $0, debt issuance costs incurred in the amount of approximately $0.4 million were expensed on the Consolidated Statements of Operations and Comprehensive Loss during the year ended December 31, 2019. The carrying amount of the convertible securities and unamortized discount were approximately $76.5 million and $337.3 million respectively, at December 31, 2020. Amortization of the debt discount and interest expense on the convertible securities were approximately $21.1 million and $31.1 million, respectively, during the year ended December 31, 2020. The effective interest rate, inclusive of amortization of the discount and the contractual rate, was in excess of 100% during the year ended December 31, 2019, as a result of the beginning convertible securities carrying value of $0. The end date conversion feature represents a BCF with an intrinsic value of $2.3 billion.

2020 Convertible Note

On September 25, 2020, Seek Insurance Services, Inc. ("Seek"), the Corporation's wholly-owned subsidiary, entered into a note purchase agreement (the "Seek Convertible Note Agreement") with a third party investor, and issued a note in a principal amount of $20.0 million. The outstanding principal as of December 31, 2020, was $20.0 million. The note bears simple interest at an annual rate of 8% and matures on September 25, 2023, unless earlier accelerated, converted, or paid in full, as discussed below.

The outstanding principal and any accrued but unpaid interest will become immediately due and payable at the election of the note holder upon the occurrence of any Event of Default as defined in the note.

The outstanding principal and accrued but unpaid interest will convert into a minority equity interest in Seek if prior to maturity, repayment or conversion of the note: (1) the note holder elects to convert the note, (2) upon the closing of Seek's next equity financing; or (3) upon consummation of an initial public offering of Seek's common stock or a SPAC or reverse merger transaction with Seek.

The Corporation analyzed the embedded features for derivative accounting consideration and determined that the features are clearly and closely related to the debt host and do not require separate accounting as a derivative.

The carrying amount of the note was $19.9 million and $0 million at December 31, 2020 and 2019, respectively. The Corporation capitalized $0.1 million of issuance costs which are being amortized using the effective interest method over the term of the note. Unamortized debt issue costs were $0.1 million and $0 million at December 31, 2020 and 2019, respectively. Amortization of the debt issue costs and interest expense on the note were immaterial and $0 million during the years ended December 31, 2020 and 2019, respectively.

The below table summarizes maturities of the Corporation's securities payable over the next five years as of December 31, 2020:

Year ended December 31,	(in thousands)
2021	$ 20,939
2022	9,986
2023	393,827
2024	—
2025	—
Total	$ 424,752

The Corporation was in compliance with all applicable financial and non-financial covenants under its financing arrangements for the year ended December 31, 2020 and 2019, respectively.

13. Warrants payable

In conjunction with the Loan Facility effective March 21, 2017, the Corporation issued warrants to purchase 1,266,284 shares of the Corporation's Series D preferred stock at an exercise price of $9.3778 per share, which expire on September 30, 2027. The warrants are exercisable at any time and up to the expiration date. Per the original terms, in the event of an automatic conversion of the preferred stock prior to the exercise of the warrants, the warrants shall be exercisable in common stock. On October 5, 2020, the Corporation entered into the Merger Agreement with SCH and simultaneously amended the warrants to be exercisable in common stock based on the merger event with SCH (see Note 25 "Subsequent events" for additional information on the merger event). Additionally, the original strike price of the warrants changed from $9.3778 per share to $0.

The warrants were accounted for as derivative instruments and the initial fair value of approximately $1.2 million, which was calculated using a Black-Scholes based valuation model, was recorded as a discount to the carrying amount of the Loan Facility. This discount is being amortized using the effective interest method over the term of the Loan Facility. The warrants were recorded as liabilities and are being marked to market at each reporting period.

In September 2015, the Corporation issued warrants to purchase 2,100,000 shares of the Corporation's common stock at an exercise price of $1.04219 per share which expire on September 2, 2022. The warrants are exercisable at any time up to the expiration date. The warrants are also contingently exercisable for an additional 2,100,000 shares based proportionally on the aggregate principal amounts of additional notes borrowed by the Corporation. As a result of the Merger Agreement, the warrants automatically convert into common stock based on the merger event with SCH. The warrants are being recorded at fair value and are reflected as liabilities on the Corporation's Consolidated Balance Sheets at each reporting period. See Note 4 "Fair value measurements" for additional information.

14. Derivative liabilities

In connection with the $373.8 million convertible securities issued in 2019, the Corporation determined that certain of the conversion and redemption features were embedded derivatives which have been bifurcated from the host instrument and accounted for as embedded derivative instruments. The Corporation recognized a $93.8 million gain during the year ended December 31, 2020 and a $138.6 million loss related to derivative liabilities during the year ended December 31, 2019. The aggregate loss was recognized in (gain) loss on derivative in the Consolidated Statements of Operations and Comprehensive Loss. The fair value of embedded derivatives was $44.8 million at December 31, 2020 and $138.6 million at December 31, 2019 and is included as derivative liabilities in the Corporation's Consolidated Balance Sheets. See Note 4 "Fair value measurements" and Note 12 "Notes and securities payable" for additional information.

15. Letter of credit

On April 19, 2018, the Corporation entered into a secured letter of credit agreement ("the Letter") for an amount up to an aggregate of $2.5 million with a commercial lender that renews on an annual basis. The Letter bears an interest rate of 0.75%. There was an unused balance of $2.5 million and $2.5 million as of December 31, 2020 and 2019, respectively.

16. Leases

Operating leases

The Corporation leases office space in New Jersey, Minnesota, Tennessee, and San Francisco under non-cancelable operating leases, further described below. For each lease the Corporation recorded a ROU asset and lease liability at the earlier of the ASC 842 effective date or lease commencement date. The Corporation utilizes the straight-line method of recognizing lease expense. However, the Corporation is required to pay certain variable executory costs including common area maintenance, real estate taxes, and insurance that are expensed as incurred. These variable costs are excluded from the measurement of leases. Certain of our leases include options to renew, with renewal terms that can extend the lease term. The exercise of lease renewal options is at our sole discretion. The Corporation is not reasonably certain that it will exercise the renewal options described in the individual lease descriptions below. Therefore, these options are not recognized as part of the ROU asset and lease liability.

The Corporation subleases certain of its leases to third parties for which it receives rental income to manage occupancy costs. These subleases are classified as operating and are further described below.

Tennessee lease (principal executive office):

On May 7, 2019, the Corporation entered into an agreement to lease office space for its corporate headquarters in Franklin, Tennessee. The initial lease term ended on August 31, 2020 and became a month-to-month lease that commenced on September 1, 2020 and is treated as a short-term lease.

Montgomery leases:

On September 28, 2016, the Corporation entered into an agreement to lease office space in Jersey City, New Jersey (the "Montgomery Lease"). The lease expires March 31, 2028 with one option to renew for 5 years. There was an amendment that expires August 31, 2023 with one option to renew for 5 years. The Corporation entered into an agreement to sublease ("The Montgomery Sublease"), which commenced October 4, 2019. The Corporation receives rental income for this sublease which has a lease term through March 31, 2021.

The Corporation uses the long-lived assets impairment to determine when to test ROU assets (or asset groups that contain one or more ROU assets) for impairment, assess whether ROU assets are impaired, and if so, the amount of the impairment loss to recognize. The sublease income expected to be received under the Montgomery Sublease is less than the amount to be paid under the Montgomery Lease for the sublease term, which indicated that the Montgomery Lease may not be recoverable. Upon execution of the sublease agreement, the Corporation reassessed the asset group and determined that the lowest level of identifiable cash flows pertaining to the Montgomery Sublease was at the individual lease level. The asset group, comprised of both the ROU asset and corresponding leasehold improvements related to the 14th floor of the Montgomery Lease, were determined to not be recoverable and were written down to their respective fair values with an impairment charge of $1.6 million recorded to general and administrative expenses in the Consolidated Statements of Operations and Comprehensive Loss for the year ended December 31, 2019.

The Corporation is currently in default with respect to the Montgomery Lease for not paying rent owed to the lessor. The Corporation has accrued for all interest owed and is reducing its security deposit asset in lieu of recording rental payments. The Corporation is currently in discussions with the lessor to resolve this default and related lease issues.

San Francisco leases:

During 2015 and 2016, the Corporation entered into agreements to lease two floors of office space in San Francisco, California through April 30, 2022. In 2019, the Corporation subleased the two floors beginning in June and October 2019, respectively. The sublease terms also expire on April 30, 2022.

Lyndhurst lease:

On February 28, 2019, the Corporation completed its acquisition of Principium and assumed its office lease in Lyndhurst, New Jersey. The lease expires May 31, 2022 and has one option to renew for 5 years. The renewal option is not included in the measurement of the lease.

Minnesota lease:

On October 8, 2020, the Corporation entered into an agreement to lease office space for its Seek subsidiary in Edina, Minnesota, which expires on September 30, 2022.

Summary of lease costs recognized under ASC 842:

The following table contains a summary of the lease costs recognized under ASC 842 and other information pertaining to the Corporation's operating leases for the years ended December 31, 2020 and 2019:

Year ended December 31, 2020	(in thousands)
Operating lease cost	$ 4,533
Variable lease cost	632
Short-term lease cost	20
Sublease income	(3,098)
Total lease cost	$ 2,087
Other information	
Cash paid for amounts included in the measurement of lease liabilities	$ 4,979
Weighted-average remaining lease term (in years)	4.4
Weighted-average discount rate	10.17%

Year ended December 31, 2019	(in thousands)
Operating lease cost	$ 4,552
Variable lease cost	654
Short-term lease cost	58
Sublease income	(989)
Total lease cost	$ 4,275
Other information	
Cash paid for amounts included in the measurement of lease liabilities	$ 4,804
Weighted-average remaining lease term (in years)	4.8
Weighted-average discount rate	10.05%

Pursuant to the terms of the Corporation's non-cancelable lease agreements in effect at December 31, 2020, the following table summarizes the Corporation's maturities of lease liabilities as of December 31, 2020:

Year ended December 31, 2020	(in thousands)
2021	$ 5,017
2022	2,747
2023	1,408
2024	1,089
2025	1,121
Thereafter	2,649
Total lease payments	$ 14,031
Less: imputed interest	(2,887)
Total	$ 11,144

17. Preferred stock

During 2015, the Corporation issued 5,274,468 shares of Series A and 7,199,261 shares of Series A-1 preferred stock at $1.04219 per share for total proceeds of approximately $13.0 million. During 2015, the Corporation issued 10,338,818 shares of Series B preferred stock at $3.385 per share for total proceeds of approximately $35.0 million.

During 2016, the Corporation issued 19,066,809 shares of Series C preferred stock at $8.4002 per share for total proceeds of approximately $160.2 million. Issuance costs totaled approximately $0.4 million.

During 2017, the Corporation issued 20,749,216 shares of Series D preferred stock at $9.3778 per share for total proceeds of approximately $194.6 million. Issuance costs totaled approximately $0.3 million.

During 2018, the Corporation issued 4,798,566 additional shares of Series D preferred stock at $9.3778 per share for total proceeds of approximately $45.0 million. Issuance costs totaled approximately $0.5 million.

During 2020 and 2019, the Corporation did not issue any additional shares of preferred stock. As of each balance sheet date, preferred stock consisted of the following ($ in millions, except for share amounts):

As of December 31, 2020 and 2019

	Preferred Stock Authorized	Preferred Stock Issued and Outstanding	Carrying Value	Liquidation Preference	Common Stock Issuable Upon Conversion
Series A Preferred stock	5,274,468	5,274,468	$ 5.5	$ 5.5	5,274,468
Series A-1 Preferred stock	7,199,261	7,199,261	7.5	30.0	7,199,261
Series B Preferred stock	10,338,818	10,338,818	35.0	35.0	10,338,818
Series C Preferred stock	19,066,809	19,066,809	160.2	160.2	19,066,809
Series D Preferred stock	33,256,730	25,547,782	239.6	239.6	25,547,782
	75,136,086	67,427,138	$ 447.8	$ 470.3	67,427,138

The holders of the preferred stock have rights, preferences and privileges as follows:

Dividends

The Series A and Series A-1 dividend rate is $0.08338 per share of Series A preferred stock per annum, subject to appropriate adjustment in the event of any stock dividend, stock split, combination or other similar recapitalization with respect to the Series A and Series A-1 preferred stock. The Series B rate is $0.2708 per share of Series B preferred stock per annum, subject to appropriate adjustment in the event of any stock dividend, stock split, combination or other similar recapitalization with respect to Series B preferred stock. The Series C rate is $0.67202 per share of Series C preferred stock per annum, subject to appropriate adjustment in the event of any stock split, combination or other similar recapitalization with respect to the Series C preferred stock. The Series D rate is $0.750224 per share of Series D preferred stock per annum, subject to appropriate adjustment in the event of any stock dividend, stock split, combination or other similar recapitalization with respect to the Series D preferred stock.

The Corporation cannot declare, pay or set aside any dividends on shares of any other class or series of capital stock of the Corporation (other than dividends on shares of common stock payable in shares of common stock) unless the holders of the outstanding preferred stock will first receive (on a pari passu basis), or simultaneously receive, a dividend on each outstanding share of preferred stock in an amount equal to the greater of (a) the applicable dividend rate (as listed above) or (b) an amount that such holders of the preferred stock would receive on a pari passu basis with the holders of common stock if such shares of preferred stock had been converted to common stock. The holders of the outstanding preferred stock can waive any dividend preference that the holders are entitled to receive upon the affirmative vote or written consent of the holders of a majority of the shares of outstanding preferred stock (voting together as a single class and on as-converted to common stock basis).

Voting

Each holder of the outstanding share of preferred stock is entitled to cast the number of votes equal to the number of whole shares of common stock into which the shares of preferred stock held by such holder are convertible as of the record date for determining stockholders entitled to vote on such matter. Unless provided by law or any other provisions of the Certificate of Incorporation, holders of preferred stock can vote together with the holders of common stock as a single class on all matters presented to the stockholders of the Corporation.

Conversion

Each share of preferred stock can be converted at the option of the holder, at any time and from time to time, and without the payment of additional consideration by the holder thereof, into a number of fully paid and non-assessable shares of common stock as is determined by dividing the applicable original issue price by the applicable common conversion price (as defined below) in effect at the time of conversion. The “Series A conversion price” will initially be equal to the Series A-1 original issue price. The “Series B conversion price” will initially be equal to the Series B original issue price. The “Series C conversion price” will initially be equal to the Series C original issue price. The “Series D conversion price” will initially be equal to the Series D original issue price. The “applicable conversion price” is defined as the Series A conversion price with respect to the Series A preferred stock, the Series A-1 conversion price with respect to the Series A-1 preferred stock, the Series B conversion price with respect to the Series B preferred stock, the Series C conversion price with respect to the Series C preferred stock, and the Series D conversion price with respect to the Series D preferred stock. Each applicable conversion price, and the rate at which shares of preferred stock may be converted into shares of common stock, is subject to adjustment as provided below.

In the event of liquidation, dissolution or winding up of the Corporation or a deemed liquidation event, the conversion rights will terminate at the close of business on the last full day preceding the date fixed for the payment of such amounts distributable on such event to the holders of preferred stock.

No fractional shares of common stock can be issued upon conversion of the preferred stock. In lieu of any fractional shares to which the holder would otherwise be entitled, the Corporation will pay cash equal to such fraction multiplied by the fair value of a share of common stock as determined in good faith by the Board. Whether or not fractional shares would be issuable upon such conversion will be determined on the basis of the total number of shares of preferred stock the holder is at the time converting into common stock and the aggregate number of shares of common stock issuable upon conversion.

The preferred stock of the Corporation is subject to broad based weighted-average anti-dilution subject to customary carveouts.

Redemption

The preferred stock is not mandatorily redeemable. Any shares of preferred stock that are redeemed or otherwise acquired by the Corporation or any of its subsidiaries will be automatically and immediately cancelled and retired and will not be reissued, sold or transferred. Neither the Corporation nor any of its subsidiaries may exercise any voting or other rights granted to the holders of preferred stock following redemption.

18. Employee benefit plans

Employee savings plan

The Corporation has a defined contribution retirement savings plan (“the 401(k) Plan”) covering eligible employees, which includes matching contributions based on the amount of employees’ contributions to this plan. The Corporation contributes to the 401(k) Plan annually 100% of the first 4% of compensation that is contributed by the employee up to 4% of eligible annual compensation. The Corporation’s service contributions to the 401(k) Plan amounted to approximately $1.2 million in 2020, and $1.3 million in 2019 and are included in salaries and benefits on the Consolidated Statements of Operations and Comprehensive Loss. The Corporation’s cash match is invested pursuant to the participant’s contribution direction. Employee contributions are immediately 100% vested.

Stock-based compensation

The Corporation’s 2014 Equity Incentive Plan (“the Plan”) grants options of common stock, par value $0.0001 per share, to employees, directors, officers and consultants of the Corporation. The maximum number of common shares reserved for issuance over the term of the Plan may not exceed 22,521,770 as of December 31, 2020, and 17,917,902 shares as of December 31, 2019. Shares that are expired, terminated, surrendered or canceled under the Plan without having been fully exercised will be available for future awards. As of December 31, 2020 and 2019, there were 17,677,196 and 13,630,783, respectively, outstanding options and common stock issued under the Plan, leaving 4,844,574 and 4,287,119 shares, respectively, remaining for future grants, assuming all stock options were granted. Shares may be issued from authorized but unissued Corporation stock.

The Plan is administered by the Board. The options will be subject to the terms and conditions applicable to options granted under the Plan, as described in the Plan and the applicable stock option grant agreement. The exercise prices, vesting and other restrictions are determined at the discretion of the Board, except that the exercise price per share of incentive stock options may not be less than 100% of the fair value of the common stock on the date of grant. Stock options awarded under the Plan expire ten years after the grant date. Vesting periods for awards under the Plan are determined at the discretion of the Board. Incentive stock options and non-statutory options granted to employees, directors, officers and consultants of the Corporation typically vest over five years.

The Corporation granted options to purchase 6,956,435 and 4,268,965 shares of common stock during the years ended December 31, 2020 and 2019, respectively. The Corporation recorded stock-based compensation expense for options granted of $7.1 million and $3.3 million during years ended December 31, 2020 and 2019, respectively, presented in salaries and benefits in the accompanying Consolidated Statements of Operations and Comprehensive Loss. During the years ended December 31, 2020 and 2019, the Corporation granted no shares of restricted stock.

Stock option valuation

The assumptions that the Corporation used in the Black-Scholes option-pricing model to determine the grant-date fair value of stock options granted for the years ended December 31, 2020 and 2019, respectively, were as follows:

Year ended December 31,	2020	2019
Weighted-average risk-free interest rate	0.84%	1.95%
Expected term (in years)	4.68	6.29
Expected volatility	34.66%	28.37%
Expected dividend yield	0.00%	0.00%

A summary of option activity under the Plan during the years ended December 31, 2020 and 2019, respectively, is as follows:

	Number of options	Weighted-average exercise price
Outstanding, January 1, 2019	13,077,951	$ 2.71
Granted during 2019	4,268,965	4.11
Exercised	(443,179)	1.53
Forfeited	(3,272,954)	3.24
Outstanding, December 31, 2019	13,630,783	3.06
Granted during 2020	6,956,435	7.42
Exercised	(627,626)	3.17
Forfeited	(2,282,396)	3.88
Outstanding, December 31, 2020	17,677,196	$ 4.66

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 Corporation's common stock for those stock options that had exercise prices lower than the fair value of the Corporation's common stock.

In February 2020, the Corporation granted 1,774,408 of non-qualified stock options which were determined to have implied market conditions attached to their vesting schedule. As such, these options are valued using a Monte Carlo valuation model to estimate each share's fair value as of the grant date. The Monte Carlo valuation model uses multiple simulations to evaluate the probability of achieving certain stock prices, the outputs of which are utilized to determine the grant date fair value of these options. Based on the Monte Carlo simulation, the grant date fair value of these options was determined to be $2.45, and the Corporation recognized approximately $1.8 million in related stock compensation expense for the year ended December 31, 2020.

The weighted-average grant date fair value of stock options granted during the years ended December 31, 2020 and 2019 was $2.15 and $1.28 per share, respectively. As of December 31, 2020 and 2019, there was approximately $14.9 million and $9.0 million, respectively, of unrecognized stock-based compensation expense related to unvested stock options. The unrecognized stock-based compensation expense is estimated to be recognized over a period of 2.5 years as of December 31, 2020.

The total fair value of options vested during each of the years ended December 31, 2020 and 2019, was approximately $5.5 million and $3.5 million, respectively.

As of December 31, 2020, outstanding stock options, substantially all of which are expected to vest, had an aggregate intrinsic value of $445.3 million, and a weighted-average remaining contractual term of 7.75 years. As of December 31, 2020, there were 9,348,383 options exercisable under the Plan, with an aggregate intrinsic value of $246.2 million, a weighted-average exercise price of $3.36, and a weighted-average remaining contractual term of 6.85 years. The total intrinsic value of stock options exercised during the years ended December 31, 2020 and 2019 was $5.8 million and $1.3 million, respectively. Cash received from stock option exercises during the years ended December 31, 2020 and 2019 totaled $2.1 million and $0.7 million, respectively.

Pursuant to the Plan agreement, employees may exercise options at any time 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, the Corporation must redeem those shares at the original exercise price and remit payment of the forfeited portion of shares back to the employee.

Equity warrants

The Corporation entered into two separate scopes of work with a service provider to provide services to the Corporation. As part of the payment for the services, the Corporation issued warrants in November 2016 and December 2017. The warrants were issued to purchase 139,629 shares of common stock at an exercise price of $2.61 per share, and 122,052 shares of common stock at an exercise price of $3.45 per share. The warrants are exercisable comprising the vesting portion at any time up to and including the earlier of (a) the consummation of an Initial Public Offering ("IPO"); (b) the consummation of a transaction or series of related transactions that is deemed to constitute a liquidation, dissolution or winding up of the Corporation including a change in control or (c) on the 10 year anniversary of the date of issuance (the expiration date). The warrants are being recorded as equity awards, and compensation expense was recognized over the vesting period.

As of December 31, 2020, there were 261,681 warrants exercisable under the Plan, substantially all of which are expected to vest, with an aggregate intrinsic value of $4.6 million, a weighted-average exercise price of $3.00 and a weighted-average remaining contractual term of 6.34 years. The total fair value of warrants vested during each of the years ended December 31, 2020 and 2019, was approximately $7.0 million and $0.9 million, respectively. As a result of the Merger Agreement, the warrants automatically convert into common stock based on the merger event with SCH. See Note 25 "Subsequent events" for additional information related to the Merger Agreement.

A summary of warrant activity during the years ended December 31, 2020 and 2019, respectively, is as follows:

	Number of warrants	Weighted-average exercise price
Outstanding, January 1, 2019	261,681	$ 3.00
Granted during 2019	—	
Exercised	—	
Forfeited	—	
Outstanding, December 31, 2019	261,681	3.00
Granted during 2020	—	
Exercised	—	
Forfeited	—	
Outstanding, December 31, 2020	261,681	$ 3.00

19. Income taxes

The provision for income taxes consisted of the following for the years ended December 31, 2020 and 2019, respectively:

Year ended December 31,	2020	2019
	(in thousands)	
Current provision	$ (2)	$ (2)
Deferred expense	2	2
Provision for income taxes	$—	$—

The provision for income taxes was different from the amount computed using the federal statutory rate of 21% for the years ended December 31, 2020 and 2019, respectively, due to the following:

Year ended December 31,	2020	2019
	(in thousands)	
Income tax provision at federal statutory rate (21%)	($ 28,642)	$(76,385)
Interest on convertible securities	6,537	3,505
Interest on convertible securities discount	4,423	3,257
Debt issuance cost related to convertible securities	—	76
Derivative liability related to convertible securities	(19,688)	29,098
Warrant expense	16,823	596
Meals and entertainment	13	210
Health insurance industry fee	2,715	—
Other, net	(766)	—
Valuation allowance	18,585	39,643
Provision for income taxes	$ —	$ —

The Corporation issued convertible securities for which the interest expense recorded in 2020 and 2019 of approximately $31.1 million and $16.7 million, respectively, is not deductible for tax purposes.

Deferred income tax balances reflect the impact of temporary differences between the tax bases of assets or liabilities and their reported amounts in the Consolidated Financial Statements and are stated at enacted tax rates expected to be in effect when the reported amounts are actually recovered or settled.

Principal components of net deferred tax balances at December 31, 2020 and 2019, respectively, were as follows:

Year ended December 31,	2020	2019
	(in thousands)	
Deferred income tax assets:		
Net operating loss carryforward (NOL)	$ 152,423	$ 133,564
Unpaid claim reserve discounting	335	269
Start-up costs amortization	408	464
Charitable contributions carryforward	154	146
Bonus accrual	52	52
Stock based compensation	2,568	1,554
Convertible securities issuance costs	1	1
Tax credits (AMT)	—	2
Prepaid and accrued expenses	568	683
Property and equipment	1,318	1,779
Capital loss carryforward	—	49
Operating lease liability	2,340	3,109
Premium deficiency reserve	—	3,597
Acquisition costs amortization	60	66
Interest expense carryforward	2,318	1,675
Bad debt reserves	2,363	—
Total deferred income tax assets	164,908	147,010
Less: valuation allowance	(163,204)	(144,619)
Total deferred income tax assets, net of valuation allowance	1,704	2,391
Deferred income tax liabilities:		
TCJA Transition Adj. IRC 846	(49)	(58)
Market discount	—	(1)
Operating lease right of use asset	(1,655)	(2,330)
Total deferred income tax liabilities	(1,704)	(2,389)
Net deferred income tax asset	$ —	$ 2

Operating loss and tax credit carryforwards and protective tax deposits

The Corporation has unused operating loss carryforwards available of approximately $725.8 million and $636.0 million as of December 31, 2020 and 2019, respectively, that may be applied against future taxable income. Losses incurred before 2018 in the amount of approximately $295.1 million begin to expire in 2033. The total net operating losses ("NOL") is made up of NOLs generated by the consolidated group and NOLs obtained with the 2014 reorganization. A portion of the pre-consolidated NOLs may be limited by special rules known as Separate Return Limitation Year ("SRLY") rules. SRLY NOLs can only be used in years that both the consolidated group and the entity that created the SRLY NOLs have taxable income. Due to these limitations and uncertainty regarding the Corporation's ability to use the loss carryforwards and other deferred tax assets, a valuation allowance of approximately $163.2 million and $144.6 million was established in 2020 and 2019, respectively.

The Corporation does not have deposits admitted under Section 6603 of the Internal Revenue Code.

Impact of tax planning strategies

The Corporation does not have any tax planning strategies that include the use of reinsurance and there are no deferred tax liabilities not recognized.

The Corporation files income tax returns in the United States. The U.S. Internal Revenue Service ("IRS"), is not currently conducting any income tax audits. The Corporation's federal income tax returns filed related to tax years subsequent to 2016 remain subject to examination by the IRS. The Corporation is not aware of any material adjustments that may be proposed as a result of any ongoing or future examinations and does not have material uncertain tax positions reflected in the Consolidated Balance Sheets.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was signed into law in the U.S. to provide certain relief as a result of the COVID-19 pandemic. In addition, governments around the world have enacted or implemented various forms of tax relief measures in response to the economic conditions in the wake of COVID-19. On December 27, 2020, the "Consolidated Appropriations Act, 2021" was signed into law in the U.S. to amend or extend several significant COVID related relief provisions of the CARES Act. As of December 31, 2020, the Corporation has determined that neither the CARES Act and Consolidated Appropriations Act nor changes to income tax laws or regulations in other jurisdictions had a significant impact on our effective tax rate.

20. Net loss per share

Net loss per share

Basic and diluted net loss per share attributable to common stockholders was calculated as follows:

	Year ended December 31, 2020	Year ended December 31, 2019
Net loss	$ (136,392)	$ (363,737)
Net loss attributable to common stockholders	$ (136,392)	$ (363,737)
Weighted average common shares outstanding—basic and diluted	42,886,067	42,469,175
Net loss per share attributable to common stockholders— basic and diluted	$ (3.18)	$ (8.56)

The Corporation's potentially dilutive securities, which include stock options, preferred stock and warrants to purchase shares of preferred stock, have been excluded from the computation of diluted net loss per share as the effect would be to reduce the net loss per share. Therefore, the weighted average number of common shares outstanding used to calculate both basic and diluted net loss per share attributable to common stockholders is the same. The Corporation 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:

	Year ended December 31, 2020	Year ended December 31, 2019
Options to purchase common stock	17,677,196	11,771,746
Convertible preferred stock (as converted to common stock)	67,427,138	67,427,138
Warrants to purchase common stock (as converted to common stock)	3,627,965	2,361,681
Warrants to purchase convertible preferred stock (as converted to common stock)	—	1,266,284
	88,732,299	82,826,849

21. Commitments and contingencies

Litigation

Various lawsuits against the Corporation may arise in the ordinary course of the Corporation'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 Corporation. At December 31, 2020 and 2019, respectively, there were no material known contingent liabilities arising outside the normal course of business.

Guaranty assessments

Under state guaranty assessment laws, including those related to state cooperative failures in the industry, the Corporation 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 Corporation.

22. Dividend restrictions

The Corporation’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 Corporation’s regulated insurance subsidiaries ability to declare and pay dividends is limited by state regulations. Although such regulations do not specifically restrict the regulated insurance subsidiaries from paying dividends, they require the regulated insurance subsidiaries to be financially sound as determined by the New Jersey Department of Banking and Insurance (“DOBI”). As of December 31, 2020 and 2019, neither of the regulated insurance subsidiaries paid any dividends and may not do so until they meet those requirements and are granted permission to do so by DOBI.

23. Statutory equity and income

Applicable insurance department regulations require that the Corporation’s regulated insurance subsidiaries prepare statutory financial statements in accordance with statutory accounting practices prescribed or permitted by the department of insurance of the respective state of domicile. These practices vary in some aspects from U.S. GAAP, with significant differences including that (a) certain assets are not included in statutory surplus, (b) certain statutory reserves are established by a direct charge to surplus, and (c) certain charges are reported as charges to capital and surplus, rather than as a component of net income.

Aggregate statutory capital and surplus as per the statutory financial statements of the Corporation’s regulated insurance subsidiaries for the years ended December 31, 2020 and 2019, was $79.4 million and $73.3 million, respectively.

The regulated insurance subsidiaries are subject to certain Risk-Based Capital (“RBC”) requirements specified by the National Association of Insurance Commissioners (“NAIC”). Under those requirements, the amount of capital and surplus maintained by the Corporation’s regulated insurance subsidiaries is to be determined based on various risk factors, such as (a) asset quality, (b) asset and liability matching, (c) loss reserve adequacy, and other business factors. Regulatory compliance is determined by a ratio of the Corporation’s regulatory total adjusted capital, as defined by the NAIC, to its authorized control level RBC, as defined by the NAIC. Generally, a ratio in excess of the regulatory threshold requires no corrective actions by the Corporation or regulators. As of December 31, 2020 and 2019, the regulated insurance subsidiaries’ capital and surplus exceeded the minimum RBC requirements of their applicable governmental regulator. The statutory RBC necessary to satisfy regulatory requirements of our statutory basis subsidiaries was approximately $75.8 million and $60.8 million as of December 31, 2020 and 2019, respectively.

24. Regulatory matters

The Corporation operates in a highly regulated environment. It is regulated by federal and state of New Jersey regulators. The Corporation’s regulated insurance subsidiaries must be licensed by and are subject to regulation by DOBI, which requires periodic financial reports and enforces minimum capital and/or reserve requirements.

The laws and regulations governing the Corporation’s business and interpretations of those laws and regulations are subject to frequent change. Legislative, administrative, and public policy changes to the Health Care Reform Law continue to be debated, and the Corporation cannot predict if the Health Care Reform Law will be further modified, repealed, or replaced. The broad latitude given to the agencies administering, interpreting and enforcing current and future regulations governing the Corporation’s business could require the Corporation to change how it conducts its business, restrict revenue and enrollment growth, increase health care and administrative costs and capital requirements, or expose the Corporation to increased liability in the courts for coverage determinations, contract interpretation and other actions.

The health care industry is also regularly subject to negative publicity, including as a result of governmental investigations, adverse media coverage and political debate surrounding industry regulation. Negative publicity may adversely affect the Corporation’s financial position, results of operations and cash flows and damage its reputation.

25. Subsequent events

The Corporation entered into the Merger Agreement with SCH, a SPAC, on October 5, 2020. Pursuant to the Merger Agreement, and a favorable vote of SCH’s stockholders on January 6, 2021, Asclepius Merger Sub Inc., a Delaware corporation and a newly formed, wholly owned subsidiary of SCH (“Merger Sub”), was merged with and into the Corporation. Upon consummation of the business combination, the separate corporate existence of Merger Sub ceased, the Corporation survived and merged with and into SCH, with SCH as the surviving corporation, and SCH was renamed Clover Health Investments, Corp. (the “Business Combination”).

The Business Combination was accounted for as a reverse capitalization in accordance with GAAP. Under the guidance in ASC 805, Clover Health Investments, Corp. is treated as the “acquirer” for financial reporting purposes. As such, Clover is deemed the accounting predecessor of the combined business, and Clover, as the parent company of the combined business, is the successor SEC registrant, meaning that the Clover financial statements for previous periods will be disclosed in the registrant’s future periodic reports filed with the SEC. The Business Combination will have a significant impact on our future reported financial position and results as a consequence of the reverse capitalization. The most significant change in Clover’s future reported financial position and results is an estimated net increase in cash (as compared to our consolidated balance sheet at December 31, 2020) of approximately $670.0 million. The redemption includes approximately $400.0 million in proceeds from a private placement (“PIPE Investment”) that was consummated substantially simultaneously with the Business Combination, offset by additional transaction costs incurred in connection with the Business Combination. The estimated transaction costs for the Business Combination are approximately $61.8 million, of which $29.0 million represents deferred underwriter fees related to SCH’s initial public offering.

The transaction closed on January 7, 2021, and the following day the Class A common stock and public warrants were listed on the Nasdaq Global Select Market (“Nasdaq”) under the symbols “CLOV” and “CLOVW” for trading in the public market.

The Corporation’s management has evaluated subsequent events for recognition and measurement purposes through March 31, 2021, which is the date the Consolidated Financial Statements were available to be issued. The Corporation has concluded that no additional events or transactions have occurred that may require adjustment to the Consolidated Financial Statements or disclosures.

Schedule II

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

	As of December 31, 2020	As of December 31, 2019
Assets:		
Cash and cash equivalents	$ 5,432	$ 4,569
Other assets	102	342
Intercompany interest receivable	4,958	3,750
Intercompany note receivable	40,000	40,000
Investments in consolidated subsidiaries	77,212	158,159
Total assets	$ 127,704	$ 206,820
Liabilities and stockholders' deficit		
Liabilities:		
Accounts payable and accrued expenses	$ 13,140	$ 5,471
Accrued salaries and benefits	229	—
Intercompany payable	27,251	4,093
Notes payable, net of discount and deferred issuance costs	107,674	76,758
Derivative liabilities	44,810	138,561
Warrants payable	97,782	17,672
Total liabilities	290,886	242,555
Convertible Preferred stock (Series Seed A, A-1, B, C, and D), $0.0001 par value; 75,136,086 shares authorized as of December 31, 2020 and 2019; 67,427,138 shares issued and outstanding as of December 31, 2020 and 2019; aggregate liquidation preference of $470,256 as of December 31, 2020	447,747	447,747
Stockholders' deficit:		
Common stock, $0.0001 par value, 170,000,000 shares authorized; 43,505,291 and 42,877,665 issued; and 43,134,938 and 42,686,624 outstanding as of December 31, 2020 and 2019, respectively	4	4
Additional paid-in capital	411,848	403,046
Accumulated deficit	(1,022,781)	(886,532)
Total stockholders' deficit	(610,929)	(483,482)
Total liabilities, convertible preferred stock, and stockholders' deficit	$ 127,704	$ 206,820

CLOVER HEALTH INVESTMENTS, CORP.
CONDENSED STATEMENTS OF OPERATIONS (PARENT COMPANY)
(Dollars in thousands, except share amounts)

	Years ended December 31, 2020	Years ended December 31, 2019
Revenues:		
Other income	$ 3,685	$ 3,396
Investment income, net	—	46
Total revenues	3,685	3,442
Expenses:		
General and administrative expenses	4,831	79
Other expense	—	363
Total expenses	4,831	442
Loss from operations	(1,146)	3,000
Change in fair value of warrants expense	80,328	2,909
Interest expense	35,556	23,155
Amortization of notes discount	21,118	15,913
(Gain) loss on derivative	(93,751)	138,561
Equity in net losses of consolidated subsidiaries	91,995	186,199
Net loss	$(136,392)	$(363,737)

CLOVER HEALTH INVESTMENTS, CORP.
CONDENSED STATEMENTS OF CASH FLOWS (PARENT COMPANY)
(Dollars in thousands, except share amounts)

	Years ended December 31,	
	2020	2019
Cash flows from operating activities:		
Net loss	$(136,392)	$(363,737)
Adjustments to reconcile net loss to net cash used in operating activities:		
Amortization of notes discount	21,084	15,807
Stock-based compensation expense	7,078	3,301
Paid in kind interest	28,334	11,633
Change in fair value of warrants	80,110	2,836
Change in derivative liabilities	(93,751)	138,561
Amortization of warrants	218	73
Amortization of debt issuance costs	34	506
Changes in operating assets and liabilities:		
Other assets	214	(391)
Accounts payable and accrued expenses	7,669	5,728
Accrued salaries and benefits	229	(169)
Intercompany interest receivable	(1,208)	(1,200)
Intercompany payable	23,158	(23,921)
Net cash used in operating activities	(63,223)	(210,973)
Cash flows from investing activities:		
Investments in consolidated subsidiaries	82,047	(154,469)
Net cash provided (used in) by investing activities	82,047	(154,469)
Cash flows from financing activities:		
Proceeds from issuance of convertible securities	—	343,410
Deferred financing costs	—	(363)
Payment of notes payable principal	(18,752)	(9,670)
Issuance of common stock, net of early exercise liability	1,748	601
Buyback and subsequent cancellation of common stock	(957)	—
Net cash (used in) provided by financing activities	(17,961)	333,978
Net increase (decrease) in cash and cash equivalents	863	(31,464)
Cash and cash equivalents, beginning of year	4,569	36,033
Cash and cash equivalents, end of year	$ 5,432	$ 4,569

1. Organization and operations

Clover Health Investments, Corp. (the “Corporation) is a holding company incorporated on July 17, 2014 in the state of Delaware.

2. Summary of significant accounting policies

The accompanying condensed financial statements have been prepared using the equity method. Under the equity method, the investment in consolidated subsidiaries is stated at cost plus equity in undistributed earnings of consolidated subsidiaries since the date of acquisition. These condensed financial statements should be read in conjunction with the Corporation’s consolidated financial statements.

Use of estimates

The preparation of the condensed financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying disclosures. Those estimates are inherently subject to change, and actual results may ultimately differ from those estimates.

Reclassifications

Certain amounts in the prior years’ Condensed Statements of Cash Flows have been reclassified to conform to the current year’s presentation, primarily related to the amortization of warrants, amortization of debt issuance costs, and paid in kind interest. These reclassifications had no effect on the previously reported Condensed Financial Statements.

3. Insurance Subsidiaries

Investments in consolidated subsidiaries include regulated insurance subsidiaries and unregulated subsidiaries. The Corporation holds $50.0 million and $156.0 million of cash, cash equivalents, short term investments and investment securities at the parent and unregulated subsidiaries as of December 31, 2020 and 2019, respectively. The Corporation holds $101.1 million and $107.3 million of cash, cash equivalents, short term investments and investment securities in regulated insurance subsidiaries as of December 31, 2020 and 2019, respectively.

4. Surplus Note

Effective December 22, 2016, the Corporation contributed $40.0 million to Clover Health Insurance Company, a wholly owned subsidiary, in exchange for a surplus note. The outstanding balance, including accrued interest, was due and payable on December 31, 2020 but remains unpaid with the payment terms under review for extension until December 31, 2024. The Commissioner of Banking and Insurance of the State of New Jersey must approve any interest and principal payments associated with the note before they are paid.

SCHEDULE V

CLOVER HEALTH INVESTMENTS, CORP.
VALUATION AND QUALIFYING ACCOUNTS

(in thousands)	Balance at beginning of period	Additions: Charged to costs and expenses	Additions: Charge to other accounts	(Deductions)	Balance at end of period
Year ended December 31, 2019					
Valuation allowance for deferred tax assets	$104,976	$ 39,643	$ —	$ —	$ 144,619
Year ended December 31, 2020					
Valuation allowance for deferred tax assets	$144,619	$ 18,585	$ —	$ —	$ 163,204

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis provides information which 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 consolidated financial statements and notes thereto contained in Exhibit 99.6 to this Amendment No. 1 to the Current Report on Form 8-K filed with the Securities and Exchange Commission (the "SEC") on January 12, 2021 (the "Form 8-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 Form 8-K. Actual results may differ materially from those contained in any forward-looking statements. Unless otherwise noted or the context otherwise requires, references in this "Management's Discussion and Analysis of Financial Condition and Results of Operations" to "we", "us", "our", and "the Company" are intended to mean the business and operations of Clover Health Investments, Corp. and its consolidated subsidiaries prior to the closing of the Business Combination (as defined below).

Overview

At Clover Health, we are singularly focused on creating great, sustainable healthcare to improve every life. We have centered our strategy on building and deploying technology that we believe will enable us to solve a significant data problem while avoiding the limitations of legacy approaches. Currently, as a next-generation Medicare Advantage ("MA") insurer, we leverage our flagship software platform, the Clover Assistant, to provide America's seniors with Preferred Provider Organization ("PPO") and Health Maintenance Organization ("HMO") plans that are the obvious choice for Medicare-eligible consumers. We call our plans "Obvious" because we believe they are highly affordable—offering most of our members the lowest average out-of-pocket costs for primary care physician ("PCP") co-pays, specialist co-pays, drug deductibles and drug costs in their markets—and provide peace of mind with wide network access and the same cost-sharing (co-pays and deductibles) for physicians who are in- and out-of-network. By empowering physicians with data-driven, personalized insights at the point of care through our software platform, we believe we can improve clinical decision-making and viably offer these "Obvious" plans at scale, through an asset-light approach. We were founded with the goal of using data and technology to improve and transform healthcare. We offer MA plans, which are provided as part of the U.S. federal Medicare program. As of December 31, 2020, our PPO plans were licensed in 45 states and the District of Columbia and were not licensed in Michigan, New Hampshire, New York, North Carolina and Vermont. Our HMO is licensed in New Jersey and Texas.

We initially launched our MA offering in 2013, scaling to our first nine MA markets, or counties, by 2016 with approximately 15,000 members, and to 34 MA markets across seven states with 58,056 members as of December 31, 2020.

Recent Development

On October 5, 2020, we entered into an Agreement and Plan of Merger (the "Merger Agreement") with Social Capital Hedosophia Holdings Corp. III, a Cayman Islands exempted company ("SCH"), and Asclepius Merger Sub Inc., a Delaware corporation and a direct wholly owned subsidiary of SCH ("Merger Sub"). On January 7, 2021, as contemplated by the Merger Agreement and following approval by SCH's shareholders at an extraordinary general meeting held on January 6, 2021:

- SCH filed a notice of deregistration with the Cayman Islands Registrar of Companies, together with the necessary accompanying documents, and filed a certificate of incorporation and a certificate of corporate domestication with the Secretary of State of the State of Delaware, under which SCH was domesticated and continued as a Delaware corporation (the "Domestication"); and
- Merger Sub merged with and into our company, the separate corporate existence of Merger Sub ceased and our company became the surviving corporation and a wholly owned subsidiary of SCH (the "First Merger") and our company merged with and into SCH, the separate corporate existence of our company ceased and SCH became the surviving corporation, changing its name to "Clover Health Investments, Corp." (together with the First Merger, the "Mergers", and collectively with the Domestication, the "Business Combination").

The Business Combination was accounted for as a reverse capitalization in accordance with accounting principles generally accepted in the United States of America ("GAAP"). Under the guidance in Accounting Standards Codification 805, Clover Health Investments, Corp. is treated as the "acquirer" for financial reporting purposes. As such, we are deemed the accounting predecessor of the combined business, and our company, Clover Health Investments, Corp., as the parent company of the combined business, is the successor SEC registrant, meaning that our financial statements for previous periods will be disclosed in the registrant's future periodic reports filed with the SEC.

The Business Combination will have a significant impact on our future reported financial position and results as a consequence of the reverse capitalization. The most significant change in our future reported financial position and results is an estimated net increase in cash (as compared to our consolidated balance sheet at December 31, 2020) of approximately $670.0 million, which includes approximately $400.0 million in proceeds from a private placement ("PIPE Investment") that was consummated substantially simultaneously with the Business Combination, offset by additional transaction costs incurred in connection with the Business Combination. The estimated transaction costs for the Business Combination are approximately $61.8 million, of which $29.0 million represents deferred underwriter fees related to SCH's initial public offering.

As a result of the Business Combination, we have become the successor to a public company, which requires us to hire additional personnel and implement procedures and processes to address public company regulatory requirements and customary practices. We expect to incur additional annual expenses as a public company for, among other things, directors' and officers' liability insurance, director fees, and additional internal and external accounting, legal and administrative resources.

Medicare Advantage Background

Medicare is the U.S. federal health insurance program for Americans aged 65 or older and certain younger people with disabilities, providing hospital and medical insurance and prescription drug benefits to its participants. The Centers for Medicare & Medicaid Services ("CMS"), an agency of the United States Department of Health and Human Services, administers the Medicare program. Throughout the United States, CMS operates "Original Medicare," or traditional fee-for-service Medicare ("Medicare FFS"), under which individuals pay premiums to the government and out-of-pocket deductibles and coinsurance to providers.

The most common types of Medicare Advantage plans are: HMO plans, which generally restrict care options to a plan's network of providers; PPO plans, which allow in- and out-of-network care, but usually require members to pay more for out-of-network providers; and special needs plans, which restrict enrollment to people who have specific diseases, live in institutional settings, or have dual Medicare/Medicaid status. While most such plans are individual, or non-group, plans, in which any individual who meets the eligibility criteria can enroll, there are also group Medicare Advantage plans, which are offered by companies, unions or government agencies to their employees or retirees.

We contract with CMS to provide a comprehensive array of health insurance benefits for Medicare-eligible beneficiaries in individual PPO and, to a far lesser extent, HMO Medicare Advantage Prescription Drug ("MAPD") plans in exchange for contractual payments received from CMS.

Revenue Model

Our revenue model is based on the number of members enrolled in the plans we offer under contracts with CMS. We generate revenues primarily from premiums paid by CMS based on enrollment and to a much lesser extent, from direct payments by members. In advance of each plan year, we enter into contracts with CMS under which it pays us fixed monthly premiums per member based on our actuarial bid and the CMS risk-adjustment model. The CMS risk adjustment model assesses health conditions and other factors to determine a member's risk score. It then uses these scores to compensate or reduce payments to plans whose members have higher or lower than average health risks, with such changes taking effect in the plan year following the assessment. One feature of the Clover Assistant is that it is designed to allow us to accurately capture member disease burden and submit that data to CMS on a timely basis to help ensure appropriate revenues to cover the care of our members.

Our membership acquisition is highly seasonal, with January being the highest enrollment month as a result of Medicare's annual election period at the end of the year. Our members generally enroll for a full calendar year, creating a highly predictable revenue stream for that year and meaningful opportunities for us to re-enroll members for years to come.

Factors Affecting Our Performance

Our financial condition and results of operations have been, and will continue to be affected by, a number of important factors, including:

Member Enrollment

Our revenue growth rate and long-term profitability are affected by our ability to increase our number of members, which requires that we both continue to enroll new members in our MA plans and retain existing members. Our membership expanded from 42,592 as of December 31, 2019, to 58,056 as of December 31, 2020, an increase of 15,464 members, primarily under Medicare's annual election period process. To further drive our membership growth in our markets, we develop internal and external sales channels that market our value proposition and our products, leveraging targeted messages that resonate with our members.

Market Coverage

We are focused on driving membership growth through geographic and market share expansion and are allocating resources and taking strategic actions to increase our share in existing markets and enter into new markets. As a result, our revenue, growth rate and long-term profitability are also affected by our ability to achieve both objectives. As of December 31, 2020, we offered plans in 34 MA markets across seven states with 8% market share of the individual, non-special needs plans ("non-SNP") MA enrollees in these markets. We have launched in 74 additional MA markets, expanding our footprint by an additional state, in 2021.

Innovation and adoption of our Clover Assistant platform

Our success is also dependent on our ability to innovate and drive further adoption of the Clover Assistant in order to maintain our competitive advantage, including continuing to offer "Obvious" plans in the markets we serve. As of December 31, 2020, over 2,400 PCPs, who already treat our members and are responsible for caring for 66% of our total membership, had contracted to use the Clover Assistant to manage our members' care, and 81% of our members who regularly see PCPs receive care from PCPs who are contracted on the Clover Assistant platform. Additionally, we believe there is a significant opportunity to leverage the power of the Clover Assistant to further capture Medicare market share through emerging payment models, such as CMS's Direct Contracting program.

Managing the Cost of Care of Our Members

We focus on lowering the cost of medical services for our members, or medical expenses, in order to enable us to continue to offer "Obvious" plans and drive membership growth, as well as achieve and sustain profitability in the future. Medical expenses primarily consist of payments to physicians, hospitals and other healthcare providers for services provided to our members. While the premiums for our MA plans are established primarily by bid and cannot be modified during the plan year, except under limited circumstances, the medical expenses we are obligated to pay can vary and could exceed premiums earned. Medical expenses can vary for a variety of reasons, including variance in cost of healthcare services and supplies, utilization rate and mandated increases in benefits. We rely on our Clover Assistant platform to identify care issues that drive value at the point of care, supporting better clinical decision-making and improving care, which in turn helps to improve our medical care ratio ("MCR") and reduce medical expenses in the long term.

Our new member MCR tends to be higher than our returning member MCR, as new members typically join us with less complete or accurate documentation (and therefore lower risk adjustment scores). Additionally, our efforts to manage our members' medical costs through our clinical programs have a more significant impact after a member has been enrolled with Clover for a full year.

Our MCR is typically lower for members whose PCP uses the Clover Assistant because usage of the Clover Assistant helps to close care gaps consistent with evidence-based guidelines, enhances physicians' understanding of their patients, thus improving care and lowering treatment costs, and improves data collection to support accurate CMS risk adjustment. Additionally, we use our platform to identify members—such as those with multiple chronic conditions or those who are high risk for near-term hospitalization—who are suitable for our specialized clinical care programs, and deploy our team of employed physicians, nurses, and care managers to incrementally support their care. See also "Impact of COVID-19" below.

Seasonality

Growth

We typically experience the strongest increase in quarterly membership and revenue during the first quarter of each year because of Medicare's annual election period at the end of the year. Members generally enroll in new plans for a full year. We incur marketing and advertising expenses in advance of the enrollment periods, principally in the fourth quarter of each year, and we also incur sales commissions in the first quarter of each year to coincide with the effective dates of members that joined our plans during these periods. Additionally, our annual financial results will primarily depend on our ability to market to and enroll existing and potential members during the 54-day annual election period in the fourth quarter of each year and, to a lesser extent, during the open enrollment period spanning the first quarter of each year when enrollees under MA plans in the prior year can renew or choose a different MA plan. See the section entitled "Risk Factors—If we are unable to succeed in expanding our member base, our future growth would be limited and our business, financial condition and results of operations would be harmed" in the Form 8-K.

PMPM Premiums Earned, Net

While our total premium revenue has increased year over year, we experience some seasonality in our per member per month ("PMPM") premiums earned, net as they generally decline over the course of the year due to shifts in our member base. In January of each year, CMS revises the risk adjustment factor for each member based upon health conditions documented in the prior year, typically leading to an overall increase in PMPM revenue. As the year progresses, we onboard new members, who may contribute lower PMPM premiums earned, net, as new members typically join us with less complete or accurate documentation (and therefore lower risk adjustment scores). Likewise, as we experience member mortality during the year, our PMPM premiums earned, net, may decline as sicker members generally have higher risk adjustment scores.

Medical Expenses

Medical expenses vary seasonally depending on a number of factors, including the incidence of illnesses as well as the timing of certain member cost sharing. Certain illnesses, such as the influenza virus, are far more prevalent during colder months of the year, which results in an increase in medical expenses during these time periods. As a result, we typically see higher levels of PMPM medical expenses in the first and fourth quarters. Medical costs also depend upon the number of business days in a period. Shorter periods will have lower medical expenses due to fewer business days, impacting comparability between periods. We would also expect to experience an impact should there be a pandemic such as COVID-19, which may result in increased or decreased total medical expenses depending on the severity of the illness, the concentration of our membership in a given area, and certain other factors as discussed in connection with the COVID-19 pandemic in the section entitled "Impact of COVID-19," immediately below.

Impact of COVID-19

The COVID-19 pandemic is rapidly evolving, and the ultimate impact on our business, results of operations, financial condition and cash flows is uncertain and difficult to predict. The global pandemic has severely impacted businesses worldwide, including many in the health insurance sector. In response to the pandemic, we have implemented additional steps related to our care delivery, our member support, and our internal policies and operations.

We refocused our clinical operations in mid-March 2020 and fully adopted the CMS COVID-19 emergency policy changes, including multiple summary guidances issued over a 12-week period, from March 2020 to June 2020. We implemented many changes to provide continued care to members, including reorienting our in-home primary care program to provide care remotely, pivoting our post-hospital discharge program to video and telephonic encounters, and helping members receive their prescription medications at home.

Additionally, we rapidly enhanced our Clover Assistant platform to focus on video and telephonic visits to help ensure that our members received appropriate levels of care despite their inability to visit a physician's office. In total, we pivoted from 100% in-person Clover Assistant visits before the COVID-19 pandemic to 82% and 64% virtual Clover Assistant visits during the months of April and May 2020, respectively.

To help ensure care continuity, we have implemented multi-channel member communications to support our members staying in place, provider network support for telehealth adoption by PCP practices, and a nurse practitioner COVID-19 hotline for reaching out to our most vulnerable members—acting as a clinical bridge for members whose provider offices had temporarily closed.

We are continuing to monitor the ongoing financial impact that the COVID-19 pandemic will have on our business and operations and are making adjustments accordingly. We have waived member copays on certain COVID-19-related services and have worked closely with our open network of providers to help ensure that members are receiving necessary care. Given that a large portion of our membership is elderly and generally in the high-risk category for COVID-19, we incurred additional costs during 2020 to care for those members who contracted the virus, and we will likely continue to incur similar costs in the near future. However, for the year ended December 31, 2020, our increased medical expenses and investments in the health of our members during the pandemic were partially offset by the reduction in overall utilization of healthcare services across our entire membership base as a result of stay-at-home orders and the closure of certain provider facilities. We believe that a portion of these services have been deferred, but the timing and intensity in which these services will return is subject to several factors outside of our control, including the containment of the virus as well as capacity constraints of providers. Additionally, CMS risk adjustment requires that a member's health issues be documented annually regardless of the permanence of the underlying causes. Historically, this documentation was required to be completed during an in-person visit with a patient. As part of relief measures adopted pursuant to the Coronavirus Aid, Relief, and Economic Security Act, Medicare is allowing documentation prepared during video visits with patients to serve as support for CMS risk adjustments. While we intend to leverage Clover Assistant to increase the video visits for our members and document their health conditions on a timely basis, given the disruption caused by the COVID-19 pandemic, we may be unable to document the health conditions of our members as comprehensively as we did in previous years, which may adversely impact the accuracy of our risk adjustment factors and revenue in future periods.

The quarterly information presented in the following table illustrates the impact of the COVID-19 pandemic on our financial results during each of the four quarters of 2020:

	For the Three Months Ended							
	March 31, 2020		June 30, 2020		September 31, 2020		December 31, 2020	
	Total	PMPM	Total	PMPM	Total	PMPM	Total	PMPM
	(dollars in thousands, except PMPM amounts)							
Premiums earned, net (A)	$ 163,710	$ 984	$170,315	$1,000	$167,075	$ 972	$ 164,598	$ 950
Net medical claims incurred (B)	$ 146,328	$ 880	$119,366	$ 701	$144,846	$ 842	$ 179,928	$1,034
Net (loss) income	($ 28,162)	—	$ 5,403	—	$ 12,758	—	($126,391)	—
MCR (B/A)	89.4%	—	70.1%	—	86.7%	—	109.3%	—

Beginning in late March and early April 2020, the COVID-19 pandemic caused an increase in our inpatient hospital costs as members started to experience admissions caused by the virus. The increase in hospital costs was ultimately more than fully offset by a reduction in outpatient and office-based utilization during the second quarter. In the second quarter, we experienced a reduction in utilization across all settings, including inpatient hospital admissions. By the end of the third quarter, our non-COVID-19 utilization of healthcare services returned to near pre-COVID-19 levels but remained slightly below historical benchmarks. In the fourth quarter, we incurred additional net medical claims related to the COVID-19 pandemic without experiencing the same offsetting reduction in outpatient and office-based utilization we experienced in the second quarter.

Due to the speed with which the COVID-19 situation is developing, the global breadth of its spread and the range of governmental and community reactions thereto, there remains uncertainty around its duration and ultimate impact, and the related financial impact on our business could change and cannot be accurately predicted at this time. We are subject to risks associated with the COVID-19 pandemic, which could have a material adverse effect on our business, results of operations, financial condition and financial performance" in the Form 8-K.

Key Performance Measures

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, investors and counterparties to model the performance of healthcare companies such as Clover.

	Years Ended December 31,			
	2020		2019	
	Total	PMPM (1)	Total	PMPM(1)
	(in thousands, except PMPM amounts)			
Other Data:				
Members as of period end	58,056	N/A	42,592	N/A
Premiums earned, gross	$ 666,297	$ 975	$ 457,758	$ 927
Premiums earned, net	$ 665,698	$ 976	$ 456,926	$ 925
Medical claim expense incurred, gross	$ 590,951	$ 867	$ 452,261	$ 916
Net medical claims incurred	$ 590,468	$ 865	$ 450,645	$ 912
Medical care ratio, gross	88.7%	N/A	98.8%	N/A
Medical care ratio, net	88.7%	N/A	98.6%	N/A
Net Loss	$(136,392)	N/A	$(363,737)	N/A

(1) Calculated 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.

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 because 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 the Clover Assistant. Among other things, the longer a member is enrolled in one of our MA 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 revenue or any other measure presented in accordance with GAAP. See the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations—Components of Our Results of Operations—Premiums Earned, Net."

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 as presented on our consolidated statement of operations in accordance with GAAP.

Gross Medical Claims Incurred

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.

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 expenses or any other measure presented in accordance with GAAP. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Components of Our Results of Operations—Net Medical Claims Incurred.”

Net Medical Claims Incurred

Net medical claims incurred consists of the costs of claims, including the costs incurred for claims net of amounts ceded to reinsurers as presented on our consolidated statement of operations in accordance with GAAP.

Medical Care Ratio, Gross and Net

We calculate our medical care ratio by dividing total medical claim expenses incurred by the 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 profit for our MA 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.

Components of Our Results of Operations

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 (the “ACA”).

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 revenue for the period including the member months for which the payment is designated by the 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 the premiums earned by the primary insurer. Ceded earned premium is 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. The reinsurance agreements do not relieve our responsibility to cover claims.

Other Income

Other income primarily consists of income earned from commissions related to premiums ceded under our reinsurance agreements. Commissions from premiums ceded under reinsurance agreements are earned when ceded to reinsurers over the period of policies. The amount of commissions we earn is dependent upon the terms of our reinsurance contracts and the amount of premiums ceded. Other income also includes income generated from ceded allowances under reinsurance agreements, which are amounts paid by the reinsurers to help cover certain expenses incurred by the ceding party in relation to the ceded contracts. In addition, we generate an immaterial amount of other income from rental agreements with third parties for subleases of our leased office facilities.

Investment Income, Net

Net investment income represents interest earned from fixed-maturity securities, short-term securities and other investments, the gains or losses on sales and maturities of investments. Our cash and invested assets primarily consist of fixed-maturity securities, and may also include cash and cash equivalents, equity securities, and short-term investments. The principal factors that influence net investment income are the size of our investment portfolio and the yield on that portfolio. As measured by amortized cost (which excludes changes in fair value, such as changes in interest rates), the size of our investment portfolio is mainly a function of our invested equity capital along with premiums we receive less amounts paid in costs of care.

Net Medical Claims Incurred

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 losses as well as to provide additional capacity for growth. These expenses generally vary based on the total number of members and their utilization rate of our services.

Salaries and Benefits

Salaries and benefits consist of salaries, sales commissions, stock-based compensation expense, employee benefit costs, severance costs and payroll taxes for employees.

We expect to incur significant additional expenses for salaries and benefits as a result of expanding our headcount to support our increased compliance requirements associated with operating as a public company or otherwise and the growth of our business. As a result, we expect that our salaries and benefits will increase in absolute dollars in future periods and vary from period-to-period as a percentage of revenue.

General and Administrative Expense

General and administrative expense consists of outside legal, accounting, tax and other professional fees, consulting fees, hardware and software costs, payments to our third-party cloud infrastructure providers for hosting our software, travel expenses, recruiting fees, certain tax, license and insurance-related expenses, including industry assessments, advertising and marketing costs, membership-driven administrative costs, lease and occupancy costs, statutory and other fees and other overhead costs. Membership-driven administrative costs consist of enrollment-related costs, broker commissions and call center expenses.

We are subject to the ACA, which established insurance industry assessments, including an annual health insurance industry fee. The annual health insurance industry fee was suspended in 2019. In 2020, the fee incurred and paid by the Company was approximately $8.0 million. Under current law, the fee has been permanently repealed beginning in 2021.

We expect to incur significant additional general and administrative expenses as a result of operating as a public company, including expenses related to compliance with the rules and regulations of the SEC and the listing standards of Nasdaq, additional corporate, director and officer insurance expenses, greater investor relations expenses and increased professional service fees. As a result, we expect that our general and administrative expenses will increase in absolute dollars in future periods and vary from period-to-period as a percentage of revenue.

Premium Deficiency Reserve (Benefit) Expense

Premium deficiency reserves are established to the extent that the sum of expected future costs, claim adjustment expenses, and maintenance costs exceeds related future premiums under contracts without consideration of investment income. We assess the profitability of our contracts with CMS to identify those contracts where current operating results or forecasts indicate probable future losses. Premium deficiency reserve (benefit) expense is recognized in the period in which the losses are identified. We may identify and recognize additional premium deficiency reserves depending on the rates that are paid to us by CMS based on our actuarial bids and the utilization of healthcare services by our members.

Depreciation and Amortization

Depreciation and amortization consists of all depreciation and amortization expenses associated with our property and equipment. Depreciation includes expenses associated with property and equipment. Amortization includes expenses associated with leasehold improvements.

Other Expense

Other expense consists primarily of debt issuance costs incurred in connection with the issuance of an aggregate of $373.8 million initial principal amount of convertible securities (“Convertible Securities”) in February, May, and August 2019.

Change in Fair Value of Warrants Expense

Change in fair value of warrants expense is related to a mark-to-market adjustment associated with warrants to purchase our capital stock. In connection with the closing of the Business Combination (the "Closing"), the warrants automatically converted into shares of Class B common stock, and we are no longer required to re-measure the value of the warrants.

Interest Expense

Interest expense consists primarily of interest expense associated with our outstanding Convertible Securities and non-convertible notes under our term loan facility ("Term Loan Notes").

Amortization of Notes and Securities Discounts

Amortization of notes and securities discounts consists of amortization of the debt discount associated with the Convertible Securities and warrants and debt issuance costs associated with the Term Loan Notes.

(Gain) Loss on Derivative

(Gain) loss on derivative consists of (gain) loss on embedded derivatives contained in the Convertible Securities. The embedded derivatives relate to the conversion features of the Convertible Securities, which reflect a premium above the principal and accrued interest thereon.

We record a gain or loss on derivative based on changes in fair value of the embedded derivatives contained in the Convertible Securities. The carrying amounts of these embedded derivatives are recorded at fair value at issuance and marked-to-market as of each balance sheet date, and changes in fair value are reported as either income or expense during the period.

In order to estimate the fair value attributable to these features, we estimate the value of the Convertible Securities (i) with the embedded derivatives and (ii) without the embedded derivatives. The incremental difference between the two values is then used to estimate the fair value of the embedded derivatives. A probability-weighted present value of expected future returns model is then used in order to estimate the value of the conversion features under various probable scenarios. The assumptions used to arrive at the estimated fair value generally include the stock price, strike price, volatility, risk-free rate, and time to maturity, among others.

Results of Operations

Comparison of the Years Ended December 31, 2020 and 2019

The following tables summarize our consolidated results of operations for the periods presented and as a percentage of our total revenues for those periods. The period-to-period comparison of results is not necessarily indicative of results for future periods.

	Years Ended December 31, 2020	2019	Change ($)	Change (%)
	(dollars in thousands)			
Revenues				
Premiums earned, net (Net of ceded premiums: 2020: $599; 2019: $832)	$ 665,698	$ 456,926	$ 208,772	46
Other income	4,214	801	3,413	N/M
Investment income, net	2,976	4,539	(1,563)	(34)
Total revenues	672,888	462,266	210,622	46
Expenses				
Net medical claims incurred	590,468	450,645	139,823	31
Salaries and benefits(1)	71,256	91,626	(20,370)	(22)
General and administrative expenses	120,444	94,757	25,687	27
Premium deficiency reserve (benefit) expense	(17,128)	7,523	(24,651)	N/M
Depreciation and amortization	555	551	4	1
Other expense	—	363	(363)	N/M
Total expenses	765,595	645,465	120,130	19
Loss from operations	(92,707)	(183,199)	90,492	49
Change in fair value of warrants expense	80,328	2,909	77,419	N/M
Interest expense	35,990	23,155	12,835	55
Amortization of notes and securities discount	21,118	15,913	5,205	33
(Gain) loss on derivative	(93,751)	138,561	(232,312)	N/M
Net loss	$(136,392)	$(363,737)	$ 227,345	63

(1) Stock-based compensation expenses of $7.1 million and $3.3 million are included in salaries and benefits for the years ended December 31, 2020 and 2019, respectively.

N/M = Not Meaningful

	Years Ended December 31	
	2020	2019
	Totals as a % of Revenue	
Revenues		
Premiums earned, net (Net of ceded premiums: 2020: $599; 2019: $832)	99%	99%
Other income	1	—
Investment income, net	—	1
Total revenues	100	100
Expenses		
Net medical claims incurred	88	97
Salaries and benefits	11	20
General and administrative expenses	18	20
Premium deficiency reserve (benefit) expense	(3)	2
Depreciation and amortization	—	—
Other expense	—	—
Total expenses	114	139
Loss from operations	(14)	(39)
Change in fair value of warrants expense	12	1
Interest expense	5	5
Amortization of notes and securities discounts	3	3
(Gain) loss on derivative	(14)	30
Net loss	(20)	(78)

Premiums Earned, Net

Premiums earned, net increased $208.8 million, or 46%, to $665.7 million for the year ended December 31, 2020, compared to the year ended December 31, 2019. The increase was primarily due to membership growth from 42,592 members at December 31, 2019, to 58,056 members at December 31, 2020. Premiums earned, net for the years ended December 31, 2020 and 2019, include the impact of $5.1 million and $1.7 million, respectively, of additional revenue from finalized risk adjustment payments related to 2019 and 2018 members, respectively.

Other Income

Other income increased $3.4 million to $4.2 million for the year ended December 31, 2020, compared to the year ended December 31, 2019. The increase was primarily due to increases in rental income from subleases of $2.4 million and miscellaneous income of $0.7 million.

Investment Income, Net

Investment income, net decreased $1.6 million, or 34%, to $3.0 million for the year ended December 31, 2020, compared to the year ended December 31, 2019. The decrease was primarily due to a lower average balance of short-term investments and investment securities during the year ended December 31, 2020, as well as lower short-term interest rates in 2020 relative to 2019. Investment balances were $58.8 million and $195.7 million as of December 31, 2020 and 2019, respectively.

Net Medical Claims Incurred

Net medical claims incurred increased $139.8 million, or 31%, to $590.5 million for the year ended December 31, 2020, compared to the year ended December 31, 2019. The increase was primarily due to membership growth from 42,592 members at December 31, 2019, to 58,056 members at December 31, 2020, partially offset by reduced healthcare utilization in connection with the COVID-19 pandemic in the second, third, and fourth quarters of 2020.

Beginning in late March and early April 2020, the COVID-19 pandemic caused an increase in our inpatient hospital costs as members started to experience admissions related to the virus. The increase in hospital costs was ultimately more than fully offset by lower costs related to a reduction in outpatient and office-based utilization during the third quarter. See also “—Impact of COVID-19” above. During 2020, we experienced a reduction in utilization across all settings, including inpatient hospital admissions compared to the year ended December 31, 2019.

Salaries and Benefits

Salaries and benefits decreased $20.4 million, or 22%, to $71.3 million for the year ended December 31, 2020, compared to the year ended December 31, 2019. The decrease was primarily driven by a 11.2% reduction in full-time employees between December 31, 2019 and December 31, 2020, resulting in decreases in salaries and payroll taxes of $21.6 million, bonus payments of $1.6 million, and severance of $1.2 million, partially offset by increases in stock-based compensation expense of $3.8 million and Federal Insurance Contributions Act tax of $0.3 million.

General and Administrative Expenses

General and administrative expenses increased $25.7 million, or 27%, to $120.4 million for the year ended December 31, 2020, compared to the year ended December 31, 2019. The increase was primarily driven by increases in legal and other professional fees of $15.8 million, the ACA’s health insurance industry fee of $8.0 million with no corresponding charge in 2019, commissions paid to outside brokers of $7.5 million, and contractor and consulting fees of $7.9 million. These increases were partially offset by a decrease in expenses associated with various membership-driven and overhead administrative costs of $13.5 million.

Premium Deficiency Reserve (Benefit) Expense

Premium deficiency reserve (benefit) expense amortization changed to a benefit of $17.1 million for the year ended December 31, 2020 from an expense of $7.5 million for the year ended December 31, 2019. The change to a benefit from an expense was primarily due to changes in actual and anticipated experience in management’s assessment of the profitability of contracts.

Change in Fair Value of Warrants Expense

Change in fair value of warrants expense increased by $77.4 million to $80.3 million for the year ended December 31, 2020, compared to the year ended December 31, 2019. The increase was primarily due to a larger increase in the valuation of warrants in 2020 as compared to the valuation of warrants in 2019, driven by the change in beginning stock price, the estimated holding period, the volatility in the stock price and a change in the risk-free interest rate period over period, as well as the Closing transaction consummating subsequent to the year ended December 31, 2020.

Interest Expense

Interest expense increased $12.8 million, or 55%, to $36.0 million for the year ended December 31, 2020, compared to the year ended December 31, 2019, primarily related to higher stated interest in 2020 associated with convertible securities, partially offset by lower stated interest on the non-convertible securities in 2020 resulting from the decrease in principal balance. Interest expense associated with convertible securities and non-convertible securities increased $14.1 million and decreased $1.3 million, respectively, for the year ended December 31, 2020.

Amortization of Notes and Securities Discounts

Amortization of notes and securities discounts increased $5.2 million, or 33%, to $21.1 million for the year ended December 31, 2020, compared to the year ended December 31, 2019. The increase related to the amortization of debt discounts associated with the convertible securities.

(Gain) Loss on Derivative

(Gain) loss on derivative changed to a gain of $93.8 million in 2020 from a loss of $138.6 million for the year ended December 31, 2019. The change to a gain from a loss year over year relates to the decrease in the derivative balance as a result of the completion of a qualified public offering ("QPO") subsequent to December 31, 2020.

Liquidity and Capital Resources

As of December 31, 2020, we had cash, cash equivalents, and short-term investments of $96.4 million. Additionally, as of December 31, 2020, we had $54.7 million of investment securities, an outstanding balance of $442.1 million on our convertible notes and an outstanding balance of $31.2 million on our Term Loan Notes. On a pro forma basis, assuming the consummation of the Business Combination as of the balance sheet date, we would have had cash, cash equivalents, and short-term investments of approximately $791.0 million, based on the level of redemptions by SCH's shareholders, eligible cash redemption by Clover shareholders, $400.0 million in aggregate proceeds from the PIPE Investment and all outstanding Convertible Securities converting into Clover Class Z Common Stock. Our cash equivalents, short-term investments, and investment securities consist primarily of money market funds and U.S. government debt securities.

Since inception, we have financed our operations primarily from the proceeds we received through private sales of equity securities, issuances of convertible notes, premiums earned under our MA plans, and borrowings under our term loan facility. We believe our existing cash, cash equivalents, short-term investments, and operating cash flows, taken together, will be sufficient to meet our projected operating and regulatory requirements for at least the next 12 months. 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. In the event that 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.

We operate as a holding company in a highly regulated industry. As such, we are dependent upon 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 operating subsidiaries. Cash and cash equivalents at the parent company was $5.4 million and $4.6 million as of December 31, 2020 and 2019, respectively. Our parent and unregulated subsidiaries held $50.0 million and $156.0 million of cash, cash equivalents, short-term investments and investment securities as of December 31, 2020 and 2019, respectively, and our regulated insurance subsidiaries held $101.1 million and $107.3 million of cash, cash equivalents, short-term investments and investment securities as of December 31, 2020 and 2019, respectively. This decrease at the parent company and unregulated subsidiaries primarily reflects capital contributions to insurance subsidiaries and repayment of debt, offset by the proceeds from the issuance of the Convertible Securities. Our use of operating cash derived from our non-insurance 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 subsidiaries to declare and pay dividends to the parent. Insurance regulators have broad powers to prevent a 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 subsidiaries may in the future adopt statutory provisions more restrictive than those currently in effect. Refer to our parent company financial statements and accompanying notes in Schedule II—Parent Company Financial Information in our consolidated financial statements included in this Amendment No.1 to the Form 8-K.

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 22, 23, and 24 to our consolidated financial statements in this Amendment No. 1 to the Form 8-K.

Cash Flows

The following table summarizes our consolidated cash flows for the years ended December 31, 2020 and 2019.

	Years Ended December 31,	
	2020	2019
	(in thousands)	
Consolidated Statements of Cash Flows Data:		
Net cash used in operating activities	$ (118,498)	$ (159,875)
Net cash provided by (used in) investing activities	137,404	(181,908)
Net cash provided by financing activities	5,844	333,978

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.

For the year ended December 31, 2020, net cash used in operating activities was $118.5 million, which included a net loss of $136.4 million. Non-cash charges primarily consisted of a $93.8 million gain on derivative, $80.1 million loss on the change in fair value of warrants expense, $28.3 million in paid in kind interest expense, $21.1 million in amortization of notes and securities discount, and $7.1 million of stock-based compensation expense.

For the year ended December 31, 2019, net cash used in operating activities was $159.9 million, which included a net loss of $363.7 million. Non-cash charges primarily consisted of a $138.6 million loss on derivative, $15.9 million in amortization of notes and securities discount, $11.6 million in paid in kind interest expense, $3.3 million of stock-based compensation expense and a $2.9 million loss on the change in fair value of warrants expense.

Investing Activities

Net cash provided by investing activities for the year ended December 31, 2020, of $137.4 million was primarily due to $312.4 million provided from the sale and maturity of investment securities, offset by $174.3 million used to purchase investment securities.

Net cash used in investing activities for the year ended December 31, 2019, of $181.9 million was primarily due to $505.5 million used to purchase investment securities, partially offset by $324.8 million provided from the sale and maturity of investment securities.

Financing Activities

Net cash provided by financing activities for the year ended December 31, 2020 of $5.8 million was primarily the result of $20.0 million in proceeds from the issuance of the Convertible Securities, $3.9 million in issuance of noncontrolling interest, and $1.7 million in proceeds from the issuance of common stock, offset by $18.8 million in principal payments on our outstanding Term Loan Notes and $1.0 million in payments associated with the buyback and subsequent cancellation of common stock.

Net cash provided by financing activities for the year ended December 31, 2019 of $334.0 million was primarily the result of $343.4 million in proceeds from the issuance of the Convertible Securities, partially offset by $9.7 million in principal payments on our outstanding Term Loan Notes.

Financing Arrangements

Term Loan Notes

We entered into a loan and security agreement with a commercial lender in March 2017, which provided for term loans in an aggregate principal amount of up to $60.0 million. At that time, we borrowed $40.0 million as a term loan under the agreement which bears interest at 11.0% per annum, payable monthly, and has a maturity date of March 1, 2022. In October 2017, we borrowed the remaining $20.0 million as a term loan under the agreement which bears interest at 11.25% per annum, payable monthly, and has a maturity date of October 1, 2022. Each loan was payable in monthly installments of interest only for the first 24 months, and thereafter interest and principal are payable in 36 equal monthly installments. The loans are secured by substantially all of our assets, including our intellectual property, and equity interests in our unregulated subsidiaries.

Our loan and security agreement contains customary conditions to borrowing, events of default and covenants, including covenants that restrict our ability to incur indebtedness, grant liens, make certain distributions to our equity holders prior to a qualifying public offering of our securities, make investments or engage in transactions with our affiliates. Our loan and security agreement does not contain financial covenants. As of December 31, 2020, the aggregate principal amount outstanding under the Term Loan Notes was $31.2 million and we were in compliance with all covenants under our loan and security agreement.

Convertible Securities

In December 2018, we entered into a convertible securities purchase agreement with qualified institutional buyers, including entities affiliated with our Chief Executive Officer and other holders of more than 5% of our common stock, for an aggregate principal amount of up to $500.0 million. In February, May, and August 2019 and September 2020, we issued an aggregate of $393.8 million initial principal amount of convertible securities, (the “Convertible Securities”) under the agreement. Until the first anniversary of the issue date, interest on the Convertible Securities accrued at a rate of 6.5% per annum and is compounded semi-annually in kind.

Thereafter, the per annum interest rates increase ratably on a semi-annual basis up to 13.5% per annum at the third anniversary of the security issue date until the Convertible Securities cease to be outstanding, and the interest that accrues thereunder is compounded semi-annually in kind. The Convertible Securities initially mature on April 1, 2023, which may be extended under certain circumstances by us. At any time prior to maturity, we may repurchase or redeem up to 40% of the initial principal amount under the Convertible Securities prior to the maturity date at the redemption prices set forth in the convertible securities purchase agreement, provided that we also issue their holders warrants to purchase shares of our capital stock on the amount and on the terms set forth in the agreement. At maturity, we may not repay principal and accrued interest under the Convertible Securities in cash without providing their holders the opportunity to convert such amount into shares of our capital stock. The Convertible Securities contain certain affirmative and negative covenants applicable to us and certain of our subsidiaries, including, among other things, restrictions on dividends, repurchases of stock, acquisitions, incurring indebtedness and transactions with affiliates.

The Convertible Securities are mandatorily convertible immediately prior to the consummation of the Mergers described in the Form 8-K. The Convertible Securities will convert into our Class Z common stock, which shares will only be exchanged for the right to receive shares of Clover Health Class B common stock in the Merger and into 1.0935 times the number of shares that would be issuable in the event of an initial public offering. The conversion price is calculated as the lesser of (i) the merger price multiplied by 28.5% for the Convertible Securities issued in August of 2019 or 32% for the Convertible Securities issued in February, March and May of 2019 (assuming the Mergers had occurred on December 31, 2020), and (ii) a price per share equal to (x) $2.5 billion, divided by (y) the number of shares of common stock outstanding or reserved for issuance under our equity plans as of the closing of the Mergers on an as-converted, as-exercised basis as defined in the convertible securities purchase agreement. On December 31, 2020, the aggregate principal and accrued interest amount outstanding under the Convertible Securities was $422.7 million, which will be convertible into 36,117,708 shares of our common stock at the Merger date.

Contractual Obligations and Commitments

The following table summarizes our contractual obligations and commitments at December 31, 2020:

	Payments Due by Period				
	Total(2)	Less than 1 year	1-3 years	3-5 years	More than 5 years
	(in thousands)				
Convertible Securities(1)	$ 393,827	$ —	$ 393,827	$ —	$ —
Term Loan Notes	30,925	—	30,925	—	—
Operating lease obligations	14,031	5,017	4,155	2,210	2,649
Total	$ 438,783	$ 5,017	$ 428,907	$ 2,210	$ 2,649

(1) Convertible Securities converted to Clover Class Z Common Stock as part of the Business Combination, as described in the section entitled "—Financing Arrangements—Convertible Securities".

(2) Amounts for Convertible Securities and Term Loan Notes include outstanding principal balances.

The commitment amounts in the table above are associated with contracts that were enforceable and legally binding as of December 31, 2020 and that specified all significant terms, including fixed or minimum services to be used, fixed, minimum or variable price provisions, and the approximate timing of the actions under the contracts.

On September 25, 2020, one of our subsidiaries issued a promissory note in an aggregate principal amount of $20.0 million. The note is convertible into equity of the subsidiary and matures on in September 2023.

Indemnification Agreements

In the ordinary course of business, we enter into agreements of varying scope and terms pursuant to which we agree to indemnify physicians and other parties with respect to certain matters, including, but not limited to, claims that our platform and products infringe on the intellectual property rights of third parties. In addition, we have entered into indemnification agreements with our directors and certain officers and employees that will require us, among other things, to indemnify them against certain liabilities that may arise by reason of their status or service as directors, officers, or employees.

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

Our consolidated financial statements are prepared in accordance with GAAP. The preparation of the consolidated financial statements in conformity with GAAP requires our management to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the period. We evaluate our significant estimates on an ongoing basis, including, but not limited to, net claims and claims adjustment expense and revenue recognition, including the risk adjustment provisions related to Medicare contracts. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates under different assumptions or conditions, impacting our reported results of operations and financial condition.

We believe that the accounting policies and estimates described below involve a significant degree of judgment and complexity. Accordingly, we believe these are the most critical to aid in fully understanding and evaluating our consolidated financial condition and results of operations. For further information, see Note 2 to our consolidated financial statements included in this Amendment No. 1 to the Form 8-K.

Net Medical Claims Incurred

Net medical claims incurred is recognized in the period in which services are provided and includes an estimate of the cost of services which have been incurred but not yet reported ("IBNR") and certain other unpaid claims and adjustments. IBNR represents a substantial portion of our unpaid claims, as reflected below:

	Years Ended December 31, 2020		2019	
	Total	%	Total	%
	(dollars in thousands)			
IBNR	$ 93,553	90%	$ 69,178	88%
Other unpaid claims	6,681	6	5,941	8
Claims adjustment expense	3,742	4	2,767	4
Total unpaid claims and claims adjustment expense	$103,976	100%	$ 77,886	100%

Our management determines the unpaid claims and claim adjustment expense with input from a third-party actuarial firm. We estimate our unpaid claims and claim adjustment expense liabilities by following a detailed actuarial process that uses both historical claim payment patterns as well as emerging medical expense trends to project the best estimate of claims liabilities. These data and trends include historical data adjusted for claims receipt and payment patterns, cost trends, product mix, seasonality, utilization of healthcare services, changes in membership, provider billing practices, benefit changes, known outbreaks of disease, including COVID-19 or increased incidence of illness such as influenza, the incidence of high dollar or catastrophic claims and other relevant factors. These factors are used to determine our lag analysis completion factor, which represents the average percentage of total incurred claims that have been paid through a given date after being incurred. Completion factors are applied to claims paid through the period-end date to estimate the ultimate claim expense incurred for the period.

Our reserving practice is to consistently recognize an actuarial best estimate inclusive of a provision for moderately adverse conditions. For further discussion of our reserving methodology, including our use of completion factors to estimate IBNR, refer to Note 2 to the consolidated financial statements included in this Amendment No. 1 to the Form 8-K.

The completion factors are the most significant factor impacting the IBNR estimate. The following table illustrates the sensitivity of these factors assuming moderately adverse experience and the estimated potential impact on our operating results caused by reasonably likely changes in these factors based on December 31, 2020 and 2019 data:

Increase (Decrease)		
	In unpaid claims as of	
In completion factor	December 31, 2020	December 31, 2019
(0.25)%	$ 4.0	$ 2.6
0.25%	$ (4.0)	$ (2.6)
0.50%	$ (7.9)	$ (5.2)
0.75%	$ (11.8)	$ (7.7)
1.00%	$ (15.7)	$ (10.3)
1.25%	$ (19.6)	$ (12.8)

As previously discussed, our reserving practice is to consistently recognize the actuarial best estimate of our ultimate liability for claims. Actuarial standards require the use of assumptions based on moderately adverse experience, and as such, a provision for adverse deviation is recognized on current reserves and released on prior reserves. We experienced favorable medical claims reserve development related to prior fiscal years of $13.7 million in 2020 and $2.8 million in 2019.

The favorable medical claims reserve development for all periods presented primarily reflects the consistent application of trend and completion factors estimated using an assumption of moderately adverse conditions. Our favorable development for each of the years presented above is discussed further in Note 10 to the consolidated financial statements included in this Amendment No. 1 to the Form 8-K.

We continually adjust our completion factor with our knowledge of recent events that may impact current completion factors when establishing our reserves. Because our reserving practice is to consistently recognize the actuarial best estimate using an assumption of moderately adverse conditions as required by actuarial standards, there is a reasonable possibility that variances between actual completion factors and those assumed in our December 31, 2020 and 2019, unpaid claim estimates would fall around the middle of the ranges previously presented in our completion factor sensitivity table.

Revenue Recognition

We receive monthly premiums from the federal government according to government specified payment rates and various contractual terms. Revenue from premiums earned is recognized as income in the period members are entitled to receive services, and is net of estimated uncollectible amounts, retroactive membership adjustments, and any adjustments to recognize rebates under the minimum benefit ratios required under the ACA. Premiums received in advance of the service period are reported as other liabilities and recognized as revenue in the period earned.

Premiums anticipated to be received within twelve months based on the documented diagnostic criteria of our enrollees are estimated and included in revenue for the period including the member months for which the payment is designated by CMS.

CMS uses a risk-adjustment model which adjusts premiums paid to MA contracts, based on member risk scores, which are meant to compensate plans that enroll beneficiaries with higher than average health risks and to reduce payments for healthier beneficiaries who have lower health risks. Risk scores are based on member diagnoses from the previous year and are periodically adjusted retroactively based on additional plan data collection. Risk adjustments can have a positive or negative retroactive impact to rates. Under this model, rates paid to MA plans are based on actuarially determined bids, which include a process whereby prospective payments are based on our estimated cost of providing standard Medicare-covered benefits to a member with an average risk profile. That baseline payment amount is adjusted to reflect the health status of the enrolled membership. Under the risk-adjustment methodology, all MA plans must collect and submit the necessary diagnosis code information to CMS within prescribed deadlines. Estimated audit settlements are recorded as a reduction of revenue from premiums earned, based upon available information.

Retrospective premiums involve the evaluation of past claims experience for the purpose of determining the actual cost of providing insurance for the customer. This evaluation is performed once every year, and retrospective premiums are recognized in the year earned.

Medicare Advantage Part D

Payments received from CMS and members from our participation in the MAPD program are determined from our annual bid and represent amounts for providing prescription drug insurance coverage; these amounts are recognized as premium revenue for providing this insurance coverage ratably over the term of the annual contract. Such CMS payments are subject to risk sharing through risk corridor provisions. The risk corridor provisions compare costs targeted in bids to actual prescription drug costs, limited to actual costs that would have been incurred under the standard coverage as defined by CMS. Variances exceeding certain thresholds may result in CMS making additional payments to us or requiring us to refund to CMS a portion of the premiums received. As risk corridor provisions are considered in the overall annual bid process, management estimates and recognizes an adjustment to premiums revenue related to these provisions based upon pharmacy claims experience. Management records a receivable or payable at the contract level.

Reinsurance

The estimation of reinsurance recoverable involves a significant amount of judgment. Reinsurance assets include reinsurance recoverable on claims and claims adjustment expense that are estimated as part of our claim liability reserving process and, consequently, are subject to similar judgments and uncertainties. This estimate requires significant judgment for which key considerations include:

- paid and unpaid amounts recoverable;

- whether the balance is in dispute or subject to legal collection;
- the financial condition of a reinsurer (i.e., liquidated, insolvent, in receivership or otherwise subject to formal or informal regulatory restriction); and
- the collectability of the reinsurance recovery for factors such as, amounts outstanding, length of collection periods, disputes, any collateral or letters of credit held, and other relevant factors.

Warrants and Derivative Liabilities

We classify warrants issued in connection with notes payable to purchase shares of our capital stock as liabilities, as the warrants were determined to be freestanding instruments because they are detachable and separately exercisable. We consider the warrants to be legally detachable and separately exercisable from the simultaneous notes payable transactions they were issued with, and we therefore account for them separately.

To determine the balance sheet classification for these warrants, we evaluate whether they qualify as liabilities per the debt accounting guidance. Financial instruments that do not qualify as liabilities under the debt accounting guidance may still be classified as liabilities if they do not meet the derivative guidance requirements for equity classification. Changes in the fair value of the warrant liability are recognized as changes in fair value of warrants in our Consolidated Statements of Operations and Comprehensive Loss. We will continue to adjust the liability for changes in fair value until the warrants are exercised, expire, or qualify for equity classification. Upon the Closing, the warrants to purchase shares of our convertible preferred stock will become exercisable for common stock instead of preferred stock, and the fair value of the warrant liability at that time will be reclassified to additional paid-in capital.

We evaluate the embedded features of the Convertible Securities by applying the derivatives accounting guidance. Derivatives embedded within non-derivative instruments, such as the Convertible Securities, are bifurcated from the host instrument when the embedded derivative is not clearly and closely related to the host instrument. We determined that certain conversion and redemption features associated with the Convertible Securities are embedded derivatives and have been bifurcated from the host instrument and accounted for as embedded derivative instruments. These derivatives are recognized as derivative liabilities and recorded at fair value.

Fair values of warrants and derivative liabilities related to the Convertible Securities are estimated using a probability-weighted expected return method, where the values of various instruments are estimated based on an analysis of future values of our business, assuming various future outcomes. The resulting instruments' values are based upon the probability-weighted present value of expected future investment returns, considering each of the possible future outcomes available to us, as well as the economic benefits attributable to each class of instruments. The expected future investment returns are estimated using a variety of methodologies, including both the market approach and the income approach, where an observable quoted market does not exist, and are generally classified as Level 3. Such methodologies include reviewing values ascribed to our most recent financing, comparing the subject instrument with similar instruments of publicly traded companies in similar lines of business, and reviewing our underlying financial performance and subject instrument, including estimating discounted cash flows. To estimate the fair value attributable to the derivative liabilities, the with and without approach is used. An evaluation of multiple scenarios for future payoffs for the underlying convertible securities is performed using option pricing models, and probability-weighted average value indications are used to arrive at the estimated fair values.

Stock-based Compensation

We account for all stock-based payment awards granted to employees and non-employees as stock-based compensation expense at fair value. Our stock-based payments include stock options and grants of common stock, including common stock subject to vesting. The measurement date for employee awards is the date of grant, and stock-based compensation costs are recognized as expense over the employees' requisite service period, which is the vesting period, on a straight-line basis. The measurement date for non-employee awards is the date of grant without changes in the fair value of the award. Stock-based compensation costs for non-employees are recognized as expense over the vesting period on a straight-line basis. Stock-based compensation expense is classified in the Consolidated Statements of Operations and Comprehensive Loss in salaries and benefits. We recognize stock-based compensation expense for the portion of awards that have vested. Forfeitures are recorded as they occur.

The fair value of common stock underlying the options has historically been determined by our board of directors, with input from management, and considering third party valuations of our common stock. Because, prior to the Closing, there was no public market for our common stock, our board of directors determined its fair value at the time of grant of the option by considering a number of objective and subjective factors, including financing investment rounds, operating and financial performance, the lack of liquidity of share capital and general and industry specific economic outlook, among other factors. Our board of directors determined the fair value of common stock based on valuations performed using the Option Pricing Method ("OPM") and the Probability Weighted Expected Return Method ("PWERM"), subject to relevant facts and circumstances. The valuations using the OPM and PWERM utilized both the market approach and income approach. The market approach involved a public company market multiple, and the income approach involved estimating future cash flows and discounting those cash flows at an appropriate rate.

For warrants issued to non-employees as payments for services, we consider the warrants to be in scope of stock-based compensation guidance to non-employees. To determine whether the warrants should be classified as liabilities or equity awards, we evaluate the criteria for debt accounting guidance because share-based payments classified as liabilities under this guidance would also be classified as liabilities under the stock-based accounting guidance. As these warrants do not meet any of the criteria to be accounted for as debt, they are classified as equity awards. On the grant date, these warrants are measured by estimating the fair value of the equity instruments to be issued. Stock-based compensation expense is recorded for the vested portion of the warrants.

See Note 18 to our consolidated financial statements in this Amendment No. 1 to the Form 8-K for a complete description of the accounting for stock-based compensation awards.

Recently Issued and Adopted Accounting Pronouncements

See Note 2 to our consolidated financial statements included in this Amendment No. 1 to the Form 8-K for a discussion of accounting pronouncements recently adopted and recently issued accounting pronouncements not yet adopted and their potential impact to our financial statements.

JOBS Act Accounting Election

We have elected to be treated as an emerging growth company, as defined in the JOBS Act. The JOBS Act provides that an emerging growth company can take advantage of an extended transition period for complying with new or revised accounting standards applicable to public companies, allowing them to delay the adoption of those standards until those standards would otherwise apply to private companies. As a result, following the Business Combination, our consolidated financial statements may not be comparable to the financial statements of companies that are required to comply with the effective dates for new or revised accounting standards that are applicable to public companies, which may make our common stock less attractive to investors.

Quantitative and Qualitative Disclosure 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 a result of changes in equity prices, interest rates, foreign currency exchange rates and commodity prices. Our 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 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 are exposed to credit risks and liquidity in the event of default by the financial institutions or issuers of cash and cash equivalents in excess of FDIC insured limits. We perform periodic evaluations of the relative credit standing of these financial institutions and limits the amount of credit exposure with any institution.

We monitor our investment portfolio to help ensure that credit risk does not exceed prudent levels. Our investment policy is focused on preservation of capital, liquidity and earning a modest yield. Our investment portfolio is invested in U.S. Treasury fixed maturity securities. As of December 31, 2020 and 2019, none of our fixed maturity securities portfolio was unrated or rated below investment grade.

Inflation Risk

Inflationary factors such as increases in overhead costs may adversely affect our results of operations. Although we do not believe that inflation has had a material impact on our financial position or results of operations to date, a high rate of inflation in the future may have an adverse effect on our ability to maintain current levels of operating expenses as a percentage of total revenues if the premiums earned or other payments we receive from CMS do not increase with these increased costs.

Internal Control Over Financial Reporting

A company’s internal control over financial reporting is a process designed by, or under the supervision of, that company’s principal executive and principal financial officers, or persons performing similar functions, and influenced by that company’s board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate.

During the preparation of the audited financial statements of the Company for the year ended December 31, 2020, including the finalization of the accounting for the Business Combination, we identified a material weakness in our internal control over financial reporting related to the valuation of our derivative liability, as described further below. A material weakness is defined as a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

The material weakness related specifically to our application of the FASB Accounting Standards Codification for derivatives (ASC 815) in the valuation of the embedded derivative features of the convertible securities of the Company at December 31, 2020 and the varying treatment of each tranche of such securities under ASC 815. The derivative liability in connection with the convertible securities should have been valued at $44.8 million but was instead valued at $0. For the quarter and fiscal year ended December 31, 2020, the adjustment decreased the gain on derivatives by $44.8 million, with a corresponding increase to net loss for the same periods, in each case as compared to the amounts reflected in the Company’s press release announcing our financial results for the three months and year ended December 31, 2020 that we furnished in a Current Report on Form 8-K that was filed with the Securities and Exchange Commission on March 1, 2020. The embedded derivative was extinguished upon the consummation of the Business Combination on January 7, 2021, and management therefore does not expect this material weakness to recur in future periods.

UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

The following unaudited pro forma condensed combined balance sheet as of December 31, 2020 combines the audited historical consolidated balance sheet of Social Capital Hedosophia Holdings Corp. III ("SCH") as of December 31, 2020 with the audited historical consolidated balance sheet of Clover Health Investments, Corp., together with its affiliates and subsidiaries (collectively, "Clover") as of December 31, 2020, giving effect to the Business Combination and a PIPE Investment with net proceeds of $400.0 million, as if they had been consummated as of that date.

The following unaudited pro forma condensed combined statement of operations for the year ended December 31, 2020 combines the audited historical consolidated statements of operations of SCH for the year ended December 31, 2020 with the audited historical consolidated statement of operations of Clover for the year ended December 31, 2020 giving effect to the Business Combination and the PIPE Investment as if they had occurred as of January 1, 2020.

The historical financial information of SCH was derived from the audited financial statements of SCH for the year ended December 31, 2020 incorporated by reference. The historical financial information of Clover was derived from the audited consolidated financial statements of Clover for the year ended December 31, 2020 included elsewhere in this Current Report. This information should be read together with SCH's and Clover's audited financial statements and related notes, the sections titled "*Management's Discussion and Analysis of Financial Condition and Results of Operations of Clover*," and other financial information included elsewhere in this Current Report and "*Management's Discussion and Analysis of Financial Condition and Results of Operations of SCH*" and other financial information incorporated by reference.

Unaudited Pro Forma Condensed Combined Balance Sheet
As of December 31, 2020
(in thousands, except share and per share data)

	Historical		Actual Redemptions into Cash	
	(A) SCH	(B) Clover	Pro Forma Adjustments	Pro Forma Balance Sheet
Assets				
Current assets:				
Cash	$ 28,003	$ 92,348	790,002 (5a)	$ 786,861
			(23,741) (5b)	
			400,000 (5c)	
			(499,751) (5n)	
Short-term investments	—	4,098	—	4,098
Investment securities, held-to-maturity	—	265	—	265
Accrued retrospective premiums	—	34,829	—	34,829
Other receivables	—	11,368	—	11,368
Healthcare receivables	—	38,745	—	38,745
Prepaid expenses	300	—	—	300
Other assets, current	—	8,129	(5,758) (5b)	2,371
Total current assets	28,303	189,782	660,752	878,837
Investment securities, available-for-sale, at fair value	—	53,963	—	53,963
Investment securities, held-to-maturity	—	429	—	429
Other assets	—	8,885	—	8,885
Property and equipment, net	—	2,078	—	2,078
Operating lease right-of-use assets	—	7,882	—	7,882
Goodwill	—	1,243	—	1,243
Cash and cash equivalents held in trust account	828,117	—	(28,980) (5d)	—
			(5,988) (5e)	
			(2,898) (5f)	
			(249) (5l)	
			(790,002) (5a)	
Other intangible assets	—	2,990	—	2,990
Total assets	$856,420	$267,252	$ (167,365)	$ 956,307

Liabilities, Convertible Preferred Stock, and Stockholders' Deficit				
Current liabilities:				
Unpaid claims	$ —	$ 103,976	$ —	$ 103,976
Accounts payable and accrued expenses	4,935	30,671	(7,849) (5h)	20,261
			(4,846) (5e)	
			(2,650) (5b)	
Accrued salaries and benefits	—	3,978	—	3,978
Operating lease liabilities	—	4,795	—	4,795
Current portion of notes and securities payable	—	20,803	—	20,803
Other liabilities, current	193	5	(11) (5e)	187
Due to investors	28,000	—	—	28,000
Promissory note- related party	806	—	(806) (5e)	—
Total current liabilities	33,934	164,228	(16,162)	182,000
Other liabilities	—	13,116	—	13,116
Notes and securities payable, net of discounts and deferred issuance costs	—	106,413	337,251 (5g)	29,870
			(413,794) (5h)	
Derivative liabilities	—	44,810	(44,810) (5h)	—
Warrants payable	—	97,782	(97,782) (5j)	—
Long-term operating lease liabilities	—	6,349	—	6,349
Deferred underwriting commission	28,980	—	(28,980) (5d)	—
Total liabilities	62,914	432,698	(264,277)	231,335
Convertible preferred stock	—	447,747	(447,747) (5i)	—
Social Capital Hedosophia Class A ordinary shares subject to possible redemption	788,506	—	(788,506) (5l)	—
Stockholders' equity (deficit):				
SCH preferred shares	—	—	—	—
SCH Class A ordinary shares	—	—	—	—
SCH Class B ordinary shares	2	—	(2) (5k)	—
Clover Common stock, $0.0001 par value	—	4	4 (5h)	—
			7 (5i)	
			(13) (5m)	
			(2) (5n)	
Clover Health Common shares, $0.0001 par value	—	—	2 (5k)	40
			8 (5l)	
			26 (5m)	
			4 (5c)	
Additional paid-in capital	11,760	411,872	421,639 (5h)	2,042,442
			447,740 (5i)	
			97,782 (5j)	
			(6,507) (5e)	
			788,249 (5l)	
			(26,849) (5b)	
			(593) (5m)	
			399,996 (5c)	
			(499,749) (5n)	
			(2,898) (5f)	
Accumulated deficit	(6,762)	(1,028,982)	6,182 (5e)	(1,321,423)
			(337,251) (5g)	
			44,810 (5h)	
			580 (5m)	
Accumulated other comprehensive gain	—	10	—	10
Non-controlling interest	—	3,903	—	3,903
Total stockholders' equity (deficit)	5,000	(613,193)	1,333,165	724,972
Total liabilities, redeemable common stock and stockholders' equity (deficit)	$856,420	$ 267,252	$ (167,365)	$ 956,307

See accompanying notes to the unaudited pro forma condensed combined financial information.

Unaudited Pro Forma Condensed Combined Statements of Operations
For the Year Ended December 31, 2020
(in thousands, except share and per share amounts)

	Historical		Actual Redemptions into Cash	
	(A) SCH	**(B) Clover**	**Pro Forma Adjustments**	**Pro Forma Statement of Operations**
Revenues				
Premiums earned, net	$ —	$ 665,698	$ —	$ 665,698
Other income	—	4,214	—	4,214
Investment income, net	—	2,976	—	2,976
Total revenue	—	672,888	—	672,888
Expenses:				
Net medical claims incurred	—	590,468	—	590,468
Salaries and benefits	—	71,256	—	71,256
General and administrative expenses	—	120,444	—	120,444
Premium deficiency reserve benefit	—	(17,128)	—	(17,128)
Depreciation and amortization	—	555	—	555
Formation and operating costs	6,862	—	(80) (6a)	600
			(6,182) (6b)	
Total operating expenses	6,862	765,595	(6,262)	766,195
(Loss) income from operations	(6,862)	(92,707)	6,262	(93,307)
Other expense (income):				
Change in fair value of warrants	—	80,328	(80,328) (6d)	—
Interest expense	—	35,990	(31,126) (6e)	4,864
Amortization of notes and securities discounts	—	21,118	(8,038) (6e)	13,080
(Gain) loss on derivative	—	(93,751)	93,751 (6f)	—
Gain on extinguishment of convertible securities	—	—	(126,795) (6g)	(126,795)
Interest income	(117)	—	117 (6c)	—
Total other (income) expense	(117)	43,685	(152,419)	(108,851)
Net (loss) income	$ (6,745)	$ (136,392)	$ 158,681	$ 15,544
Net (loss) income per share - basic and diluted	$ (0.32)	$ (3.18)		$ 0.04
Weighted average common shares outstanding - basic and diluted	21,178,291	42,886,067	383,262,518 (6h)	404,440,809

See accompanying notes to the unaudited pro forma condensed combined financial information.

Notes to Unaudited Pro Forma Condensed Combined Financial Information

1. Description of the Merger

On October 5, 2020, SCH entered into the Merger Agreement with Merger Sub, and Clover. At closing and pursuant to the Merger Agreement (i) Merger Sub merged with and into Clover, with the Clover surviving the merger as a wholly owned subsidiary of SCH, (ii) Clover merged with and into SCH, with SCH surviving the merger and (iii) SCH changed its name to Clover Health Investments, Corp. At the effective time of the First Merger, Clover amended its governing documents to authorize the Clover Class Z Common Stock at par value $0.0001 per share, which was issued to the excluded holders in connection with the Pre-Closing Restructuring Plan (as defined below).

Clover affected the below steps set forth in the Merger Agreement (referring as "Pre-Closing Restructuring Plan"):

- All outstanding shares of Clover preferred stock converted into 67,427,138 shares of Clover common stock. Clover existing common stock refers to the shares of common stock, par value $0.0001 per share, of Clover.
- All outstanding shares of Clover existing common stock held by NJ Healthcare Investments, LLC, Caesar Ventures, LLC and Titus Ventures, LLC were exchanged for 39,419,411 shares of Clover Class Z Common Stock ("Founder Share Exchange").
- All outstanding principal and accrued but unpaid interest due on the Clover's convertible securities was converted into 36,117,708 shares of Clover Class Z Common Stock.
- All outstanding Clover's warrants were converted into 3,484,154 shares of Clover common stock of which 331,280 shares were exchanged for cash in accordance with the Cash Consideration (as defined below).

As a result of the Business Combination, among other things, (i) all outstanding shares of Clover common stock (after giving effect to the Pre-Closing Restructuring) as of immediately prior to the effective time of the First Merger, were cancelled in exchange for the right to receive, or the reservation of, at the election of the holders thereof (except with respect to the shares held by entities affiliated with Vivek Garipalli and certain other holders who received only shares of Clover Health B common stock), an amount in cash, shares of Clover Health Class B common stock, or a combination thereof, as adjusted in accordance with the Merger Agreement, which in the aggregate will equal an amount in cash of up to $500.0 million (less any redemptions from SCH's public shareholders) (the "Cash Consideration") and a number of shares of Clover Health Class B common stock equal to (A) 350,000,000, minus (B) the aggregate amount of Clover Health Class B common stock paid in respect of the shares held by entities controlled by Vivek Garipalli and certain other holders, minus (C) the aggregate amount of Clover Health Class B common stock that were issued upon the net exercise or conversion, as applicable, of the Clover Awards, minus (D) the quotient obtained by dividing (x) the Cash Consideration by (y) $10.00; (ii) shares of Clover held by entities controlled by Vivek Garipalli and certain other holders immediately prior to the effective time of the First Merger were cancelled in exchange for the right to receive shares of Clover Health Class B common stock based on the Exchange Ratio (as defined in the Merger Agreement); and (iii) all shares of Clover common stock reserved in respect of the Clover Awards outstanding as of immediately prior to the effective time of the First Merger, were converted, based on the Exchange Ratio, into awards based on shares of Class B common stock, which, in the case of all shares described in clauses (i), (ii) and (iii) hereof, in the aggregate equal an aggregate merger consideration of $3,500,000,000 (the "Aggregate Merger Consideration"). Each share of the Company Class Z Common Stock, in each case, that is issued and outstanding immediately prior to the First Effective Time was cancelled and converted into the right to an aggregate number of shares of Clover Health Class B Common Stock equal to the Exchange Ratio as defined below. An aggregate of $499.8 million of cash was paid to those of the Clover Stockholders who are eligible to make a cash election on a pro rata basis and $0.2 million of redemptions were elected by SCH's public shareholders.

Concurrently with the execution of the Merger Agreement, SCH entered into Subscription Agreements with the PIPE Investors. At closing, the PIPE Investors have collectively subscribed for 40,000,000 shares of the SCH Class A Common Stock for an aggregate purchase price equal to $400.0 million, a portion of which was funded by affiliates of Sponsor Related PIPE Investors.

2. Basis of Presentation

The accompanying unaudited pro forma condensed combined financial statements were prepared in accordance with Article 11 of SEC Regulation S-X as amended by the final rule, Release No. 33-10786 "Amendments to Financial Disclosures about Acquired and Disposed Businesses." Release No. 33-10786 replaces the existing pro forma adjustment criteria with simplified requirements to depict the accounting for the transaction ("Transaction Accounting Adjustments") and present the reasonably estimable synergies and other transaction effects that have occurred or reasonably expected to occur ("Management's Adjustments")

The unaudited pro forma condensed combined balance sheet as of December 31,2020 is prepared using the historical unaudited condensed balance sheets of SCH and Clover as of December 31,2020 and gives effect to the Business Combination and the PIPE Investment as if they occurred on December 31, 2020. The unaudited pro forma condensed combined statement of operations for the year ended December 31, 2020 give effect to the Business Combination and the PIPE Investment as if they occurred on January 1, 2020 and were prepared using:

- the historical audited consolidated financial statements of Clover for the year ended December 31, 2020; and
- the historical audited consolidated financial statements of SCH as of and for the year ended December 31, 2020;

The unaudited pro forma condensed combined financial information is for illustrative purposes only. The financial results may have been different had the companies always been combined. You should not rely on the unaudited pro forma condensed combined financial information as being indicative of the historical results that would have been achieved had the companies always been combined or the future results that the combined company will experience. SCH and Clover have not had any historical relationship prior to the Business Combination. Accordingly, no pro forma adjustments were required to eliminate activities between the companies.

The unaudited pro forma condensed combined financial information has been prepared assuming actual redemptions of 24,892 SCH outstanding ordinary shares for an aggregate redemption payment of $0.2 million out of the trust account on the closing date of the Business Combination. No other SCH ordinary shares are subject to redemption.

3. Accounting for the Merger

The Business Combination was accounted for as a reverse recapitalization in accordance with GAAP. Under this method of accounting, SCH was treated as the “acquired” company for financial reporting purposes. Accordingly, the Business Combination was treated as the equivalent of Clover issuing stock for the net assets of SCH, accompanied by a recapitalization. The net assets of SCH will be stated at historical cost, with no goodwill or other intangible assets recorded. Operations prior to the Business Combination will be those of Clover.

4. Shares of Clover Common Stock

Clover Health issued approximately 260,965,701 shares of Clover Health Class B Common Stock in the Business Combination and paid an aggregate of $499.8 million of cash (equivalent to 49,975,104 shares after applying the exchange ratio) to those of the Clover Stockholders eligible to make a cash election on a pro rata basis, based on the exchange ratio of 2.0681 as follows:

Clover Common Stock assumed outstanding prior to the closing of the Business Combination	10,747,570
Exchange Ratio	2.0681
	22,226,751
Clover Class Z Common Stock assumed outstanding	75,537,119
prior to the closing of the Business Combination	2.0681
Exchange Ratio	156,216,390
Clover convertible preferred stock assumed outstanding prior to the closing of the Business Combination	60,584,000
Exchange Ratio	2.0681
	125,292,174
Clover warrant assumed outstanding prior to the closing of the Business Combination	3,484,154
Exchange Ratio	2.0681
	7,205,490
Clover cash consideration shares payment prior to the closing of the Business Combination	(24,165,040)
Exchange Ratio	2.0681
	(49,975,104)
Estimated shares of Clover Health Class B Common Stock issued to Clover Stockholders upon closing of the Business Combination	260,965,701

5. Adjustments to Unaudited Pro Forma Condensed Combined Balance Sheet as of September 30, 2020

The unaudited pro forma condensed combined balance sheet as of December 31, 2020 has been prepared to illustrate the effect of the Business Combination and has been prepared for informational purposes only.

The unaudited pro forma condensed combined balance sheet as of December 31, 2020 depict the accounting for the transaction (“Transaction Accounting Adjustments”) and present the reasonably estimable synergies and other transaction effects that have occurred or reasonably expected to occur (“Management’s Adjustments”).

The pro forma notes and adjustments, included in the unaudited pro forma condensed combined balance sheet as of December 31, 2020, are as follows:

Pro forma notes

(A) Derived from the audited condensed consolidated balance sheet of SCH as of December 31, 2020.

(B) Derived from the audited condensed consolidated balance sheet of Clover as of December 31, 2020.

Pro forma adjustments

(a) To reflect the release of $790.0 million of cash from the cash and cash equivalents held in the trust account after adjustment for the payment of transaction-related fees.

(b) To reflect Clover’s payment for $21.7 million of finance and advisory fees, $2.7 million of legal fees, and $2.4 million of accounting and auditing fees and other professional fees related to the Business Combination. All such fees have been recorded as an offset to additional paid-in capital. The classification of transaction costs as of December 31, 2020 is as follows:

Transaction costs	Amount (in thousands)
Amounts previously capitalized and paid	$ 3,108
Amounts previously capitalized and not paid	2,650
Amounts expected as part of the Business Combination	21,091
Total	$ 26,849

(c) To reflect the issuance and sale of 40,000,000 shares of Clover Health Class A Common Stock to the PIPE investors pursuant to subscription agreements for an aggregate commitment amount of $400.0 million concurrent with the completion of the Business Combination.

(d) To reflect the settlement of $29.0 million of deferred underwriters’ fees incurred during SCH’s IPO that are due upon completion of the Business Combination.

(e) To reflect SCH’s payment for $5.2 million of professional fees and $1.3 million of other transaction costs related to the Business Combination and the PIPE Investment. All such fees have been recorded as an offset to additional paid-in capital. The classification of transaction costs as of December 31, 2020 is as follows:

Transaction costs	Amount (in thousands)
Amounts previously capitalized and paid	$ 519
Amounts previously capitalized and not paid	5,663
Amounts expected as part of the Business Combination	325
Total	$ 6,507

(f) To reflect SCH’s payment for financial advisory fees of $2.9 million, which will be paid upon the closing of the Business Combination.

(g) To reflect the accretion of the unamortized discount related to the Clover’s convertible securities of $337.3 million prior to the conversion of such convertible securities upon consummation of the Business Combination.

(h) To reflect the conversion of $413.8 million of the outstanding principal and $7.8 million of accrued interest under Clover’s convertible securities into 36,117,708 shares of Clover common stock upon consummation of the Business Combination. The $44.8 million of derivative liability associated with Clover’s convertible securities was eliminated in connection with the conversion of Clover’s convertible securities.

(i) To reflect the automatic conversion, on a one to one basis, of all outstanding shares of Clover's preferred stock, with a carrying amount of $447.7 million, into 60,584,000 shares of Clover common stock and 6,843,138 shares of Clover Class Z Common Stock as a part of the Pre-Closing Restructuring Plan. The Clover's preferred stock outstanding shares are comprised of the following:

Preferred Stock classes	Shares
Series A-1 Preferred Stock(1)	951,347
Series A Preferred Stock	5,274,468
Series B Preferred Stock	10,338,818
Series C Preferred Stock(1)	18,471,585
Series D Preferred Stock	25,547,782
Total Preferred Stock issued and outstanding	60,584,000

(1) Excludes 6,247,914 Series A-1 Preferred Stock shares and 595,224 Series C Preferred Stock shares owned by founders prior to the conversion of the Founder Share Exchange. Per the Founder Share Exchange, these Series A-1 and Series C Preferred Stock shares are converted to Clover Class Z Common Stock.

(j) To reflect the release of $97.8 million of warrant payable associated with liability-classified warrants upon the exercise of all Clover's outstanding preferred stock and common stock warrants into an aggregate of 3,484,154 shares of Clover common stock upon consummation of the Business Combination, of which shares 331,280 were subject to the Cash Consideration.

(k) To reflect the automatic conversion of all issued and outstanding shares of SCH Class B ordinary shares into an aggregate of 20,700,000 shares of Clover Health Class A common stock upon consummation of the Business Combination.

(l) To reflect redemption of 24,892 SCH Class A ordinary shares in an aggregate redemption payment of $0.2 million and the transfer of $787.4 million of remaining SCH Class A ordinary shares to permanent equity.

(m) To reflect the recapitalization of Clover through the contribution of all the share capital of Clover to Clover Health and the issuance of 143,475,108 shares of Clover Health Class A Common Stock and 260,965,701 shares of Clover Health Class B Common Stock and the elimination of the accumulated deficit of SCH, the accounting acquiree. See footnote 6(h) for further detail of share information.

(n) To reflect an aggregate of $499.8 million of cash consideration payment (equivalent to 49,975,104 shares after applying the exchange ratio), to those of the Clover Stockholders eligible to make a cash election on a pro rata basis.

6. Adjustments to Unaudited Pro Forma Condensed Combined Statement of Operations for the Year Ended December 31, 2020

The unaudited pro forma condensed combined statements of operations depict the accounting for the transaction ("Transaction Accounting Adjustments") and present the reasonably estimable synergies and other transaction effects that have occurred or reasonably expected to occur ("Management's Adjustments").

SCH and Clover did not have any historical relationship prior to the Business Combination. Accordingly, no pro forma adjustments were required to eliminate activities between the companies. SCH recognized $6.2 million of transaction costs during the year ended December 31, 2020. No material transaction costs were recognized for Clover during the years ended December 31, 2020.

The pro forma basic and diluted earnings per share amounts presented in the unaudited pro forma condensed combined statements of operations are based upon the number of Clover Health's Class A and Class B shares outstanding at the closing of the Business Combination, assuming the Business Combination occurred on January 1, 2020. As the unaudited pro forma condensed combined statements of operations are in a loss position, anti-dilutive instruments were not included in the calculation of diluted weighted average number of common shares outstanding.

The pro forma notes and adjustments, based on preliminary estimates that could change materially as additional information is obtained, are as follows:

Pro forma notes

(A) Derived from the audited consolidated statement of operations of SCH for the year ended December 31, 2020.

(B) Derived from the audited consolidated statement of operations and comprehensive loss of Clover for the year ended December 31, 2020.

Pro forma adjustments

(a) To reflect an adjustment to eliminate $80,000 for administrative and support services to the Sponsor that terminates upon the completion of the Business Combination. SCH entered into an agreement whereby, commencing on April 21, 2020, SCH paid an affiliate of the Sponsor $10,000 per month for office space, administrative and support services.

(b) To reflect an adjustment to eliminate direct transaction fees incurred as a result of the Business Combination.

(c) To reflect an adjustment to eliminate interest income on cash and marketable securities held in the trust account as of the beginning of the period.

(d) To reflect an adjustment to eliminate the impact of the change in the fair value of warrant payable for warrants issued by Clover as it is assumed that all warrants would have been exercised for Clover Common Stock pursuant to the Merger Agreement. As a result, such warrants would no longer be subject to fair value accounting following the assumed closing of the Business Combination on January 1, 2020.

(e) To reflect an adjustment to eliminate interest expense and amortization of discounts on Clover's convertible securities that were converted to equity upon completion of the Business Combination. The adjustments were based on the total interest expense and amortization of discounts on Clover's convertible securities recorded as of and for the year ended December 31, 2020 and the conversion of Clover's convertible securities based on carrying amounts of the convertible securities as of December 31, 2020, which represents the best available information.

(f) To reflect an adjustment to eliminate the impact of the change in the fair value of derivative liability associated with Clover's convertible securities as it is assumed that all convertible securities would have been converted to Clover's common stock and then to Clover Health Class B Common Stock on January 1, 2020. As a result, the derivative liability would be extinguished following the assumed closing of the Business Combination on January 1, 2020.

(g) To reflect an adjustment to record a gain of $126.8 million on conversion of Clover's convertible securities as if the Business Combination had occurred on January 1, 2020. It should be noted that the gain on conversion of $126.8 million was calculated based on the carrying amounts of Clover's convertible securities and derivative liability as of December 31, 2020, which represents the best available information.

(h) As the Business Combination and the PIPE Investment are being reflected as if they had occurred at the beginning of the earliest period presented, the calculation of weighted average shares outstanding for basic and diluted net loss per share assumes that the shares issuable relating to the Business Combination and the PIPE Investment have been outstanding for the entirety of the periods presented. The 24,892 shares redeemed by SCH's public shareholders have been retroactively adjusted to eliminate such shares for the entire period. Weighted average common shares outstanding—basic and diluted for the year ended December 31, 2020 are calculated as follows:

	Year Ended December 31, 2020 Combined (Actual Redemptions into Cash)
Weighted average shares calculation—basic and diluted	
SCH issuance of Class B ordinary shares	20,700,000
Issuance of Clover Health of Class A Common Stock in connection with closing of the PIPE Investment	40,000,000
Issuance of Clover Health Class B Common Stock to Clover shareholders in connection with the Business Combination	260,965,701
SCH Class A ordinary shares subject to redemption reclassified to equity	82,775,108
Weighted average shares outstanding	404,440,809