

WELLCARE HEALTH PLANS, INC.

Form 10-Q/A

February 06, 2009

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q/A
Amendment No. 1**

(Mark One)

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

For the quarterly period ended March 31, 2007

or

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

For the transition period from to

Commission file number: 001-32209

WELLCARE HEALTH PLANS, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

47-0937650

(I.R.S. Employer
Identification No.)

8725 Henderson Road, Renaissance One

Tampa, Florida

(Address of principal executive offices)

33634

(Zip Code)

(813) 290-6200

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer

Smaller Reporting Company (Do not check if a smaller reporting company)

Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of February 4, 2009, there were 42,236,285 shares of the registrant's common stock, par value \$.01 per share, outstanding.

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Explanatory Note

As previously disclosed, on October 24, 2007, certain federal and state agencies executed a search warrant at our headquarters in Tampa, Florida. Our Board of Directors (the Board) formed a special committee (the Special Committee) comprised of independent directors to, among other things, investigate independently and otherwise assess the facts and circumstances raised in any federal or state regulatory or enforcement inquiries (including, without limitation, any matters relating to accounting and operational issues) and in any private party proceedings, and develop and recommend remedial measures to the Board for its consideration. The Special Committee and the Company are cooperating fully with federal and state regulators and enforcement officials in these matters. The Special Committee's review is ongoing and we cannot provide assurances as to when it will be completed. Based on the issues referred to date to the Special Committee, other than as described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2007 (the 2007 10-K), we currently do not believe that the work of the Special Committee will result in any material adjustments to the accompanying financial statements.

Upon consideration of certain issues identified in the Special Committee investigation and after discussions with management and our independent registered public accounting firm, the Audit Committee of the Board (the Audit Committee) recommended to the Board, and the Board thereafter concluded, that we should restate our previously issued consolidated financial statements for the years ended December 31, 2004, 2005 and 2006, including the quarterly periods contained therein, and the three-month period ended March 31, 2007 and the three- and six-month periods ended June 30, 2007.

This amended quarterly report on Form 10-Q (the Amended Form 10-Q) includes restated information for the three-month periods ended March 31, 2006 and March 31, 2007, as well as for the year ended December 31, 2006.

We are in the process of preparing our quarterly reports on Form 10-Q for each of the first three quarters of 2008, all of which are past due. We intend to file our past due 2008 Form 10-Qs as soon as practical.

References to the Company, WellCare, we, our, and us in this Amended Form 10-Q refer to WellCare Health Plans, Inc., together, in each case, with our subsidiaries and any predecessor entities unless the context suggests otherwise.

Other than in connection with the restatement and investigations, we have not undertaken to modify or update the disclosure contained in the originally filed quarterly report on Form 10-Q for the three month period ended March 31, 2007 (the Original Form 10-Q). Accordingly, for information regarding events related to us and our business that have occurred subsequent to March 31, 2007 and for updated Risk Factors, please review our 2007 10-K filed on January 26, 2009 and other filings we have made with the U.S. Securities and Exchange Commission (the SEC), which can be accessed at www.sec.gov.

Table of Contents**Part I FINANCIAL INFORMATION****Item 1. Financial Statements.**

WELLCARE HEALTH PLANS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited, in thousands, except share data)

	March 31, 2007 (Restated)	December 31, 2006 (Restated)
Assets		
Current Assets:		
Cash and cash equivalents	\$ 1,344,909	\$ 964,542
Investments	151,143	126,422
Premium and other receivables, net	119,690	100,561
Other receivables from government partners, net	49,527	40,902
Prepaid expenses and other current assets, net	89,180	87,163
Deferred income taxes	37,433	19,901
 Total current assets	 1,791,882	 1,339,491
 Property, equipment and capitalized software, net	 62,484	 61,258
Goodwill	189,470	189,470
Other intangibles, net	18,132	18,855
Restricted investment assets	60,939	53,382
Other assets	1,529	1,842
 Total Assets	 \$ 2,124,436	 \$ 1,664,298
Liabilities and Stockholders Equity		
Current Liabilities:		
Medical benefits payable	\$ 554,635	\$ 460,728
Unearned premiums	232,055	3,313
Accounts payable	6,982	7,764
Other accrued expenses	158,562	194,295
Other payables to government partners	83,938	148,606
Taxes payable	7,562	1,133
Deferred income taxes		1,735
Current portion of long-term debt	1,600	1,600
Funds held for the benefit of members	304,034	113,652
Other current liabilities	418	418
 Total current liabilities	 1,349,786	 933,244
Long-term debt	153,661	154,021
Deferred income taxes	26,587	31,858
Other liabilities	16,734	8,116
 Total liabilities	 1,546,768	 1,127,239

Commitments and contingencies (see Note 7)

Stockholders' Equity:

Preferred stock, \$0.01 par value (20,000,000 authorized, no shares issued or outstanding)

Common stock, \$0.01 par value (100,000,000 authorized, 41,164,939 and 40,900,134 shares issued and outstanding at March 31, 2007 and December 31, 2006, respectively)

Paid-in capital

Retained earnings

Accumulated other comprehensive income

Total stockholders' equity

Total Liabilities and Stockholders' Equity

412	409
315,151	297,351
262,038	239,238
67	61
577,668	537,059
\$ 2,124,436	\$ 1,664,298

See notes to unaudited condensed consolidated financial statements.

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WELLCARE HEALTH PLANS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited, in thousands, except share data)

	Three Months Ended March 31,	
	2007	2006
	(Restated)	(Restated)
Revenues:		
Premium	\$ 1,288,693	\$ 791,727
Investment and other income	17,628	8,164
Total revenues	1,306,321	799,891
Expenses:		
Medical benefits	1,095,272	673,369
Selling, general and administrative	165,616	97,854
Depreciation and amortization	4,566	3,090
Interest	3,460	3,384
Total expenses	1,268,914	777,697
Income before income taxes	37,407	22,194
Income tax expense	14,604	8,909
Net income	\$ 22,803	\$ 13,285
Net income per common share (see Note 1):		
Net income per common share basic	\$ 0.57	\$ 0.34
Net income per common share diluted	\$ 0.55	\$ 0.33

See notes to unaudited condensed consolidated financial statements.

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WELLCARE HEALTH PLANS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited, in thousands)

	Three Months Ended March 31, 2007 (Restated)	Three Months Ended March 31, 2006 (Restated)
Cash from (used in) operating activities:		
Net income	\$ 22,803	\$ 13,285
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	4,566	3,090
Loss on disposal of fixed asset		1,250
Equity-based compensation expense	5,619	5,750
Incremental tax benefit received for options exercised	(7,117)	(1,027)
Deferred taxes, net	(24,538)	(26,359)
Changes in operating accounts, net of effect of acquisitions:		
Premiums and other receivables	(19,129)	971
Other receivables from government partners	(8,625)	(107,868)
Prepaid expenses and other, net	(2,017)	1,750
Medical benefits payable	93,907	108,096
Unearned premiums	228,742	193,384
Accounts payable	(782)	3,083
Other accrued expenses	(35,733)	4,536
Other payables to government partners	(64,668)	2,010
Taxes, net	13,546	35,191
Other, net	8,974	(12,652)
Net cash provided by operations	215,548	224,490
Cash from (used in) investing activities:		
Proceeds from sale and maturities of investments	1,106	775
Purchases of investments	(25,827)	(54,370)
Purchases of restricted investments	(8,267)	(14,851)
Proceeds from sale and maturities of restricted investments	710	510
Additions to property, equipment, and capitalized software	(5,069)	(11,568)
Net cash used in investing activities	(37,347)	(79,504)
Cash from (used in) financing activities:		
Proceeds from common stock issuance, net	156	18,830
Proceeds from options exercised	6,337	1,711
Incremental tax benefit from options exercised	7,117	1,027
Purchase of treasury stock	(1,426)	
Repayments on debt	(400)	(400)
Funds held for the benefit of members, net of disbursements	190,382	201,810
Net cash provided by financing activities	202,166	222,978

Cash and cash equivalents:			
Increase during year		380,367	367,964
Balance at beginning of year		964,542	421,766
Balance at end of year	\$	1,344,909	\$ 789,730

SUPPLEMENTAL DISCLOSURES OF CASH FLOW
INFORMATION -

Cash paid for taxes	\$	17,040	\$ 240
Cash paid for interest	\$	3,264	\$ 3,295

See notes to unaudited condensed consolidated financial statements

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WELLCARE HEALTH PLANS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited, in thousands, except member and share data)

1. ORGANIZATION AND BASIS OF PRESENTATION

WellCare Health Plans, Inc., a Delaware corporation (the Company, WellCare, we, our or us), provides managed care services exclusively to government-sponsored healthcare programs, focusing on Medicaid and Medicare, including health plans for families, children, the aged, blind and disabled and prescription drug plans, serving approximately 2,272,000 members nationwide as of March 31, 2007. The Company's Medicaid plans include plans for individuals who are dually eligible for both Medicare and Medicaid, beneficiaries of the Temporary Assistance to Needy Families program (TANF), Supplemental Security Income program (SSI), State Children's Health Insurance program (S-CHIP) and the Family Health Plus program (FHP). Through its licensed subsidiaries, as of March 31, 2007 the Company operated its Medicaid health plans in Connecticut, Florida, Georgia, Illinois, Missouri, New York and Ohio. The Company's Medicare plans include stand-alone prescription drug plans (PDP) and Medicare Advantage plans, which include both Medicare coordinated care (MCC) plans and Medicare private fee-for-service (PFFS) plans. As of March 31, 2007, the Company offered its MCC plans in Connecticut, Florida, Georgia, Illinois, Louisiana and New York, and its PDP plans in all 50 states and the District of Columbia and its PFFS plans in 39 states and the District of Columbia.

Basis of Presentation

The accompanying unaudited condensed consolidated interim financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the fiscal year ended December 31, 2007 included in the Company's Annual Report on Form 10-K for the year ended December 31, 2007 (the 2007 10-K), which the Company filed with the U.S. Securities and Exchange Commission (SEC) on January 26, 2009. In the opinion of the Company's management, the interim financial statements reflect all normal recurring adjustments that the Company considers necessary for the fair presentation of the financial position and results of operations and cash flows for the interim periods presented. The interim financial statements included herein have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted. Results for the interim periods presented are not necessarily indicative of results that may be expected for the entire year or any other interim period.

Net Income per Share

The Company computes basic net income per common share on the basis of the weighted-average number of unrestricted common shares outstanding. Diluted net income per common share is computed on the basis of the weighted-average number of unrestricted common shares outstanding plus the dilutive effect of outstanding restricted shares and stock options using the treasury stock method. The following table presents the calculation of net income per common share — basic and diluted:

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WELLCARE HEALTH PLANS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited, in thousands, except member and share data)

	Three Months Ended March 31, (unaudited)	
	2007 (Restated)	2006 (Restated)
Numerator:		
Net income basic and diluted	\$ 22,803	\$ 13,285
Denominator:		
Weighted average common shares outstanding basic	40,163,234	38,590,948
Adjustment for unvested restricted common shares	401,963	601,269
Dilutive effect of stock options (as determined by the treasury stock method)	1,023,159	767,385
Weighted average common shares outstanding diluted	41,588,356	39,959,602
Net income per common share:		
Net income per common share basic	\$ 0.57	\$ 0.34
Net income per common share diluted	\$ 0.55	\$ 0.33

Certain options to purchase common stock were not included in the calculation of diluted net income per common share because their exercise prices were greater than the average market price of the Company's common stock for the period and, therefore, the effect would be anti-dilutive. For the three months ended March 31, 2007 and 2006, approximately 434,800 and 185,000 shares with exercise prices ranging from \$85.53 to \$89.29, and \$41.10 to \$42.10 per share, respectively, were excluded from diluted weighted average common shares outstanding.

Recently Adopted Accounting Standards

In June 2006, the Financial Accounting Standards Board (the FASB) issued FASB Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements. FIN 48 requires companies to determine whether it is more likely than not that a tax position will be sustained upon examination by the appropriate taxing authorities before any part of the benefit can be recorded in the financial statements. It also provides guidance on the recognition, measurement and classification of income tax uncertainties, along with any related interest and penalties. Previously recorded income tax benefits that no longer meet this standard are required to be charged to earnings in the period that such determination is made. FIN 48 also requires significant additional disclosures. FIN 48 was effective for fiscal years beginning after December 15, 2006. The Company adopted the new standard during the first quarter of 2007 as required. There was no cumulative effect of adopting FIN 48 for 2007.

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WELLCARE HEALTH PLANS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited, in thousands, except member and share data)

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (FAS 159). FAS 159 permits an entity to measure certain financial assets and financial liabilities at fair value. Under FAS 159, entities that elect the fair value option will report unrealized gains and losses in earnings at each subsequent reporting date. The pronouncement is effective for fiscal years beginning after November 15, 2007. The Company adopted the new standard during the first quarter of 2008 as required. The Company has evaluated the impact of FAS 159 and does not expect that the pronouncement will have a material impact on the Company's consolidated financial statements.

In September 2006, the FASB issued FAS No. 157, *Fair Value Measurements* (FAS 157). FAS 157 defines fair value, establishes a framework for measuring fair value in GAAP and requires enhanced disclosures about fair value measurements. FAS 157 does not require any new fair value measurements. The pronouncement is effective for fiscal years beginning after November 15, 2007. The guidance in FAS 157 will be applied prospectively with the exception of: (i) block discounts of financial instruments, and (ii) certain financial and hybrid instruments measured at initial recognition under FAS 133, which are to be applied retrospectively as of the beginning of initial adoption (a limited form of retrospective application). The Company adopted the new standard during the first quarter of 2008 as required. The Company has evaluated the impact of FAS 157 and does not expect that the pronouncement will have a material impact on the Company's consolidated financial statements.

2. RESTATEMENT OF PREVIOUSLY ISSUED CONSOLIDATED FINANCIAL STATEMENTS

In October 2007, certain federal and state agencies executed a search warrant at the headquarters of the Company in Tampa, Florida. Our Board of Directors (the Board) formed a special committee (the Special Committee) comprised of independent directors to, among other things, investigate independently and otherwise assess the facts and circumstances raised in any federal or state regulatory or enforcement inquiries (including, without limitation, any matters relating to accounting and operational issues) and in any private party proceedings, and develop and recommend to the Board for its consideration remedial measures. The Special Committee retained an outside law firm to advise and assist it in the investigation. The Special Committee and the Company are cooperating fully with regulators and enforcement officials.

Upon consideration of certain issues identified in the Special Committee investigation and as discussed below, in July 2008, management and the Board determined that we should restate our previously issued consolidated financial statements for the years ended December 31, 2006, 2005 and 2004, including the quarterly periods contained therein. In addition, in light of the work of the Special Committee, we reassessed our previously issued unaudited condensed consolidated financial statements for the three-month period ended March 31, 2007 and the three- and six-month periods ended June 30, 2007. Based on such reassessment, management and the Board determined that we should restate our previously issued unaudited condensed consolidated financial statements for the three-month period ended March 31, 2007 and the three- and six-month periods ended June 30, 2007.

The restatements relate to accounting errors identified in connection with our compliance with the refund requirements under (a) the behavioral health component of our contract with the Florida Agency for Health Care Administration (AHCA) to provide behavioral health care services for our Florida Medicaid members (the AHCA contract), (b) our Healthy Kids contract with the Florida Healthy Kids Corporation pursuant to which we provide health benefits for children whose family income renders them ineligible for Medicaid, and (c) our Medicaid contract with the Illinois Department of Health and Family Services to provide health care services to our Illinois Medicaid members.

In each of the affected Medicaid programs, we receive premiums to be used to provide certain medical and health benefits. Those premiums are subject to statutory or contractual obligations that require us to expend a minimum percentage of the premiums on eligible medical expense. To the extent that we expend less than the minimum percentage of the premiums on eligible medical expense, we are required to refund all or some portion of the difference between the minimum and our actual allowable medical expense. With respect to the AHCA and Healthy Kids contracts, we have determined that we included certain ineligible medical expenses in our premium refund

calculations, which understated the amount of the refunds. In light of the inclusion of ineligible medical expenses in our refund calculations, we did not record an adequate liability for the refunds, which resulted in an error in our previously filed financial statements. We also did not record an adequate liability for the anticipated refund amount with respect to the Illinois Medicaid program.

Summary of Restated and Reclassified Items

The following is a reconciliation of the Condensed Consolidated Balance Sheets, Condensed Consolidated Statements of Income, and Condensed Consolidated Statements of Cash Flows as originally reported to balances as restated for the year ended December 31, 2006 and the three months ended March 31, 2007 and 2006. The adjustments below resulted from (1) the restatement as described above, (2) the correction of errors that were previously deemed immaterial, both individually and in the aggregate, to the consolidated financial statements and (3) the adjustment of the presentation of certain amounts to conform to the 2007 presentation as presented in the Condensed Consolidated Balance Sheet.

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WELLCARE HEALTH PLANS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited, in thousands, except member and share data)
March 31, 2007 Condensed Balance Sheet Reconciliation

	March 31, 2007			March 31,
	(As originally	Adjustments	Reclassifications	2007
	reported)			(As restated)
Assets				
Current Assets:				
Cash and cash equivalents	\$ 1,344,909	\$	\$	\$ 1,344,909
Investments	151,143			151,143
Premium receivables, net	119,433	257 (1)		119,690
Other receivables from government partners, net	49,527			49,527
Prepaid expenses and other current assets, net	76,181	12,999 (1)		89,180
Deferred income taxes	31,724	5,709 (1)(2)		37,433
Total current assets	1,772,917	18,965		1,791,882
Property, equipment and capitalized software, net	62,484			62,484
Goodwill	189,470			189,470
Other intangibles, net	18,132			18,132
Restricted investment assets	60,939			60,939
Other assets	1,529			1,529
Total Assets	\$ 2,105,471	\$ 18,965	\$	\$ 2,124,436
Liabilities and Stockholders Equity				
Current Liabilities:				
Medical benefits payable	\$ 556,947	\$ 2,495 (1)	\$ (4,807)(3)	\$ 554,635
Unearned premiums	232,055			232,055
Accounts payable	6,982			6,982
Other accrued expenses	143,498	15,064 (1)		158,562
Other payables to government partners	36,083	43,048 (4)	4,807 (3)	83,938
Taxes payable	22,298	(14,736)(2)		7,562
Current portion of long-term debt	1,600			1,600
Funds held for the benefit of members	304,034			304,034
Other current liabilities	418			418
Total current liabilities	1,303,915	45,871		1,349,786
Long-term debt	153,661			153,661
Deferred income taxes	35,752	(9,165)(2)(6)		26,587
Other liabilities	8,082	8,652 (6)		16,734

Total liabilities	1,501,410	45,358	1,546,768
Commitments and Contingencies (Note 7)			
Stockholders' Equity:			
Preferred stock, \$0.01 par value (20,000,000 authorized, no shares issued or outstanding)			
Common stock, \$0.01 par value (100,000,000 authorized, 41,164,939 and 40,900,134 shares issued and outstanding at March 31, 2007 and December 31, 2006, respectively)	412		412
Paid-in capital	310,053	5,098(1)	315,151
Retained earnings	293,532	(31,494)(5)	262,038
Accumulated other comprehensive income (loss)	64	3(1)	67
Total stockholders' equity	604,061	(26,393)	577,668
Total Liabilities and Stockholders Equity	\$ 2,105,471	\$ 18,965	\$ 2,124,436

(1) The adjustments relate to the correction of errors to properly state the balance in connection with the restatement. Such errors were previously deemed immaterial, both individually and in the aggregate, to the consolidated financial statements.

(2) The adjustments are the tax-effect of the restatement adjustments recorded in the period ended

March 31, 2007
and explained in
the following
March 31, 2007
Condensed
Consolidated
Statement of
Income
reconciliation to
restated
March 31, 2007
balances.

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- (3) The reclassification from Medical benefits payable is due to the reclassification of amounts to Other payables to government partners for recorded liabilities for retrospective premium refunds that were previously recorded as Medical benefits payable prior to the restatement.
- (4) The adjustments to Other payables to government partners is the cumulative effect of the restatement for retrospective premium refund, of which \$4,464 relates to the period ended March 31, 2007 and is reflected in the three months ended March 31, 2007 Condensed Consolidated Statement of Income Reconciliation below, of which \$19,956 relates to 2006, \$7,475 relates to 2005, and \$11,153

relates to 2004.

- (5) The adjustment to Retained earnings is the income statement impact of restatement adjustments recorded during the three month period ended March 31, 2007 and the years ended 2006, 2005 and 2004.
- (6) The adjustment of \$8,652 to Deferred income taxes and Other liabilities is the result of restatement adjustments and to record a FIN 48 liability as of March 31, 2007. Refer to Note 5 for further analysis.

Three months ended March 31, 2007 Condensed Consolidated Statement of Income Reconciliation

	Three Months Ended March 31, 2007 (As originally reported)	Adjustments	Reclassifications	Three Months Ended March 31, 2007 (As restated)
Revenues:				
Premium	\$ 1,221,766	\$ 92 (2)	\$ 66,835(4)	\$ 1,288,693
Investment and other income	17,666	(38)(1)		17,628
Total revenues	1,239,432	54	66,835	1,306,321
Expenses:				
Medical benefits	1,024,171	4,266 (1)	66,835(4)	1,095,272
Selling, general and administrative	166,556	(940)(1)		165,616
Depreciation and amortization	4,566			4,566
Interest	3,460			3,460

Total expenses	1,198,753	3,326	66,835	1,268,914
Income before income taxes	40,679	(3,272)		37,407
Income tax expense	15,706	(1,102)(3)		14,604
Net income	\$ 24,973	\$ (2,170)	\$	\$ 22,803
Net income per common share (see Note 1)				
Net income per common share - basic	\$ 0.62	\$ (0.05)	\$	\$ 0.57
Net income per common share - diluted	\$ 0.60	\$ (0.05)	\$	\$ 0.55

(1) The adjustments relate to the correction of errors to properly state the balance in connection with the restatement. Such errors were previously deemed immaterial, both individually and in the aggregate, to the condensed consolidated financial statements.

(2) The adjustment to Premium is primarily related to the \$4,464 restatement adjustment for retrospective premium refunds recorded in addition to the amounts recorded prior to the restatement and reclassified as noted in (4) below. The

adjustment is offset by amounts previously deemed immaterial that were recorded for the correction of errors in connection with the restatement, see (1) above.

(3) The adjustment to Income tax expense is the income tax effect of the restatement and other adjustments reflected above.

(4) The reclassification to premium primarily represents the three months ended March 31, 2007 amounts originally recorded as medical expenses prior to the restatement related to the risk corridor under the prescription drug program. The reclassification is to reflect such amounts as reduction to premium. These reclassifications do not impact

our previously
reported Net
income,
Earnings per
share or Net
cash provided
by operations
for the three
months ended
March 31, 2007.

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WELLCARE HEALTH PLANS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited, in thousands)

Three Months Ended March 31, 2007 Condensed Consolidated Statement of Cash Flows Reconciliation

	Three Months Ended March 31, 2007 (As originally reported)	Adjustments	Reclassifications	Three Months Ended March 31, 2007 (As restated)
Cash from (used in) operating activities:				
Net income	\$ 24,973	\$ (2,170)(1)	\$	\$ 22,803
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization expense	4,566			4,566
Equity-based compensation expense	10,548	(4,929)(2)		5,619
Incremental tax benefit received for options exercises	(4,928)	(2,189)(2)		(7,117)
Deferred taxes, net	(15,797)	(8,741)(2)		(24,538)
Changes in operating accounts, net of effect of acquisitions:				
Premiums and other receivables	(16,968)	(2,161)(2)		(19,129)
Other receivables from government partners	(8,625)			(8,625)
Prepaid expenses and other, net	11,326	(13,343)(2)		(2,017)
Medical benefits payable	91,366	1,403 (2)	1,138 (3)	93,907
Unearned premiums	208,249		20,493 (4)	228,742
Accounts payable	(1,033)	251 (2)		(782)
Other accrued expenses	(28,545)	13,305 (2)	(20,493)(4)	(35,733)
Other payables to government partners	(67,993)	4,463 (3)	(1,138)(3)	(64,668)
Taxes, net	9,117	4,429 (2)		13,546
Other, net	734	8,240 (2)		8,974
Net cash provided by (used in) operations	216,990	(1,442)		215,548
Cash from (used in) investing activities:				
Proceeds from sale and maturities of investments	1,106			1,106
Purchases of investments	(25,827)			(25,827)
Purchases and dispositions of restricted investments, net	(7,557)		7,557 (4)	
Purchases of restricted investments			(8,267)(4)	(8,267)
			710 (4)	710

Proceeds from sale and maturities of restricted investments				
Additions to property, equipment, and capitalized software	(4,322)	(747)(5)		(5,069)
Net cash from (used in) investing activities	(36,600)	(747)		(37,347)
Cash from (used in) financing activities:				
Proceeds from common stock issuance, net	156			156
Proceeds from options exercised	6,337			6,337
Incremental tax benefit from options exercised	4,928	2,189 (2)		7,117
Purchase of treasury stock	(1,426)			(1,426)
Repayments on debt	(400)			(400)
Funds held for the benefit of members, net of disbursements	190,382			190,382
Net cash provided by financing activities	199,977	2,189		202,166
Cash and cash equivalents:				
Increase during year	380,367			380,367
Balance at beginning of year	964,542			964,542
Balance at end of year	\$ 1,344,909	\$	\$	\$ 1,344,909
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION				
-				
Cash paid for taxes	\$ 17,040	\$	\$	\$ 17,040
Cash paid for interest	\$ 3,264	\$	\$	\$ 3,264

(1) The adjustment to Net income represents the period ended March 31, 2007 effect of the restatement amounts recorded for the Three Months Ended March 31, 2007 and included in the March 31, 2007 Condensed

Consolidated
Statement of
Income
reconciliation.

- (2) The adjustments relate to the period-over-period change resulting from the correction of errors in connection with the restatement, which is explained in the March 31, 2007 Condensed Consolidated Balance Sheet reconciliation. Such errors were previously deemed immaterial, both individually and in the aggregate, to the consolidated financial statements.
- (3) The adjustment to Other payables to government partners is the effect of the cumulative year over year change relating to the restatement for retrospective premium refund, for both existing liabilities and additional liabilities as discussed previously. The reclassification between Medical benefits payable and Other payables to government partners is due to

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WELLCARE HEALTH PLANS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited, in thousands)

the
reclassification
of existing
liabilities as
discussed
previously and
shown in the
March 31, 2007
Condensed
Balance Sheet
reconciliation.

- (4) These reclassifications were recorded to correct the presentation of certain amounts to conform to the December 31, 2007 presentation as presented in the Condensed Consolidated Statement of Cash Flows. These reclassifications do not impact the Company's previously reported Net cash provided by or used in operating activities, financing activities or investing activities.

- (5) The adjustment to Additions to property and

equipment, net
resulted from a
change in the
determination of
non-cash
additions to
property and
equipment.

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WELLCARE HEALTH PLANS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited, in thousands, except member and share data)
December 31, 2006 Condensed Consolidated Balance Sheet Reconciliation

	December 31, 2006 (As originally reported)	Adjustments	Reclassifications	December 31, 2006 (As restated)
Assets				
Current Assets:				
Cash and cash equivalents	\$ 964,542	\$	\$	\$ 964,542
Investments	126,422			126,422
Premium and other receivables, net	102,465	(1,904)(1)		100,561
Other receivables from government partners, net	40,902			40,902
Prepaid expenses and other current assets, net	87,507	(344)(1)		87,163
Deferred income taxes	16,576	3,325 (1)		19,901
Total current assets	1,338,414	1,077		1,339,491
Property, equipment and capitalized software, net	62,005	(747)(1)		61,258
Goodwill	189,470			189,470
Other intangibles, net	18,855			18,855
Restricted investment assets	53,382			53,382
Other assets	1,839	3 (1)		1,842
Total Assets	\$ 1,663,965	\$ 333	\$	\$ 1,664,298
Liabilities and Stockholders Equity				
Current Liabilities:				
Medical benefits payable	\$ 465,581	\$ 1,092 (1)	\$ (5,945) (4)	\$ 460,728
Unearned premiums	23,806		(20,493) (6)	3,313
Accounts payable	8,015	(251)(1)		7,764
Other accrued expenses	172,043	1,759 (1)	20,493 (6)	194,295
Other payables to government partners	104,076	38,585 (3)	5,945 (4)	148,606
Taxes payable	13,181	(12,048)(2)		1,133
Deferred income taxes	1,735			1,735
Current portion of long-term debt	1,600			1,600
Funds held for the benefit of members	113,652			113,652
Other current liabilities	418			418
Total current liabilities	904,107	29,137		933,244
Long-term debt	154,021			154,021
Deferred income taxes	34,666	(2,808)(1)		31,858
Other liabilities	8,116			8,116

Total liabilities	\$	1,100,910	\$	26,329	\$		\$	1,127,239
Stockholders' Equity:								
Common stock		409						409
Paid-in capital		294,443		2,908 (1)				297,351
Retained earnings		268,559		(29,321)(5)				239,238
Accumulated other comprehensive income (loss)		(356)		417 (1)				61
Total stockholders' equity		563,055		(25,996)				537,059
Total Liabilities and Stockholders' Equity	\$	1,663,965	\$	333	\$		\$	1,664,298

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**WELLCARE HEALTH PLANS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited, in thousands, except member and share data)**

- (1) The adjustments relate to the correction of errors to properly state the balance in connection with the restatement. Such errors were previously deemed immaterial, both individually and in the aggregate, to the consolidated financial statements.
- (2) The adjustment is the tax-effect of the restatement adjustments recorded in calendar year 2006.
- (3) The adjustments to Other payables to government partners is the cumulative effect of the restatement for retrospective premium refund, for both existing liabilities in (4) below and additional liabilities as discussed previously, of

which \$19,956 relates to 2006, \$7,475 relates to 2005, and \$11,153 relates to 2004.

- (4) The adjustment to Medical benefits payable is primarily due to the reclassification of amounts to the Other payables to government partners for existing recorded liabilities related to the restatement that were previously recorded as Medical benefits payable prior to the restatement.
- (5) The adjustment to Retained earnings is the income statement impact of restatement adjustments from 2006, 2005 and 2004.
- (6) The adjustment to Unearned premiums and Other accrued expenses represents the reclassification recorded to reflect certain liabilities as other liabilities

to conform to
the 2007
presentation of
such balances.

Three months ended March 31, 2006 Condensed Consolidated Statement of Income Reconciliation

	Three Months Ended March 31, 2006 (As originally reported)	Adjustments	Reclassifications	Three Months Ended March 31, 2006 (As restated)
Revenues:				
Premium	\$ 722,221	\$ (4,832)(2)	\$ 74,338(4)	\$ 791,727
Investment and other income	8,164			8,164
Total revenues	730,385	(4,832)	74,338	799,891
Expenses:				
Medical benefits	599,084	(53)(1)	74,338(4)	673,369
Selling, general and administrative	97,265	589 (1)		97,854
Depreciation and amortization	3,090			3,090
Interest	3,384			3,384
Total expenses	702,823	536	74,338	777,697
Income before income taxes	27,562	(5,368)		22,194
Income tax expense	10,794	(1,885)(3)		8,909
Net income	\$ 16,768	\$ (3,483)	\$	\$ 13,285
Net income per common share (see Note 1):	\$ 0.43	\$ (0.09)	\$	\$ 0.34
Net income per common share - basic	\$ 0.42	\$ (0.09)	\$	\$ 0.33
Net income per common share - diluted				

(1) The adjustments relate to the correction of errors to properly state the balance in connection with the restatement. Such errors were previously deemed immaterial, both individually and

in the aggregate,
to the condensed
consolidated
financial
statements.

- (2) The adjustment to Premium is the Three Months Ended March 31, 2006 impact of the restatement adjustment for retrospective premium refund amounts recorded in addition to the amounts recorded prior to the restatement and reclassified as noted in (4) below to reflect such amounts as reduction to premium.
- (3) The adjustment to Income tax expense is the income tax effect of the restatement and other adjustments reflected above.
- (4) The reclassification to premium represents the three months ended March 31, 2006 amounts originally recorded as medical expenses prior

to the restatement related to the risk corridor under the prescription drug program. The reclassification is to reflect such amounts as reduction to premium. These reclassifications do not impact our previously reported net income, earnings per share or net cash provided by operations for the three months ended March 31, 2006.

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WELLCARE HEALTH PLANS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited, in thousands, except member and share data)

Three Months Ended March 31, 2006 Condensed Consolidated Statement of Cash Flows Reconciliation

	Three Months Ended March 31, 2006 (As originally reported)	Adjustments	Reclassifications	Three Months Ended March 31, 2006 (As restated)
Cash from (used in) operating activities:				
Net income	\$ 16,768	\$ (3,483)(3)	\$	\$ 13,285
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization expense	3,090			3,090
Loss on disposal of fixed assets	1,250			1,250
Equity-based compensation expense	6,777	(1,027)(4)		5,750
Incremental tax benefit received for options exercises	(1,027)			(1,027)
Deferred taxes, net	(25,667)	(692)(4)		(26,359)
Changes in operating accounts, net of effect of acquisitions:				
Premiums and other receivables	971			971
Other receivables from government partners	(107,868)			(107,868)
Prepaid expenses and other, net	1,750			1,750
Medical benefits payable	105,157		2,939 (2)	108,096
Unearned premiums	193,384			193,384
Accounts payable	1,758	1,325 (4)(1)		3,083
Other accrued expenses	5,337	(801)(4)		4,536
Other payables to government partners		4,949 (2)	(2,939)(2)	2,010
Taxes, net	35,344	(153)(4)		35,191
Other, net	(12,437)	(215)(4)		(12,652)
Net cash provided by (used in) operations	224,587	(97)		224,490
Cash from (used in) investing activities:				
Proceeds from sale and maturities of investments	775			775
Purchases of investments	(54,370)			(54,370)
Purchases and dispositions of restricted investments, net	(14,341)		14,341 (5)	

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Purchases of restricted investments			(14,851)(5)		(14,851)
Proceeds from sales and maturities of restricted investments			510 (5)		510
Additions to property, equipment, and capitalized software	(11,665)	97 (1)			(11,568)
Net cash from (used in) investing activities	(79,601)	97			(79,504)
Cash from (used in) financing activities:					
Proceeds from common stock issuance, net	18,830				18,830
Proceeds from options exercised	1,711				1,711
Incremental tax benefit from options exercised	1,027				1,027
Repayments on debt	(400)				(400)
Funds held for the benefit of members, net of disbursements	201,810				201,810
Net cash provided by financing activities	222,978				222,978
Cash and cash equivalents:					
Increase during year	367,964				367,964
Balance at beginning of year	421,766				421,766
Balance at end of year	\$ 789,730	\$	\$	\$	789,730
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION					
-					
Cash paid for taxes	\$ 240	\$	\$	\$	240
Cash paid for interest	\$ 3,295	\$	\$	\$	3,295

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**WELLCARE HEALTH PLANS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited, in thousands, except member and share data)**

- (1) The adjustment to Additions to property and equipment, net resulted from a change in the determination of non-cash additions to property and equipment previously included in Accounts payable

- (2) The adjustment to Other payables to government partners is the effect of the cumulative year over year change relating to the restatement for retrospective premium refund, for both existing liabilities and additional liabilities as discussed previously. The reclassification between Medical benefits payable and Other payables to government partners is due to the reclassification of existing liabilities as

discussed
previously and
shown in the
2006 Condensed
Balance Sheet
reconciliation.

(3) The adjustment
to Net income
represents the
effect of the
restatement
amounts
recorded for the
Three Months
Ended
March 31, 2006
included in the
Three Months
Ended
March 31, 2006
Condensed
Consolidated
Statement of
Income
reconciliation.

(4) The adjustment
relates to the
year over year
change resulting
from the
correction of
errors in
connection with
the restatement,
which is
explained in the
2006 Condensed
Consolidated
Balance Sheet
reconciliation.
Such errors were
previously
deemed
immaterial, both
individually and
in the aggregate,
to the
consolidated
financial

statements.

- (5) These reclassifications were recorded to correct the presentation of certain amounts to conform to the March 31, 2007 presentation as presented in the Condensed Consolidated Statement of Cash Flows. These reclassifications do not impact the Company's previously reported net cash provided by or used in operating activities, financing activities or investing activities.

3. SEGMENT REPORTING

The Company has two reportable segments: Medicaid and Medicare. The segments were determined based upon the type of governmental administration, regulation and funding of the healthcare plans. Segment performance is evaluated based upon earnings from operations without corporate allocations. Accounting policies of the segments are consistent with those applied at December 31, 2006.

The Medicaid segment includes operations which provide healthcare services to recipients that are eligible for state supported programs including Medicaid and children's health programs. The Medicare segment includes operations which provide healthcare services and prescription drug benefits to recipients who are eligible for the federally supported Medicare program.

Asset, liability and equity amounts by segment have not been disclosed, as they are not reported by segment internally by the Company.

	Three Months Ended March 31,	
	2007	2006
	(As	(As
	Restated)	Restated)
Premium revenue:		
Medicaid	\$ 633,424	\$ 348,727
Medicare	655,269	443,000

Total	1,288,693	791,727
Medical benefits expense:		
Medicaid	532,413	279,223
Medicare	562,859	394,146
Total	1,095,272	673,369
Gross margin:		
Medicaid	101,011	69,504
Medicare	92,410	48,854
Total	\$ 193,421	\$ 118,358

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WELLCARE HEALTH PLANS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited, in thousands, except member and share data)

4. EQUITY-BASED COMPENSATION

During the three months ended March 31, 2007 and 2006, the Company recorded \$5,619 and \$5,750, respectively, in compensation expense related to our equity based compensation awards. During the three months ended March 31, 2007, the Company granted options under the 2004 Equity Incentive Plan for the purchase of 483,178 shares of common stock at a weighted-average exercise price of \$84.06 per share and a weighted-average Black-Scholes fair value of \$23.87 per share. At March 31, 2007, options for 3,067,420 shares were outstanding with a weighted-average exercise price of \$39.66 per share. The total intrinsic value of options exercised during the three months ended March 31, 2007 and 2006 determined as of the date of exercise was \$16,118 and \$4,114, respectively. During the three months ended March 31, 2007, the Company also granted 192,092 restricted shares under the 2004 Equity Incentive Plan at a weighted-average grant-date fair value of \$83.25. At March 31, 2007, 955,742 restricted shares remained unvested. The total fair value of restricted shares vested during the three months ended March 31, 2007 and 2006 was \$2,610 and \$694, respectively.

As of March 31, 2007, there was \$63,170 of unrecognized compensation costs related to non-vested equity-based compensation arrangements that is expected to be recognized over a weighted-average period of 3.8 years.

5. INCOME TAXES

The Company uses the asset and liability method of accounting for income taxes. As of March 31, 2007, net deferred tax assets were approximately \$10,910. In assessing the realizability of deferred tax assets, management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies. The Company expects the deferred tax assets to be realized through the generation of future taxable income and the reversal of existing taxable temporary differences.

The Company adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, on January 1, 2007. There was no cumulative effect of adopting FIN 48 for 2007. The total amount of unrecognized tax benefits as of the date of adoption was \$1,093. The amount of unrecognized tax benefits as of March 31, 2007 is \$9,745.

We classify interest and penalties associated with uncertain income tax positions as income taxes within our Condensed Consolidated Financial Statements. The FIN 48 liability is recorded in Other Liabilities. During the quarter ended March 31, 2007, the Company recognized \$0 in interest expense and thus has no accrued interest. No amount was accrued for penalties. As of March 31, 2007, the total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate was \$1,093.

We currently file income tax returns in the U.S. federal jurisdiction and various states. The Internal Revenue Service (IRS) is currently completing its exams on the consolidated income tax returns for the 2004 through 2006 tax years. We are no longer subject to income tax examinations prior to 2004 in major state jurisdictions. We do not believe any adjustments that may result from these examinations will be significant.

We believe it is reasonably possible that our liability for unrecognized tax benefits will not significantly increase or decrease in the next twelve months as a result of audit settlements and the expiration of statutes of limitations in certain major jurisdictions.

6. DEBT

Credit Agreement

The Company and certain of its subsidiaries are parties to a credit agreement, dated as of May 13, 2004, which was subsequently amended on September 1, 2005 and on September 28, 2006 (as amended, the Credit Agreement).

The credit facilities under the Credit Agreement consist of a senior secured term loan facility in the amount of \$155,300 and a revolving credit facility in the amount of \$125,000, of which \$10,000 is available for short-term borrowings on a swingline basis. The term loan and credit facilities are secured by a pledge of stock of our operating subsidiaries, as well as a pledge of substantially all of the assets of our non-regulated entities. Interest is payable quarterly, currently at a rate equal to the sum of a rate based upon the applicable six month LIBOR rate plus a rate equal to 2.50%. The term loan matures in May 2009, and the revolving credit facility will expire in May 2008. The Company is a party to this agreement for the purpose of guaranteeing the indebtedness of its subsidiaries that are

parties to the agreement. As of March 31, 2007, the revolving credit facility has not been utilized.

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WELLCARE HEALTH PLANS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited, in thousands, except member and share data)

The Credit Agreement contains various restrictive covenants which limit, among other things, the Company's ability to incur indebtedness and liens, enter into business combination transactions and cause the Company's regulated subsidiaries to declare and pay dividends to it or its non-regulated subsidiaries. For more information, refer to Note 8.

7. COMMITMENTS AND CONTINGENCIES

As previously disclosed, on October 24, 2007, certain federal and state agencies executed a search warrant at our headquarters in Tampa, Florida. Our Board of Directors (the Board) formed a special committee (the Special Committee) comprised of independent directors to, among other things, investigate independently and otherwise assess the facts and circumstances raised in any federal or state regulatory or enforcement inquiries (including, without limitation, any matters relating to accounting and operational issues) and in any private party proceedings, and develop and recommend remedial measures to the Board for its consideration. The Special Committee and the Company are cooperating fully with federal and state regulators and enforcement officials in these matters. The Special Committee's review is ongoing and we cannot provide assurances as to when it will be completed. Based on the issues referred to date to the Special Committee, other than as described in our 2007 10-K, we currently do not believe that the work of the Special Committee will result in any material adjustments to the accompanying financial statements.

This amended quarterly report on Form 10-Q should be read in conjunction with the consolidated financial statements and notes thereto for the fiscal year ended December 31, 2007 included in the 2007 10-K filed with the SEC on January 26, 2009.

8. SUBSEQUENT EVENTS

Debt Default

The Credit Agreement, as discussed in Note 6, contains various restrictive covenants which limit, among other things, our ability to incur indebtedness and liens, enter into business combination transactions and cause our regulated subsidiaries to declare and pay dividends to us or our non-regulated subsidiaries. As a result of the on-going investigation discussed in Note 2, the Company has been unable to satisfy a number of such obligations, including providing audited financial statements, annual financial plans, and other information sought by the lenders under the Credit Agreement. Consequently, since November, 2007 the Company has been in default under the terms of the Credit Agreement. The Company continues to make payments as required, and consequently, there has been no payment default under the terms of the Credit Agreement. As of the date of this report, the Company's direct financial obligations under the Credit Agreement have not been accelerated or increased; however, the lenders have the right to do so at any time.

Investigation, Restatement, and Other

For more information related to the investigations, restatement, and related matters, refer to the 2007 10-K filed with the SEC on January 26, 2009.

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**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.
Forward Looking Statements**

The following discussion of our financial condition and results of operations should be read in conjunction with the accompanying unaudited condensed consolidated interim financial statements and the notes to those statements appearing elsewhere in this report, our audited consolidated and combined financial statements and the notes thereto for the year ended December 31, 2006, appearing in the 2006 Form 10-K.

This Amended Form 10-Q contains forward-looking statements that are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Statements that are predictive in nature, that depend upon or refer to future events or conditions, or that include words such as may, will, should, expects, anticipates, intends, plans, believes, estimates, predicts, potential, continues and similar expressions are forward-looking statements.

Forward-looking statements involve known and unknown risks and uncertainties that may cause our actual future results to differ materially from those projected or contemplated in the forward-looking statements. These risks and uncertainties include, but are not limited to:

the potential expiration, cancellation or suspension of our state or federal contracts;

lack of prior operating history, including lack of experience with network providers and health benefits management, in expansion markets, including Georgia, Missouri and Ohio;

our lack of significant operating history in our Medicare PDP and PFFS programs and potential inability to accurately predict the number of members in these programs;

our ability to accurately predict and effectively manage health benefits, drug costs and other operating expenses, including our ability to reinsure certain risks related to medical expenses;

the potential for confusion in the marketplace concerning PDP and PFFS programs resulting from, among other things, the proliferation of health care options facing Medicare beneficiaries and the complexity of the PDP and PFFS offerings, including the benefit structures and the relative lack of awareness of these programs among health care providers, pharmacists and patient advocates;

our ability to accurately estimate incurred but not reported medical costs;

risks associated with future changes in healthcare laws, including repeal or modification of the Medicare Modernization Act of 2003 or any portion thereof;

potential reductions in funding for government healthcare programs, including reductions in funding resulting from the escalating costs of prescription drugs;

risks associated with periodic government reimbursement rate adjustments, the timing of the CMS risk-corridor payments to PDP providers and the accounting treatment for the PDP programs;

our ability to develop processes and systems to support our operations and future growth;

regulatory changes and developments, including potential marketing restrictions or sanctions and premium recoupment;

potential fines, penalties or operating restrictions resulting from regulatory audits, examinations, investigations or other inquiries;

risks associated with our acquisition strategy;

risks associated with our efforts to expand into additional states and counties;

risks associated with our substantial debt obligations; and

risks associated with our rapid growth, including our ability to attract and retain qualified management personnel.

Additional information concerning these and other important risks and uncertainties can be found under the headings *Forward-Looking Statements* and *Risk Factors* in the 2006 Form 10-K, which contain discussions of our business and the various factors that may affect it. We specifically disclaim any obligation to update or revise any forward-looking statements, whether as a result of new information, future developments or otherwise.

Overview

We provide managed care services exclusively to government-sponsored healthcare programs, focusing on Medicare and Medicaid. We offer a variety of Medicare and Medicaid plans, including health plans for families, children, the aged, blind and disabled and prescription drug plans, currently serving over 2.27 million members nationwide as of March 31, 2007.

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Medicaid was established under the U.S. Social Security Act of 1965 to provide medical assistance to low income and disabled persons. It is state operated and implemented, although it is funded by both the state and federal governments. Our Medicaid plans include plans for individuals who are dually eligible for both Medicare and Medicaid, and recipients of the Temporary Assistance to Needy Families (TANF) program, Supplemental Security Income (SSI) program, State Children s Health Insurance (S-CHIP) program, and the Family Health Plus (FHP) program. The TANF program generally provides assistance to low-income families with children and the SSI program generally provides assistance to low-income aged, blind or disabled individuals. Families who exceed the income thresholds for Medicaid may be able to qualify for the state S-CHIP and FHP programs.

Medicare is a federal program that provides eligible persons age 65 and over and some disabled persons a variety of hospital, medical insurance and prescription drug benefits. Medicare is administered and funded by the federal Centers for Medicare & Medicaid Services (CMS). Our Medicare plans include stand-alone prescription drug plans (PDP) and Medicare Advantage (MA) plans which include both Medicare coordinated care (MCC) plans and Medicare private fee-for-service (PFFS) plans. Medicare Advantage is Medicare s managed care alternative to original Medicare fee-for-service which individuals enroll into directly through CMS. MCC plans are plans that are administered through a health maintenance organization and generally require members to seek health care services from a network of health care providers. PFFS plans are open-access plans that allow members to be seen by any physician or facility that participates in the Medicare program.

We believe that our experience in managing healthcare for this broad range of beneficiaries better positions us to capitalize on growth opportunities across all of these programs. In addition, unlike many other managed care organizations that attempt to serve the general population through commercial health plans, we focus exclusively on serving individuals in government programs. We believe that this focus allows us to better serve our members and providers and to more efficiently manage our operations. We have centralized core functions, such as claims processing and medical management, combined with localized marketing and strong provider relationships. We believe that this approach will allow us to continue effectively growing our business, both through organic growth and through acquisitions.

Through our licensed subsidiaries, as of March 31, 2007, we operated Medicaid plans in Florida, New York, Connecticut, Illinois, Missouri, Georgia and Ohio and our MCC plans in Florida, New York, Connecticut, Illinois, Louisiana and Georgia. We also operated stand-alone Medicare PDP plans in all 50 states and the District of Columbia and Medicare PFFS plans in 793 counties in 39 states and Washington, D.C.

The following tables summarize our membership by segment and line of business as of March 31, 2007 and 2006.

	March 31, 2007	March 31, 2006
<u>Medicaid</u>		
TANF	864,000	590,000
S-CHIP	206,000	89,000
SSI	70,000	59,000
FHP	31,000	27,000
	1,171,000	765,000
<u>Medicare</u>		
MA	131,000	74,000
PDP	970,000	703,500
	1,101,000	777,500

Total	2,272,000	1,542,500
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We enter into contracts with government agencies that administer health benefits programs. These contracts generally are subject to renewal every one to three years. We receive premiums from state and federal agencies for the members that are assigned to or have selected us to provide healthcare services under each benefit program. The amount of premiums we receive for each member is fixed, although it varies according to demographics, including the government program, and the member's geographic location, age and gender, and the premiums are subject to periodic adjustments.

Our largest expense is the cost of medical benefits that we provide, which is based primarily on our arrangements with healthcare providers. Our profitability depends on our ability to predict and effectively manage medical benefits expense relative to the fixed premiums we receive. Our arrangements with providers fall into two broad categories: capitation arrangements, where we pay the providers a fixed fee per member, and fee-for-service and risk-sharing arrangements, where

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we assume all or part of the risk of the cost of the healthcare provided. Generally, capitation payments represent less than 20% of our total medical benefits expense. Other components of medical benefits expense are variable and require estimation and ongoing cost management.

Estimation of medical benefits expense is our most significant critical accounting estimate. See Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies.

We use a variety of techniques to manage our medical benefits expense, including payment methods to providers, referral requirements, quality and disease management programs, reinsurance and member co-payments and premiums for some of our Medicare plans. National healthcare costs have been increasing at a higher rate than the general inflation rate, however, and relatively small changes in our medical benefits expense relative to premiums that we receive can create significant changes in our financial results. Changes in healthcare laws, regulations and practices, levels of use of healthcare services, competitive pressures, hospital costs, major epidemics, terrorism or bio-terrorism, new medical technologies and other external factors could reduce our ability to manage our medical benefits expense effectively.

One of our primary tools for measuring profitability is our medical benefits ratio, the ratio of our medical benefits expense to the premiums we receive. Changes in the medical benefits ratio from period to period result from, among other things, changes in Medicaid and Medicare funding, changes in the mix of Medicaid and Medicare membership, our ability to manage medical costs and changes in accounting estimates related to incurred but not reported claims. We use medical benefits ratios both to monitor our management of medical benefits expense and to make various business decisions, including what healthcare plans to offer, what geographic areas to enter or exit and the selection of healthcare providers. Although medical benefits ratios play an important role in our business strategy, we may be willing to enter into provider arrangements that might produce a less favorable medical benefits ratio if those arrangements, such as capitation or risk-sharing, would likely lower our exposure to variability in medical costs.

Segments

We have two reportable business segments: Medicaid and Medicare. Medicaid, a state-administered program, was enacted in 1965 to make federal matching funds available to all states for the delivery of healthcare benefits to eligible individuals, principally those with incomes below specified levels who meet other state specified requirements. Medicaid is structured to allow each state to establish its own eligibility standards, benefits package, payment rates and program administration under broad federal guidelines. Most states determine threshold Medicaid eligibility by reference to other federal financial assistance programs, including the TANF and SSI programs.

TANF provides assistance to low-income families with children. SSI is a federal program that provides assistance to low-income aged, blind or disabled individuals. However, states can broaden eligibility criteria.

S-CHIP, developed in 1997, is a federal/state matching program that provides healthcare coverage to children in low income families not otherwise covered by Medicaid or other insurance programs. It must be reauthorized by Congress this year. S-CHIP enables a segment of the large uninsured population in the United States to receive healthcare benefits. States have the option of administering S-CHIP through their Medicaid programs.

FHP is a New York State program that provides health insurance for certain adults and their families between the ages of 19 and 64 who do not have health insurance on their own, but have income too high to qualify for Medicaid.

Medicare is a federal program that provides eligible persons age 65 and over and some disabled persons a variety of hospital, medical insurance and prescription drug benefits. Most individuals eligible for Medicare are entitled to receive inpatient hospital care without the payment of any premium, but are required to pay a premium to the federal government, which is adjusted annually, to be eligible for physician care and other services.

Under the MA program, managed care plans can contract with CMS to provide health insurance coverage in exchange for a fixed monthly payment per member based on the geographic area in which the member resides. The fixed monthly payment per member is subject to periodic adjustments determined by CMS based upon a number of factors, including retroactive changes in members' status such as Medicaid eligibility, and risk measures based on demographic factors such as age, gender, county of residence and health status. The weighting of the risk measures in the determination of the amount of the periodic adjustments to the fixed monthly payments was phased in over time and first became fully implemented at the beginning of 2007. Individuals who elect to participate in the MA program are relieved of the obligation to pay some or all of the deductible or coinsurance amounts required under the original

Medicare fee-for-service program, but in the case of MCC plans, are generally required to use services provided by the MA plan's network providers, and may be

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required to pay a premium to the federal Medicare program unless the MA plan chooses to pay the premium as part of its benefit package.

As part of the Medicare reform legislation known as the Medicare Prescription Drug, Improvement and Modernization Act of 2003, beginning in January 2006, Medicare recipients were provided the opportunity to select a prescription drug plan through Medicare Part D, largely funded by the federal government. The Medicare Part D benefit is available to Medicare managed care enrollees as well as Medicare fee-for-service enrollees. MCC plans are required to offer a plan that includes Part D drug benefits, called a MA-PD plan, in every region in which they operate.

The Medicare Part D benefit, which provides prescription drug benefits, is available to MA enrollees as well as original Medicare fee-for-service enrollees. MCC plans are required to offer a Part D drug benefit, whereas PFFS plans have the option of providing a Part D benefit, but are not required to do so. Most of our PFFS products offer a Part D benefit. MCC plans and PFFS plans that include a Part D drug benefit are also known as MA-PD plans. Original Medicare fee-for-service beneficiaries and PFFS enrollees are able to purchase a stand-alone prescription drug plan, called a PDP plan, from a list of CMS-approved PDP plans such as ours.

We have experienced and continue to expect seasonality and fluctuations in our PDP earnings on a quarterly basis resulting from the design of our benefits and the interaction of various product features, such as deductibles, co-payments, the coverage gap, catastrophic coverage, risk corridors and reinsurance arrangements, all of which will impact our PDP earnings. Our PDP medical costs will be higher in the first half of the year than in the second half of the year. As a result, our net income margins are expected to be lower in the first half of the year and to increase in the second half of the year. During 2006, we purchased a one-year, nonrenewable, aggregate reinsurance policy for calendar year 2006 to mitigate the risks associated with our launch of our product by complementing the risk corridor protection and catastrophic coverage provided by CMS under the Medicare Part D program. The terms of this aggregate reinsurance policy resulted in higher recoveries in periods of higher medical benefits ratios and lower or no recoveries in periods of lower medical benefits ratios. The recoveries and net reinsurance impact under this aggregate reinsurance policy were cumulative over the one-year term of the policy. Our gross profit on our Medicare segment was favorably impacted by a net reinsurance recovery of approximately \$10 million in the three-month period ended March 31, 2006. In light of the 2007 PDP bid results and our 2006 experience with the PDP product, we did not purchase a similar reinsurance arrangement in 2007.

Growth Opportunities

We continually identify markets for potential acquisitions or expansion that would increase our membership and broaden our geographic presence. These potential acquisitions or expansion efforts are at various stages of internal consideration, and we may enter into letters of intent, transactions or other arrangements supporting our growth strategy at any time. However, we cannot predict when or whether such transactions or other arrangements will actually occur, and we may not be successful in completing potential acquisitions.

Critical Accounting Policies

In the ordinary course of business, we make a number of estimates and assumptions relating to the reporting of our results of operations and financial condition in conformity with accounting principles generally accepted in the United States of America. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results could differ significantly from those estimates under different assumptions and conditions. We believe that the accounting policies discussed below are those that are most important to the presentation of our financial condition and results and require management's most difficult, subjective and complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

Revenue recognition. Our Medicaid contracts with state governments are generally multi-year contracts subject to annual renewal provisions. Our MA and PDP contracts with CMS generally have terms of one year. We generally receive premiums in advance of providing services, and recognize premium revenue during the period in which we are obligated to provide services to our members. Premiums are billed monthly for coverage in the following month and are recognized as revenue in the month for which insurance coverage is provided. We estimate, on an ongoing basis, the amount of member billings that may not be fully collectible based on historical trends and other factors. An

allowance is established for the estimated amount that may not be collectible. This allowance has not been significant to premium revenue. The payment we receive monthly from CMS for our PDP program generally represents our bid amount for providing prescription drug insurance coverage. We recognize premium revenue for providing this insurance coverage ratably over the term of our annual contract. However, our CMS payment is subject to (i) risk corridor adjustments and (ii) subsidies in order for us and CMS to share the risk associated with financing the ultimate costs of the Part D benefit. The amount of revenue payable to a plan by CMS is subject to adjustment, positive or negative, based upon the application of risk corridors that compare a plan's

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revenues targeted in their bids (target amount) to actual prescription drug costs. Variances exceeding certain thresholds may result in CMS making additional payments to us or require us to refund to CMS a portion of the premiums we received. Actual prescription drug costs subject to risk sharing with CMS are limited to the costs that are, or would have been, incurred under the CMS defined standard benefit plan (allowable risk corridor costs). We estimate and recognize an adjustment to premium revenues related to the risk corridor payment adjustment based upon pharmacy claims experience to date as if the annual contract were to terminate at the end of each reporting period. Accordingly, this estimate provides no consideration to future pharmacy claims experience. Premiums collected in advance are deferred and reported as unearned premiums in the accompanying Consolidated Balance Sheets, any amounts that have not been received by the end of the period remain on the balance sheet classified as premium receivables.

Premium payments that we receive are based upon eligibility lists produced by the government. From time to time, states require us to reimburse them for premiums that we received from the states based on an eligibility list that a state later discovers contains individuals who were not eligible for any government-sponsored program or are eligible for a different premium category or a different program. We record adjustments to revenues based on member retroactivity. These adjustments reflect changes in the number of and eligibility status of enrollees subsequent to when revenue was billed. We estimate the amount of outstanding retroactivity each period and adjust premium revenue accordingly, if appropriate. The estimates of retroactivity adjustments are based on historical trends, premiums billed, the volume of member and contract renewal activity and other information. Our government contracts establish monthly rates per member, but may have additional amounts due to us based on items such as age, working status or specific health issues of the member. For example, CMS has implemented a risk adjustment model which apportions premiums paid to all Medicare plans according to the health status of each beneficiary enrolled.

The CMS risk adjustment model pays more for Medicare members with predictably higher costs. Under this risk adjustment methodology, diagnosis data from inpatient and ambulatory treatment settings are used to calculate the risk adjusted premium payment to us. We collect, capture and submit the necessary diagnosis data to CMS within prescribed deadlines. We estimate risk adjustment revenues based upon the diagnosis data submitted to CMS and ultimately accepted by CMS.

CMS transitioned to the risk adjustment model while the old demographic model was being phased out. The demographic model based the monthly premiums paid to Medicare plans on factors such as age, gender and disability status. The monthly premium amount for each member was separately determined under both the risk adjustment and demographic model, and these separate payment amounts were blended according to a transition schedule. 2007 is the first year in which risk adjusted payment for health plans is fully phased in. The PDP payment methodology is based 100% on the risk adjustment model which began in 2006. As a result of this process and the phasing in of the risk adjustment model, our CMS monthly premium payments per member may change materially, either favorably or unfavorably.

Estimating medical benefits expense and medical benefits payable. The cost of medical benefits is recognized in the period in which services are provided and includes an estimate of the cost of medical benefits that have been incurred but not yet reported. We contract with various healthcare providers for the provision of certain medical care services to our members and generally compensate those providers on a fee-for-service or capitated basis or pursuant to certain risk-sharing arrangements. Capitation represents fixed payments generally on a per-member-per-month, or PMPM, basis to participating physicians and other medical specialists as compensation for providing comprehensive healthcare services. By the terms of our capitation agreements, capitation payments we make to capitated providers alleviate any further obligation we have to pay the capitated provider for the actual medical expenses of the member.

Medical benefits expense has two main components: direct medical expenses and medically-related administrative costs. Direct medical expenses include amounts paid to hospitals, physicians and providers of ancillary services, such as laboratory and pharmacy. Medically-related administrative costs include items such as case and disease management, utilization review services, quality assurance and on-call nurses.

Medical benefits payable represents amounts for claims fully adjudicated awaiting payment disbursement and estimates for incurred, but not yet reported claims.

We have used a consistent methodology for estimating our medical benefits expense and medical benefits payable. Our policy is to record management's best estimate of medical benefits payable. Monthly, we estimate ultimate benefits payable based upon historical experience and other available information as well as assumptions about emerging trends, which vary by business segment. The process for preparing the estimate utilizes standard actuarial methodologies based on historical data. These standard actuarial methodologies include, among other factors, contractual requirements, historic utilization trends, the interval between the date services are rendered and the date claims are paid, denied claims activity, disputed claims activity, benefits changes, expected health care cost inflation, seasonality patterns and changes in

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membership. In developing the estimate, we apply different estimation methods depending on the month for which incurred claims are being estimated. For the more recent months, which constitute the majority of the amount of the medical benefits payable, we estimate our claims incurred by applying observed trend factors to the PMPM costs for prior months, which costs have been estimated using completion factors, in order to estimate the PMPM costs for the most recent months. We validate our estimates of the most recent PMPM costs by comparing the most recent months utilization levels to the utilization levels in older months, actuarial techniques that incorporate a historical analysis of claim payments, including trends in cost of care provided and timeliness of submission and processing of claims.

Also included in medical benefits payable are estimates for provider settlements due to clarification of contract terms, out-of-network reimbursement, claims payment differences as well as amounts due to contracted providers under risk-sharing arrangements.

Many aspects of the managed care business are not predictable with consistency. These aspects include the incidences of illness or disease state (such as cardiac heart failure cases, cases of upper respiratory illness, the length and severity of the flu season, diabetes, the number of full-term versus premature births and the number of neonatal intensive care babies). Therefore, we must rely upon our historical experience, as continually monitored, to reflect the ever-changing mix, needs and growth of our membership in our trend assumptions. Among the factors considered by management are changes in the level of benefits provided to members, seasonal variations in utilization, identified industry trends and changes in provider reimbursement arrangements, including changes in the percentage of reimbursements made on a capitation as opposed to a fee-for-service basis. These considerations are aggregated in the trend in medical benefits expense. Other external factors such as government-mandated benefits or other regulatory changes, catastrophes and epidemics may impact medical cost trends. Other internal factors such as system conversions and claims processing interruptions may impact our ability to accurately predict estimates of historical completion factors or medical cost trends. Medical cost trends potentially are more volatile than other segments of the economy. Management is required to use considerable judgment in the selection of medical benefits expense trends and other actuarial model inputs.

We record reserves for estimated referral claims related to healthcare providers under contract with us who are financially troubled or insolvent and who may not be able to honor their obligations for the costs of medical services provided by other providers. In these instances, we may be required to honor these obligations for legal or business reasons. Based on our current assessment of providers under contract with us, such losses have not been and are not expected to be significant.

Changes in estimates of medical benefits payable are primarily the result of obtaining more complete claims information that directly correlates with the claims and provider reimbursement trends. Volatility in members' needs for medical services, provider claims submissions and our payment processes result in identifiable patterns emerging several months after the causes of deviations from assumed trends occur. Since our estimates are based upon PMPM claims experience, changes cannot typically be explained by any single factor, but are the result of a number of interrelated variables, all influencing the resulting experienced medical cost trend. Deviations, whether positive or negative, between actual experience and estimates used to establish the liability are recorded in the period known.

Goodwill and intangible assets. We obtained goodwill and intangible assets as a result of the acquisitions of our subsidiaries. Goodwill represents the excess of the cost over the fair market value of net assets acquired. Intangible assets include provider networks, membership contracts, trademarks, noncompete agreements, government contracts, licenses and permits. Our intangible assets are amortized over their estimated useful lives ranging from one to 26 years.

We evaluate whether events or circumstances have occurred that may affect the estimated useful life or the recoverability of the remaining balance of goodwill and other identifiable intangible assets. We must make assumptions and estimates, such as the discount factor, in determining the estimated fair values. While we believe these assumptions and estimates are appropriate, other assumptions and estimates could be applied and might produce significantly different results.

We review goodwill and intangible assets for impairment at least annually, or more frequently if events or changes in circumstances occur that may affect the estimated useful life or the recoverability of the remaining balance of goodwill or intangible assets. Events or changes in circumstances would include significant changes in membership,

state funding, medical contracts and provider networks. We have selected the third quarter of each fiscal year for our annual impairment test, which generally coincides with the finalization of state and federal contract negotiations and our initial budgeting process.

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The following table sets forth the condensed consolidated statements of income data, expressed as a percentage of total revenues for each period indicated. The historical results are not necessarily indicative of results to be expected for any future period.

	Three Months Ended March 31,	
	2007	2006
	(Restated)	(Restated)
Statement of Operations Data:		
Revenues		
Premium	98.7%	99.0%
Investment and other income	1.3%	1.0%
 Total revenues	 100.0%	 100.0%
Expenses		
Medical benefits	83.8%	84.2%
Selling, general and administrative	12.7%	12.2%
Depreciation and amortization	0.3%	0.4%
Interest	0.3%	0.4%
 Total expenses	 97.1%	 97.2%
 Income before income taxes	 2.9%	 2.8%
Income tax expense	1.1%	1.1%
 Net income	 1.8%	 1.7%

One of our primary management tools for measuring profitability is our medical benefits ratio (MBR), which represents our medical benefits expense as a percentage of premium revenue. Changes in the MBR from period to period result from, among other things, changes in Medicaid and Medicare funding, changes in the mix of Medicaid and Medicare membership, our ability to manage medical costs and changes in accounting estimates related to incurred but not reported claims. We use MBRs both to monitor our management of medical benefits expense and to make various business decisions, including what healthcare plans to offer, what geographic areas to enter or exit and the selection of healthcare providers. Although MBRs play an important role in our business strategy, we may be willing to enter into provider arrangements that might produce a less favorable MBR if those arrangements, such as capitation or risk-sharing, would likely lower our exposure to variability in medical costs.

Three Month Period Ended March 31, 2007 as Restated Compared to the Three Month Period Ended March 31, 2006 as Restated

Premium revenue. Premium revenues for the three months ended March 31, 2007 increased \$497.0 million, or 62.8%, to \$1,288.7 million from \$791.7 million for the same period in the prior year. The increase is primarily attributable to the addition of members from membership growth in both our Medicaid and Medicare segments, including members related to the launch of our PFFS product in 2007. Total membership grew by approximately 729,500 members, or 47.3%, from 1,542,500 as of March 31, 2006 to 2,272,000 as of March 31, 2007.

The Medicaid segment premium revenue for the three months ended March 31, 2007 increased \$284.7 million, or 81.6%, to \$633.4 million from \$348.7 million for the same period in the prior year. The increase in Medicaid segment revenue is due to growth in membership, primarily due to the Georgia launch, which was not effective until June 1, 2006, coupled with increases in premium rates in certain markets. Aggregate membership in our Medicaid segment

grew by approximately 406,000 members, or 53.1%, from 765,000 as of March 31, 2006 to 1,171,000 as of March 31, 2007.

Medicare segment premium revenue for the three months ended March 31, 2007 increased \$212.3 million, or 47.9%, to \$655.3 million from \$443.0 million for the same period in the prior year. Growth in our Medicare segment premium revenue was primarily driven by growth in our MCC and PDP products, and the launch of our PFFS product in 2007. Membership within the Medicare segment grew by approximately 323,500 members, or 41.6%, from 777,500 as of March 31, 2006 to 1,101,000 as of March 31, 2007. Our MCC membership grew by approximately 25,000 members, or 33.8% to 99,000 members from 74,000 members as of March 31, 2006.

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	As of March 31,		% Change
	2007	2006	
Membership			
Medicaid	1,171,000	765,000	53.1%
Medicare	1,101,000	777,500	41.6%
Total Membership	2,272,000	1,542,500	47.3%

	For the Three Months Ended March 31,			
	2007	% of Premium revenues (As Restated)	2006	% of Premium revenues
Revenues				
Medicaid	\$ 633.4	49.2%	\$ 348.7	44.0%
Medicare	655.3	50.8%	443.0	56.0%
Total Revenues	\$ 1,288.7	100.0%	\$ 791.7	100.0%

Investment and other income. Investment and other income for the three months ended March 31, 2007 increased \$9.5 million, or 115.9%, to \$17.7 million from \$8.2 million for the same period in the prior year. The increase was due primarily to the investment of excess cash generated by operations and a higher interest rate environment.

Medical benefits expense. Medical benefits expense for the three months ended March 31, 2007 increased \$421.9 million, or 62.7%, to \$1,095.3 million from \$673.4 million for the same period in the prior year. The increase in medical benefits expense was due to growth in membership principally in PDP, PFFS and Georgia. The MBR was 85.0% and 85.1% for the three months ended March 31, 2007 and 2006, respectively.

The Medicaid segment medical benefits expense for the three months ended March 31, 2007 increased \$253.2 million, or 90.7%, to \$532.4 million from \$279.2 million for the same period in the prior year. The increase was primarily due to our membership growth, principally in Georgia, which accounted for \$208.8 million of the change when comparing the three-month periods. The Medicaid MBR for the three months ended March 31, 2007 was 84.1% compared to 80.1% for the same period in the prior year. This increase resulted from changes in the healthcare utilization pattern of our members and the demographic mix of our members.

The Medicare segment medical benefits expense for the three months ended March 31, 2007 increased \$168.8 million, or 42.8%, to \$562.9 million, from \$394.1 million for the same period in the prior year. The increase was primarily due to an increase in PDP and PFFS membership and associated product costs, which accounted for a majority of the increase when comparing the three-month periods. The Medicare MBR for the three months ended March 31, 2007 was 85.9% compared to 89.0% for the same period in the prior year, primarily because of the performance of our PDP and our Medicare Advantage products. High PDP membership retention and the absence of a formulary transition period resulted in better formulary compliance and increased generic fill rates in 2007, which lowered overall medical expenses.

Three Months Ended March 31,			
2007	MBR	2006	MBR
(As Restated)			

Medical Benefit Expenses

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Medicaid	\$ 532.4	84.1%	\$ 279.2	80.1%
Medicare	562.9	85.9%	394.1	89.0%
Total Expenses	\$ 1,095.3		\$ 673.3	

Selling, general and administrative expense. Selling, general and administrative (SG&A) expense for the three months ended March 31, 2007 increased \$67.7 million, or 69.2%, to \$165.6 million from \$97.9 million for the same period in the prior year. Our SG&A expense to revenue ratio was 12.7% for the three months ended March 31, 2007 compared to 12.2% for the same period in the prior year. The increase in SG&A expense was primarily due to increased spending necessary to support and sustain our membership growth along with commissions paid in the current quarter related to initial PFFS membership efforts.

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	Three Months Ended March 31,		
	2007	2006	% Change
	(As Restated)		
Selling, general and administrative expenses (SG&A)			
SG&A	\$ 165.6	\$ 97.9	69.2%
SG&A expense to total revenue ratio	12.7%	12.2%	

Interest expense. Interest expense was \$3.5 million and \$3.4 million for the three months ended March 31, 2007 and 2006, respectively. The increase primarily relates to the higher interest rate environment for the three months ended March 31, 2007, partially offset by a \$25.0 million reduction in the outstanding debt balance as a result of the third quarter 2006 repayment of a note due to a related party.

Income tax expense. Income tax expense for the three months ended March 31, 2007 was \$14.6 million compared to \$8.9 million for the same period in the prior year, with an effective tax rate of 39.0% and 40.1% at March 31, 2007 and 2006, respectively.

	Three Months Ended March 31,		
	2007	2006	% Change
	(As Restated)		
Income Tax Expense			
Income tax expense	\$ 14.6	\$ 8.9	63.9%
Effective tax rate	39.0%	40.1%	

Net income. Net income for the three months ended March 31, 2007 was \$22.8 million, compared to \$13.3 million for the same period in the prior year, representing an increase of 71.6%. The increase in net income when comparing the three month periods ended March 31, 2007 and 2006 is primarily due to the increase in revenues with relatively stable medical benefits ratios, slightly off-set by a rise in administrative expenses.

Liquidity and Capital Resources

We manage our cash and investments in a manner that allows us to meet our short-term, long-term and regulatory requirements. We monitor and forecast our capital resources to ensure that we maintain the financial flexibility we need to take advantage of viable business opportunities. As of March 31, 2007 and 2006, cash and cash equivalents were \$1,344.9 million and \$789.7 million, respectively. We also had short-term investments of \$151.1 million and \$147.8 million at March 31, 2007 and 2006, respectively.

Our regulated subsidiaries are financed principally through internally generated funds. We generate cash mainly from premium revenue, and we generally receive premium revenue in advance of payment of claims for related healthcare services. Our primary use of cash is the payment of expenses related to medical benefits and administrative costs. Our investment policies are designed primarily to provide liquidity and preserve capital. The states in which we operate prescribe the types of instruments in which our regulated subsidiaries may invest their funds. As of March 31, 2007 and 2006, a substantial portion of our cash was invested in certificates of deposit and a portfolio of highly liquid money market securities with a weighted average maturity of 317 days and 123 days, respectively. The average portfolio yield for the three-month periods ended March 31, 2007 and 2006 was approximately 3.8% and 3.5%, respectively.

Our non-regulated businesses also generate positive cash flows that are used for corporate purposes. As of March 31, 2007, free cash in our non-regulated businesses was \$123.0 million. We generally invest cash generated from our non-regulated entities in certificates of deposit and government municipal bonds. The factors that we consider in making these investment decisions include term to maturity, rate of return and ratings for municipal bonds.

We expect our future funding for working capital needs, capital expenditures, long-term debt repayments, and other financing activities will continue to be provided from these resources. From time to time, we may need to raise additional capital or draw on our revolving credit facility to fund planned geographic and product expansion or

acquire healthcare businesses. As of March 31, 2007, we had not utilized our revolving credit facility.

Each of our existing and anticipated sources of cash are impacted by operational and financial risks that influence the overall amount of cash generated and the capital available to us. For a further discussion of risks that can impact our liquidity, see the risk factor discussion included in our 2006 and 2007 Form 10-K.

Table of Contents**Overview of Cash Flow Activities**

For the three-month periods ended March 31, 2007 and 2006 our cash flows are summarized as follows (in thousands):

	Three Months Ended March 31,	
	2007	2006
	(As Restated)	
Net cash provided by operations	\$ 215,548	\$ 224,490
Net cash used in investing activities	(37,347)	(79,504)
Net cash provided by financing activities	202,166	222,978

Cash Provided By Operations: As we generally receive premiums in advance of payments of claims for healthcare services, we maintain balances of cash and cash equivalents pending payment of claims. During the first quarter of 2007, cash provided from operations consisted primarily of \$22.8 million of net income from operations, an increase in medical benefits payable of \$93.9 million, an increase in unearned premiums of \$228.7 million, partially off-set by a decrease in other accrued expenses of \$35.7 million and a decrease of \$64.7 million in other payables to government partners.

Cash Used in Investing Activities: During the first quarter of 2007, investing activities consisted primarily of the investment of excess cash generated by operations totaling approximately \$25.8 million in various short term investment instruments and \$8.3 million in restricted investment assets. An additional \$5.1 million was invested in capitalized assets, which included expansion costs related to expansion of our Tampa facilities, and investments in technology needed to sustain our membership growth.

Cash From Financing Activities: Included in financing activities are funds held for the benefit of others, which increased approximately \$190.4 million as of March 31, 2007. These PDP member subsidies represent pass-through payments from government partners and are not accounted for in the Company's results of operations since they represent pass-through payments from our government partners to fund deductibles, co-payments and other member benefits for certain of our members. An additional \$6.3 million was received for options exercised.

We have a senior secured term loan facility of approximately \$155.0 million and a revolving credit facility in the amount of \$125.0 million, of which \$10.0 million is available for short-term borrowings on a swing-line basis. The term loan matures in May 2009, and the revolving credit facility will expire in May 2008. As of March 31, 2007, the revolving credit facility had not been utilized. As of March 31, 2007, our outstanding term loan interest rate was 7.875%.

Our senior debt is rated BB- by Standard & Poor's and Ba3 by Moody's at March 31, 2007.

Off-Balance Sheet Arrangements

As of March 31, 2007, we did not have any off-balance sheet arrangements that are required to be disclosed under Item 303(a)(4) of SEC Regulation S-K.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

As of March 31, 2007, we had cash and cash equivalents of \$1,344.9 million, investments classified as current assets of \$151.1 million, and restricted investments on deposit for licensure of \$60.9 million. The short-term investments classified as current assets consist of highly liquid securities with maturities between three and twelve months and longer term bonds with floating interest rates that are considered available for sale. Long-term restricted assets consist of cash and cash equivalents deposited or pledged to state agencies in accordance with state rules and regulations. These restricted assets are classified as long term regardless of the contractual maturity date due to the long-term nature of the states' requirements. The investments classified as long-term are subject to interest rate risk and will decrease in value if market rates increase. Because of their short-term pricing nature, however, we would not expect the value of these investments to decline significantly as a result of a sudden change in market interest rates. Assuming a hypothetical and immediate 1% increase in market interest rates at March 31, 2007, the fair value of our fixed income investments would decrease by less than \$1.0 million. Similarly, a 1% decrease in market interest rates at March 31, 2007 would result in an increase of the fair value of our investments of less than \$1.6 million.

Item 4. Controls and Procedures.

Special Committee Investigation and Restatement

Upon consideration of certain issues identified in the Special Committee investigation discussed in the Explanatory Note and our 2007 10-K, and after discussions with management and our independent registered public accounting firm, the Audit Committee recommended to the Board, and the Board thereafter concluded, that we should restate our previously issued audited consolidated financial statements for the years ended December 31, 2004, 2005 and 2006, including each of the quarterly periods contained therein, and our previously issued unaudited condensed consolidated financial statements for the three months ended March 31, 2007 and June 30, 2007.

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The restatements relate to accounting errors identified in connection with our compliance with the refund requirements under (a) the behavioral health component of our contract with AHCA to provide behavioral health care services for our Florida Medicaid members, (b) our Healthy Kids contract with the Florida Healthy Kids Corporation pursuant to which we provide health benefits for children whose family income renders them ineligible for Medicaid, and (c) our Medicaid contract with the Illinois Department of Health and Family Services to provide health care services to our Illinois Medicaid members.

For a discussion of the restatement impact to periods covered in this Amended Form 10-Q, refer to Note 2 to the Condensed Consolidated Financial Statements.

Evaluation of Disclosure Controls and Procedures

In connection with the preparation of this Amended Form 10-Q and in light of the Special Committee investigation and restatement of the Company's financial statements, management, under the leadership and with the participation of the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), undertook to re-evaluate the conclusion in our Original Form 10-Q that our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) were effective as of March 31, 2007. Based on that re-evaluation, our CEO and CFO have concluded that our disclosure controls and procedures were not effective as of March 31, 2007 because of the material weaknesses in our internal control over financial reporting, which is an integral component of our disclosure controls and procedures, as described below.

Nevertheless, based on a number of factors, including the efforts discussed below to remediate the material weaknesses in internal control over financial reporting, and the performance of additional procedures by management designed to ensure the reliability of our financial reporting, we believe that the consolidated financial statements included in this Amended Form 10-Q fairly present, in all material respects, our financial position, results of operations and cash flows as of the dates, and for the periods, presented, in conformity with GAAP.

Material Weaknesses in Internal Control Over Financial Reporting

A material weakness is 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 the annual or interim financial statements will not be prevented or detected on a timely basis.

In connection with the restatements described above, management undertook to assess the effectiveness of our internal control over financial reporting as of March 31, 2007, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, we determined that (a) former senior management set an inappropriate tone in connection with the Company's efforts to comply with the regulatory requirements related to the AHCA and Healthy Kids contracts that led to a deficiency in the design in our internal controls, and therefore a material weakness existed in a portion of the control environment and control activities components of our internal controls, and (b) former senior management's failure to ensure effective communications regarding the AHCA and Healthy Kids contracts with, among others, our Board and certain regulators resulted in a material weakness in the information and communication system.

Based on the evaluation discussed above, Management has identified the following material weaknesses in WellCare's internal controls over financial reporting as of March 31, 2007:

Control Environment and Control Activities

We identified a material weakness in a portion of the control environment and control activities components of our internal controls. We have determined that certain former members of senior management set an inappropriate tone in connection with our efforts to comply with the regulatory requirements related to the AHCA contract and Healthy Kids contract that led to a deficiency in the design of our internal controls. Specifically, there was inadequate control over financial reporting as of March 31, 2007 with respect to interpreting and complying with regulatory guidance and other contracted terms when calculating, submitting and reserving for estimated self-reported retrospective settlements with a state agency with which certain of our subsidiaries were contracted to provide Medicaid services.

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Information and Communication

We have determined that certain former members of senior management failed to ensure effective communications with, among others, our Board and certain regulators regarding the AHCA contract and Healthy Kids contract, and therefore a material weakness existed in a portion of the information and communication system. Specifically, there was a lack of communication regarding the Company's interpretation of and compliance with regulatory guidance and other contracted terms pertaining to self-reported retrospective settlements as well as with regard to inquiries from a state agency pertaining to the retrospective settlement process.

Changes in Internal Controls

There have been no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during the quarter ended March 31, 2007 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Remedial Measures

As described more fully in Part II Item 9A Controls and Procedures of our 2007 10-K, filed on January 26, 2009, in connection with the restatement and the material weaknesses described above, our Board of Directors, various Board committees and our new senior management team are developing and implementing new processes and procedures governing our internal control over financial reporting. We believe that these measures will remediate the material weaknesses we have identified as of March 31, 2007 and strengthen our internal control over financial reporting and disclosure controls and procedures. Under the direction of the Audit Committee, management will continue to review and revise as warranted the overall design and operation of our internal control environment, as well as policies and procedures to improve the overall effectiveness of our internal control over financial reporting. As we continue to evaluate and work to improve our internal control over financial reporting, we may determine to take additional measures to address control deficiencies or determine to modify, or in appropriate circumstances not to complete, certain of the remedial measures described above.

Limitations on the Effectiveness of Controls

Our management, including our CEO and CFO, does not expect that our disclosure controls and internal controls will prevent all errors and fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the controls.

The design of any system of control also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, a control may become inadequate because of changes in conditions or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and may not be detected.

Part II OTHER INFORMATION

Item 1. Legal Proceedings.

For information regarding pending legal proceedings, see Part I Item III Legal Proceedings of our 2007 10-K. As of the date hereof, there have been no material developments in the pending legal proceedings disclosed in our 2007 10-K.

Item 1A. Risk Factors.

Under Part I Item 1A Risk Factors of our 2007 10-K, we set forth risk factors related to (i) our failure to file timely periodic reports with the SEC and certain regulatory filings with state agencies; (ii) our internal control over financial reporting; (iii) the pending government investigations and litigation; (iv) our business; (v) our financial condition; (vi) being a regulated entity, and (vii) our common stock. You should carefully consider the risk factors set forth in our 2007 10-K. As of the date hereof, there have been no material changes to the risk factors disclosed in our

2007 10-K.

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

In connection with our initial public offering of our common stock, the SEC declared our Registration Statement on Form S-1 (No. 333-112829), filed under the Securities Act of 1933, effective on June 30, 2004.

Upon the completion of our initial public offering, we invested the net proceeds from the offering in short-term, interest-bearing, investment-grade securities. As of March 31, 2007, we have used approximately \$48.1 million of our offering proceeds in the original amount of \$157.5 million. Of the proceeds used, \$24.0 million was used to pay-off the related party note that we issued as part of the consideration for the acquisition of the WellCare group of companies and the remaining \$24.1 million was used to fund other expansion opportunities, including the required statutory capital for our new markets.

Item 3. Defaults upon Senior Securities.

As of March 31, 2007, we did not have any defaults upon senior securities. However, as previously disclosed and described in our 2007 10-K, our senior secured credit facility with Wachovia Bank, as Administrative Agent, and a syndicate of lenders, which has a term loan facility with an outstanding balance of approximately \$152.8 million as of December 31, 2008, is currently in default and subject to acceleration by the lenders and, absent acceleration by the lenders, will become due and payable on May 13, 2009. Although we are not in payment default, we are in default of a number of covenants contained in the credit agreement (including our failure to provide the lenders with audited financial statements, our 2008 budget and other requested reports and information), some of which cannot be cured prior to maturity of the senior secured credit facility (such as our entry into intercompany loan transactions that were not effected in compliance with the credit agreement). As of the date hereof, our payment obligations under the credit agreement have not been accelerated and the rate of interest has not been increased. However, we cannot provide any assurance that such obligations will not be accelerated or the rate of interest increased in the future or that the lenders will not exercise other remedies for default. For more information, refer to 2007 10-K filed with the SEC on January 26, 2009.

Item 4. Submission of Matters to a Vote of Security Holders.

None.

Item 5. Other Information.

None.

Table of Contents**Item 6: Exhibits.****Exhibit List**

Exhibit Number	Description	INCORPORATED BY REFERENCE		
		Form	Filing Date with SEC	Exhibit Number
2.1	Agreement and Plan of Merger, dated as of February 12, 2004, between WellCare Holdings, LLC and WellCare Group, Inc.	S-1/A	June 8, 2004	2.1
3.1	Amended and Restated Certificate of Incorporation	10-Q	August 13, 2004	3.1
3.2	Amended and Restated Bylaws of WellCare Health Plans, Inc.	10-Q	August 13, 2004	3.2
4.1	Specimen common stock certificate	S-1/A	June 29, 2004	4.1
10.1	Amendment number 1 to Medicaid Advantage Model Contract No. C021236 between the New York State Department of Health and WellCare of New York, Inc.	8-K	January 12, 2007	10.1
10.2	Amendment number 1 to the 2007 Northeast Regional Provider Agreement, between the Ohio Department of Job and Family Services and WellCare of Ohio, Inc. (CFC)	8-K	January 12, 2007	10.2
10.3	Amendment number 2 to the 2007 Northeast Regional Provider Agreement, between the Ohio Department of Job and Family Services and WellCare of Ohio, Inc.	8-K	January 12, 2007	10.3
10.4	Amendment number 1 to the Medical Services Agreement between the Florida Healthy Kids Corporation and HealthEase of Florida, Inc. and WellCare of Florida, Inc. (f/k/a Well Care HMO, Inc.) d/b/a Staywell Health Plan of Florida	8-K	January 12, 2007	10.4
10.5	Amendment number 3 to Medicaid Managed Care and Family Health Plus Model Contract, between the New York State Department of Health and WellCare of New York, Inc.	8-K	February 1, 2007	10.1
10.6	Amendment number 1 to the 2007 Northeast Regional Provider Agreement, between the Ohio Department of Job and Family Services and WellCare of Ohio, Inc. (ABD)	8-K	February 21, 2007	10.1

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10.7	Amendment number 2 to the 2007 Northeast Regional Provider Agreement, between the Ohio Department of Job and Family Services and WellCare of Ohio, Inc. (ABD).	8-K	March 6, 2007	10.1
10.8	Amendment number 2 to the Medicaid Managed Care Eastern Region contract between the State of Missouri Office of Administration Division of Purchasing and Materials Management and Harmony Health Plan of Illinois, Inc.	8-K	March 30, 2007	10.1
10.9	Amendment number 3 to the Medicaid Managed Care Eastern Region contract between the State of Missouri Office of Administration Division of Purchasing and Materials Management and Harmony Health Plan of Illinois, Inc.	8-K	March 30, 2007	10.2
10.10	Amendment to Medicaid Advantage Care Contract between the City of New York Department of Health and Mental Hygiene and WellCare of New York, Inc.	8-K	March 30, 2007	10.3
10.11	Amendment number 2 to Medicaid Advantage Contract No. C021236 between the New York State Department of Health and WellCare of New York, Inc.	8-K	March 30, 2007	10.4
10.12	Amendment number 2 to AHCA Contract No. FAR001, between the State of Florida, Agency for Health Care Administration and HealthEase Health Plan of Florida, Inc.	10-Q	May 9, 2007	10.12
10.13	Amendment number 2 to AHCA Contract No. FAR009, between the State of Florida, Agency for Health Care Administration and WellCare of Florida, Inc. d/b/a Staywell Health Plan of Florida.	10-Q	May 9, 2007	10.13

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Exhibit Number	Description	Form	INCORPORATED BY REFERENCE	
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31.1	Certification of President and Chief Executive Officer pursuant to Section 302 of Sarbanes-Oxley Act of 2002*			
31.2	Certification of Chief Financial Officer pursuant to Section 302 of Sarbanes-Oxley Act of 2002*			
32.1	Certification of President and Chief Executive Officer pursuant to Section 906 of Sarbanes-Oxley Act of 2002*			
32.2	Certification of Chief Financial Officer pursuant to Section 906 of Sarbanes-Oxley Act of 2002*			

*Filed herewith

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SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized in Tampa, Florida on February 6, 2009.

WELLCARE HEALTH PLANS, INC.

By: /s/ Heath Schiesser
Heath Schiesser
President and Chief Executive Officer

By: /s/ Thomas L. Tran
Thomas L. Tran
Senior Vice President and Chief Financial
Officer

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