

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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PRE-EFFECTIVE

AMENDMENT NO. 2

TO  
FORM S-1  
REGISTRATION STATEMENT  
UNDER  
THE SECURITIES ACT OF 1933

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Centene Corporation  
(Exact name of registrant as specified in its charter)

<TABLE>			
<S>	<C>	<C>	
Delaware	6324	04-1406317	
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification No.)	
</TABLE>			

7711 Carondelet Avenue, Suite 800  
Saint Louis, Missouri 63105  
(314) 725-4477

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

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Michael F. Neidorff  
Centene Corporation  
7711 Carondelet Avenue, Suite 800  
Saint Louis, Missouri 63105  
(314) 725-4477

(Name, address, including zip code, and telephone number, including area code, of agent for service)

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Copies to:

John L. Gillis, Jr., Esq. Armstrong Teasdale LLP One Metropolitan Square, Suite 2600 Saint Louis, Missouri 63102-2740 Telephone: (314) 621-5070 Fax: (314) 612-2248	Mark L. Johnson, Esq. Hale and Dorr LLP 60 State Street Boston, Massachusetts 02109 Telephone: (617) 526-6000 Fax: (617) 526-5000
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Approximate date of commencement of proposed sale to the public: As soon as practicable after this registration statement becomes effective.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box.

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.  333-

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.  333-

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.  333-

If delivery of the prospectus is expected to be made pursuant to Rule 434, check the following box. [ ]

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities, and we are not soliciting offers to buy these securities, in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED NOVEMBER 23, 2001

PROSPECTUS

3,500,000 Shares

[LOGO] Centene Logo

Common Stock

This is an initial public offering of shares of common stock of Centene Corporation. We are offering 3,250,000 shares of common stock, and the Elizabeth A. Brinn Foundation is offering 250,000 shares of common stock. We expect that the initial public offering price will be between \$13.00 and \$15.00 per share. We will not receive any of the proceeds of the sale of shares by the Foundation.

We have applied for approval for trading and quotation of our common stock on the Nasdaq National Market under the symbol "CNTE."

Our business involves significant risks. These risks are described under the caption "Risk Factors" beginning on page 9.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

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<TABLE>  
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<S>	Per Share	Total
	<C>	<C>
Public offering price.....	\$	\$
Underwriting discounts and commissions...	\$	\$
Proceeds, before expenses, to Centene....	\$	\$
Proceeds to Elizabeth A. Brinn Foundation	\$	\$

</TABLE>

The underwriters may also purchase from selling stockholders named on page 55 up to an additional 525,000 shares of common stock at the public offering price, less the underwriting discounts and commissions, to cover over-allotments. We will not receive any of the proceeds of the sale of shares by these selling stockholders.

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SG COWEN

THOMAS WEISEL PARTNERS LLC

CIBC WORLD MARKETS

, 2001

[Graphic depicting the heads and upper torsos of four children, accompanied by the following text:

"Centene Corporation, Creating a better future in government services healthcare"

"Centene Corporation provides managed care programs and related services to individuals receiving benefits under Medicaid, including Supplemental Security Income, and the State Children's Health Insurance Program."]

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You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with information that is different. We are offering to sell and seeking offers to buy shares of our common stock only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of our common stock.

Until , which is 25 days after the date of this prospectus, all dealers that effect transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This requirement is in addition to the dealers' obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

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#### PROSPECTUS SUMMARY

The following summary highlights information contained elsewhere in this prospectus. You should read the entire prospectus carefully, including the risk factors and the consolidated financial statements and related notes included in this prospectus, before you decide to invest in our common stock.

#### Centene Corporation

We provide managed care programs and related services to individuals receiving benefits under Medicaid, including Supplemental Security Income, and the State Children's Health Insurance Program. We have health plans in Wisconsin, Indiana and Texas. In each of our service areas we have more Medicaid members than any other managed care entity. We believe our local approach to managing our health plans, including provider and member services, enables us to provide accessible, high quality, culturally-sensitive healthcare services to our members. Our disease management, educational and other initiatives are designed to help members best utilize the healthcare system to ensure they receive appropriate, medically necessary services and effective management of routine health problems, as well as more severe acute and chronic

conditions. We combine our decentralized local approach with centralized finance, information systems, claims processing and medical management support functions. In order to focus on Medicaid and the State Children's Health Insurance Program, we do not offer Medicare or commercial products. For the nine months ended September 30, 2001, we generated \$236.3 million in revenues and \$9.0 million in net income.

#### Our Industry

Medicaid is a health insurance program for low-income individuals and individuals with disabilities. In 1998, Medicaid covered 15% of the total U.S. population, or 40.6 million people. Historically, children have represented the largest eligibility group for Medicaid, accounting for approximately 46% of the covered individuals in 1998. The State Children's Health Insurance Program was established to provide coverage for low-income children not otherwise covered by Medicaid or other insurance programs. All states have adopted the State Children's Health Insurance Program.

Since the early 1980s, increasing healthcare costs combined with significant growth in the number of Medicaid recipients have led many states to establish Medicaid managed care initiatives. State premium payments to managed care plans are financed in part by the federal government and increased from \$700 million in 1988 to \$13.2 billion in 1998. Recently, a growing number of states, including each of the states in which we operate, have mandated that their Medicaid recipients enroll in managed care plans.

#### Our Approach

Our approach to managed care is based on the following key attributes:

- . Medicaid Expertise. Over the last 17 years, we have developed a specialized Medicaid expertise that has helped us establish and maintain strong relationships with our constituent communities of members, providers and state governments. We achieve savings for state governments and improve medical outcomes for members by reducing inappropriate emergency room use, inpatient days and high cost interventions, as well as by managing care of chronic illnesses.
- . Localized Services, Support and Branding. We provide access to healthcare services through local networks of providers and staff who focus on the cultural norms of their individual communities. We use locally recognized plan names, and we tailor our materials and processes to meet the needs of the communities and the state programs we serve.
- . Physician-Driven Approach. We have implemented a physician-driven approach in which our physicians are actively engaged in developing and implementing our healthcare delivery policies and strategies. This approach is designed to eliminate unnecessary costs, improve service to our members and simplify the administrative burdens on our providers. It has enabled us to strengthen our provider networks through improved physician recruitment and retention that, in turn, have helped to increase our membership base.

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- . Efficiency of Business Model. The combination of our decentralized local approach to operating our health plans and our centralized finance, information systems, claims processing and medical management support functions allows us to quickly and economically integrate new business opportunities.
- . Specialized Systems and Technology. Through our specialized information systems, we are able to strengthen our relationships with providers and states, which helps us to grow our membership base. These systems also help us identify needs for new healthcare programs. Physicians use our claims, utilization and membership data to manage their practices more efficiently, and they benefit from our timely and accurate payments. State agencies use data from our information systems to demonstrate that their Medicaid populations are receiving quality healthcare in an efficient manner.
- . Complementary Business Lines. We have begun to broaden our service offerings to address areas that we believe have been traditionally underserved by Medicaid managed care organizations. We believe other business lines, such as our NurseWise triage program, will allow us to expand our services and diversify our sources of revenue.

#### Our Strategy

Our objective is to become the leading national Medicaid managed care organization. We intend to achieve this objective by implementing the following key components of our strategy:

- . increase penetration of existing state markets;

- . develop and acquire additional state markets;
- . diversify our business lines; and
- . leverage our information technologies to enhance operating efficiencies.

#### Additional Considerations

Nearly all of our revenues come from Medicaid premiums paid by the states of Wisconsin, Indiana and Texas, which are the only states in which we operate. Our operating results depend significantly on Medicaid program funding, premium levels, eligibility standards, reimbursement levels and other regulatory provisions established by the federal government and the governments of the states in which we operate. Since we operate in a limited number of service markets, any termination of or failure to renew our existing contracts or any regulatory changes affecting those markets could materially reduce our revenues and profitability. Moreover, because the premiums we receive are established by contract, our profitability depends on our ability to predict and effectively manage the costs of healthcare services delivered to our members. For a discussion of these and other risks relating to an investment in our common stock, see "Risk Factors" below.

#### Corporate Information

We were organized in Wisconsin in 1993 as Coordinated Care Corporation. We initially were formed to serve as a holding company for a Medicaid managed care line of business that has been operating in Wisconsin since 1984. We changed our corporate name to Centene Corporation in 1997 and reincorporated in Delaware in November 2001. Our corporate office is located at 7711 Carondelet Avenue, Suite 800, Saint Louis, Missouri 63105, and our telephone number is (314) 725-4477. The address of our Web site is [www.centene.com](http://www.centene.com). The information on our Web site is not part of this prospectus.

"CENTENE" and "NURSEWISE" are our registered service marks, the Centene logo is our service mark and "CONNECTIONS" is our trademark. We have also filed an application with the U.S. Patent and Trademark Office to register "START SMART FOR YOUR BABY" as our trademark. This prospectus also contains trademarks, service marks and trade names of other companies.

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#### The Offering

<b>&lt;TABLE&gt;</b>		
<b>&lt;S&gt;</b>	<b>&lt;C&gt;</b>	
Common stock we are offering.....	3,250,000 shares	
Common stock Elizabeth A. Brinn Foundation is offering	250,000 shares	
Common stock to be outstanding after this offering....	10,071,369 shares	
Underwriters' over-allotment option.....	525,000 shares	
Use of proceeds.....	We intend to use our net proceeds of this offering to repay \$4.0 million in principal amount of subordinated notes and for general corporate purposes, including working capital and potential acquisitions. See "Use of Proceeds."	
Proposed Nasdaq National Market symbol.....	CNTE	
<b>&lt;/TABLE&gt;</b>		

The number of shares of common stock to be outstanding after this offering is based on 6,821,369 shares of common stock outstanding as of November 21, 2001. This number includes shares to be issued upon conversion of our outstanding preferred stock and the exercise of outstanding warrants at or before the closing of this offering. It excludes:

- . 498,540 shares subject to options vested as of November 21, 2001 and having a weighted average exercise price of \$2.02 per share;
- . 881,500 shares subject to options unvested (or exercisable only to acquire restricted shares that would be subject to future vesting) as of November 21, 2001 and having a weighted average exercise price of \$2.22 per share; and

. 532,185 additional shares reserved as of November 21, 2001 for future issuance under our stock-based compensation plans.

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Except where we state otherwise, the information we present in this prospectus reflects:

- . no exercise of the underwriters' over-allotment option;
- . the automatic conversion of our outstanding preferred stock into common stock immediately before the closing of this offering; and
- . the exercise of outstanding warrants to purchase common stock before the closing of this offering.

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Summary Consolidated Financial and Operating Data  
(dollars in thousands, except per share data)

The following summary consolidated statement of operations data are derived from, and qualified by reference to, the consolidated financial statements and related notes appearing elsewhere in this prospectus. The pro forma share information included in the consolidated statement of operations data have been computed as described in note 22 of those notes.

<TABLE>  
<CAPTION>

	Year Ended December 31,			Nine Months Ended September 30,	
	1998	1999	2000	2000	2001
<S>	<C>	<C>	<C>	<C>	<C>
Statement of Operations Data:					
Premiums (1).....	\$ 149,577	\$200,549	\$ 216,414	\$ 157,994	\$ 235,995
Administrative services fees.....	861	880	4,936	3,543	283
Total revenues.....	150,438	201,429	221,350	161,537	236,278
Medical services costs.....	132,199	178,285	182,495	133,575	195,512
General and administrative expenses.....	25,066	29,756	32,335	24,133	27,992
Total operating expenses.....	157,265	208,041	214,830	157,708	223,504
Income (loss) from continuing operations (2).....	(4,739)	(5,484)	7,728	4,506	8,975
Net income (loss).....	(6,962)	(9,411)	7,728	4,506	8,975
Net income (loss) per common share:					
Basic.....	\$ (6.78)	\$ (10.99)	\$ 8.03	\$ 4.59	\$ 9.47
Diluted.....	\$ (6.78)	\$ (10.99)	\$ 1.06	\$ 0.61	\$ 1.11
Weighted average common shares outstanding:					
Basic.....	1,044,434	900,944	901,526	901,526	908,918
Diluted.....	1,044,434	900,944	6,819,595	6,793,208	7,787,653
Pro forma net income per common share:					
Basic.....			\$ 1.13		\$ 1.31
Diluted.....			\$ 1.13		\$ 1.15
Pro forma weighted average common shares outstanding:					
Basic.....			6,819,869		6,827,261
Diluted.....			6,819,595		7,787,653
Operating Data:					
Medical loss ratio (3).....	88.4%	88.9%	84.3%	84.5%	82.8%
General and administrative expenses ratio (4).....	16.7%	14.8%	14.6%	14.9%	11.8%
EBITDA from continuing operations (5).....	\$ (4,403)	\$ (3,844)	\$ 8,830	\$ 5,851	\$ 16,854
Members at end of period.....	135,600	142,300	194,200	185,450	224,800

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- (1) Premiums consist of payments we receive from states to provide health benefits to members and do not include investment income.
- (2) We discontinued our commercial managed care line of business in 1999.
- (3) Medical loss ratio represents medical services costs as a percentage of premiums.
- (4) General and administrative expenses ratio represents general and administrative expenses as a percentage of total revenues.
- (5) EBITDA from continuing operations represents net income (loss) before interest expense, income tax expense (benefit), depreciation and amortization, and discontinued operations. EBITDA should not be considered in isolation or as a substitute for net income (loss), operating income (loss), cash flows provided by operating activities or any other measure of operating performance calculated in accordance with generally accepted accounting principles. EBITDA from continuing operations is included because we believe that some investors may find it useful in evaluating our ability to meet future capital expenditure and working capital requirements. EBITDA from continuing operations is not necessarily a measure of our ability to

fund our cash needs.

The following table summarizes our balance sheet data at September 30, 2001:

- . on an actual basis;
- . on a pro forma basis to reflect the conversion of outstanding preferred stock into common stock and the exercise of outstanding warrants, all before the closing of this offering; and
- . on a pro forma as adjusted basis to also reflect our sale of the 3,250,000 shares offered by us at an assumed public offering price of \$14.00 per share, after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us, and the application of our estimated net proceeds.

<TABLE>  
<CAPTION>

	September 30, 2001		
	Actual	Pro Forma	As Adjusted
<S>	<C>	<C>	<C>
Balance Sheet Data:			
Cash, cash equivalents and short-term investments	\$ 62,023	\$ 62,041	\$ 99,556
Total assets.....	103,971	103,989	141,504
Long-term debt, net of current portion.....	4,000	4,000	--
Redeemable convertible preferred stock.....	19,231	--	--
Total stockholders' equity.....	212	19,461	60,976

### RISK FACTORS

You should carefully consider the risks described below before making an investment decision. The trading price of our common stock could decline due to any of these risks, in which case you could lose all or part of your investment. You should also refer to the other information in this prospectus, including our consolidated financial statements and related notes. The risks and uncertainties described below are those that we currently believe may materially affect our company. Additional risks and uncertainties that we are unaware of or that we currently deem immaterial also may become important factors that affect our company.

#### Risks Related to Being a Regulated Entity

Reductions in Medicaid funding could substantially reduce our profitability.

Nearly all of our revenues come from Medicaid premiums. The base premium rate paid by each state differs, depending on a combination of factors such as defined upper payment limits, a member's health status, age, gender, county or region, benefit mix and member eligibility categories. Future levels of Medicaid premium rates may be affected by continued government efforts to contain medical costs and may further be affected by state and federal budgetary constraints. Changes to Medicaid programs could reduce the number of persons enrolled or eligible, reduce the amount of reimbursement or payment levels, or increase our administrative or healthcare costs under those programs. States periodically consider reducing or reallocating the amount of money they spend for Medicaid. We believe that additional reductions in Medicaid payments could substantially reduce our profitability. Further, our contracts with the states are subject to cancellation by the state immediately or after a short notice period in the event of unavailability of state funds.

If our Medicaid and SCHIP contracts are terminated or are not renewed, our business will suffer.

We provide healthcare services under five contracts with regulatory entities in the areas in which we operate. The contracts expire on various dates between December 31, 2001 and December 31, 2002. Our contracts with the states of Indiana and Wisconsin accounted for 74% of our revenues for the nine months ended September 30, 2001. Our contracts may be terminated if we fail to perform up to the standards set by state regulatory agencies. In addition, the Indiana contract under which we operate can be terminated by the state without cause. Our contracts are generally intended to run for two years and may be extended for one or two additional years if the state or its contractor elects to do so. When our contracts expire, they may be opened for bidding by competing healthcare providers. There is no guarantee that our contracts will

be renewed or extended. If any of our contracts is terminated, not renewed, or renewed on less favorable terms, our business will suffer, and our operating results may be materially affected.

Changes in government regulations designed to protect providers and members rather than our stockholders could force us to change how we operate and could harm our business.

Our business is extensively regulated by the states in which we operate and by the federal government. The applicable laws and regulations are subject to frequent change and generally are intended to benefit and protect health plan providers and members rather than stockholders. Changes in existing laws and rules, the enactment of new laws and rules, and changing interpretations of these laws and rules could, among other things:

- . force us to restructure our relationships with providers within our network;
- . require us to implement additional or different programs and systems;
- . mandate minimum medical expense levels as a percentage of premiums revenues;
- . restrict revenue and enrollment growth;
- . require us to develop plans to guard against the financial insolvency of our providers;
- . increase our healthcare and administrative costs;
- . impose additional capital and reserve requirements; and
- . increase or change our liability to members in the event of malpractice by our providers.

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For example, Congress currently is considering various forms of patient protection legislation commonly known as Patients' Bills of Rights. We cannot predict the impact of this legislation, if adopted, on our business.

Regulations may decrease the profitability of our health plans.

Our Texas plans are required to pay a rebate to the state in the event profits exceed established levels. This regulatory requirement, changes in this requirement or the adoption of similar requirements by our other regulators may limit our ability to increase our overall profits as a percentage of revenues. In addition, states may attempt to reduce their contract premium rates if regulators perceive our medical loss ratio as too low. Any of these regulatory actions could harm our operating results.

Failure to comply with government regulations could subject us to civil and criminal penalties.

Federal and state governments have enacted fraud and abuse laws and other laws to protect patients' privacy and access to healthcare. Violation of the laws or regulations governing our operations could result in the imposition of civil or criminal penalties, the cancellation of our contracts to provide services, the suspension or revocation of our licenses or our exclusion from participating in the Medicaid, SSI, and SCHIP programs. These penalties or exclusions, were they to occur, would negatively impact our ability to operate our business. For example, failure to pay our providers promptly could result in the imposition of fines and other penalties.

The Health Insurance Portability and Accountability Act of 1996, or HIPAA, broadened the scope of fraud and abuse laws applicable to healthcare companies. HIPAA created civil penalties for, among other things, billing for medically unnecessary goods or services. HIPAA established new enforcement mechanisms to combat fraud and abuse, including a whistle blower program. Further, a new regulation promulgated pursuant to HIPAA imposes civil and criminal penalties for failure to comply with the privacy standards for individually-identifiable health records. Congress may enact additional legislation to increase penalties and to create a private right of action under HIPAA, which would entitle patients to seek monetary damages for violations of the privacy rules.

Compliance with new government regulations may require us to make significant expenditures.

In August 2000, the Department of Health and Human Services, or HHS, issued a new regulation under HIPAA requiring the use of uniform electronic data transmission standards for healthcare claims and payment transactions submitted or received electronically. We are required to comply with the new regulation by October 16, 2002, and Texas has indicated that it may impose an earlier

compliance deadline. In August 1998, HHS proposed a regulation that would require healthcare participants to implement organizational and technical practices to protect the security of electronically maintained or transmitted health-related information. In December 2000, HHS issued a new regulation mandating heightened privacy and confidentiality protections under HIPAA that became effective on April 14, 2001. Compliance with this regulation will be required by April 14, 2003, unless the Bush Administration revises the regulation or defers the implementation date.

In January 2001, the federal Centers for Medicare and Medicaid Services, or CMS (then the Health Care Financing Administration), published new regulations regarding Medicaid managed care. CMS subsequently delayed the effective date of these regulations until August 16, 2002. In August 2001, CMS proposed new regulations that would modify the January regulations. If adopted, these regulations would implement the requirements of the Balanced Budget Act of 1997 that are intended to give states more flexibility in their administration of Medicaid managed care programs, provide new patient protections for Medicaid managed care enrollees and require states to meet new actuarial soundness requirements.

The Bush Administration's issuance of new regulations, its review of the existing HIPAA rules and other newly published regulations, the states' ability to promulgate stricter rules, and uncertainty regarding many aspects of the regulations may make compliance with the relatively new regulatory landscape difficult. Our existing programs and systems would not enable us to comply in all respects with these new regulations. In order to comply with the regulatory requirements, we will be required to employ additional

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or different programs and systems, the costs of which are unknown to us at this time. Further, compliance with these regulations would require changes to many of the procedures we currently use to conduct our business, which may lead to additional costs that we have not yet identified. We do not know whether, or the extent to which, we will be able to recover our costs of complying with these new regulations from the states. The new regulations and the related compliance costs could have a material adverse effect on our business.

Changes in healthcare law may reduce our profitability.

Numerous proposals relating to changes in healthcare law have been introduced, some of which have been passed by Congress and the states in which we operate or may operate in the future. Changes in applicable laws and regulations are continually being considered, and interpretations of existing laws and rules may also change from time to time. We are unable to predict what regulatory changes may occur or what effect any particular change may have on our business. These changes could reduce the number of persons enrolled or eligible for Medicaid and reduce the reimbursement or payment levels for medical services. More generally, we are unable to predict whether new laws or proposals will favor or hinder the growth of managed healthcare.

A recent example is state and federal legislation that would enable physicians to collectively bargain with managed healthcare organizations. In 2000, the U.S. House of Representatives approved a collective bargaining proposal that contained an exemption for public sector managed healthcare organizations. If legislation of this type is enacted without such an exemption, it would negatively impact our bargaining position with many of our providers and might result in an increase in our cost of providing medical benefits.

We cannot predict the outcome of these legislative or regulatory proposals or the effect that they will have on us. Legislation or regulations that require us to change our current manner of operation, provide additional benefits or change our contract arrangements may seriously harm our operations and financial results.

If we are unable to participate in SCHIP programs our growth rate may be limited.

The State Children's Health Insurance Program is a relatively new federal initiative designed to provide coverage for low-income children not otherwise covered by Medicaid or other insurance programs. The programs vary significantly from state to state. Participation in SCHIP programs is an important part of our growth strategy. If states do not allow us to participate or if we fail to win bids to participate, our growth strategy may be materially and adversely affected.

If state regulators do not approve payments of dividends and distributions by our subsidiaries to us, we may not have sufficient funds to implement our business strategy.

We principally operate through our health plan subsidiaries. If funds normally available to us become limited in the future, we may need to rely on

dividends and distributions from our subsidiaries to fund our operations. These subsidiaries are subject to regulations that limit the amount of dividends and distributions that can be paid to us without prior approval of, or notification to, state regulators. If these regulators were to deny our subsidiaries' request to pay dividends to us, the funds available to our company as a whole would be limited, which could harm our ability to implement our business strategy.

#### Risks Related to Our Business

Receipt of inadequate premiums would negatively affect our revenues and profitability.

Nearly all of our revenues are generated by premiums consisting of fixed monthly payments per member. These premiums are fixed by contract, and we are obligated during the contract periods to provide healthcare services as established by the state governments. We use a large portion of our revenues to pay the costs of healthcare services delivered to our customers. If premiums do not increase when expenses related to medical services rise, our earnings would be affected negatively. In addition, our actual medical

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services costs may exceed our estimates, which would cause our medical loss ratio, or our expenses related to medical services as a percentage of premium revenues, to increase and our profits to decline. In addition, it is possible for a state to increase the rates payable to the hospitals without granting a corresponding increase in premiums to us. If this were to occur in one or more of the states in which we operate, our profitability would be harmed.

Failure to effectively manage our medical costs or related administrative costs would reduce our profitability.

Our profitability depends, to a significant degree, on our ability to predict and effectively manage expenses related to health benefits. We have less control over the costs related to medical services than we do over our general and administrative expenses. Historically, our medical loss ratio has fluctuated. For example, our medical loss ratio was 82.8% for the nine months ended September 30, 2001 and 84.3% for 2000, but was 88.9% for 1999 and 88.4% for 1998. Because of the narrow margins of our health plan business, relatively small changes in our medical loss ratio can create significant changes in our financial results. Changes in healthcare regulations and practices, the level of use of healthcare services, hospital costs, pharmaceutical costs, major epidemics, new medical technologies and other external factors, including general economic conditions such as inflation levels, are beyond our control and could reduce our ability to predict and effectively control the costs of providing health benefits. We may not be able to manage costs effectively in the future. If our costs related to health benefits increase, our profits could be reduced or we may not remain profitable.

Failure to accurately predict our medical expenses could negatively affect our reported results.

Our medical expenses include estimates of medical expenses incurred but not yet reported, or IBNR. We estimate our IBNR medical expenses monthly based on a number of factors. Adjustments, if necessary, are made to medical expenses in the period during which the actual claim costs are ultimately determined or when criteria used to estimate IBNR change. We cannot be sure that our IBNR estimates are adequate or that adjustments to those estimates will not harm our results of operations. From time to time in the past, our actual results have varied from our estimates, particularly in times of significant changes in the number of our members. Our failure to accurately estimate IBNR may also affect our ability to take timely corrective actions, further harming our results.

Difficulties in executing our acquisition strategy could adversely affect our business.

Historically, the acquisition of Medicaid contract rights and related assets of other health plans, both in our existing service areas and in new markets, has accounted for a significant amount of our growth. For example, our acquisition of contract rights from Humana in February 2001 accounted for 90.0% of the increase in our net premium revenues for the nine months ended September 30, 2001 compared to the same period in 2000. Many of the other potential purchasers of Medicaid assets have greater financial resources than we have. In addition, many of the sellers are interested either in (1) selling, along with their Medicaid assets, other assets in which we do not have an interest or (2) selling their companies, including their liabilities, as opposed to the assets of their ongoing businesses.

We generally are required to obtain regulatory approval from one or more

state agencies when making acquisitions. In the case of an acquisition of a business located in a state in which we do not currently operate, we would be required to obtain the necessary licenses to operate in that state. In addition, even if we may already operate in a state in which we acquire a new business, we would be required to obtain additional regulatory approval if the acquisition would result in our operating in an area of the state in which we did not operate previously. We cannot assure you that we would be able to comply with these regulatory requirements for an acquisition in a timely manner, or at all. In deciding whether to approve a proposed acquisition, state regulators may consider a number of factors outside our control, including giving preference to competing offers made by locally owned entities or by not-for-profit entities. Furthermore, we expect to enter into a credit facility that will prohibit some acquisitions without the consent of our bank lender.

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In addition to the difficulties we may face in identifying and consummating acquisitions, we will also be required to integrate and consolidate any acquired business or assets with our existing operations. This may include the integration of:

- . additional personnel who are not familiar with our operations and corporate culture;
- . existing provider networks, which may operate on different terms than our existing networks;
- . existing members, who may decide to switch to another healthcare plan; and
- . disparate administrative, accounting and finance, and information systems.

For example, in the Humana acquisition, the configuration of new provider contracts temporarily extended our claims payment process.

Accordingly, we may be unable to successfully identify, consummate and integrate future acquisitions or operate acquired businesses profitably. We also may be unable to obtain sufficient additional capital resources for future acquisitions. If we are unable to effectively execute our acquisition strategy, our future growth will suffer and our results of operations could be harmed.

Failure to achieve timely profitability in any business would negatively affect our results of operations.

Start-up costs associated with a new business can be substantial. For example, in order to obtain a certificate of authority in most jurisdictions, we must first establish a provider network, have systems in place and demonstrate our ability to obtain a state contract and process claims. If we were unsuccessful in obtaining the necessary license, winning the bid to provide service or attracting members in numbers sufficient to cover our costs, any new business of ours would fail. We also could be obligated by the state to continue to provide services for some period of time without sufficient revenue to cover our ongoing costs or recover start-up costs. In addition, we may not be able to effectively commercialize any new programs or services we seek to market to third parties. The expenses associated with starting up a new business could have a significant impact on our results of operations if we are unable to achieve profitable operations in a timely fashion.

We derive all of our revenues from operations in three states, and our operating results would be materially affected by a decrease in revenues or profitability in any one of those states.

Operations in Wisconsin, Indiana and Texas account for all of our revenues. If we were unable to continue to operate in each of those states or if our current operations in any portion of one of those states were significantly curtailed, our revenues would decrease materially. In the first half of 2001, our membership in Indiana declined by approximately 50,000 due to a subcontracting provider organization terminating a percent-of-premium arrangement. In 2000, we reduced our service area in Wisconsin from 36 to 18 counties. In 1999 and 2000, we terminated our services to most of the southern counties of Indiana. Our reliance on operations in a limited number of states could cause our revenue and profitability to change suddenly and unexpectedly, depending on legislative actions, economic conditions and similar factors in those states. Our inability to continue to operate in any of the states in which we operate would harm our business.

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Competition may limit our ability to increase penetration of the markets that we serve.

We compete for members principally on the basis of size and quality of provider network, benefits provided and quality of service. We compete with numerous types of competitors, including other health plans and traditional state Medicaid programs that reimburse providers as care is provided. Subject to limited exceptions by federally approved state applications, the federal government requires that there be choices for Medicaid recipients among managed care programs. Voluntary programs and mandated competition may limit our ability to increase our market share.

Some of the health plans with which we compete have greater financial and other resources and offer a broader scope of products than we do. In addition, significant merger and acquisition activity has occurred in the managed care industry, as well as in industries that act as suppliers to us, such as the hospital, physician, pharmaceutical, medical device and health information systems industries. To the extent that competition intensifies in any market that we serve, our ability to retain or increase members and providers, or maintain or increase our revenue growth, pricing flexibility and control over medical cost trends may be adversely affected.

In addition, in order to increase our membership in the markets we currently serve, we believe that we must continue to develop and implement community-specific products, alliances with key providers and localized outreach and educational programs. If we are unable to develop and implement these initiatives, or if our competitors are more successful than us in doing so, we may not be able to further penetrate our existing markets.

If we are unable to maintain satisfactory relationships with our provider networks, our profitability will be harmed.

Our profitability depends, in large part, upon our ability to contract favorably with hospitals, physicians and other healthcare providers. Our provider arrangements with our primary care physicians, specialists and hospitals generally may be cancelled by either party without cause upon 90 to 120 days' prior written notice. We cannot assure you that we will be able to continue to renew our existing contracts or enter into new contracts enabling us to service our members profitably. We will be required to establish acceptable provider networks prior to entering new markets. We may be unable to enter into agreements with providers in new markets on a timely basis or under favorable terms. If we are unable to retain our current provider contracts or enter into new provider contracts timely or on favorable terms, our profitability will be harmed.

We may be unable to attract and retain key personnel.

We are highly dependent on our ability to attract and retain qualified personnel to operate and expand our Medicaid managed care business. If we lose one or more members of our senior management team, including our chief executive officer, Michael F. Neidorff, who has been instrumental in developing our mission and forging our business relationships, our business and operating results could be harmed. We do not have an employment agreement with Mr. Neidorff, and we cannot assure you that we will be able to retain his services. Our ability to replace any departed members of our senior management or other key employees may be difficult and may take an extended period of time because of the limited number of individuals in the Medicaid managed care industry with the breadth of skills and experience required to operate and expand successfully a business such as ours. Competition to hire from this limited pool is intense, and we may be unable to hire, train, retain or motivate these personnel.

Negative publicity regarding the managed care industry may harm our business and operating results.

Recently, the managed care industry has received negative publicity. This publicity has led to increased legislation, regulation, review of industry practices and private litigation in the commercial sector. These

factors may adversely affect our ability to market our services, require us to change our services, and increase the regulatory burdens under which we operate. Any of these factors may increase the costs of doing business and adversely affect our operating results.

Claims relating to medical malpractice could cause us to incur significant expenses.

Our providers and employees involved in medical care decisions may be subject to medical malpractice claims. In addition, some states, including Texas, have adopted legislation that permits managed care organizations to be held liable for negligent treatment decisions or benefits coverage determinations. Claims of this nature, if successful, could result in substantial damage awards against us and our providers that could exceed the limits of any applicable insurance coverage. Therefore, successful malpractice

or tort claims asserted against us, our providers or our employees could adversely affect our financial condition and profitability. Even if any claims brought against us are unsuccessful or without merit, they would still be time-consuming and costly and could distract our management's attention. As a result, we may incur significant expenses and may be unable to operate our business effectively.

Growth in the number of Medicaid-eligible persons during economic downturns could cause our operating results and stock prices to suffer if state and federal budgets decrease or do not increase.

Less favorable economic conditions may cause our membership to increase as more people become eligible to receive Medicaid benefits. During such economic downturns, however, state and federal budgets could decrease, causing states to attempt to cut healthcare programs, benefits and rates. In particular, the terrorist acts of September 11, 2001 have created an uncertain economic environment, and we cannot predict the impact of these events, other acts of terrorism or related military action on federal or state funding of healthcare programs or on the size of the Medicaid-eligible population. If federal funding were decreased or unchanged while our membership was increasing, our results of operations would suffer.

Growth in the number of Medicaid-eligible persons may be countercyclical, which could cause our operating results to suffer when general economic conditions are improving.

Historically, the number of persons eligible to receive Medicaid benefits has increased more rapidly during periods of rising unemployment, corresponding to less favorable general economic conditions. Conversely, this number may grow more slowly or even decline if economic conditions improve. Therefore, improvements in general economic conditions may cause our membership levels to decrease, thereby causing our operating results to suffer, which could lead to decreases in our stock price during periods in which stock prices in general are increasing.

We intend to expand primarily into markets where Medicaid recipients are required to enroll in managed care plans.

We expect to continue to focus our business in states in which Medicaid enrollment in managed care is mandatory. Currently, approximately two-thirds of the states require health plan enrollment for Medicaid-eligible participants in all or a portion of their counties. The programs are voluntary in other states. Because we concentrate on markets with mandatory enrollment, we expect the geographic expansion of our business to be limited to those states.

If we are unable to integrate and manage our information systems effectively, our operations could be disrupted.

Our operations depend significantly on effective information systems. The information gathered and processed by our information systems assists us in, among other things, monitoring utilization and other cost factors, processing provider claims, and providing data to our regulators. Our providers also depend upon our information systems for membership verifications, claims status and other information.

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Our information systems and applications require continual maintenance, upgrading and enhancement to meet our operational needs. Moreover, our acquisition activity requires frequent transitions to or from, and the integration of, various information systems. We regularly upgrade and expand our information systems capabilities. If we experience difficulties with the transition to or from information systems or are unable to properly maintain or expand our information systems, we could suffer, among other things, from operational disruptions, loss of existing members and difficulty in attracting new members, regulatory problems and increases in administrative expenses. In addition, our ability to integrate and manage our information systems may be impaired as the result of events outside our control, including acts of nature, such as earthquakes or fires, or acts of terrorists.

#### Risks Related to This Offering and Ownership of Our Common Stock

Volatility of our stock price could cause you to lose all or part of your investment.

The market price of our common stock, like that of the common stock of others in our industry, may be highly volatile. The stock market in general has recently experienced extreme price and volume fluctuations, and this volatility has affected the market prices of securities of other companies for reasons frequently unrelated, or disproportionate, to the operating performance of those companies. The market price of our common stock may fluctuate significantly in response to the following factors, some of which are beyond our control:

- . state and federal budget decreases;
- . changes in securities analysts' estimates of our financial performance;
- . changes in market valuations of similar companies, including commercial managed care organizations;
- . variations in our quarterly operating results;
- . acquisitions and strategic partnerships;
- . adverse publicity regarding managed care organizations;
- . government action regarding Medicaid eligibility;
- . changes in state mandatory Medicaid programs;
- . changes in our management;
- . broad fluctuations in stock market prices and volume; and
- . general economic conditions, including inflation and unemployment rates.

Investors may not be able to resell their shares of our common stock following periods of volatility because of the market's adverse reaction to the volatility. We cannot assure you that our stock will trade at the same levels as the stock of other companies in our industry or that the market in general will sustain its current prices.

We cannot guarantee that an active trading market for our common stock will develop or be sustained.

Prior to this offering, you could not buy or sell our common stock publicly. An active public market for our common stock may not develop or be sustained after this offering. We will negotiate the initial public offering price with the representatives of the underwriters based on several factors. This price may not be indicative of prices that will prevail in the trading market after this offering. If an active trading market fails to develop or be sustained, you may be unable to sell your shares of common stock at or above the initial offering price.

Future sales of common stock by our existing stockholders could cause our stock price to fall.

Sales of substantial amounts of our common stock in the public market after the completion of this offering, or the perception that those sales could occur, could adversely affect the market price of our

common stock and could materially impair our future ability to raise capital through offerings of our common stock. Based on shares outstanding as of November 21, 2001, a total of 6,571,369 shares of common stock may be sold in the public market by existing stockholders, assuming no exercise of the underwriters' over-allotment option. The holders of substantially all of these shares are contractually restricted from selling their shares for 180 days from the date of this prospectus, but SG Cowen Securities Corporation may release these shares from these contractual restrictions at any time in its discretion. SG Cowen Securities Corporation has no pre-established conditions to waiving the terms of the "lock-up" agreements, and any decision by it to waive those conditions would depend on a number of factors, including market conditions, the performance of the common stock in the market and our financial condition at that time.

Our officers and directors and their affiliates may be able to control the outcome of most corporate actions requiring stockholder approval.

After this offering, our directors and officers and their affiliates will beneficially own 42.7% of our outstanding common stock. As a result, these stockholders, if they act together, will be able to influence our management and affairs and all matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions. This concentration of ownership may have the effect of delaying or preventing a change in control of our company and might affect the market price of our common stock.

We may allocate the net proceeds from this offering in ways with which you may not agree.

Our business plan is general in nature and is subject to change based upon

changing conditions and opportunities. Our management has broad discretion in applying \$37.5 million of the total \$41.5 million in net proceeds we estimate we will receive in this offering, assuming an initial public offering price of \$14.00. Because this portion of the net proceeds is not required to be allocated to any specific investment or transaction, you cannot determine at this time the value or propriety of our application of the proceeds. Moreover, you will not have the opportunity to evaluate the economic, financial or other information on which we base our decisions on how to use our proceeds. As a result, you and other stockholders may not agree with our decisions.

Our corporate documents and provisions of Delaware law may prevent a change in control or management that stockholders may consider desirable.

Section 203 of the Delaware General Corporation Law, laws of states in which we operate, and our charter and by-laws contain provisions that might enable our management to resist a takeover of our company. These provisions could have the effect of delaying, deferring, or preventing a change in control of Centene or a change in our management that stockholders may consider favorable or beneficial. These provisions could also discourage proxy contests and make it more difficult for you and other stockholders to elect directors and take other corporate actions. These provisions could also limit the price that investors might be willing to pay in the future for shares of our common stock.

You will pay a much higher price per share than the book value of our common stock.

If you purchase our common stock in this offering, you will incur immediate and substantial dilution, which means that:

- . assuming a public offering price of \$14.00, you will pay a price per share that exceeds by \$8.19 the per share pro forma net tangible book value of our assets immediately following the offering (on a pro forma basis as of September 30, 2001) after giving effect to the conversion of our preferred stock into common stock and the exercise of all outstanding warrants to acquire common stock; and
- . the purchasers in the offering will have contributed 70.0% of the total amount to fund us but will own only 30.0% of our outstanding shares.

In the past, we issued options to acquire common stock at prices significantly below the public offering price of this offering. To the extent these outstanding options are ultimately exercised, you will experience further dilution.

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#### FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements that relate to future events or our future financial performance. We have attempted to identify these statements by terminology including "believe," "anticipate," "plan," "expect," "estimate," "intend," "seek," "goal," "may," "will," "should," "can," "continue" or the negative of these terms or other comparable terminology. These statements include statements about our market opportunity, our growth strategy, competition, expected activities and future acquisitions and investments, and the adequacy of our available cash resources. These statements may be found in the sections of this prospectus entitled "Prospectus Summary," "Risk Factors," "Use of Proceeds," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business." Investors are cautioned that matters subject to forward-looking statements involve known and unknown risks and uncertainties, including economic, regulatory, competitive and other factors that may cause our or our industry's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. These statements are not guarantees of future performance and are subject to risks, uncertainties and assumptions.

Actual results may differ from projections or estimates due to a variety of important factors. Our results of operations and projections of future earnings depend in large part on accurately predicting and effectively managing health benefits and other operating expenses. A variety of factors, including competition, changes in health care practices, changes in federal or state laws and regulations or their interpretations, inflation, provider contract changes, new technologies, government-imposed surcharges, taxes or assessments, reduction in provider payments by governmental payors, major epidemics, disasters and numerous other factors affecting the delivery and cost of healthcare, such as major healthcare providers' inability to maintain their operations, may in the future affect our ability to control our medical costs and other operating expenses. Governmental action or business conditions could result in premium revenues not increasing to offset any increase in medical

costs and other operating expenses. Once set, premiums are generally fixed for one year periods and, accordingly, unanticipated costs during such periods cannot be recovered through higher premiums. The expiration, cancellation or suspension of our Medicaid managed care contracts by the state governments would also negatively impact us. Due to these factors and risks, we cannot assure you with respect to our future premium levels or our ability to control our future medical costs.

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#### USE OF PROCEEDS

We estimate that our net proceeds of our sale of the 3,250,000 shares of common stock offered by us will be approximately \$41.5 million, assuming a public offering price of \$14.00 per share and after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us. We will not receive any of the proceeds of the sale of 250,000 shares by the Elizabeth A. Brinn Foundation or of 525,000 shares of common stock by the other selling stockholders to the underwriters to cover over-allotments, if any.

The principal purposes of this offering are to obtain additional capital, to create a public market for our common stock and to facilitate future access to public debt and equity markets. We expect to use \$4.0 million of our net proceeds to repay all of the principal amount of our outstanding subordinated notes at or shortly after the closing of this offering. The subordinated notes bear interest at a fixed rate of 8.5% per year and mature in two equal installments in September 2003 and 2004. We can repay the notes at any time without premium or penalty. We issued these notes in September 1998 to refinance notes that had been issued in 1993 to fund expansion opportunities and statutory net worth requirement needs. An aggregate of \$2.5 million of the subordinated notes are held by Greylock Limited Partnership, which owns 31.4% of our common stock and is an affiliate of our director, Howard E. Cox, Jr.; \$660,746 of the notes are held by the Elizabeth A. Brinn Foundation, which is an affiliate of our directors Samuel E. Bradt, Claire W. Johnson and Richard P. Wiederhold; and \$235,499, \$205,352 and \$7,980 of the notes, respectively, are held by Mr. Johnson, Mr. Wiederhold and Michael F. Neidorff, each of whom is one of our directors. Mr. Neidorff is also our President and Chief Executive Officer.

We intend to use the remainder of our net proceeds for working capital and other general corporate purposes, which may include acquisitions of businesses, assets and technologies that are complementary to our business. For example, we may use proceeds to acquire Medicaid and SCHIP contract rights and related assets to increase our membership and to expand our business into new service areas. Although we have evaluated possible acquisitions from time to time, we currently have no commitments or agreements to make any acquisitions, and we cannot assure you that we will make any acquisitions in the future. We also may apply proceeds to fund working capital to:

- . increase market penetration within our current service areas;
- . pursue opportunities for the development of new markets;
- . expand services and products available to our members; and
- . strengthen our capital base by increasing the statutory capital of our health plan subsidiaries.

We have not determined the amount of net proceeds to be used specifically for the foregoing purposes, other than for repayment of our subordinated notes. As a result, our management will have broad discretion to allocate our net proceeds of this offering. Pending application of our net proceeds, we intend to invest our net proceeds in short-term, investment-grade, interest-bearing instruments, repurchase agreements and high-grade corporate notes.

#### DIVIDEND POLICY

We have never declared or paid any cash dividends on our capital stock. We currently anticipate that we will retain any future earnings for the development, operation and expansion of our business. Accordingly, we do not anticipate declaring or paying any cash dividends in the foreseeable future. Also, we expect to enter into a credit facility that will prohibit us from paying dividends without the consent of our lender.

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#### CAPITALIZATION

The following table shows our capitalization as of September 30, 2001:

- . on an actual basis;

- . on a pro forma basis to reflect (a) the conversion of our outstanding classes of preferred and common stock into a single class of common stock at the closing of this offering, (b) the exercise of outstanding warrants before the closing of this offering and (c) our reincorporation in Delaware effected in November 2001; and
- . on a pro forma as adjusted basis to also reflect our sale of the 3,250,000 shares of common stock offered by us at an assumed public offering price of \$14.00 per share, after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us, and the application of our estimated net proceeds.

You should read this table in conjunction with the consolidated financial statements and related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing elsewhere in this prospectus.

<TABLE>  
<CAPTION>

	September 30, 2001		
	Actual	Pro Forma As Adjusted	
		(in thousands)	
<S>	<C>	<C>	<C>
Long-term debt, net of current portion:			
Subordinated debt.....	\$ 4,000	\$ 4,000	\$ --
Series D redeemable convertible preferred stock, \$.167 par value; 4,000,000 shares authorized and 3,716,000 shares issued and outstanding, actual; no shares authorized, issued or outstanding, pro forma and pro forma as adjusted.....	19,231	--	--
Stockholders' equity:			
Series A, B and C convertible preferred stock, \$.167 par value; 4,300,000 shares authorized and 2,156,340 shares issued and outstanding, actual; no shares authorized, issued or outstanding, pro forma or pro forma as adjusted.....	360	--	--
Undesignated preferred stock, \$.001 par value; no shares authorized, issued or outstanding, actual or pro forma; 10,000,000 shares authorized and no shares issued or outstanding, pro forma as adjusted.	--	--	--
Series A and B common stock, \$.003 par value; 17,000,000 shares authorized and 901,526 shares issued and outstanding, actual; no shares authorized, issued or outstanding, pro forma or pro forma as adjusted.....	3	--	--
Common stock, \$.001 par value; no shares authorized, issued or outstanding, actual; 40,000,000 shares authorized and 6,819,869 shares issued and outstanding, pro forma; 40,000,000 shares authorized and 10,069,869 shares issued and outstanding, pro forma as adjusted.....	--	7	10
Additional paid-in capital.....	--	19,605	61,117
Net unrealized gain on investments, net of tax.....	584	584	584
Accumulated deficit.....	(735)	(735)	(735)
Total stockholders' equity.....	212	19,461	60,976
Total capitalization.....	\$23,443	\$23,461	\$60,976

</TABLE>

#### DILUTION

Our historical net tangible book value as of September 30, 2001 was \$(2.3) million, or \$(2.51) per share of common stock. Net tangible book value per share represents the amount of our total tangible assets less our total liabilities and our preferred stock, divided by the number of shares of common stock outstanding. Our pro forma net tangible book value as of September 30, 2001 was \$17.0 million, or \$2.49 per share of common stock. Pro forma net tangible book value per share represents the amount of our total tangible assets less our total liabilities, divided by the pro forma number of shares of common stock outstanding after giving effect to the conversion of our preferred stock into common stock and the exercise of all outstanding warrants to acquire common stock to occur before the closing of this offering. After giving effect to our sale of 3,250,000 shares of common stock in this offering at an assumed public offering price of \$14.00 per share and after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us, our adjusted pro forma net tangible book value as of September 30, 2001

would have been \$58.5 million, or \$5.81 per share. This represents an immediate increase in pro forma net tangible book value of \$3.32 per share to our existing stockholders and an immediate dilution in pro forma net tangible book value of \$8.19 per share to new investors purchasing shares in this offering. The following table illustrates this dilution on a per share basis:

<TABLE>		
<S>	<C>	<C>
Assumed public offering price per share.....		\$14.00
Historical net tangible book value as of September 30, 2001.....	\$(2.51)	
Increase per share attributable to conversion of preferred stock and warrants.....	5.00	
	-----	
Pro forma net tangible book value per share as of September 30, 2001.....	2.49	
Increase per share attributable to new investors.....	3.32	
	-----	
Adjusted pro forma net tangible book value per share after this offering.....		5.81
		-----
Dilution per share to new investors.....		\$ 8.19
		=====
</TABLE>		

The following table summarizes on a pro forma basis as of September 30, 2001, after giving effect to the conversion of our preferred stock into common stock and the exercise of warrants to acquire common stock to occur before the closing of this offering, the number of shares of common stock purchased from us, the total consideration paid to us and the average price per share paid by existing stockholders and by new investors, based upon an assumed public offering price of \$14.00 per share and before deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us:

<TABLE>  
<CAPTION>

	Shares Purchased		Total Consideration		Average Price
	Number	Percent	Amount	Percent	Per Share
<S>	<C>	<C>	<C>	<C>	<C>
Existing stockholders	6,819,869	67.7%	\$19,461,000	30.0%	\$ 2.85
New investors.....	3,250,000	32.3	45,500,000	70.0	14.00
	-----	-----	-----	-----	-----
Total.....	10,069,869	100.0%	\$64,961,000	100.0%	
	=====	=====	=====	=====	

</TABLE>

The above discussion and tables assume no exercise of stock options, except as described above, after September 30, 2001. As of September 30, 2001, we had outstanding options to purchase a total of 1,379,040 shares of common stock at a weighted average exercise price of \$2.06 per share. To the extent any of these options are exercised, there will be further dilution to new investors.

#### SELECTED CONSOLIDATED FINANCIAL DATA

The following selected consolidated financial data should be read in connection with, and are qualified by reference to, the consolidated financial statements and related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing elsewhere in this prospectus. The data for the years ended December 31, 1998, 1999 and 2000 and the nine months ended September 30, 2001 and as of December 31, 1999 and 2000 and September 30, 2001 are derived from consolidated financial statements audited by Arthur Andersen LLP and included elsewhere in this prospectus. The data for the years ended December 31, 1996 and 1997 and as of December 31, 1996, 1997 and 1998 are derived from audited consolidated financial statements not included in this prospectus. The data for the nine months ended September 30, 2000 are derived from unaudited consolidated financial statements appearing elsewhere in this prospectus. The unaudited consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements and, in the opinion of our management, include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the information set forth therein. Operating results for the nine months ended September 30, 2001 are not necessarily indicative of operating results to be expected for the full year. The pro forma share information included in the consolidated statement of operations data have been computed as described in note 22 of the notes to consolidated financial statements included elsewhere in this prospectus.



Basic.....		\$
1.13		
Diluted.....		\$
1.13		
Pro forma weighted average common shares outstanding:		
Basic.....		
6,819,869		
Diluted.....		
6,819,595		

	Nine Months Ended September 30,	
	2000	2001
<S>	<C>	<C>
Statement of Operations Data:		
Revenues:		
Premiums.....	\$ 157,994	\$ 235,995
Administrative services fees.....	3,543	283
Total revenues.....	161,537	236,278
Operating expenses:		
Medical services costs.....	133,575	195,512
General and administrative expenses.....	24,133	27,992
Total operating expenses.....	157,708	223,504
Income (loss) from operations.....	3,829	12,774
Other income (expense):		
Investment and other income, net.....	1,611	2,806
Interest expense.....	(505)	(285)
Equity in income (losses) from joint ventures.....	(329)	--
Income (loss) from continuing operations before income taxes..	4,606	15,295
Income tax expense (benefit).....	100	6,320
Income (loss) from continuing operations.....	4,506	8,975
Loss from discontinued operations, net.....	--	--
Net income (loss).....	4,506	8,975
Accretion of redeemable preferred stock.....	(369)	(369)
Net income (loss) attributable to common stockholders.....	\$ 4,137	\$ 8,606
Net income (loss) from continuing operations per common share:		
Basic.....	4.59	\$ 9.47
Diluted.....	\$ 0.61	\$ 1.11
Net income (loss) per common share:		
Basic.....	\$ 4.59	\$ 9.47
Diluted.....	\$ 0.61	\$ 1.11
Weighted average common shares outstanding:		
Basic.....	901,526	908,918
Diluted.....	6,793,208	7,787,653
Pro forma net income per common share:		
Basic.....	\$ 1.31	
Diluted.....	\$ 1.15	
Pro forma weighted average common shares outstanding:		
Basic.....	6,827,261	
Diluted.....	7,787,653	

</TABLE>  
<TABLE>  
<CAPTION>

	December 31,					September 30,
	1996	1997	1998	1999	2000	2001
	(in thousands)					
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Balance Sheet Data:						
Cash, cash equivalents and short-term investments	\$ 9,759	\$17,976	\$17,777	\$ 23,663	\$26,423	\$ 62,023
Total assets.....	25,313	39,330	45,727	52,207	66,017	103,971
Long-term debt, net of current portion.....	4,000	4,000	4,000	4,000	4,000	4,000
Redeemable convertible preferred stock.....	--	--	17,700	18,386	18,878	19,231
Total stockholders' equity (deficit).....	3,765	2,495	(6,196)	(16,367)	(8,834)	212

</TABLE>

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

The following discussion contains forward-looking statements based upon current expectations and related to future events and our future financial performance that involve risks and uncertainties. Our actual results and timing of events could differ materially from those anticipated in these forward-looking statements as a result of many factors, including those set forth under "Risk Factors," "Forward-Looking Statements," "Business" and elsewhere in this prospectus.

Overview

We provide managed care programs and related services to individuals receiving benefits under Medicaid, including Supplemental Security Income, and the State Children's Health Insurance Program. We have health plans in Wisconsin, Indiana and Texas.

Revenues

We generate revenues primarily from premiums we receive from the states in which we operate to provide health benefits to our members. We receive a fixed premium per member per month pursuant to our state contracts. 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. We also generate administrative services fees for providing services to SSI members on a non-risk basis.

The primary driver of our increasing revenues has been membership growth. We have increased our membership through both internal growth and acquisitions. From December 31, 1998 to September 30, 2001, we have grown our membership by 66%. The following table sets forth our membership by service area, excluding members related to the commercial operations that we discontinued in 1999:

<TABLE>  
<CAPTION>

	December 31,			September 30,
	1998	1999	2000	2001
<S>	<C>	<C>	<C>	<C>
Wisconsin	37,600	36,600	60,200	108,100
Indiana..	93,500	102,200	108,000	61,800
Texas....	--	3,500	26,000	54,900
Illinois.	4,500	--	--	--
	-----	-----	-----	-----
Total.	135,600	142,300	194,200	224,800
	=====	=====	=====	=====

</TABLE>

In the first nine months of 2001, our membership in Indiana declined due to a subcontracting provider organization terminating a percent-of-premium arrangement, which was our only contract of that type. Separately, we entered into agreements with Humana that resulted in the transfer to us of 35,000 members in Wisconsin and 30,000 members in Texas.

In 2000, a competitor in our Wisconsin market terminated its participation in the Medicaid program benefiting our enrollment growth. Our membership growth in the northern and central regions of Indiana was offset by our decision to reduce our participation in the less profitable southern region. Our El Paso health plan achieved sizable growth because we were named the default health plan in this area and enrolled a majority of the members who failed to select a specific plan.

In 1999, we terminated our commercial operations in Wisconsin and Indiana to further concentrate our efforts in government supported health care. Changes effected by the Balanced Budget Act of 1997 enabled

us to terminate these operations. Our El Paso market became operational as the state of Texas converted the fee-for-service market to a mandatory Medicaid managed care market. Also, we sold our Illinois operation to focus our business on states where Medicaid enrollment in managed care is mandatory.

Operating Expenses

Our operating expenses include medical services costs and general and administrative expenses.

Our medical services costs include payments to physicians, hospitals, and other providers for healthcare and specialty product claims. Medical service

costs also include estimates of medical expenses incurred but not yet reported, or IBNR. Monthly, we estimate our IBNR based on a number of factors, including inpatient hospital utilization data and prior claims experience. As part of this review, we also consider the costs to process medical claims, and estimates of amounts to cover uncertainties related to fluctuations in physician billing patterns, membership, products and inpatient hospital trends. These estimates are adjusted as more information becomes available. We utilize the services of independent actuarial consultants who are contracted to review our estimates periodically. While we believe that our process for estimating IBNR is actuarially sound, we cannot assure you that healthcare claim costs will not exceed our estimates.

Our results of operations depend on our ability to manage expenses related to health benefits and to accurately predict costs incurred. The table below depicts our medical loss ratio, which represents medical services costs as a percentage of premium revenues and reflects the direct relationship between the premium received and the medical services provided. Our stabilization in the ratio primarily reflects member reductions in our southern Indiana market, improved provider contract terms and premium rate increases in our markets served.

<TABLE>  
<CAPTION>

	Year Ended December 31,			Nine Months Ended September 30,	
	1998	1999	2000	2000	2001
<S>	<C>	<C>	<C>	<C>	<C>
Medical loss ratio	88.4%	88.9%	84.3%	84.5%	82.8%

</TABLE>

Our general and administrative expenses primarily reflect wages and benefits and other administrative costs related to our employee base, including those fees incurred to provide services to our members. These expenses are funded by our management contract fees. Some of these services are provided locally, while others are delivered to our health plans from a centralized location. This approach provides the opportunity to control both direct and indirect costs. The major centralized functions are claims processing, information systems, finance and administration. The following table sets forth the general and administrative expense ratio, which represents general and administrative expenses as a percent of total revenues and reflects the relationship between revenues earned and the costs necessary to drive those revenues. The improvement in the ratio reflects growth in membership and leveraging of our overall infrastructure.

<TABLE>  
<CAPTION>

	Year Ended December 31,			Nine Months Ended September 30,	
	1998	1999	2000	2000	2001
<S>	<C>	<C>	<C>	<C>	<C>
General and administrative expenses ratio	16.7%	14.8%	14.6%	14.9%	11.8%

</TABLE>

#### Other Income

Other income consists principally of investment and other income, interest expense, and equity in income (loss) from joint ventures.

- . Investment income is derived from our cash, cash equivalents and investments. Information about our investments is presented below under "Liquidity and Capital Resources."

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- . Interest expense primarily reflects interest paid on our subordinated notes, which we intend to repay in full from our net proceeds of this offering.
- . Equity in income (loss) from joint ventures principally represents our share of operating results from Superior HealthPlan, which we formed with Community Health Centers Network in 1997. From 1998 through 2000, we owned 39% of Superior, and therefore accounted for the investment under the equity method of accounting. Effective January 1, 2001, we entered into an agreement to purchase an additional 51% of Superior. We also agreed to purchase from TACHC GP, Inc. a term note pursuant to which Superior owed TACHC \$160,000. As a result of entering into this agreement, we began accounting for our investment in Superior using consolidation accounting. We therefore no longer reflect any operations of Superior in equity in income (loss) from joint ventures and we eliminate in consolidation all

administrative fees from Superior. Under the agreement, Community Health Centers Network has the right to require that, within 20 days after completion of this offering, we acquire the remaining 10% equity interest in Superior for \$100,000 in cash or in shares of our common stock, based on the public offering price.

## Results of Operations

Nine Months Ended September 30, 2001 Compared to Nine Months Ended September 30, 2000

### Revenues

Premiums for the nine months ended September 30, 2001 increased \$78.0 million, or 49.4%, to \$236.0 million from \$158.0 million for the nine months ended September 30, 2000. This increase was due to the Humana contract purchases, the consolidation of our El Paso market and membership growth, net of the termination of our Indiana sub-contract arrangement.

Administrative services fees for the nine months ended September 30, 2001 decreased \$3.3 million, or 92.0%, to \$283,000 from \$3.5 million for the nine months ended September 30, 2000 as a result of our acquisition of a majority share of Superior HealthPlan, as described above.

### Operating Expenses

Medical services costs. Medical services costs for the nine months ended September 30, 2001 increased \$61.9 million, or 46.4%, to \$195.5 million from \$133.6 million for the nine months ended September 30, 2000. This increase was due to the Humana contract purchases, the consolidation of our El Paso market and membership growth, net of the termination of our Indiana sub-contract arrangement.

General and administrative expenses. General and administrative expenses for the nine months ended September 30, 2001 increased \$3.9 million, or 16.0%, to \$28.0 million from \$24.1 million for the nine months ended September 30, 2000. The increase was primarily due to a higher level of wages and related expenses for additional staff to support our membership growth.

### Other income

Other income for the nine months ended September 30, 2001 increased \$1.7 million, or 224%, to \$2.5 million from \$777,000 for the nine months ended September 30, 2000. This primarily reflects a significant increase in investment income due to an increase in cash, cash equivalents and investments. This increase was offset in part by a change in our method of accounting for our investment in Superior HealthPlan, as described above.

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### Income tax expense

In the first nine months of 2001, we recorded \$6.3 million of income tax expense based on a 41.3% effective tax rate. In the first nine months of 2000, we recorded tax expense of \$100,000 as the change in our valuation allowance related to deferred tax assets significantly offset the income tax provision.

Year Ended December 31, 2000 Compared to Year Ended December 31, 1999

### Revenues

Premiums for the year ended December 31, 2000 increased \$15.9 million, or 7.9%, to \$216.4 million from \$200.5 million in 1999. This increase was primarily due to membership growth in our Wisconsin market and rate increases in Wisconsin and Indiana.

Administrative services fees for the year ended December 31, 2000 increased \$4.0 million, or 460.9%, to \$4.9 million from \$880,000 in 1999 due to membership increases in our El Paso market.

### Operating expenses

Medical services costs. Medical services increased \$4.2 million, or 2.4%, to \$182.5 million for the year ended December 31, 2000 from \$178.3 million in 1999. The increase was primarily due to the net increase in membership.

General and administrative expenses. General and administrative expenses for the year ended December 31, 2000 increased \$2.6 million, or 8.7%, to \$32.3 million from \$29.8 million in 1999. The increase was primarily due to a higher level of wages and related expenses for additional staff to support our membership growth.

### Other Income

Other income for the year ended December 31, 2000 decreased \$463,000, or 41.0%, to \$665,000 from \$1.1 million in 1999. This decrease primarily reflects an increase in equity in losses from our El Paso start-up market.

#### Income tax benefit

In 2000, we recorded an income tax benefit of \$543,000 as a result of the reversal of our valuation allowance related to deferred tax assets, as it became apparent that it was more likely than not that the benefits of our net operating losses would be realized. In 1999, we recorded a tax benefit offset by a valuation allowance, resulting in no benefit or provision for the year.

Year Ended December 31, 1999 Compared to Year Ended December 31, 1998

#### Revenues

Premiums for the year ended December 31, 1999 increased \$51.0 million, or 34.1%, to \$200.5 million from \$149.6 million in 1998. The increase was due to increases in membership that occurred in Indiana during the second half of 1998.

Administrative services fees remained relatively flat year over year.

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#### Operating expenses

Medical services costs. Medical services costs for the year ended December 31, 1999 increased \$46.1 million, or 34.9%, to \$178.3 million from \$132.2 million in 1998. The increase was primarily due to a full year of increased membership that had occurred in Indiana in the latter half of 1998.

General and administrative expenses. General and administrative expenses for the year ended December 31, 1999 increased \$4.7 million, or 18.7%, to \$29.8 million from \$25.1 million in 1998. The increase was primarily due to a higher level of wages and related expenses for additional staff to support our membership growth.

#### Other Income

Other income for the year ended December 31, 1999 increased \$582,000, or 107%, to \$1.1 million in 1998 primarily due to a reduction in equity in losses from joint ventures as a result of the sale of our Illinois plan.

#### Income tax expense (benefit)

For the year ended December 31, 1999, we recorded a tax benefit offset by a valuation allowance resulting in no benefit or provision for the year. For the year ended December 31, 1998, we recorded a tax benefit of \$1.5 million as a result of our loss from operations.

#### Liquidity and Capital Resources

Historically, we have financed our operations and growth through private equity and debt financings and internally generated funds. Since 1993, we have raised \$22.4 million, consisting of \$18.4 million through the issuance of equity securities and \$4.0 million through subordinated debt financing. Our liquidity requirements have arisen primarily from statutory capital requirements in the states in which we operate.

Our operating activities used cash of \$7.5 million in 1998 and provided cash of \$5.1 million in 1999, \$13.5 million in 2000 and \$39.6 million in the nine months ended September 30, 2001. The increased cash flow in 1999 was due to an increase in average monthly membership. The growth in 2000 was due to increased membership and improved profitability. The increase in cash provided by operating activities in 2001 was due to the timing of capitation payments, as well as an increase in membership.

Our investing activities used cash of \$2.2 million in 1998, \$2.9 million in 1999 and \$14.6 million in 2000, and provided cash of \$2.9 million in the nine months ended September 30, 2001. Our investment policies are designed to provide liquidity, preserve capital and maximize total return on invested assets. As of September 30, 2001, our investment portfolio consisted primarily of fixed-income securities with an average maturity of 3.5 years. Cash is invested in investment vehicles such as municipal bonds, commercial paper, U.S. government-backed agencies and U.S. Treasury instruments. The states in which we operate prescribe the types of instruments in which our subsidiaries may invest their cash. The average portfolio yield was 7.3% as of December 31, 2000 and 7.4% as of September 30, 2001.

Our financing activities provided cash of \$9.5 million in 1998 and \$2.5 million in 1999 and used cash of \$2.4 million in 2000 and \$85,000 in the nine months ended September 30, 2001. Financing cash flows consisted of borrowings under a credit facility and issuances of preferred stock.

In addition, we have raised capital from time to time to fund planned geographic and product expansion, necessary regulatory reserves, and acquisitions of healthcare contracts. In the nine months ended September 30, 2001, we purchased the rights to the Humana Medicaid contracts with the states of Texas and Wisconsin for \$1.2 million and spent \$2.5 million on purchases of furniture, equipment and leasehold improvements due to the addition of the Austin and San Antonio markets and the expansion of the Wisconsin market. For the three months ended December 31, 2001, and the year ended December 31, 2002, we anticipate purchasing \$800,000 and \$3.0 million, respectively, of new software, software and hardware upgrades, and furniture, equipment and leasehold improvements related to office and market expansions.

At September 30, 2001, we had working capital of \$(6.8) million as compared to \$7.3 million at December 31, 1998, \$(7.2) million at December 31, 1999 and \$(5.3) million at December 31, 2000. Our working capital is often negative due to our efforts to increase investment returns through purchases of long-term investments, which have maturities of greater than one year. Our investment policies are also designed to provide liquidity and preserve capital. We manage our short-term and long-term investments to ensure that a sufficient portion is held in investments that are highly liquid and can be sold to fund working capital as needed.

Cash, cash equivalents and short term investments were \$26.4 million at December 31, 2000 and \$62.0 million at September 30, 2001. Long-term investments were \$14.5 million at December 31, 2000 and \$24.1 million at September 30, 2001. Based on our operating plan, we expect that our available cash, cash equivalents and investments, net proceeds of this offering, and cash from our operations will be sufficient to finance our operations and capital expenditures for at least 12 months from the date of this prospectus.

#### Regulatory Capital and Dividend Restrictions

Our operations are conducted through our subsidiaries. As managed care organizations, our subsidiaries are subject to state regulations that, among other things, may require the maintenance of minimum levels of statutory capital, as defined by each state, and restrict the timing, payment and amount of dividends and other distributions that may be paid to us.

Our subsidiaries are required to maintain minimum quarterly capital requirements prescribed by various regulatory authorities in each of the states in which we operate. As of September 30, 2001, our subsidiaries had aggregate statutory capital and surplus of \$13.7 million, compared with the required minimum aggregate statutory capital and surplus requirements of \$7.6 million.

In 1998, the National Association of Insurance Commissioners adopted guidelines which, to the extent that they are implemented by the states, will set new minimum capitalization requirements for insurance companies, managed care organizations and other entities bearing risk for healthcare coverage. New risk-based capital rules for managed care organizations, which may vary from state to state, are currently being considered for adoption. Wisconsin and Texas adopted various forms of the rules as of December 31, 1999. The managed care organization rules, if adopted by other states in their proposed form, may increase the minimum capital required for our subsidiaries.

#### Recent Accounting Pronouncements

In July 2001, SFAS No. 141, Business Combinations, was issued which requires that the purchase method of accounting be used for all business combinations completed after June 30, 2001.

In July 2001, SFAS No. 142, Goodwill and Other Intangible Assets, was issued which requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested annually for impairment. We will adopt SFAS No. 142 effective January 1, 2002.

#### Quantitative and Qualitative Disclosures About Market Risk

##### Investments

As of September 30, 2001, we had short-term investments of \$625,000 and long-term investments of \$24.1 million. The short-term investments consist of highly liquid securities with maturities between three and 12 months. The long-term investments consist of municipal bonds, commercial paper, U.S. government-backed agencies and U.S. Treasury instruments, and have original maturities greater than one year. These investments are subject to interest rate risk and will decrease in value if market rates increase. We have the

ability to hold these short-term investments to maturity, and as a result, 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 September 30, 2001, the fair value of our fixed income investments would decrease by approximately \$1.5 million. Similarly, a 1% decrease in market interest rates at September 30, 2001 would result in an increase of the fair value of our investments of approximately \$1.5 million. Declines in interest rates over time will reduce our investment income.

#### Long Term Debt

At September 30, 2001, we had \$4.0 million of subordinated debt, which bears interest at a rate of 8.5% per year. This debt is subject to interest rate risk. Assuming a hypothetical and immediate 1% increase in market interest rates at September 30, 2001, the fair value of our subordinated debt would decrease by approximately \$85,000. Similarly, a 1% decrease in market interest rates at September 30, 2001 would result in an increase in the fair value of our debt of approximately \$85,000.

#### Inflation

Although the general rate of inflation has remained relatively stable and healthcare cost inflation has stabilized in recent years, the national healthcare cost inflation rate still exceeds the general inflation rate. We use various strategies to mitigate the negative effects of healthcare cost inflation. Specifically, our health plans try to control medical and hospital costs through contracts with independent providers of healthcare services. Through these contracted care providers, our health plans emphasize preventive healthcare and appropriate use of specialty and hospital services.

While we currently believe our strategies to mitigate healthcare cost inflation will continue to be successful, competitive pressures, new healthcare and pharmaceutical product introductions, demands from healthcare providers and customers, applicable regulations or other factors may affect our ability to control the impact of healthcare cost increases.

#### Compliance Costs

Federal and state regulations governing standards for electronic transactions, data security and confidentiality of patient information have been issued recently and are subject to change and conflicting interpretation, making certainty of compliance impossible at this time. Due to the uncertainty surrounding the regulatory requirements, we cannot be sure that the systems and programs that we plan to implement will comply adequately with the regulations that are ultimately adopted. Implementation of additional systems and programs may be required, the cost of which is unknown to us at this time. Further, compliance with these regulations would require changes to many of the procedures we currently use to conduct our business, which may lead to additional costs that we have not yet identified. We do not know whether, or the extent to which, we will be able to recover our costs of complying with these new regulations from the states.

## BUSINESS

### Overview

We provide managed care programs and related services to individuals receiving benefits under Medicaid, including Supplemental Security Income or SSI, and the State Children's Health Insurance Program or SCHIP. We have health plans in Wisconsin, Indiana and Texas. In each of our service areas, we have more Medicaid members than any other managed care entity.

### Medicaid Managed Care Market

From the 1930s until the 1970s, healthcare in the United States generally was provided on a fee-for-service basis, with financial support from private health insurance. By the early 1970s, however, there was concern that indemnity insurance could not contain costs or support benefits required by the U.S. population. In 1973, Congress passed the Federal Health Maintenance Organization Act in order to encourage the creation of managed care organizations, such as health maintenance organizations, that might address the shortcomings of the indemnity insurance system. Managed care organizations finance and deliver healthcare services for their members through contracts with selected physicians, hospitals and other providers.

After additional federal legislation in 1976 and 1979, the number and size of managed care organizations began to grow dramatically. The federal Centers for Medicare and Medicaid Services, or CMS, reports that U.S. healthcare costs

grew from \$73.0 billion in 1970 to \$1.2 trillion in 1999, and projects that those costs will continue to grow at a rate that is in excess of 7% per year to \$2.6 trillion in 2010. In light of this significant growth in membership and healthcare spending, many managed care organizations have chosen to narrow their focus to enable them to tailor appropriate programs to meet members' medical needs. Some organizations have chosen to offer a limited range of services, such as dental care or behavioral healthcare. Other managed care organizations have chosen to focus on targeted populations by, for example, offering commercial and Medicare plans and leaving the Medicaid market.

Medicaid provides health insurance to low-income families and individuals with disabilities. Each state establishes its own eligibility standards, benefit packages, payment rates and program administration within federal standards. As a result, there are 56 Medicaid programs - one for each state, each territory and the District of Columbia. Medicaid eligibility is based on a combination of income and asset requirements subject to federal guidelines. Financial requirements are most often determined by an income level relative to the federal poverty level. Medicaid covered 15% of the total U.S. population in 1998. The number of persons covered by Medicaid increased from 23.5 million in 1989 to 40.6 million in 1998, including 18.7 million children. Historically, children have represented the largest eligibility group, and in 1995, 39% of all births in the United States were covered by Medicaid.

SSI covers low-income aged, blind and disabled persons. SSI beneficiaries represent a growing portion of all Medicaid recipients, with the proportion of disabled enrollees increasing from 11% of recipients in 1973 to 18% in 1998. In addition, SSI recipients typically utilize more services because of their more critical health issues. In 1998, average expenditures for disabled SSI recipients were \$9,558, compared to \$1,892 for other adult Medicaid recipients. Since the late 1980s Medicaid has been used by the federal and state governments as the vehicle for providing coverage to uninsured persons. These efforts culminated in the Balanced Budget Act of 1997 which created SCHIP to help states expand coverage primarily to children whose families earn too much to qualify for Medicaid, yet not enough to afford private health insurance.

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SCHIP is the single largest expansion of health insurance coverage for children since the enactment of Medicaid and some states are expanding their SCHIP coverage to include adults. States can use SCHIP funds to provide coverage through three options: separate health programs, expansion of Medicaid coverage, or a combination of both of these strategies. In the federal fiscal year ended September 30, 2000, 2.3 million of the 3.3 million SCHIP recipients were served through separate SCHIP programs.

Unlike Medicare, which is financed entirely by the federal government, the states and the federal government jointly finance the Medicaid and SCHIP programs. For Medicaid, the level of federal matching funds is based on the average per capita income in each state and must exceed 50%. For SCHIP, the federal matching percentage is higher.

While Medicaid programs have directed funds to many individuals who could not afford or otherwise maintain health insurance coverage, they did not initially address the inefficient and costly manner in which the Medicaid population tends to access healthcare. Medicaid recipients typically have not sought preventive care or routine treatment for chronic conditions, such as asthma and diabetes. Rather, they have sought healthcare in hospital emergency rooms, which tend to be more expensive. As a result, many states have found that the costs of providing Medicaid benefits have increased while the medical outcomes for the recipients remained unsatisfactory.

In the early 1980s, states began pursuing Medicaid managed care initiatives when the combination of rising Medicaid costs and national recession put pressure on states to control spending growth. Throughout the 1990's, states significantly expanded enrollment in Medicaid managed care programs. In 1991, less than 10% of all Medicaid enrollees were covered under managed care plans. By 1998, nearly 54% (21.9 million) of the Medicaid population was enrolled in some type of managed care plan. Medicaid's premium payments to Medicaid managed care plans rose from \$700 million in 1988 to \$13.2 billion in 1998. A growing number of states have mandated that their Medicaid recipients enroll in managed care plans. While some states have included SSI beneficiaries in their managed care programs, others are planning to do so in the near future.

Historically, commercial managed care organizations contracted with states to provide healthcare benefits to Medicaid enrollees. Many of these organizations encountered difficulties in adapting their commercial approaches and infrastructures to address the Medicaid market in a cost-effective manner. Some commercial plans have chosen to exit all or a portion of their Medicaid markets. As a result, a significant market opportunity exists for managed care organizations with operations and programs focused on the distinct socio-economic, cultural and healthcare needs of the Medicaid and SCHIP populations.

We provide managed care programs and related services to individuals receiving benefits under Medicaid, including SSI, and SCHIP. We operate in Wisconsin, Indiana and Texas. In each of our service areas, we have more Medicaid members than any other managed care organization. Unlike many managed care organizations that attempt to serve the general commercial population, as well as Medicare and Medicaid populations, we are focused exclusively on the Medicaid, including SSI, and SCHIP populations.

Our approach to managed care is based on the following key attributes:

- . Medicaid Expertise. Over the last 17 years, we have developed a specialized Medicaid expertise that has helped us establish and maintain strong relationships with our constituent communities of members, providers and state governments. Based on our experience in care coordination, we have implemented programs which are designed to allow us to achieve savings by reducing inappropriate emergency room use, inpatient days and high cost interventions, as well as by managing care of

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chronic illnesses. We do this primarily by providing nurse case managers who support our physicians in implementing disease management programs and by providing incentives for our physicians to provide preventive care on a regular basis. We recruit and train staff and providers who are attentive to the needs of our members and who are experienced in working with culturally diverse, low income Medicaid populations. Our experience in working with state regulators helps us to efficiently implement and deliver our programs and services and affords us opportunities to provide input on Medicaid industry practices and policies in the states in which we operate.

- . Localized Services, Support and Branding. We provide access to healthcare services through local networks of providers and staff who focus on the cultural norms of their individual communities. Our systems and procedures have been designed to address these community-specific challenges through outreach, education, transportation and other member support activities. For example, our community outreach program employs former Medicaid recipients to work with our members and their communities to promote health, and to promote self-improvement through employment and higher education. We use locally recognized plan names, and we tailor our materials and processes to meet the needs of the communities and state programs which we serve. Our approach to community-based service results in local accountability and solidifies our decentralized management and operational structure.
- . Physician-Driven Approach. We have implemented a physician-driven approach in which our physicians are actively engaged in developing and implementing our healthcare delivery policies and strategies and are instrumental in supporting our member services. Our local boards of directors, which help shape the character and quality of our organization, have significant provider representation in each of our principal geographic markets. This approach is designed to eliminate unnecessary costs, improve service to our members and simplify the administrative burdens on our providers. It has enabled us to strengthen our provider networks through improved physician recruitment and retention that, in turn, have helped to increase our membership base.
- . Efficiency of Business Model. We designed our business model to allow us to readily add new members in our existing markets and expand into new regions in which we may choose to operate. The combination of our decentralized local approach to operating our health plans and our centralized finance, information systems, claims processing and medical management support functions allows us to seek additional business opportunities without being impaired by many of the logistical and financial obstacles customarily faced by growing companies. For example, we integrated 65,000 former Humana members within 75 days after acquiring Humana's Medicaid contracts in Wisconsin and Texas. Because of our business model, we believe we would be able to quickly recover from a disaster in one of our plan locations by moving member and physician services to one of our other locations.
- . Specialized Systems and Technology. Through our specialized information systems, we are able to strengthen our relationships with providers and states, which helps us to grow our membership base. These systems also help us identify needs for new healthcare programs. These systems allow us to provide the physicians with claims information, timely and accurate payment, utilization data, and membership eligibility which enables providers to more efficiently manage their practices and focuses them on specific patient needs. Our information systems also closely track and manage utilization data for the state which demonstrates that their Medicaid populations are receiving quality healthcare in an efficient manner. This information enables us to accommodate the expansion of our membership base.

- . Complementary Business Lines. We have begun to broaden our service offerings to address areas we believe have been traditionally underserved by Medicaid managed care organizations. We believe other business lines, such as our NurseWise triage program, will allow us to provide expanded services and diversify our sources of revenue.

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## Strategy

Our objective is to become the leading national Medicaid managed care organization. We intend to achieve this objective by implementing the following key components of our strategy:

- . Increase penetration of existing state markets. We intend to increase our membership in states in which we currently operate through development and implementation of community-specific products, alliances with key providers, outreach efforts and acquisitions. For example, in Indiana, where the state assigns members to physicians, we have increased our membership by recruiting additional physicians. We may also increase membership by acquiring Medicaid contracts and other related assets from our competitors in our existing markets. In Texas, we recently completed the acquisition of Humana's Medicaid contracts in Austin and San Antonio, which resulted in the addition of 30,000 new members.
- . Develop and acquire additional state markets. We intend to leverage our experience in identifying and developing new markets by seeking both to acquire existing businesses and to build our own operations. We expect to focus our expansion on states where Medicaid recipients are mandated to enroll in managed care organizations and in which we believe we can be the market leader.
- . Diversify our business lines. We seek to broaden our business lines into areas that complement our business to enable us to grow our revenue stream and decrease our dependence on Medicaid reimbursement. In addition to NurseWise, we are considering services such as behavioral health, transportation and dental care. We believe we may have opportunities to offer these services to other managed care organizations and states.
- . Leverage our information technologies to enhance operating efficiencies. We intend to continue to invest in our centralized information systems to further streamline our processes and drive efficiencies in our operations and to add functionality to improve the service we provide to our members. Our information systems enable us to add members and markets quickly and economically.

## Member Programs and Services

We recognize the importance of member-focused services in the delivery of quality managed care services. Our locally based staff assists members in accessing care, coordinating referrals to related health and social services, and addressing member concerns and questions. Our health plans provide the following services:

- . primary and specialty physician care;
- . inpatient and outpatient hospital care;
- . emergency and urgent care;
- . prenatal care;
- . laboratory and x-ray services;
- . home health and durable medical equipment;
- . behavioral health and substance abuse services;
- . after hours nurse advice line;
- . transportation assistance;
- . health status calls to coordinate care;
- . vision care; and
- . prescriptions and limited over-the-counter drugs and inoculations.

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We also provide the following education and outreach programs to inform and assist members in accessing quality, appropriate healthcare services in an

efficient manner.

- . CONNECTIONS is designed to create a link between the member and the provider and help identify potential challenges or risk elements to a member's health, such as abuse risks, nutritional challenges and health education shortcomings. CONNECTIONS representatives, many of whom are former Medicaid enrollees, also contact new members by phone or mail to discuss managed care, the Medicaid program and our services. They make home visits, conduct educational programs and represent the plan at community events such as health fairs.
- . NurseWise provides a toll-free nurse triage line between the hours of 5:00 p.m. and 8:00 a.m. each weekday and 24 hours on weekends and holidays. Our members can call one number and reach a bilingual nursing staff who can provide triage advice and referrals, and if necessary, arrange for treatment and transportation and contact qualified behavioral health professionals for assessments.
- . START SMART For Your Baby is a prenatal and infant health program designed to increase the percentage of pregnant women receiving early prenatal care, reduce the incidence of low birth weight babies, identify high risk pregnancies, increase participation in the federal Women, Infant, and Children program, and increase well-child visits. The program includes risk assessments, education through face-to-face meetings and materials, behavior modification plans and assistance in selecting a provider for the infant and scheduling newborn follow-up visits.
- . EPSDT Case Management is a preventive care program designed to educate our members on the benefits of Early and Periodic Screening, Diagnosis and Treatment, or EPSDT, services. We have a systematic program of communication, tracking, outreach, reporting, and follow-through that promotes state EPSDT programs.
- . Disease Management Programs are designed to help members understand their disease and treatment plan, and improve or maintain their quality of life. These programs address medical conditions that are common within the Medicaid population such as asthma, diabetes and prenatal care.

Providers

For each of our service areas, we establish a provider network consisting of primary and specialty care physicians, hospitals and ancillary providers. As of November 9, 2001, our health plans had the following numbers of physicians and hospitals:

<TABLE>  
<CAPTION>

	Wisconsin	Indiana	Texas	Total
<S>	<C>	<C>	<C>	<C>
Primary Care Physicians..	1,984	197	679	2,860
Specialty Care Physicians	2,319	307	1,791	4,417
Hospitals.....	54	14	35	103

</TABLE>

The primary care physician is a critical component in care delivery, and also in the management of costs and the attraction and retention of new members. Primary care physicians include family and general practitioners, pediatricians, internal medicine physicians and OB/GYNs. Specialty care physicians provide medical care to members generally upon referral by the primary care physicians.

We work closely with physicians to help them operate efficiently by providing financial and utilization information, physician and patient educational programs and disease and medical management programs, as well as adhering to a prompt payment policy. Our programs are also designed to help the physicians coordinate care outside of their offices.

We believe our collaborative approach with physicians gives us a competitive advantage in entering new markets. Our physicians serve on local committees that assist us in implementing preventive care methods, managing costs and improving the overall quality of care delivered to our members, while assuming responsibility for medical policy decision-making. The following are among the services we provide to support physicians.

- . Customized Utilization Reports provide our contracted physicians with information that enables them to run their practices more efficiently and focuses them on specific patient needs. For example, quarterly fund-detail reports update physicians on their status within their risk pools. Equivalency reports provide physicians with financial comparisons of

capitated versus fee-for service arrangements.

- . Case Management Support helps the physician coordinate specialty care and ancillary services for patients with complex conditions and direct members to appropriate community resources to address both their health and socio-economic needs.
- . Web-based Claims and Eligibility Resources are being tested in selected markets to provide physicians with on-line access to perform claims and eligibility inquiries.

Our physicians also benefit from several of the services offered to our members, including the CONNECTIONS program, EPSDT case management and disease management programs.

We provide access to healthcare services for our members primarily through non-exclusive contracts with our providers. The majority of our primary care physicians share in our Medicaid reimbursement risk as well as in the success of efficient and appropriate management of care.

Our contracts with primary and specialty care physicians and hospitals usually are for one to two year periods and automatically renew for successive one year terms, but generally are subject to termination by either party upon 90 to 120 days' prior written notice. In the absence of a contract, we typically pay providers at state Medicaid reimbursement levels. We pay physicians under a capitated or fee-for-service arrangement.

- . Under our capitated contract, primary care physicians are paid a monthly capitation rate for each of our members assigned to his or her practice and are at risk for all costs related to primary and specialty physician and emergency room services. In return for this payment, these physicians provide all requested, covered primary care and preventive services, including EPSDT services, and primary care office visits. If these physicians also provide non-capitated services to their assigned members, they may bill and be paid under fee-for-service arrangements at Medicaid rates.
- . Under our fee-for-service contracts with physicians, particularly specialty care physicians, we pay the physicians a negotiated fee for covered services. This model is characterized as having no financial risk for the physician.

We also contract with ancillary providers on a negotiated fee arrangement for physical therapy, mental health and chemical dependency care, home healthcare, vision care, diagnostic laboratory tests, x-ray examinations, ambulance services and durable medical equipment. Additionally, we contract with dental vendors in markets where routine dental care is a covered benefit. We have a capitated arrangement with a national pharmacy vendor that provides a pharmacy network in our markets where prescription and limited over-the-counter drugs are a covered benefit.

#### Health Plans

We have three health plan subsidiaries offering healthcare services in Wisconsin, Indiana and Texas. We have never been denied a contract renewal from the states in which we do business. The table below provides certain highlights to the markets we currently serve.

<TABLE>  
<CAPTION>

	Wisconsin	Indiana	Texas
<S>	<C>	<C>	<C>
Local Health Plan Name	Managed Health Services	Managed Health Services	Superior HealthPlan
First Year of Operations	1984	1995	1999
Counties Licensed	19	92	17
Membership at September 30, 2001	108,100	61,800	54,900
Ownership	100%	100%	90%

</TABLE>

#### States

Our ability to establish and maintain our position as a leader in the markets we serve results primarily from our demonstrated success in providing quality care while reducing and managing costs for, and our customer-focused approach to working with, state governments. Among the benefits we are able to provide to the states with which we contract are:

- . timely and accurate reporting;

- . responsible collection and dissemination of encounter data;
- . cost saving outreach and disease management programs;
- . improved medical outcomes; and
- . expertise in Medicaid managed care.

#### Quality Management

Our medical management program focuses on improving quality of care in areas that have the greatest impact on our members. We employ strategies including disease management and complex case management that are fine-tuned for implementation in our individual markets by a system of physician committees chaired by local physician leaders. This process promotes physician participation and support, both critical factors in the success of any clinical quality improvement program.

We have implemented specialized information systems to support our medical quality management activities. Information is drawn from our data warehouse, AMISYS and the clinical databases as sources to identify opportunities to improve care and to track the outcomes of the interventions implemented to achieve those improvements. Some examples of these intervention programs include:

- . a prenatal case management program to help women with high-risk pregnancies deliver full-term, healthy infants;
- . a program to reduce the number of inappropriate emergency room visits; and
- . a disease management program to decrease the need for emergency room visits and hospitalizations for asthma patients.

Additionally, we provide extensive quality reporting on a regular basis using our data warehouse. State and Health Employer Data and Information Set, or HEDIS, reporting constitutes the core of the information base that drives our clinical quality performance efforts. This reporting is monitored by Plan Quality Improvement Committees and our corporate medical management team.

In order to ensure the quality of our provider networks, we verify the credentials and background of our providers using standards that are supported by the National Committee for Quality Assurance.

Additionally, we provide feedback and evaluations to our providers on quality and medical management in order to improve the quality of care, increase their support of our programs and enhance our ability to attract and retain providers.

#### Management Information Systems

The ability to access data and translate them into meaningful information is essential to operating across a multi-state service area in a cost-effective manner. Our centralized information systems located in Saint Louis, Missouri, support our core processing functions under a set of integrated databases and are designed to be both replicable and scalable to accommodate internal growth and growth from acquisitions. We have the ability to leverage the platform we have developed for one state for configuration into new states or health plan acquisitions. This integrated approach helps to assure that consistent sources of claim and member information are provided across all of our health plans. The system is currently configured and is supporting claims auto adjudication rates that exceed 85% in all markets. Our current AMISYS production system is capable of supporting over a million members.

The following table summarizes our information systems and their functions:

<TABLE>  
<CAPTION>

System/Program -----	Platform -----	Function -----
<S> AMISYS	<C> HP3000 Series 997/400 IMAGE	<C> Core Managed Care Functions: Claims; Eligibility; Claims Payable
Clinical Case Management Systems	HP Netserver/SQL2000	Core Medical Management: Case Management; Authorizations; Medical Records
InterQual Distributed Reporting System	HP Netserver/SQL2000 ASP/Oracle	Clinical Guideline Assessment Data Warehouse: HEDIS; Provider Profiling; Member Profiling
E-Commerce	HP Netserver/SQL2000	Internet Inquiry: Claims Payment Status; Member Eligibility; Authorization Status
NurseWise	HP Netserver/SQL 2000	Nurse Triage; After Hours Authorizations
Scanning/Imaging	HP Netserver/SQL2000	Hospital Claims Scanning; Medical

&lt;/TABLE&gt;

We have a disaster recovery and business resumption plan developed and implemented in conjunction with Sungard Planning. This plan allows us complete access to the business resumption centers and hot-site facilities provided by Sungard. We have contracted with Sungard to provide us with annual plan updates through 2005.

#### Competition

In the Medicaid business, our principal competitors for state contracts, members and providers consist of the following types of organizations:

Primary Care Case Management Programs are programs established by the states through contracts with primary care providers. Under these programs, physicians provide primary care services to the Medicaid recipient, as well as limited oversight over other services.

National And Regional Commercial Managed Care Organizations have Medicaid and Medicare members in addition to members in private commercial plans.

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Medicaid managed care organizations focus solely on providing healthcare services to Medicaid recipients, the vast majority of which operate in one city or state. Many of these plans are owned by providers, especially hospitals. Their membership is small relative to the infrastructure that is required for them to do business. There are a few multi-state Medicaid-only organizations that tend to be larger in size and therefore are able to leverage their infrastructure over larger membership.

We will continue to face varying levels of competition as we expand in our existing service areas or enter new markets. Healthcare reform proposals may cause a number of commercial managed care organizations already in our service areas to decide to enter or exit the Medicaid market. However, the licensing requirements and bidding and contracting procedures in some states present barriers to entry into the Medicaid managed healthcare industry.

We compete with other managed care organizations for state contracts. In order to win a bid for or be awarded a state contract, state governments consider many factors, which include providing quality care, satisfying financial requirements, demonstrating an ability to deliver services, and establishing networks and infrastructure. Some of the factors may be outside our control. For example, state regulators may prefer competitors with substantial local ownership or entities formed as not-for-profit organizations.

We also compete to enroll new members and retain existing members. People who wish to enroll in a managed healthcare plan or to change healthcare plans typically choose a plan based on the quality of care and service offered, ease of access to services, a specific provider being part of the network and the availability of supplemental benefits.

We also compete with other managed care organizations to enter into contracts with physicians, physician groups and other providers. We believe the factors that providers consider in deciding whether to contract with us include existing and potential member volume, reimbursement rates, medical management programs, timeliness of reimbursement and administrative service capabilities.

#### Regulation

Our healthcare operations are regulated at both state and federal levels. Government regulation of the provision of healthcare products and services is a changing area of law that varies from jurisdiction to jurisdiction. Regulatory agencies generally have discretion to issue regulations and interpret and enforce laws and rules. Changes in applicable laws and rules also may occur periodically.

#### Managed Care Organizations

Our three health plan subsidiaries are licensed to operate as health maintenance organizations in each of Wisconsin, Indiana and Texas. In each of the jurisdictions in which we operate, we are regulated by the relevant health, insurance and/or human services departments that oversee the activities of managed care organizations providing or arranging to provide services to Medicaid enrollees.

The process for obtaining authorization to operate as a managed care organization is a lengthy and involved process and requires demonstration to the regulators of the adequacy of the health plan's organizational structure, financial resources, utilization review, quality assurance programs and complaint procedures. Under both state managed care organization statutes and state insurance laws, our health plan subsidiaries must comply with minimum net

worth requirements and other financial requirements, such as minimum capital, deposit and reserve requirements. Insurance regulations may also require the prior state approval of acquisitions of other managed care organizations' businesses and the payment of dividends, as well as notice requirements for loans or the transfer of funds. Our subsidiaries are also subject to periodic reporting requirements. In addition, each health plan must meet numerous criteria to secure the approval of state regulatory authorities before implementing operational changes, including the development of new product offerings and, in some states, the expansion of service areas.

#### Medicaid

In order to be a Medicaid managed care organization in each of the states in which we operate, we must operate under a contract with the state's Medicaid agency. States generally use either a formal proposal process, reviewing a number of bidders, or award individual contracts to qualified applicants that apply for entry to the program.

We have entered into a contract with the Wisconsin Department of Health and Family Services to provide Medicaid services. The contract commenced January 1, 2000 and has a scheduled termination of December 31, 2001. We expect to renew this contract for an additional one-year term prior to its expiration. The contract can be terminated if a change in state or federal laws, rules or regulations materially affects either party's rights or responsibilities under the contract. We receive monthly payments under the contract based on specified capitation rates calculated on an actuarial basis.

We have also entered into an agreement with Network Health Plan of Wisconsin, Inc. pursuant to which Network Health Plan subcontracts to us their Medicaid services under their contracts with the State of Wisconsin. The agreement commenced January 1, 2001 and has a scheduled termination of January 1, 2007. The agreement automatically renews for successive five-year terms and can be terminated by either party upon two years notice prior to the end of the then current term. The agreement may also be terminated if a change in state or federal laws, rules or regulations materially affects either party's rights or responsibilities under the contract, or if Network Health Plan's contract with the State of Wisconsin is terminated. We receive a fee for services based on a percentage of all premium and supplemental payments and other compensation received by Network Health Plan from the State of Wisconsin.

We have entered into a contract with the State of Indiana to provide Indiana Medicaid and Indiana Children's Health Insurance Program services. The contract commenced January 1, 2001 and has a scheduled termination of December 31, 2002. The agreement is renewable, at the option of the state, for up to two additional one-year terms. This contract may be terminated by the state without cause upon sixty days prior written notice. We are paid based on specified capitation rates for our services.

We presently are party to three contracts with the Texas Department of Health to provide Medicaid managed care services in our Texas markets through our subsidiary, Superior Health Plan, Inc. Each of our Texas contracts commenced August 30, 1999 and has a scheduled termination of August 31, 2002. Each contract is renewable for an additional one year period. The contracts generally may be terminated upon any event of default or in the event state or federal funding for Medicaid programs is no longer available. We receive monthly payments under each of our Texas contracts based on specified capitation rates calculated on an actuarial basis.

Our contracts with the states and regulatory provisions applicable to us generally set forth in great detail the requirements for operating in the Medicaid sector including provisions relating to:

- . eligibility, enrollment and disenrollment processes;
- . covered services;
- . eligible providers;
- . subcontractors;
- . record-keeping and record retention;
- . periodic financial and informational reporting;
- . quality assurance;
- . marketing;

- . financial standards;
- . timeliness of claims payment;
- . health education and wellness and prevention programs;
- . safeguarding of member information;

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- . fraud and abuse detection and reporting;
- . grievance procedures; and
- . organization and administrative systems.

A health plan's compliance with these requirements is subject to monitoring by state regulators and by CMS. A health plan is subject to periodic comprehensive quality assurance evaluation by a third party reviewing organization and generally by the insurance department of the jurisdiction that licenses the health plan. A health plan must also submit many reports to various regulatory agencies, including quarterly and annual statutory financial statements and utilization reports.

#### HIPAA

In 1996, Congress enacted the Health Insurance Portability and Accountability Act of 1996, or HIPAA. The Act is designed to improve the portability and continuity of health insurance coverage and simplify the administration of health insurance claims. One of the main requirements of HIPAA is the implementation of standards for the processing of health insurance claims and for the security and privacy of individually identifiable health information.

In August 2000, the Department of Health and Human Services, or HHS, issued new standards for submitting electronic claims and other administrative healthcare transactions. The new standards were designed to streamline the processing of claims, reduce the volume of paperwork and provide better service. The administrative and financial healthcare transactions covered include:

- . health claims and equivalent encounter information;
- . enrollment and disenrollment in a health plan;
- . eligibility for a health plan;
- . healthcare payment and remittance advice;
- . health plan premium payments;
- . healthcare claim status; and
- . referral certification and authorization.

In general, healthcare organizations will be required to comply with the new standards by October 2002. The regulation's requirements apply only when a transaction is transmitted using "electronic media." Because "electronic media" is defined broadly to include "transmissions that are physically moved from one location to another using magnetic tape, disk or compact disk media," many communications will be considered electronically transmitted. In addition, health plans will be required to have the capacity to accept and send all standard transactions in a standardized electronic format. The regulation sets forth other rules that apply specifically to health plans as follows:

- . a plan may not delay processing of a standard transaction (that is, it must complete transactions using the new standards at least as quickly as it had prior to implementation of the new standards);
- . there should be "no degradation in the transmission of, receipt of, processing of, and response to" a standard transaction as compared to the handling of a non-standard transaction;
- . if a plan uses a healthcare clearinghouse to process a standard request, the other party to the transaction may not be charged more or otherwise disadvantaged as a result of using the clearinghouse;
- . a plan may not reject a standard transaction on the grounds that it contains data that is not needed or used by the plan;
- . a plan may not adversely affect (or attempt to adversely affect) the other party to a transaction for requesting a standard transaction; and

- . if a plan coordinates benefits with another plan, then upon receiving a standard transaction, it must store the coordination of benefits data required to forward the transaction to the other plan.

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On December 28, 2000, HHS published a final regulation setting forth new standards for protecting the privacy of individually identifiable health information in any medium. Compliance with these rules will be required by April 2003. The new regulation is designed to protect medical records and other personal health information maintained and used by healthcare providers, hospitals, health plans and health insurers, and healthcare clearinghouses. Among numerous other requirements, the new standards:

- . limit both the routine and non-routine non-consensual use and release of private health information, and require patient authorizations for most uses and disclosures of such information;
- . give patients new rights to access their medical records and to know who else has accessed them;
- . limit most disclosure of health information to the minimum needed for the intended purpose;
- . establish procedures to ensure the protection of private health information;
- . establish new criminal and civil sanctions for improper use or disclosure of health information; and
- . establish new requirements for access to records by researchers and others.

The preemption provisions of the regulation provide that the federal standards will generally preempt contrary state law. However, a state (or any person) may submit a request to the Secretary of HHS that a provision of state law be excepted from the preemption rules. The Secretary may grant an exception if one or more of a number of conditions are met, including:

- . the state law is necessary to prevent fraud and abuse related to the provision of and payment for healthcare;
- . the state law will ensure appropriate state regulation of insurance and health plans or the state law is necessary to state reporting on healthcare delivery or costs; or
- . the state law related to the privacy of health information is more stringent than the federal requirement.

In addition, on August 12, 1998, HHS published proposed regulations relating to the security of individually identifiable health information. These rules would require healthcare providers, health plans and healthcare clearinghouses to ensure the privacy and confidentiality of such information when it is electronically stored, maintained or transmitted through such devices as user authentication mechanisms and system activity audits. These regulations have not been finalized.

We are in the process of assessing the impact that these new regulations will have on us, given their complexity and the likelihood that they will be subject to changing, and perhaps conflicting, interpretations.

#### New Medicaid Managed Care Regulations

On January 19, 2001, HHS issued final Medicaid managed care regulations to implement certain provisions of the Balanced Budget Act of 1997, or BBA. Since the publication of this final rule, CMS delayed the rule's effective date three times, the most recent of which delays the effective date of the final rule to August 16, 2002. In addition, on August 20, 2001, CMS proposed a new Medicaid managed care rule that is intended to eventually replace the final rule published on January 19, 2001.

The proposed rule would implement BBA provisions intended to (1) give states the flexibility to enroll certain Medicaid recipients in managed care plans without a federal waiver if the state provides the recipients with a choice of managed care plans; (2) establish protections for members in areas such as quality assurance, grievance rights and coverage of emergency services; and (3) eliminate certain requirements viewed by the states as impediments to the growth of managed care programs, such as the enrollment composition requirement, the right to disenroll without cause at any time, and the prohibition against enrollee cost-sharing. The rule would also establish requirements intended to ensure that state Medicaid managed care capitation rates are actuarially sound. According to HHS, this requirement would eliminate the generally outdated regulatory ceiling on what states may pay managed care plans, a

particularly important provision as more state Medicaid programs include people with chronic illnesses and disabilities in managed care. CMS accepted comments on the proposed rule until October 16, 2001, and the Secretary of HHS has indicated an intent to finalize the regulations by early 2002.

Because the final content of the rule has not yet been determined, we cannot predict what requirements it will ultimately entail, nor when such requirements will become effective. Changes to the regulations affecting our business, including these proposed regulations, could increase our healthcare costs and administrative expenses, reduce our reimbursement rates, and otherwise adversely affect our business, results of operations, and financial condition.

#### Patients' Rights Legislation

The United States Senate and House of Representatives passed different versions of patients' rights legislation in June and August 2001, respectively. Both versions include provisions that specifically apply protections to participants in federal healthcare programs, including Medicaid beneficiaries. Either version of this legislation could expand our potential exposure to lawsuits and increase our regulatory compliance costs. Congress will need to reconcile the differences between the two proposals before it can become law. Depending on the final form of any patients' rights legislation, such legislation could, among other things, expose us to liability for economic and punitive damages for making determinations that deny benefits or delay beneficiaries' receipt of benefits as a result of our medical necessity or other coverage determinations. The differences include such matters as the amount of allowable damages, whether cases would be governed by federal or state law, and whether such actions could be brought in federal or state courts. We cannot predict whether patients' rights legislation will be enacted into law or, if enacted, what final form such legislation might take.

#### Other Fraud and Abuse Laws

Investigating and prosecuting healthcare fraud and abuse became a top priority for law enforcement entities in the last decade. The focus of these efforts has been directed at participants in public government healthcare programs such as Medicaid. The laws and regulations relating to Medicaid fraud and abuse and the contractual requirements applicable to plans participating in these programs are complex and changing and will require substantial resources.

#### Properties

Our headquarters occupy approximately 36,000 square feet of office space in Saint Louis, Missouri under a lease expiring in 2010. We currently are subleasing approximately 4,000 square feet of this space. Our claims center occupies approximately 14,000 square feet of office space in Farmington, Missouri under a lease expiring in 2009. We also lease space in Wisconsin, Indiana and Texas where our health plans are located. We are required by various insurance and Medicaid regulatory authorities to have offices in the service areas where we provide Medicaid benefits. We believe our current facilities are adequate to meet our operational needs for the foreseeable future.

#### Employees

As of November 9, 2001, we had 413 employees, of whom 90 were employed at our Saint Louis headquarters, 91 at our Farmington claims center, 56 by our Indiana plan, 87 by our Wisconsin plan and 89 by our Texas plans. Our employees are not represented by a union. We believe our relationships with our employees are good.

#### Legal Proceedings

In the normal course of our business, we may be a party to legal proceedings. We are not currently a party to any material legal proceedings.

#### MANAGEMENT

The following table sets forth information regarding our executive officers, key employees and directors, including their ages as of September 30, 2001:

<TABLE>  
<CAPTION>

Name	Age	Position
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<S> <C> <C>

Executive Officers and Directors

Michael F. Neidorff.....	58	President, Chief Executive Officer and Director
Joseph P. Drozda, Jr., M.D.....	56	Senior Vice President, Medical Affairs
Catherine M. Halverson.....	52	Senior Vice President, Business Development
Mary O'Hara.....	51	Senior Vice President, Operations Services
Brian G. Spanel.....	46	Senior Vice President and Chief Information Officer
Karey L. Witty.....	37	Senior Vice President, Chief Financial Officer, Secretary and Treasurer
Claire W. Johnson (1).....	59	Chairman of the Board of Directors
Samuel E. Bradt (1).....	63	Director
Walter E. Burlock, Jr.....	38	Director
Edward L. Cahill (2).....	48	Director
Howard E. Cox, Jr. (2).....	57	Director
Robert K. Ditmore (2).....	67	Director
Richard P. Wiederhold (1).....	58	Director

Key Employees

Kathleen R. Crampton.....	57	President and Chief Executive Officer, Managed Health Services Wisconsin
Rita Johnson-Mills.....	42	President and Chief Executive Officer, Managed Health Services Indiana

</TABLE>

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- (1) Member of the Audit Committee.
- (2) Member of the Compensation Committee.

Michael F. Neidorff has served as our President and Chief Executive Officer and as a member of our board of directors since May 1996. From May 1996 to November 2001, Mr. Neidorff also served as our Treasurer. From 1995 to 1996, Mr. Neidorff served as a Regional Vice President of Coventry Corporation, a publicly traded managed care organization, and as the President and Chief Executive Officer of one of its subsidiaries, Group Health Plan, Inc. From 1985 to 1995, Mr. Neidorff served as the President and Chief Executive Officer of Physicians Health Plan of Greater St. Louis, a subsidiary of United Healthcare Corp., a publicly traded managed care organization now known as UnitedHealth Group Incorporated.

Joseph P. Drozda, Jr., M.D. has served as our Senior Vice President, Medical Affairs since November 2000 and served as our part-time Medical Director from January 2000 through October 2000. From June 1999 to October 2000, Dr. Drozda was self-employed as a consultant to managed care organizations, physician groups, hospital networks and employer groups on a variety of managed care delivery and financing issues. From 1996 to April 1999, Dr. Drozda served as the Vice President of Medical Management of SSM Health Care, a health services network. From 1994 to 1996, Dr. Drozda was the Vice President and Chief Medical Officer of PHP, Inc., a health maintenance organization based in North Carolina. From 1987 until 1994, Dr. Drozda served as Medical Director of Physicians Health Plan of Greater St. Louis, a health plan that he co-founded.

Catherine M. Halverson has served as our Senior Vice President, Business Development since September 2001. From March 2001 to September 2001, Ms. Halverson was self-employed as a consultant to a pharmaceutical benefit management company and Medicaid managed care plans. From 1993 to March

2001, Ms. Halverson was the Vice President and Director of Medicaid Programs of UnitedHealth Group Incorporated.

Mary O'Hara has served as our Senior Vice President, Operations Services since January 1999. From December 1998 to January 1999, Ms. O'Hara served as our Chief Contracting Officer. From March 1997 to October 1998, Ms. O'Hara was the Chief Contracting Officer of Unity Health Network, a network of hospitals and physicians in Missouri and Illinois. From 1990 to February 1997, Ms. O'Hara was the Director of Managed Care for Virginia Mason Medical Center, an integrated healthcare delivery system, in Seattle, Washington.

Brian G. Spanel has served as our Senior Vice President and Chief Information Officer since December 1996. From 1988 to 1996, Mr. Spanel served as President of GBS Consultants, a healthcare consulting and help desk software developer. From 1987 to 1988, Mr. Spanel was Director of Information Services for CompuCare, a managed care organization. From 1984 to 1987, Mr. Spanel was Director of Information Services for Peak Health Care, a managed care organization.

Karey L. Witty has served as our Senior Vice President and Chief Financial Officer since August 2000, our Secretary since February 2000 and our Treasurer since November 2001. From March 1999 to August 2000, Mr. Witty served as our Vice President of Health Plan Accounting. From 1996 to March 1999, Mr. Witty was Controller of Heritage Health Systems, Inc., a healthcare company in Nashville, Tennessee. From 1994 to 1996, Mr. Witty served as Director of Accounting for Healthwise of America, Inc., a publicly traded managed care organization.

Claire W. Johnson has served as a member of our board of directors since 1987 and served as our Acting President and Chief Executive Officer from 1995 to April 1996. Mr. Johnson served as the Chief Executive Officer of Group Health Cooperative of Eau Claire, Wisconsin, a health maintenance organization, from 1972 to 1994.

Samuel E. Bradt has served as a member of our board of directors since 1993 and served as our Secretary from 1993 to July 2000. Mr. Bradt is President of Merganser Corporation, a business advisory and venture capital firm he founded in 1980.

Walter E. Burlock, Jr. has served as a member of our board of directors since September 1998. Mr. Burlock has been a Managing Director of Origin Capital Management, a private venture capital firm located in San Francisco, California, since July 2000. From 1990 to June 2000, Mr. Burlock was a Managing Director of Soros Fund Management LLC, a hedge fund manager.

Edward L. Cahill has served as a member of our board of directors since September 1998. Mr. Cahill has been a partner of HLM Management Company, a private venture capital firm located in Boston, Massachusetts, since May 2000. From 1995 to April 2000, Mr. Cahill was a founding partner at Camden Partners, LLC, a venture capital firm. From 1981 to 1995, Mr. Cahill was employed by Alex. Brown & Sons, an investment banking and brokerage firm where he headed the firm's Health Care Group. Mr. Cahill also serves as a director of Occupational Health & Rehabilitation, Inc. and MedPlus, Inc.

Howard E. Cox, Jr. has served as a member of our board of directors since 1993. Mr. Cox is a partner of Greylock Limited Partnership, a national venture capital firm headquartered in Waltham, Massachusetts and San Mateo, California, with which he has been associated since 1971. Mr. Cox also currently serves as a director of Stryker Corporation in Michigan and Landacorp, Inc. in Atlanta.

Robert K. Ditmore has served as a member of our board of directors since April 1996. From 1985 to 1991, Mr. Ditmore was the President and Chief Operating Officer of United Healthcare Corp., a publicly traded managed care organization now known as UnitedHealth Group Incorporated.

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Richard P. Wiederhold has served as a member of our board of directors since 1993. Mr. Wiederhold has served since 1992 as President of Managed Health Services, Inc. d/b/a the Elizabeth A. Brinn Foundation, a charitable foundation. From 1973 to 1985, Mr. Wiederhold held several positions, most recently Corporate Treasurer, with Allen-Bradley Company, a manufacturer of industrial motor controls and electronic and magnetic components.

Kathleen R. Crampton has served as the President and Chief Executive Officer of Managed Health Services Insurance Corp., our health plan in Wisconsin, since June 2000. From November 1999 to May 2000, Ms. Crampton was a Senior Consultant for PricewaterhouseCoopers LLC. From June 1996 to October 1999, Ms. Crampton served as Vice President of the Patterson Group, a private consulting firm serving health maintenance organizations and their service providers and medical manufacturers. From 1993 to 1996, Ms. Crampton served as Vice President of Marketing for Healthtech Services Corporation, a home care robotics and telemedicine information systems company.

Rita Johnson-Mills has served as the President and Chief Executive Officer of Managed Health Services Indiana, Inc., our health plan in Indiana, since April 2001. From March 2000 to April 2001, Ms. Johnson-Mills served as the Chief Operating Officer of Managed Health Services Indiana, Inc. From July 1999 to March 2000, Ms. Johnson-Mills was a Senior Vice President and the Chief Operating Officer of Medical Diagnostic Management. From 1995 to March 1999, Ms. Johnson-Mills served as Senior Vice President and Chief Operating Officer of DC Chartered Health Plan, Inc., a health maintenance organization.

#### Classified Board of Directors

We currently have eight directors, four of whom were elected as directors under a stockholders' agreement that will automatically terminate upon the closing of this offering. At our request, all directors elected to the board of directors pursuant to the stockholders' agreement have orally agreed to remain on the board for an indefinite period following this offering. There are no family relationships among any of our directors or executive officers.

Our charter includes a provision establishing a classified board of directors. Upon the closing of this offering, our board will be divided into three classes, each of whose members will serve for a staggered three-year term. The division of the three classes, the initial directors and their respective election dates are as follows:

- . the class 1 directors will be Samuel E. Bradt, Walter E. Burlock, Jr. and Michael F. Neidorff, and their term will expire at the annual meeting of stockholders to be held in 2002;

- . the class 2 directors will be Edward L. Cahill, Howard E. Cox, Jr. and Robert K. Ditmore, and their term will expire at the annual meeting of stockholders to be held in 2003; and
- . the class 3 directors will be Claire W. Johnson and Richard P. Wiederhold, and their term will expire at the annual meeting of stockholders to be held in 2004.

At each annual meeting of stockholders after the initial classification, a class of directors will be elected to serve for a three-year term to succeed the directors of the same class whose terms are then expiring. The authorized number of directors may be changed only by resolution of the board of directors. Any additional directorships resulting from an increase in the number of directors will be distributed among the three classes so that, as early as possible, each class will consist of one-third of the directors. This classification of our board of directors may have the effect of delaying or preventing changes in control or management of our company. See "Description of Capital Stock-Anti-Takeover Effects of Provisions of Delaware Law and Our Charter and By-Laws."

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#### Board Committees

We have established an audit committee and a compensation committee of our board of directors.

**Audit Committee.** Our audit committee consists of Samuel E. Bradt, Claire W. Johnson and Richard P. Wiederhold. The audit committee assists the board in fulfilling its oversight responsibilities by reviewing all audit processes and fees, the financial information that will be provided to our stockholders and our systems of internal financial controls. The audit committee shares with the board the authority and responsibility to select, evaluate and, where appropriate, replace the independent public accountants.

**Compensation Committee.** Our compensation committee consists of Edward L. Cahill, Howard E. Cox, Jr., and Robert K. Ditmore. The compensation committee reviews, and makes recommendations to the board of directors regarding, the compensation and benefits of our executive officers and key managers. The compensation committee also administers the issuance of stock options and other awards under our stock plans and establishes and reviews policies relating to the compensation and benefits of our employees and consultants.

#### Director Compensation

Our non-employee directors receive an annual fee from us of \$4,000 and a fee of \$1,000 for each meeting of the board of directors he or she attends in person and \$250 for each meeting attended by means of conference telephone call. In addition, each member of our audit and compensation committees receives \$500 from us for each committee meeting he or she attends in person and \$200 for each meeting attended by means of conference telephone call. Directors are reimbursed for expenses incurred in connection with their service.

In addition, we may, in our discretion, grant stock options and other equity awards to our employee and non-employee directors under our stock plans.

We have granted the following non-qualified stock options shares to our non-employee directors:

- . In January 1996, we granted options to purchase 17,000 shares at an exercise price of \$2.56 per share to Claire W. Johnson.
- . In September 1997, we granted options to purchase 10,000 shares at an exercise price of \$2.40 per share to each of Samuel E. Bradt, Howard E. Cox, Jr., Mr. Johnson and Richard P. Wiederhold.
- . In January 2000, we granted options to purchase 10,000 shares to each of Mr. Bradt, Walter E. Burlock, Edward L. Cahill, Mr. Cox, Mr. Johnson and Mr. Wiederhold at an exercise price of \$1.00 per share. In October 2000, we granted options to purchase 20,000 shares to Mr. Johnson, and 10,000 shares to each of Messrs. Bradt, Burlock, Cahill, Cox and Wiederhold at \$1.33 per share.

All of the above options vest ratably over five years from the date of grant.

#### Compensation Committee Interlocks And Insider Participation

None of our executive officers serves as a member of the board of directors or compensation committee, or other committee serving an equivalent function, of any other entity that has one or more of its executive officers serving as a member of our board of directors or compensation committee. None of the current members of our compensation committee has ever been an employee of Centene.

## Executive Compensation

## Compensation Earned

The following summarizes the compensation earned during the fiscal year ended December 31, 2000 by our chief executive officer and our four other most highly compensated executive officers who were serving as executive officers on December 31, 2000 and whose total compensation exceeded \$100,000. We refer to these individuals as our "named executive officers."

## Summary Compensation Table

<TABLE>  
<CAPTION>

Name and Principal Position	Annual Compensation		Long-Term Compensation
	Salary	Bonus	Securities Underlying Options
<S>	<C>	<C>	<C>
Michael F. Neidorff..... President and Chief Executive Officer	\$300,000	\$160,000	40,000
Mary O'Hara..... Senior Vice President, Operations Services	230,000	60,000	3,000
Karey L. Witty..... Senior Vice President and Chief Financial Officer	149,615	75,000	20,000
Brian G. Spanel..... Senior Vice President and Chief Information Officer	148,249	43,000	5,000
Joseph P. Drozda, Jr., M.D..... Senior Vice President, Medical Affairs	97,981	35,000	35,000

</TABLE>

## Option Grants

The following table sets forth information concerning the individual grants of stock options to each of the named executive officers who received grants during the fiscal year ended December 31, 2000. The exercise price per share of each option was equal to the fair market value of the common stock on the date of grant, as determined by the board of directors. Our board of directors determined the fair market value of our common stock based on periodic independent valuations. We have never granted any stock appreciation rights. The potential realizable value is calculated based on the term of the option at its time of grant, which is ten years. This value is based on assumed rates of stock appreciation of 5% and 10% compounded annually from the date the options were granted until their expiration date and assumes an initial value of \$14.00 per share, which represents the mid-point of the range of estimated prices for this offering. These numbers are calculated based on the requirements of the SEC and do not reflect our estimate of future stock price growth. Actual gains, if any, on stock option exercises will depend on the future performance of the common stock and the date on which the options are exercised.

## Option Grants In Year Ended December 31, 2000

<TABLE>  
<CAPTION>

Name	Individual Grants Value		Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term			
	Number of Securities Underlying Options Granted	Percent of Total Options Granted to Employees in Fiscal Year	Exercise Price Per Share	Expiration Date	5%	10%
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Michael F. Neidorff.....	40,000	7.5%	\$1.33	10/20/10	\$912,181	\$1,452,496
Mary O'Hara.....	3,000	0.6	1.33	10/20/10	68,414	108,937
Karey L. Witty.....	20,000	3.8	1.33	10/20/10	456,090	726,248
Brian G. Spanel.....	5,000	0.9	1.33	10/20/10	114,023	181,562

Option Exercises and Holdings

None of our named executive officers exercised options during 2000. The following table sets forth certain information regarding the number and value of unexercised options held by each of the named executive officers as of December 31, 2000. There was no public market for our common stock as of December 31, 2000. Accordingly, amounts described in the following table under the heading "Value of Unexercised In-The-Money Options at Year End" are determined by multiplying the number of shares underlying the options by the difference between an assumed public offering price of \$14.00 per share and the per share option exercise price.

Aggregated 2000 Year-End Option Values

<TABLE>  
 <CAPTION>

Name	Number of Securities Underlying Unexercised Options at Fiscal Year End		Value of Unexercised In-The-Money Options at Year End	
	Exercisable	Unexercisable	Exercisable	Unexercisable
Michael F. Neidorff.....	129,760	109,940	\$1,816,640	\$1,539,160
Mary O'Hara.....	20,000	58,000	280,000	812,000
Karey L. Witty.....	12,000	68,000	168,000	952,000
Brian G. Spanel.....	26,000	34,000	364,000	476,000
Joseph P. Drozda, Jr., M.D.	--	35,000	--	490,000

Stock options that are otherwise unvested may be exercised for shares which are subject to vesting and a repurchase option at the exercise price. Except for 65,000 shares subject to an option granted to Mr. Neidorff in 1997, all shares subject to options vest ratably over 5 years. The option granted to Mr. Neidorff in 1997 will vest in full on the fifth anniversary of the date of grant. Fifty percent of shares underlying options granted under our 1994 Stock Plan, 1996 Stock Plan and 1998 Stock Plan vest automatically upon a change of control. Shares underlying options granted under our 1999 Stock Plan and 2000 Stock Plan vest automatically in full upon a change in control.

Employee Benefit Plans

Stock Plans

We have five stock plans: the 1994 Stock Plan, 1996 Stock Plan, 1998 Stock Plan, 1999 Stock Plan and 2000 Stock Plan. The stock plans have the same basic terms.

General. We have reserved for issuance under the plans an aggregate maximum of 2,000,000 shares of common stock. As of November 21, 2001, options to purchase 1,380,040 shares of our common stock

were outstanding and 87,775 shares of common stock had been issued upon the exercise of options under the plans. If an award granted under the plan expires or is terminated, the shares of common stock underlying the award will be available for issuance under the plans.

Types of Awards. The following awards may be granted under the plans:

- . stock options, including incentive stock options and non-qualified stock options;
- . stock bonuses; and
- . the opportunity to make direct purchases of stock.

Administration. The plans are administered by the board of directors, which may designate a committee to administer the plans. The board or committee may, subject to the provisions of the plans, determine the persons to whom awards will be granted, the type of award to be granted, the number of shares to be made subject to awards, the exercise price and other terms and conditions of the awards, and interpret the plans and prescribe, amend and rescind rules and regulations relating to the plans.

Eligibility. Awards may be granted under the plans to our employees, directors and consultants or employees, directors and consultants of any of our

subsidiaries, as selected by the board of directors or committee.

Terms and Conditions of Options. Stock options may be either "incentive stock options," as that term is defined in Section 422 of the Internal Revenue Code, or non-qualified stock options. The exercise price of a stock option granted under the plan is determined by the board or committee at the time the option is granted, but the exercise price of an incentive stock option may not be less than the fair market value per share of common stock on the date of grant. Stock options are exercisable at the times and upon the conditions that the board or committee may determine, as reflected in the applicable option agreement. The exercise period may not extend beyond ten years from the date of grant.

The option exercise price must be paid in full at the time of exercise, and is payable by any one of the following methods or a combination thereof:

- . in cash or cash equivalents or, at the discretion of the board or committee;
- . by surrender of previously acquired shares of our common stock with a fair market value, as determined by the board of directors, equal to the exercise price;
- . by delivery of the optionee's personal recourse promissory note with interest payable at a rate approved by the board of directors; or
- . through a specified "broker cashless exercise" procedure.

Stock Bonuses. The plans provide that the board or committee, in its discretion, may award shares of common stock to plan participants.

Purchase Opportunity. The plans provide that the board or committee, in its discretion, may authorize plan participants to purchase shares of common stock.

Director Awards. The board or committee, in its discretion, may grant awards under the plan to both employee and nonemployee directors. The terms of the awards granted to directors are to be generally consistent with the terms of awards granted to other participants under the plan.

Termination of Employment. If a participant ceases to be an employee or perform services for us or one of our affiliates for any reason other than death or disability, his or her option will expire one month

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after the date of termination or such lesser period, or greater period in the case of nonqualified options, as the board or committee shall determine. If such termination is as a result of death or disability, the options will be terminate three months after the date of termination, unless the board or committee determines a shorter period. No option may, however, be exercised after the date of its expiration, and may be exercised after termination only to the extent it was exercisable on the date of termination. The options granted to date each provide that options are fully exercisable on the date of grant, but shares subject to the options vest ratably over five years. Fifty percent of shares underlying options granted under our 1994 Stock Plan, 1996 Stock Plan and 1998 Stock Plan vest automatically upon a "change of control" as defined in the option agreements. Shares underlying options granted under our 1999 Stock Plan and 2000 Stock Plan vest automatically in full upon a "change in control" as defined in the option agreements. If an option holder leaves our employ for any reason or, in the case of an option holder who is a non-employee director, ceases to be a member of our board of directors, we may repurchase from such holder all unvested shares acquired by him or her at the option exercise price.

Amendment and Termination of Plans. The board of directors may modify or terminate the plans or any portion of the plans at any time, except that shareholder approval is required for any amendment that would increase the total number of shares reserved for issuance under a plan, materially increase the plan benefits available to participants, materially modify the plan eligibility requirements, or otherwise as required to comply with applicable law. No awards may be granted under any plan after the day prior to the tenth anniversary of its adoption date.

#### Employment Agreements

Joseph P. Drozda serves as our Senior Vice President, Medical Affairs pursuant to an employment agreement dated October 30, 2000. We have agreed to pay Dr. Drozda an annual salary of \$180,000, which may be adjusted by our President. Dr. Drozda may also receive an annual bonus in the discretion of our President. Dr. Drozda has agreed not to disclose confidential information about our business, and not to compete with us during the term of his employment and for nine months thereafter. Dr. Drozda's employment may be terminated by us for cause or permanent disability. If we terminate Dr. Drozda without cause, he will be entitled to receive one year's salary continuation, and we will be

obligated to pay premiums for the health and dental coverage to which he would be entitled under the Consolidated Omnibus Budget Reconciliation Act of 1985, or COBRA, for 12 months. If, after a change in control, Dr. Drozda's position is eliminated, his salary is reduced or he is asked and refuses to relocate outside of the Saint Louis metropolitan area, he will, upon termination, be entitled to the above benefits, but his one year salary will be paid either in a lump sum or as salary continuance, at his option.

Mary O'Hara serves as our Senior Vice President, Operations Services pursuant to an employment agreement dated December 16, 1998. This agreement had an initial term of one year and renews automatically on an annual basis unless we provide 30 days' prior written notice of non-renewal. We have agreed to pay Ms. O'Hara an annual salary of \$200,000, which may be adjusted by our President. Ms. O'Hara may also receive an annual bonus in an amount to be determined by the board of directors. Ms. O'Hara has agreed not to disclose confidential information about our business or, during the term of her employment and for a period of one year thereafter, solicit any of our customers, suppliers, employees or agents. Ms. O'Hara has also agreed not to compete with us during the term of her employment or for a period of six months thereafter. Ms. O'Hara's employment may be terminated by us for cause or permanent disability. If we terminate Ms. O'Hara without cause, Ms. O'Hara will be entitled to receive one year's salary continuation and COBRA coverage for 12 months.

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Brian G. Spanel serves as our Senior Vice President and Chief Information Officer pursuant to an employment agreement dated August 6, 2001. This agreement has an initial term of one year and renews automatically on an annual basis unless we provide 30 days' prior written notice of non-renewal. We have agreed to pay Mr. Spanel an annual salary of \$175,000, which may be adjusted by our President. Mr. Spanel may also receive an annual bonus in the discretion of our President. Mr. Spanel has agreed not to disclose confidential information about our business. Mr. Spanel has also agreed not to compete with us during the term of his employment and for nine months thereafter. Mr. Spanel's employment may be terminated by us for cause or permanent disability. If we terminate Mr. Spanel without cause, he will be entitled to receive 39 weeks salary continuation and COBRA coverage for nine months. If, within 24 months after a change in control, Mr. Spanel is involuntarily terminated or voluntarily resigns due to a reduction in his compensation, a material adverse change in his position with us or the nature or scope of his duties or a request that he relocate outside of the Saint Louis metropolitan area, he will be entitled to receive one year's salary, either in a lump sum or as salary continuance, at his option, COBRA coverage for 18 months and the use of an outplacement service.

Karey L. Witty serves as our Senior Vice President and Chief Financial Officer pursuant to an employment agreement dated as of January 1, 2001. This agreement has an initial term of one year and renews automatically unless we provide 30 days' prior written notice of non-renewal. We have agreed to pay Mr. Witty an annual salary of \$175,000, which may be adjusted by our President. Mr. Witty may also receive an annual bonus to be determined by our President. Mr. Witty has agreed not to disclose confidential information about our business or, during the term of his employment and for a period of six months thereafter, not to compete with us. Mr. Witty's employment may be terminated by us for cause or permanent disability. If we terminate Mr. Witty without cause, Mr. Witty will be entitled to receive one year's salary continuation and COBRA coverage for 12 months. If, after a change in control, Mr. Witty is involuntarily terminated or voluntarily resigns due to a reduction in his compensation, a material adverse change in his position with us or the nature or scope of his duties or a request that he relocate outside of the Saint Louis metropolitan area, he will be entitled to receive one year's salary, either in a lump sum or as salary continuance, at his option, COBRA coverage for 18 months and the use of an outplacement service.

#### Limitation of Liability of Directors and Indemnification of Directors and Officers

As permitted by the Delaware General Corporation Law, our charter provides that our directors shall not be liable to us or our stockholders for monetary damages for breach of fiduciary duty as a director to the fullest extent permitted by Delaware law as it now exists or as it may be amended. As of the date of this prospectus, Delaware law permits limitations of liability for a director's breach of fiduciary duty other than liability for (1) any breach of the director's duty of loyalty to us or our stockholders, (2) acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (3) unlawful payments of dividends or unlawful stock repurchases or redemptions, or (4) any transaction from which the director derived an improper personal benefit. In addition, our by-laws provide that we will indemnify all of our directors, officers, employees and agents for acts performed on our behalf in such capacity.

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## RELATED PARTY TRANSACTIONS

Since January 1, 1998, we have engaged in the following transactions with our directors, officers and holders of more than five percent of our voting securities and affiliates of our directors, officers and five percent stockholders.

### Issuances of Series D Convertible Preferred Stock

In September 1998, we sold 3,680,000 shares of series D preferred stock at a price of \$5.00 per share for gross proceeds of \$18,400,000.

- . We sold 2,000,000 of the shares to Strategic Investment Partners, Ltd. for a total price of \$10,000,000. Strategic Investment Partners, Ltd. is a five percent stockholder.
- . We sold 947,500 of the shares to Cahill Warnock Strategic Partners Fund, L.P. for a total price of \$4,737,500. Cahill Warnock Strategic Partners Fund, L.P. is a five percent stockholder with which Edward L. Cahill, one of our directors, is affiliated.
- . We sold 600,000 of the shares to Greylock Limited Partnership for a total price of \$3,000,000. Greylock Limited Partnership is a five percent stockholder.
- . We sold 52,500 of the shares to Strategic Associates, L.P. for a total price of \$262,500. Mr. Cahill, one of our directors, is affiliated with Strategic Associates, L.P.
- . We sold 40,000 of the shares to D.L. Associates for a total price of \$200,000. Robert K. Ditmore, one of our directors, is affiliated with D.L. Associates.
- . We sold 20,000 of the shares to Claire W. Johnson for a total price of \$100,000. Mr. Johnson is one of our directors.
- . We sold 5,000 of the shares to a trust for the benefit of Richard P. Wiederhold for a total price of \$25,000. Mr. Wiederhold is one of our directors.

In May 1999, we sold 40,000 shares of series D preferred stock at a price of \$5.00 per share for gross proceeds of \$200,000. We sold 25,000 of the shares to Michael F. Neidorff and 5,000 of the shares to Brian G. Spanel, both of whom are our executive officers.

### Registration Rights

The holders of 5,593,247 shares of our common stock are entitled to rights to register their shares under the Securities Act. These rights are provided under the terms of an agreement between us and the holders of registrable securities, who are former holders of some series of our common and preferred stock. These holders include:

- . Greylock Limited Partnership, which has registration rights covering 2,009,640 shares of common stock;
- . Strategic Investment Partners, Ltd., which has registration rights covering 2,000,000 shares of common stock;
- . Cahill Warnock Strategic Partners Fund, L.P., which has registration rights covering 947,500 shares of common stock;
- . Mr. Johnson, who has registration rights covering 20,000 shares of common stock;
- . Mr. Neidorff, who has registration rights covering 75,300 shares of common stock;
- . Strategic Associates, L.P., which has registration rights covering 52,500 shares of common stock;

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- . D.L. Associates, which has registration rights covering 50,000 shares of common stock; and
- . Mr. Spanel, who has registration rights covering 5,000 shares of common stock.

The registration rights:

- . are held by all persons and entities that purchased series A common stock and series A, series B and series D preferred stock;

- . allow holders to require us to register their shares under the Securities Act; and
- . allow holders to include their shares in registration statements filed by us.

For a more detailed description of the registration rights, see "Description of Capital Stock--Registration Rights."

#### Employment Agreements

We have entered into employment agreements with Joseph P. Drozda, Mary O'Hara, Brian G. Spanel and Karey L. Witty. For a more detailed description of these employment agreements, including severance provisions, see "Management--Employment Agreements."

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#### PRINCIPAL AND SELLING STOCKHOLDERS

The following table sets forth information regarding the beneficial ownership of our common stock as of November 21, 2001, as adjusted to reflect the sale of the shares of common stock offered in this offering, for:

- . each person, entity or group of affiliated persons or entities known by us to own beneficially more than 5% of our outstanding common stock;
- . each of our named executive officers and directors;
- . all of our executive officers and directors as a group; and
- . each of the selling stockholders.

Managed Health Services, Inc. d/b/a Elizabeth A. Brinn Foundation, a 501(c)(3) organization (the "Elizabeth A. Brinn Foundation"), is offering 250,000 of the shares covered by this prospectus. The other selling stockholders have granted the underwriters an option, exercisable not later than 30 days after the date of this prospectus, to purchase up to an aggregate of 525,000 shares to cover over-allotments. If the underwriters exercise their options, shares will be purchased from the selling stockholders on a pro-rata basis at the public offering price. Information in the following table assumes that the underwriters exercise their over-allotment option in full.

Beneficial ownership is determined in accordance with the rules of the SEC. These rules generally attribute beneficial ownership of securities to persons who possess sole or shared voting power or investment power with respect to those securities and include shares of common stock issuable upon the exercise of stock options or warrants that are immediately exercisable or exercisable within 60 days. Unless otherwise indicated, the persons or entities identified in this table have sole voting and investment power with respect to all shares shown as beneficially owned by them, subject to applicable community property laws. The address of our officers and directors is in care of Centene Corporation, 7711 Carondelet Avenue, Suite 800, Saint Louis, Missouri 63105.

Percentage ownership calculations are based on 6,775,366 shares outstanding as of November 21, 2001. All of the following information gives effect to the conversion of all of our outstanding convertible preferred stock into common stock upon the closing of this offering. The information as to beneficial ownership after the offering also gives effect to the exercise of all outstanding warrants to purchase a total of 46,003 shares of common stock before the closing of this offering.

To the extent that any shares are exercised on exercise of options to acquire shares of our capital stock, there may be further dilution to new public investors.

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<TABLE>  
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Beneficial Ownership Prior to Offering

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Name of Beneficial Owner -----	Number of Shares Beneficially Owned -----	Shares Issuable Pursuant to Options and Warrants Exercisable within 60 days of November 21, 2001		Number of Shares of Common Stock Being Offered -----
		Percentage		
<S>	<C>	<C>	<C>	<C>
5% Stockholders:				
Greylock Limited Partnership One Federal Street, 26th Floor Boston, Massachusetts 02110	2,127,799	--	31.4%	
Strategic Investment Partners, Ltd..... c/o Soros Fund Management LLC 888 Seventh Avenue, 33rd Floor New York, New York 10016	2,000,000	--	29.5	
Cahill Warnock Strategic Partners Fund, L.P.... c/o Cahill, Warnock & Company One South Street, Suite 2150 Baltimore, Maryland 21202	947,500	--	14.0	
Named Executive Officers and Directors:				
Michael F. Neidorff.....	75,340	304,700	5.4	--
Mary O'Hara.....	--	78,000	1.1	--
Karey L. Witty.....	--	80,000	1.2	--
Brian Spanel.....	5,000	60,000	*	--
Joseph P. Drozda, Jr., M.D.....	--	35,000	*	--
Claire W. Johnson.....	549,723 (1)	43,305 (2)	8.7	(3)
Samuel E. Bradt.....	310,320 (1)	33,305 (2)	5.0	(3)
Walter E. Burlock, Jr.....	--	20,000	*	--
Edward L. Cahill.....	1,000,000 (5)	20,000	15.0	--
Howard E. Cox, Jr.....	2,127,799 (6)	30,000	31.7	--
Robert K. Ditmore.....	50,000 (7)	35,000 (8)	1.2	--
Richard P. Wiederhold.....	481,411 (1)	33,305 (2)	7.6	(3)
All directors and executive officers as a group (13 persons).....	4,099,593 (1) (5) (6) (7)	796,005 (2) (8)	64.6	(3)
Selling Stockholder:				
Elizabeth A. Brinn Foundation.....	250,000	3,305	3.7	250,000
Over-allotment Selling Stockholders:				
William P. Jollie.....	450,100 (1)	3,305 (2)	6.7	434,138 (3)
Raymond C. Brinn.....	305,073 (1)	3,305 (2)	4.6	300,680 (3)
Thomas M. Gazzana.....	130,000	--	1.9	119,630
Jerome M. Fritsch.....	103,133	--	1.5	94,906
Leon K. Rusch.....	56,484	--	*	51,978
Kathleen A. Tordik.....	11,719	--	*	10,784
Tracey Klein.....	11,250 (9)	--	*	10,353 (9)
Richard S. Nemitz.....	2,000	--	*	1,841
Elaine E. Laverenz.....	750	--	*	690

<TABLE>  
<CAPTION>

Name of Beneficial Owner -----	Beneficial Ownership After Offering -----	
	Number of Shares Beneficially Owned -----	Percentage -----
<S>	<C>	<C>
5% Stockholders:		
Greylock Limited Partnership One Federal Street, 26th Floor Boston, Massachusetts 02110	2,127,799	21.1%
Strategic Investment Partners, Ltd..... c/o Soros Fund Management LLC 888 Seventh Avenue, 33rd Floor New York, New York 10016	2,000,000	19.8
Cahill Warnock Strategic Partners Fund, L.P.... c/o Cahill, Warnock & Company One South Street, Suite 2150 Baltimore, Maryland 21202	947,500	9.4
Named Executive Officers and Directors:		

Michael F. Neidorff.....	380,040	3.7
Mary O'Hara.....	78,000	*
Karey L. Witty.....	80,000	*
Brian Spanel.....	65,000	*
Joseph P. Drozda, Jr., M.D.....	35,000	*
Claire W. Johnson.....	343,028 (4)	3.4
Samuel E. Bradt.....	93,625 (4)	*
Walter E. Burlock, Jr.....	20,000	*
Edward L. Cahill.....	1,020,000 (5)	9.9
Howard E. Cox, Jr.....	2,157,799 (6)	21.4
Robert K. Ditmore.....	85,000 (7) (8)	*
Richard P. Wiederhold.....	264,716 (4)	2.6
All directors and executive officers as a group (13 persons).....	4,645,598 (4) (5) (6) (7) (8)	42.7
Selling Stockholder:		
Elizabeth A. Brinn Foundation.....	3,305	*
Over-allotment Selling Stockholders:		
William P. Jollie.....	19,267 (4)	*
Raymond C. Brinn.....	7,698 (4)	*
Thomas M. Gazzana.....	10,370	*
Jerome M. Fritsch.....	8,227	*
Leon K. Rusch.....	4,506	*
Kathleen A. Tordik.....	935	*
Tracey Klein.....	897 (9)	*
Richard S. Nemitz.....	159	*
Elaine E. Laverenz.....	60	*

</TABLE>

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\* Represents less than 1% of outstanding shares of common stock.

- (1) Includes 250,000 shares owned of record by the Elizabeth A. Brinn Foundation. Messrs. Johnson, Bradt, Wiederhold, Jollie and Brinn are directors of the Elizabeth A. Brinn Foundation. Messrs. Bradt and Wiederhold are also executive officers of the Elizabeth A. Brinn Foundation. These persons share voting and investment power with respect to these shares, but these individuals disclaim beneficial ownership.
- (2) Includes 3,305 shares issuable to the Elizabeth A. Brinn Foundation upon exercise of a warrant.
- (3) Includes 250,000 shares being offered by the Elizabeth A. Brinn Foundation in this offering.
- (4) Includes 3,305 shares owned of record by the Elizabeth A. Brinn Foundation.
- (5) Includes 947,500 shares owned of record by Cahill Warnock Strategic Partners Fund, L.P. and 52,500 shares owned of record by Strategic Associates, L.P. Mr. Cahill is a partner of Cahill, Warnock Strategic Partners, L.P., the general partner of Cahill Warnock Strategic Partners Fund, L.P. and Strategic Associates, L.P., and he shares voting and investment power with respect to these shares.
- (6) Includes 2,127,799 shares owned of record by Greylock Limited Partnership. Mr. Cox is a co-managing director of Greylock Limited Partnership and shares voting and investment power with respect to these shares.
- (7) Includes 50,000 shares owned of record by D.L. Associates. Mr. Ditmore is a managing general partner of D.L. Associates and shares voting and investment power with respect to these shares.
- (8) Includes 35,000 shares issuable pursuant to options granted to D.L. Associates.
- (9) Consists of shares held in trust for the benefit of Ms. Klein.

DESCRIPTION OF CAPITAL STOCK

Upon completion of this offering, we will be authorized to issue 40,000,000

shares of common stock and 10,000,000 shares of undesignated preferred stock. Shares of each class will have a par value of \$0.001 per share. The following description summarizes information about our capital stock. You can obtain more comprehensive information about our capital stock by consulting our charter and by-laws, as well as the Delaware General Corporation Law.

#### Common Stock

As of the date of this prospectus, our charter provides for two series of common stock, which are held as follows:

- . Series A voting common stock, of which 278,747 shares were issued and outstanding held by ten holders of record; and
- . Series B non-voting common stock, of which 624,279 shares were issued and outstanding held by seven holders of record.

Each share of Series A and Series B common stock will convert into one share of common stock immediately upon the closing of this offering.

Each share of our common stock entitles the holder to one vote on all matters submitted to a vote of stockholders, including the election of directors. Subject to any preference rights of holders of preferred stock, the holders of common stock are entitled to receive dividends, if any, declared from time to time by the directors out of legally available funds. See "Dividend Policy." In the event of our liquidation, dissolution or winding up, the holders of common stock are entitled to share ratably in all assets remaining after the payment of liabilities, subject to any rights of holders of preferred stock to prior distribution.

The common stock has no preemptive or conversion rights or other subscription rights. No redemption or sinking fund provisions apply to the common stock. All outstanding shares of common stock are fully paid and nonassessable, and the shares of common stock to be issued upon the completion of this offering will be fully paid and nonassessable.

#### Preferred Stock

As of the date of this prospectus, our charter provides for four series of preferred stock, which are held as follows:

- . Series A preferred stock, of which 733,850 shares were issued and outstanding held by nine holders of record;
- . Series B preferred stock, of which 864,640 shares were issued and outstanding held by one holder of record;
- . Series C preferred stock, of which 557,850 shares were issued and outstanding held by five holders of record; and
- . Series D preferred stock, of which 3,716,000 shares were issued and outstanding held by 15 holders of record.

Each share of preferred stock will convert into one share of common stock immediately upon the closing of this offering.

The board of directors will have the authority, without action by the stockholders, to designate and issue up to an aggregate of 10,000,000 shares of preferred stock, in one or more series, each series to have

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the voting rights, dividend rights, conversion rights, liquidation preferences and redemption privileges as shall be determined by the board of directors. The rights of the holders of common stock will be affected by, and may be adversely affected by, the rights of holders of any preferred stock that may be issued in the future. It is not possible to state the actual effect of the issuance of any shares of preferred stock on the rights of holders of common stock until the board of directors determines the specific rights attached to that preferred stock. The effects of issuing preferred stock could include one or more of the following:

- . restricting dividends on the common stock;
- . diluting the voting power of the common stock;
- . impairing the liquidation rights of the common stock; or
- . delaying or preventing changes in control or management of Centene.

Delaware law and our charter and by-laws could make it more difficult to acquire us by means of a tender offer, a proxy contest, open market purchases, removal of incumbent directors and otherwise. These provisions, summarized below, are expected to discourage types of coercive takeover practices and inadequate takeover bids and to encourage persons seeking to acquire control of us to first negotiate with us. We believe that the benefits of increased protection of our potential ability to negotiate with the proponent of an unfriendly or unsolicited proposal to acquire or restructure us outweigh the disadvantages of discouraging takeover or acquisition proposals because negotiation of these proposals could result in an improvement of their terms.

We must comply with Section 203 of the Delaware General Corporation Law, an anti-takeover law. In general, Section 203 prohibits a publicly held Delaware corporation from engaging in a "business combination" with an "interested stockholder" for a period of three years following the date the person became an interested stockholder, unless the business combination or the transaction in which the person became an interested stockholder is approved in a prescribed manner. Generally, a "business combination" includes a merger, asset or stock sale, or other transaction resulting in a financial benefit to an interested stockholder. An "interested stockholder" includes a person who, together with affiliates and associates, owns, or did own within three years prior to the determination of interested stockholder status, 15% or more of the corporation's voting stock. The existence of this provision generally will have an anti-takeover effect for transactions not approved in advance by the board of directors, including discouraging attempts that might result in a premium over the market price for the shares of common stock held by stockholders.

Upon the closing of this offering, our charter and by-laws will require that any action required or permitted to be taken by our stockholders must be effected at a duly called annual or special meeting of the stockholders and may not be effected by a consent in writing. In addition, upon the completion of this offering, special meetings of our stockholders may be called only by the board of directors or some of our officers. Our charter and by-laws also provide that, effective upon the completion of this offering, our board of directors will be divided into three classes, with the classes serving staggered three-year terms. These provisions may have the effect of deterring hostile takeovers or delaying or preventing changes in our control or management.

Transfer Agent and Registrar

The transfer agent and registrar for our common stock is Mellon Investor Services LLC.

Nasdaq National Market Listing

We expect our common stock to be approved for quotation on the Nasdaq National Market under the symbol "CNTE."

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#### SHARES ELIGIBLE FOR FUTURE SALE

Prior to this offering, there has been no market for our common stock. We cannot provide any assurance that an active public market for our common stock will develop or be sustained after the closing of this offering.

Future sales in the public markets of substantial amounts of our common stock, including shares issued on the exercise of outstanding options, could adversely affect the prevailing market price of our common stock. It could also impair our ability to raise additional capital through future sales of equity securities.

Upon the closing of this offering, a total of 10,071,369 shares of our common stock will be outstanding assuming (1) no exercise of options outstanding after November 21, 2001, (2) the exercise of all warrants outstanding on November 21, 2001 and (3) the conversion of all of our outstanding preferred stock into common stock upon the closing of this offering. Of these shares, all of the shares of common stock sold in this offering will be freely transferable without restriction or further registration under the Securities Act, except for any shares acquired by "affiliates" as that term is defined in Rule 144 under the Securities Act.

Shares acquired by affiliates and the remaining shares held by existing stockholders are "restricted securities" as that term is defined in Rule 144 under the Securities Act. Restricted securities may be sold in the public market only if registered or if they qualify for an exemption from registration under Rule 144, which is summarized below.

Lock-Up Agreements

Our executive officers, directors and substantially all of our other stockholders have entered into lock-up agreements pursuant to which they have agreed, with limited exceptions, not to dispose of or hedge any of their common stock for 180 days following the date of this prospectus without the written consent of SG Cowen Securities Corporation. The persons who have delivered lock-up agreements will hold a total of 6,528,898 of the 6,571,369 shares of common stock that will be outstanding as of the closing of this offering, excluding the 3,500,000 shares being offered. We have also agreed that, without the prior written consent of SG Cowen Securities Corporation, we will not, directly or indirectly, offer, sell or otherwise dispose of any shares of common stock or any securities that may be converted into or exchanged for shares of common stock for a period of 180 days from the date of this prospectus. However, our agreement with SG Cowen Securities Corporation provides that we may, without such consent, (a) grant options and sell shares pursuant to our stock plans, (b) issue shares to Community Health Centers Network in the event that it exercises its right to cause us to acquire its 10% equity interest in Superior HealthPlan in exchange for shares of our common stock, as described under "Management's Discussion and Analysis of Financial Condition and Results of Operations--Overview--Other Income," and (c) issue up to an aggregate of 500,000 shares of our common stock in connection with one or more acquisitions or collaborative arrangements, provided that each recipient of those shares enters into a lock-up agreement substantially equivalent to those delivered by substantially all of our stockholders in connection with this offering.

Upon the closing of this offering, options to purchase 1,380,040 shares of common stock will be held by existing optionees, based on options outstanding on November 21, 2001. Under the terms of their option agreements, holders of all of these options have agreed to be bound by the 180-day lock-up.

We intend to file with the SEC a registration statement on Form S-8 as soon as practicable after the closing of this offering registering shares of common stock reserved for future issuance under our stock plans or subject to presently outstanding options. This registration statement will allow holders of shares of common stock issued under our stock plans to resell those shares in the public market, without restriction under the Securities Act, subject to the lock-up agreements and, in the case of affiliates, Rule 144 limitations.

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As a result of the lock-up agreements, the Form S-8 registration statement, the provisions of Rule 144 and Rule 701 under the Securities Act, the common shares outstanding upon the closing of this offering, including shares subject to presently outstanding options, will be eligible for resale in the public market in the United States as follows, subject in some cases to Rule 144 limitations:

<TABLE> <CAPTION> Number of Shares -----	Date ----
<C> 3,542,471	<S> After completion of this offering, (a) freely tradable shares sold in this offering and (b) shares eligible for sale in the public market under Rule 144(k) that are not subject to 180-day lock-up agreements
6,519,966	After 180 days from the closing of this offering, the 180-day lock-up will be released, and these shares will be eligible for sale in the public market under Rule 144 (subject, in some cases, to volume limitations), Rule 144(k) or Rule 701
8,932	After 180 days from the closing of this offering, restricted securities that have been held for less than one year and are not eligible for sale in the public market under Rule 144

Rule 144

In general, under Rule 144, as in effect on the date of this prospectus, any person, including any of our affiliates, who has beneficially owned restricted common shares for at least one year, would be entitled to sell, within any three-month period, a number of shares that, together with sales of any common shares with which such person's sales must be aggregated, does not exceed the greater of:

- . 1% of the total number of shares of common stock then outstanding, or
- . the average weekly trading volume of the common stock on the Nasdaq National Market during the four calendar weeks preceding the date on which the notice of the sale on Form 144 is filed with the SEC.

Sales of restricted securities under Rule 144 are also subject to certain manner of sale provisions and notice requirements and to the availability of

current public information about us. Persons who are our affiliates must also comply with the restrictions and requirements of Rule 144, other than the one-year holding period requirement, in order to sell common shares in the public market that are not restricted securities. We are unable to estimate the number of shares that will be sold under Rule 144, as this will depend on the market price for our common stock, the personal circumstances of the sellers and other factors.

#### Rule 144(k)

Under Rule 144(k), a person who is not deemed to have been one of our affiliates at any time during the 90 days preceding a sale, and who has beneficially owned the shares proposed to be sold for at least two years, including the holding period of any prior owner that was not an affiliate, is entitled to sell the shares without complying with the manner of sale, public information, volume limitation or notice provisions of Rule 144.

#### Rule 701

In general, under Rule 701, as in effect on the date of this prospectus, our employees, directors, officers, consultants or advisors who purchase shares from us in connection with a compensatory stock or option plan or other written agreement before the effective date of this prospectus may rely on Rule 701 to resell those shares 90 days after the effective date of this prospectus.

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Rule 701 permits non-affiliates to sell their Rule 701 shares in reliance on Rule 144 without having to comply with the holding period, public information, volume limitation or notice provisions of Rule 144. Rule 701 permits affiliates to sell their Rule 701 shares under Rule 144 without complying with the holding period requirements of Rule 144. All holders of Rule 701 shares are required to wait until 90 days after the date of this prospectus before selling those shares.

#### Registration Rights

After the closing of this offering, pursuant to a shareholders' agreement dated September 23, 1998, the holders of approximately 5,343,247 shares of common stock will be entitled to require us to register their shares under the Securities Act. Under this agreement, if we propose to register any of our securities under the Securities Act for our account, other than for employee benefit plans and business acquisitions or corporate restructurings, the holders of the registration rights are entitled to written notice of the registration and to include their shares of common stock in the registration. In addition, such holders may on up to two occasions, or three occasions under some circumstances, require us to register their shares of common stock under the Securities Act, and we are required to use our best efforts to effect any such registration. These registration rights are subject to conditions and limitations, including (1) the right of the underwriters of an offering to limit the number of shares included in such registration and (2) the right of the underwriters to lock-up the shares of such holders for a period of 120 days after the effective date of any registration statement filed by us. We have the right to defer the filing of any registration statement for up to 180 days if our board of directors determines that the filing would be seriously detrimental to us and our stockholders. We are responsible for paying the expenses of any registration pursuant to the shareholders' agreement, other than any underwriters' discounts and commissions.

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#### UNDERWRITING

We, the selling stockholders and the underwriters named below have entered into an underwriting agreement with respect to the shares being offered. Subject to the terms and conditions of the underwriting agreement, the underwriters named below have severally agreed to purchase from the Elizabeth A. Brinn Foundation and us the number of shares set forth opposite their names on the table below at the public offering price, less the underwriting discounts and commissions, as set forth on the cover page of this prospectus. SG Cowen Securities Corporation, Thomas Weisel Partners LLC and CIBC World Markets Corp. are acting as the representatives of the several underwriters named below.

<TABLE>  
<CAPTION>

Name	Number of Shares
----	-----
<S>	<C>
SG Cowen Securities Corporation	
Thomas Weisel Partners LLC.....	
CIBC World Markets Corp.....	

-----  
Total..... 3,500,000  
=====

</TABLE>

The underwriting agreement provides that the obligations of the several underwriters to purchase the shares of common stock offered hereby are conditional and may be terminated at their discretion based on their assessment of the state of the financial markets. The obligations of the underwriters may also be terminated upon the occurrence of other events specified in the underwriting agreement. The underwriters are severally committed to purchase all of the shares of common stock being offered by the Elizabeth A. Brinn Foundation and us if any shares are purchased.

The underwriters propose to offer the shares of common stock to the public at the public offering price set forth on the cover of this prospectus. The underwriting fee will be an amount equal to the offering price to the public less the amount paid per share by the underwriters to us. The underwriters may offer to securities dealers, and those dealers may re-allow, a concession not in excess of \$ per share. After the shares of common stock are released for sale to the public, the underwriters may vary the offering price and other selling terms from time to time.

Selling stockholders have granted to the underwriters an option, exercisable not later than 30 days after the date of this prospectus, to purchase up to an aggregate of 525,000 additional shares of common stock at the public offering price set forth on the cover page of this prospectus less the underwriting discounts and commissions. The underwriters may exercise this option only to cover over-allotments, if any, made in connection with the sale of the common stock offered hereby. If the underwriters exercise their over-allotment option, the underwriters have severally agreed to purchase shares from these selling stockholders in approximately the same proportion as shown in the table above.

We estimate that our share of the total expenses of this offering, excluding underwriting discounts and commissions, will be approximately \$800,000.

We and the selling stockholders have agreed to indemnify the underwriters against certain civil liabilities, including liabilities under the Securities Act and liabilities arising from breaches of representations and warranties contained in the underwriting agreement, and to contribute to payments the underwriters may be required to make in respect of any such liabilities.

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Our directors, executive officers, optionholders and substantially all of our stockholders have agreed with the underwriters, or are otherwise subject to agreements which provide, that for a period of 180 days following the date of this prospectus, they will not dispose of or hedge any shares of common stock or any securities convertible into or exchangeable for shares of common stock. SG Cowen Securities Corporation may, in its sole discretion, at any time without prior notice, release all or any portion of the shares from the restrictions in any such agreement to which SG Cowen Securities Corporation is a party. We have entered into a similar agreement with the representatives of the underwriters, provided we may, without such consent, (a) grant options and sell shares pursuant to our stock plans, (b) issue shares to Community Health Centers Network in the event that it exercises its right to cause us to acquire its 10% equity interest in Superior HealthPlan in exchange for shares of our common stock, as described under "Management's Discussion and Analysis of Financial Condition and Results of Operations--Overview--Other Income," and (c) issue up to an aggregate of 500,000 shares of our common stock in connection with one or more acquisitions or collaborative arrangements, provided that each recipient of those shares enters into a lock-up agreement substantially equivalent to those delivered by substantially all of our stockholders in connection with this offering. There are no agreements between SG Cowen Securities Corporation and any of our stockholders or affiliates releasing them from these lock-up agreements prior to the expiration of the 180-day period.

The representatives of the underwriters have advised us that the underwriters do not intend to confirm sales to any account over which they exercise discretionary authority. The underwriters are delivering this prospectus only in printed form.

The representatives of the underwriters may engage in over-allotment, stabilizing transactions, syndicate covering transactions, penalty bids and passive market making in accordance with Regulation M under the Securities Exchange Act. Over-allotment involves syndicate sales in excess of the offering size, which creates a syndicate short position. Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum. Syndicate covering transactions involve purchases

of the shares of common stock in the open market after the distribution has been completed in order to cover syndicate short positions. Penalty bids permit the representatives to reclaim a selling concession from a syndicate member when the shares of common stock originally sold by such syndicate member is purchased in a syndicate covering transaction to cover syndicate short positions. Penalty bids may have the effect of deterring syndicate members from selling to people who have a history of quickly selling their shares. In passive market making, market makers in the shares of common stock who are underwriters or prospective underwriters may, subject to certain limitations, make bids for or purchases of the shares of common stock until the time, if any, at which a stabilizing bid is made. These stabilizing transactions, syndicate covering transactions and penalty bids may cause the price of the shares of common stock to be higher than it would otherwise be in the absence of these transactions. These transactions may be effected on the Nasdaq National Market or otherwise and, if commenced, may be discontinued at any time.

Prior to this offering, there has been no public market for shares of our common stock. Consequently, the initial public offering price will be determined by negotiations between us and the underwriters. The various factors to be considered in these negotiations will include prevailing market conditions, the market capitalizations and the states of development of other companies that we and the underwriters believe to be comparable to us, estimates of our business potential, our results of operations in recent periods, the present state of our development and other factors deemed relevant.

At our request, the underwriters have reserved for sale, at the initial public offering price, up to 175,000 of the offered shares for employees, family members of employees, business associates and other third party vendors. The number of shares of our common stock available for sale to the general public will be reduced to the extent these reserved shares are purchased. Any reserved shares not purchased will be offered by the underwriters to the general public on the same terms as the other shares in this offering.

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Thomas Weisel Partners LLC, one of the representatives of the underwriters, was organized and registered as a broker-dealer in December 1998. Since December 1998, Thomas Weisel Partners LLC has been named as a lead or co-manager on numerous public offerings of equity securities.

SG Cowen Securities Corporation provides financial advisory services to us from time to time in the ordinary course of its business.

#### LEGAL MATTERS

The validity of the common stock offered by this prospectus will be passed upon for us by Armstrong Teasdale LLP, Saint Louis, Missouri. Legal matters in connection with the offering will be passed upon for the underwriters by Hale and Dorr LLP, Boston, Massachusetts.

#### EXPERTS

The consolidated financial statements and schedule included in this prospectus and elsewhere in the registration statement to the extent and for the periods indicated in their reports, have been audited by Arthur Andersen LLP, independent public accountants, and are included herein in reliance upon the authority of said firm as experts in giving said reports.

#### WHERE YOU CAN FIND ADDITIONAL INFORMATION

This prospectus constitutes a part of a registration statement on Form S-1 (together with all amendments, supplements, schedules and exhibits to the registration statement, referred to as the registration statement) that we have filed with the SEC under the Securities Act. This prospectus does not contain all the information that is in the registration statement. We refer you to the registration statement for further information about our company and the securities offered by this prospectus. Statements contained in this prospectus concerning the provisions of documents filed as exhibits are not necessarily complete, and reference is made to the copy filed, each such statement being qualified in all respects by such reference. You can inspect and copy the registration statement and the reports and other information on file with the SEC at the SEC's public reference room at Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549. You can obtain information on the operation of the public reference room by calling the SEC at 1-800-SEC-0330. The SEC also maintains a Web site which provides on-line access to reports, proxy and information statements and other information regarding registrants that file electronically with the SEC at the address <http://www.sec.gov>.

Upon the effectiveness of the registration statement, we will become subject to the information requirements of the Securities Exchange Act. We will then file reports, proxy statements and other information under the Securities Exchange Act with the SEC. You can inspect and copy these reports and other information of our company at the locations set forth above or download these reports from the SEC's Web site.

## INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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Consolidated Statements of Operations for the Years Ended December 31, 1998, 1999 and 2000 and the Nine Months Ended September 30, 2000 (Unaudited) and 2001.....	F-4
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## REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Centene Corporation:

We have audited the accompanying consolidated balance sheets of Centene Corporation (a Delaware corporation) and subsidiaries as of December 31, 1999, and 2000 and September 30, 2001, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2000 and the nine month period ended September 30, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Centene Corporation and subsidiaries as of December 31, 1999 and 2000 and September 30, 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000 and the nine month period ended September 30, 2001, in conformity with accounting principles generally accepted in the United States.

ARTHUR ANDERSEN LLP

St. Louis, Missouri  
November 13, 2001

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## CENTENE CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS  
(In thousands, except share data)

<TABLE>  
<CAPTION>

	December 31,		
	-----		
September 30,		1999	2000
			2001

<S>	ASSETS	<C>	<C>	<C>
CURRENT ASSETS:				
Cash and cash equivalents.....		\$ 22,532.	\$19,023.	\$ 61,398.
Premium and related receivables, net of allowances of \$1,245, \$1,866 and \$2,737, respectively.....		11,451.	15,538.	8,153.
Short-term investments, at fair value (amortized cost \$1,131, \$7,404 and \$625, respectively).....		1,131.	7,400.	625
Other current assets.....		2,854.	2,170.	1,416.
Deferred income taxes.....		1,010.	2,585.	2,179.
---				
Total current assets.....		38,978	46,716	73,771
LONG-TERM INVESTMENTS, at fair value (amortized cost \$7,898, \$14,326 and \$23,217, respectively).....		7,593	14,459	24,143
INVESTMENTS IN JOINT VENTURES.....		1,833	2,422	--
FURNITURE, EQUIPMENT AND LEASEHOLD IMPROVEMENTS, net.....		1,528	1,360	3,092
INTANGIBLE ASSETS.....		571	347	2,478
DEFERRED INCOME TAXES.....		1,704	713	487
---				
Total assets.....		\$ 52,207	\$66,017	\$103,971
=====				
LIABILITIES AND STOCKHOLDERS' EQUITY				
CURRENT LIABILITIES:				
Medical claims liabilities.....		\$ 37,339.	\$45,805.	\$ 63,979.
Unearned premiums.....		3,601.	--	--
Accounts payable and accrued expenses.....		2,898.	6,168.	16,549.
Note payable.....		2,350.	--	--
---				
Total current liabilities.....		46,188	51,973	80,528
SUBORDINATED DEBT.....		4,000	4,000	4,000
---				
Total liabilities.....		50,188	55,973	84,528
---				
SERIES D REDEEMABLE PREFERRED STOCK, \$.167 par value; authorized 4,000,000 shares; 3,718,000, 3,718,000 and 3,716,000 shares at December 31, 1999 and 2000, and September 30, 2001 issued and outstanding historical, respectively, and no shares pro forma (liquidation value of \$18,590, \$18,590 and \$18,580, respectively).....				
		18,386	18,878	19,231
---				
STOCKHOLDERS' EQUITY:				
Preferred stock, \$.167 par value; authorized 4,300,000				
Series A convertible, authorized 2,400,000 shares; 733,850 shares issued and outstanding historical, and no shares pro forma.....		123	123	123
Series B convertible, authorized 1,050,000 shares; 864,640 shares issued and outstanding historical, and no shares pro forma.....		144	144	144
Series C convertible, authorized 850,000 shares; 557,850 shares issued and outstanding historical, and no shares pro forma.....		93	93	93
Common stock, \$.003 par value; authorized 17,000,000 shares--				
Series A, authorized 16,000,000 shares; 277,247 shares issued and outstanding historical, and 6,149,587 shares pro forma.....		1	1	
Series B, authorized 1,000,000 shares; 624,279 shares issued and outstanding historical and pro forma.....		2	2	
Common stock, \$.001 par value; authorized 40,000,000 shares; 6,819,869 issued and outstanding pro forma.....				
Additional paid-in capital.....		7	7	--
Net unrealized gain (loss) on investments, net of tax.....		(216)	81	584
Accumulated deficit.....		(16,521)	(9,285)	(735).
---				
Total stockholders' equity (deficit).....		(16,367)	(8,834)	212
---				
Total liabilities and stockholders' equity.....		\$ 52,207	\$66,017	\$103,971
=====				

</TABLE>  
<TABLE>  
<CAPTION>

<S>		(Unaudited)
	ASSETS	<C>
CURRENT ASSETS:		
Cash and cash equivalents.....		\$ 61,416.
Premium and related receivables, net of allowances of \$1,245, \$1,866 and \$2,737, respectively.....		
Short-term investments, at fair value (amortized cost \$1,131, \$7,404 and \$625, respectively).....		
Other current assets.....		
Deferred income taxes.....		
		-----
Total current assets.....		73,789
LONG-TERM INVESTMENTS, at fair value (amortized cost \$7,898, \$14,326 and \$23,217, respectively).....		
INVESTMENTS IN JOINT VENTURES.....		
FURNITURE, EQUIPMENT AND LEASEHOLD IMPROVEMENTS, net.....		
INTANGIBLE ASSETS.....		
DEFERRED INCOME TAXES.....		
		-----
Total assets.....		\$103,989
		=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Medical claims liabilities.....		
Unearned premiums.....		
Accounts payable and accrued expenses.....		
Note payable.....		
Total current liabilities.....		
SUBORDINATED DEBT.....		
Total liabilities.....		
SERIES D REDEEMABLE PREFERRED STOCK, \$.167 par value; authorized 4,000,000 shares; 3,718,000, 3,718,000 and 3,716,000 shares at December 31, 1999 and 2000, and September 30, 2001 issued and outstanding historical, respectively, and no shares pro forma (liquidation value of \$18,590, \$18,590 and \$18,580, respectively).....		
		\$ --
		-----
STOCKHOLDERS' EQUITY:		
Preferred stock, \$.167 par value; authorized 4,300,000		
Series A convertible, authorized 2,400,000 shares; 733,850 shares issued and outstanding historical, and no shares pro forma.....		--
Series B convertible, authorized 1,050,000 shares; 864,640 shares issued and outstanding historical, and no shares pro forma.....		--
Series C convertible, authorized 850,000 shares; 557,850 shares issued and outstanding historical, and no shares pro forma.....		--
Common stock, \$.003 par value; authorized 17,000,000 shares--		
Series A, authorized 16,000,000 shares; 277,247 shares issued and outstanding historical, and 6,149,587 shares pro forma.....		--
Series B, authorized 1,000,000 shares; 624,279 shares issued and outstanding historical and pro forma.....		--
Common stock, \$.001 par value; authorized 40,000,000 shares; 6,819,869 issued and outstanding pro forma.....		7
Additional paid-in capital.....		19,605.
Net unrealized gain (loss) on investments, net of tax.....		584
Accumulated deficit.....		(735).
		-----
Total stockholders' equity (deficit).....		19,461
		-----
Total liabilities and stockholders' equity.....		\$103,989
		=====

</TABLE>

The accompanying notes are an integral part of these balance sheets.

CENTENE CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(In thousands, except share data)

<TABLE>  
<CAPTION>

Months

Nine

Ended

Year Ended December 31, September

30,

-----

	1998	1999	2000	2000	
				(Unaudited)	
	<C>	<C>	<C>	<C>	<C>
2001					
-----					
<S>					
REVENUES:					
Premiums.....	\$ 149,577	\$200,549	\$ 216,414	\$ 157,994	\$
235,995					
Administrative services fees.....	861	880	4,936	3,543	
283					
-----					
Total revenues.....	150,438	201,429	221,350	161,537	
236,278					
-----					
EXPENSES:					
Medical services costs.....	132,199	178,285	182,495	133,575	
195,512					
General and administrative expenses.....	25,066	29,756	32,335	24,133	
27,992					
-----					
Total operating expenses.....	157,265	208,041	214,830	157,708	
223,504					
-----					
Income (loss) from operations.....	(6,827)	(6,612)	6,520	3,829	
12,774					
OTHER INCOME (EXPENSE):					
Investment and other income, net.....	1,794	1,623	1,784	1,611	
2,806					
Interest expense.....	(771)	(498)	(611)	(505)	
(285)					
Equity in income (losses) from joint ventures.....	(477)	3	(508)	(329)	
--					
-----					
Income (loss) from continuing operations before income taxes..	(6,281)	(5,484)	7,185	4,606	
15,295					
INCOME TAX EXPENSE (BENEFIT).....	(1,542)	--	(543)	100	
6,320					
-----					
Income (loss) from continuing operations.....	(4,739)	(5,484)	7,728	4,506	
8,975					
LOSS FROM DISCONTINUED OPERATIONS, net.....	(2,223)	(3,927)	--	--	
--					
-----					
Net income (loss).....	(6,962)	(9,411)	7,728	4,506	
8,975					
ACCRETION OF REDEEMABLE PREFERRED STOCK.....	(122)	(492)	(492)	(369)	
(369)					
-----					
Net income (loss) attributable to common stockholders.....	\$ (7,084)	\$ (9,903)	\$ 7,236	\$ 4,137	\$
8,606					
=====					
INCOME (LOSS) PER COMMON SHARE, BASIC:					
Continuing operations.....	\$ (4.65)	\$ (6.63)	\$ 8.03	\$ 4.59	\$
9.47					
Discontinued operations.....	(2.13)	(4.36)	--	--	
--					
Net income (loss) per common share.....	(6.78)	(10.99)	8.03	4.59	
9.47					
INCOME (LOSS) PER COMMON SHARE, DILUTED:					
Continuing operations.....	\$ (4.65)	\$ (6.63)	\$ 1.06	\$ 0.61	\$
1.11					
Discontinued operations.....	(2.13)	(4.36)	--	--	
--					
Net income (loss) per common share.....	(6.78)	(10.99)	1.06	0.61	
1.11					
SHARES USED IN COMPUTING PER SHARE AMOUNTS:					
Basic.....	1,044,434	900,944	901,526	901,526	
908,918					
Diluted.....	1,044,434	900,944	6,819,595	6,793,208	
7,787,653					

<TABLE>  
<CAPTION>

Nine Months



Net unrealized gain during the year on investments available for sale	--	--	--	--	--	--	--	--	--	--	--
Comprehensive earnings Series D preferred stock accretion	--	--	--	--	--	--	--	--	--	--	--
BALANCE, December 31, 2000	733,850	123	864,640	144	557,850	93	277,247	1	624,279	2	
Net income	--	--	--	--	--	--	--	--	--	--	--
Net unrealized gain during the period on investments available for sale	--	--	--	--	--	--	--	--	--	--	--
Comprehensive earnings Issuance of common stock	--	--	--	--	--	--	11,000	--	--	--	--
Purchase of common stock	--	--	--	--	--	--	(11,000)	--	--	--	--
Stock compensation expense	--	--	--	--	--	--	--	--	--	--	--
Series D preferred stock accretion	--	--	--	--	--	--	--	--	--	--	--
BALANCE, September 30, 2001	733,850	\$ 123	864,640	\$ 144	557,850	\$ 93	277,247	\$ 1	624,279	\$ 2	\$

	Net Unrealized Gain (Loss) on Investments	Accumulated Earnings (Deficit)	Total
BALANCE, December 31, 1997	\$ 12	\$ 1,130	\$ 2,495
Net loss	--	(6,962)	(6,962)
Net unrealized gain during the year on investments available for sale	46	--	46
Comprehensive loss			(6,916)
Issuance of common stock and warrants	--	--	80
Redemption of stock	--	--	(3)
Purchase of stock	--	(664)	(1,730)
Series D preferred stock accretion	--	(122)	(122)
BALANCE, December 31, 1998	58	(6,618)	(6,196)
Net loss	--	(9,411)	(9,411)
Net unrealized loss during the year on investments available for sale	(274)	--	(274)
Comprehensive loss			(9,685)
Issuance of common stock	--	--	6
Series D preferred stock accretion	--	(492)	(492)
BALANCE, December 31, 1999	(216)	(16,521)	(16,367)
Net income	--	7,728	7,728
Net unrealized gain during the year on investments available for sale	297	--	297
Comprehensive earnings			8,025
Series D preferred stock accretion	--	(492)	(492)

BALANCE, December 31, 2000	81	(9,285)	(8,834)
Net income	--	8,975	8,975
Net unrealized gain during the period on investments available for sale	503	--	503
			-----
Comprehensive earnings			9,478
Issuance of common stock	--	--	17
Purchase of common stock	--	(56)	(86)
Stock compensation expense	--	--	6
Series D preferred stock accretion	--	(369)	(369)
	-----	-----	-----
BALANCE, September 30, 2001	\$ 584	\$ (735)	\$ 212
	=====	=====	=====

</TABLE>

The accompanying notes are an integral part of these statements.

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CENTENE CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS  
(In thousands)

<TABLE>  
<CAPTION>

	Year Ended December 31,		
	1998	1999	2000
	-----	-----	-----
<S>	<C>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss).....	\$ (6,962)	\$ (9,411)	\$ 7,728
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities--			
Depreciation and amortization.....	1,107	1,142	1,034
Stock compensation expense.....	--	--	--
Loss on disposal of equipment.....	--	10	--
(Gain) loss on sale of investments.....	(276)	(55)	40
Equity in (income) losses from joint ventures.....	477	(3)	508
Changes in assets and liabilities--			
(Increase) decrease in premium and related receivables.....	(2,244)	35	(4,087)
(Increase) decrease in other current assets.....	(1,835)	(212)	684
Decrease (increase) in deferred income taxes.....	835	--	(584)
Increase in medical claims liabilities.....	3,797	13,815	8,466
Increase (decrease) in unearned premiums.....	244	(1,144)	(3,601)
(Decrease) increase in accounts payable and accrued expenses.....	(2,643)	950	3,270
	-----	-----	-----
Net cash provided by (used in) operating activities.....	(7,500)	5,127	13,458
	-----	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of equipment.....	(610)	(861)	(642)
Proceeds from sale of equipment.....	--	34	--
Purchase of investments.....	(11,848)	(11,286)	(20,260)
Sales and maturities of investments.....	8,652	9,019	7,382
Contract acquisition.....	(58)	--	--
Investments in joint ventures.....	1,658	178	(1,097)
	-----	-----	-----
Net cash used in investing activities.....	(2,206)	(2,916)	(14,617)
	-----	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of note payable.....	--	2,500	--
Payment of note payable.....	(6,467)	(150)	(2,350)
Proceeds from sale of common stock and warrants.....	80	--	--
Proceeds from sale of preferred stock.....	17,578	200	--
Purchase/redemption of stock.....	(1,727)	(6)	--
Deferred financing costs.....	43	--	--
	-----	-----	-----
Net cash provided by (used in) financing activities.....	9,507	2,544	(2,350)
	-----	-----	-----
Net increase (decrease) in cash and cash equivalents.....	(199)	4,755	(3,509)
	-----	-----	-----
CASH AND CASH EQUIVALENTS, beginning of period.....	17,976	17,777	22,532
	-----	-----	-----
CASH AND CASH EQUIVALENTS, end of period.....	\$ 17,777	\$ 22,532	\$ 19,023
	=====	=====	=====
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Interest paid.....	\$ 684	\$ 80	\$ 531
Income taxes paid.....	\$ 827	\$ 146	\$ 310

</TABLE>  
 <TABLE>  
 <CAPTION>

	Nine Months Ended September 30,	
	2000	2001
	(Unaudited)	
<S>	<C>	<C>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (loss).....	\$ 4,506	\$ 8,975
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities--		
Depreciation and amortization.....	740	1,274
Stock compensation expense.....	--	6
Loss on disposal of equipment.....	--	--
(Gain) loss on sale of investments.....	72	(72)
Equity in (income) losses from joint ventures.....	329	--
Changes in assets and liabilities--		
(Increase) decrease in premium and related receivables.....	(4,794)	8,285
(Increase) decrease in other current assets.....	1,291	810
Decrease (increase) in deferred income taxes.....	(64)	338
Increase in medical claims liabilities.....	7,629	13,100
Increase (decrease) in unearned premiums.....	3,773	--
(Decrease) increase in accounts payable and accrued expenses.....	2,016	6,850
	-----	-----
Net cash provided by (used in) operating activities.....	15,498	39,566
	-----	-----
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of equipment.....	(499)	(2,540)
Proceeds from sale of equipment.....	--	--
Purchase of investments.....	(5,964)	(17,459)
Sales and maturities of investments.....	4,812	16,148
Contract acquisition.....	--	(1,250)
Investments in joint ventures.....	(597)	7,995
	-----	-----
Net cash used in investing activities.....	(2,248)	2,894
	-----	-----
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from issuance of note payable.....	--	--
Payment of note payable.....	(2,350)	--
Proceeds from sale of common stock and warrants.....	--	17
Proceeds from sale of preferred stock.....	--	--
Purchase/redemption of stock.....	--	(102)
Deferred financing costs.....	--	--
	-----	-----
Net cash provided by (used in) financing activities.....	(2,350)	(85)
	-----	-----
Net increase (decrease) in cash and cash equivalents.....	10,900	42,375
	-----	-----
CASH AND CASH EQUIVALENTS, beginning of period.....	22,532	19,023
	-----	-----
CASH AND CASH EQUIVALENTS, end of period.....	\$33,432	\$ 61,398
	=====	=====
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Interest paid.....	\$ 531	\$ 817
Income taxes paid.....	\$ 100	\$ 2,107

</TABLE>

The accompanying notes are an integral part of these statements.

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CENTENE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (Dollars in thousands, except share data)

1. Organization and Operations:

Centene Corporation (Centene or the Company) provides managed care programs and related services to individuals receiving benefits under Medicaid, including Supplemental Security Income (SSI) and State Children's Health Insurance Program, (SCHIP). Centene operates under its own state licenses in Wisconsin, Indiana and Texas and contracts with other managed care organizations to provide risk and nonrisk management services.

Centene's managed care organization (MCO) subsidiaries include Managed Health Services Insurance Corp. (MHSIC), a wholly owned Wisconsin corporation; Coordinated Care Corporation Indiana, Inc. (CCCI), a wholly owned Indiana corporation; and Superior HealthPlan, Inc. (Superior), a 90% owned Texas corporation (39% before January 1, 2001).

## 2. Summary of Significant Accounting Policies:

The accompanying consolidated financial statements include the accounts of Centene Corporation and all majority owned subsidiaries. All material intercompany balances and transactions have been eliminated. The investments in minority owned joint ventures are accounted for under the equity method.

The accompanying statements of operations and cash flows for the nine months ended September 30, 2000, are unaudited but, in the opinion of management, reflect all adjustments, consisting solely of normal recurring adjustments, necessary for a fair presentation of results for this interim period.

### Cash and Cash Equivalents

Investments with original maturities of three months or less at the date of acquisition are considered to be cash equivalents. Cash equivalents consist of commercial paper, money market mutual funds and bank insured savings accounts.

### Investments

Short-term and long-term investments available for sale are carried at market value. Any changes in fair value due to market conditions are reflected as a separate component of equity, net of any tax benefit or expense.

Short-term investments include securities with original maturities between three months and one year. Long-term investments include securities with original maturities greater than one year.

### Furniture, Equipment and Leasehold Improvements

Furniture, equipment and leasehold improvements are carried at cost less accumulated depreciation. Depreciation for furniture and equipment, other than computer equipment, is calculated using the straight-line method based on the estimated useful lives of the assets ranging between five and seven years. Depreciation for computer equipment is calculated using the straight-line method based on a three-year life. Software is stated at cost in accordance with Statement of Position 98-1, Accounting for the Costs of Software Developed or Obtained for Internal Use. Software is amortized over its estimated useful life of

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## CENTENE CORPORATION AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) (Dollars in thousands, except share data)

three years using the straight-line method. Depreciation for leasehold improvements is calculated using the straight-line method based on the shorter of the estimated useful lives of the asset or the term of the respective leases, ranging between three and ten years.

### Intangible Assets

Intangible assets consist primarily of purchased contract rights and goodwill. Goodwill represents the excess of aggregate purchase price over the estimated fair value of net assets acquired and is amortized using a straight-line method over a 60 month period. Accumulated amortization of intangibles as of December 31, 1999 and 2000 and September 30, 2001, was \$530, \$754 and \$1,295, respectively. Amortization expense was \$221, \$235, \$224 and \$466 for the years ended December 31, 1998, 1999, 2000 and the nine months ended September 30, 2001, respectively.

The Company reviews goodwill and other long-lived assets for impairment whenever events and changes in business circumstances indicate the carrying value of the assets may not be recoverable. The Company recognizes impairment losses if expected undiscounted future cash flows from the related assets are less than their carrying value. An impairment loss represents the amount by which the carrying value of an asset exceeds the fair value of the asset. The Company did not recognize any impairment losses for the periods presented.

### Medical Claims Liabilities

Medical services costs include claims paid, claims adjudicated but not yet paid, estimates for claims received but not yet adjudicated, estimates for claims incurred but not yet received and estimates for the costs necessary to process unpaid claims.

The estimates of medical claims liabilities are developed using actuarial methods based upon historical data for payment patterns, cost trends, product mix, seasonality, utilization of healthcare services and other relevant factors including product changes. These estimates are continually reviewed and

adjustments, if necessary, are reflected in the period known.

#### Premium Revenue

Premium revenue is received monthly based on fixed rates per member as determined by the state contracts. The revenue is recognized as earned over the covered period of services. Premiums collected in advance are recorded as unearned premiums. There are no contractual allowances related to Centene's premium revenue.

#### Significant Customers

Centene receives the majority of its revenues under contracts or subcontracts with state Medicaid managed care programs. The contracts which expire on various dates between December 31, 2001, and December 31, 2002, are expected to be renewed.

#### Reinsurance

Centene's MCO subsidiaries have purchased reinsurance to cover eligible healthcare services. The current reinsurance agreements generally cover 80% of healthcare expenses in excess of an annual deductible of \$50 to \$100 per member, up to a lifetime maximum of \$2,000. The subsidiaries are responsible for inpatient charges in excess of an average daily per diem.

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### CENTENE CORPORATION AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) (Dollars in thousands, except share data)

Reinsurance recoveries were approximately \$1,484, \$1,182, \$1,454 and \$3,553 in 1998, 1999, 2000 and the first nine months of 2001, respectively. Reinsurance expenses were approximately \$2,030, \$2,708, \$3,391 and \$6,845 in 1998, 1999, 2000 and the first nine months of 2001, respectively. Reinsurance recoveries, net of expenses, are included in medical services costs.

#### Income Taxes

Centene recognizes deferred tax assets and liabilities for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date of the tax rate change.

#### Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### Risks and Uncertainties

The Company's profitability depends in large part on accurately predicting and effectively managing medical services costs. The Company continually reviews its premium and benefit structure to reflect its underlying claims experience and revised actuarial data; however, several factors could adversely affect the medical services costs. Certain of these factors, which include changes in healthcare practices, inflation, new technologies, major epidemics, natural disasters and malpractice litigation, are beyond any health plan's control and could adversely affect the Company's ability to accurately predict and effectively control healthcare costs. Costs in excess of those anticipated could have a material adverse effect on the Company's results of operations.

#### Recent Accounting Pronouncements

In July 2001, Statement of Financial Accounting Standards (SFAS) No. 141, Business Combinations, was issued which requires that the purchase method of accounting be used for all business combinations completed after June 30, 2001. The Company has adopted SFAS 141.

In July 2001, SFAS No. 142, Goodwill and Other Intangible Assets, was issued which requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested annually for

impairment. The Company will adopt SFAS No. 142 effective January 1, 2002.

CENTENE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)  
(Dollars in thousands, except share data)

3. Discontinued Operations:

During 1999, the Company decided to exit its commercial line of business. The results of these activities have been reflected as discontinued operations in the accompanying consolidated financial statements for all periods presented. The operating results of discontinued operations are as follows:

<TABLE>  
<CAPTION>

	1998	1999
	-----	-----
<S>	<C>	<C>
Total revenues.....	\$21,534	\$15,054
Pretax loss from discontinued operations	(2,390)	(3,927)
Income tax benefit.....	(167)	--
Net loss from discontinued operations...	(2,223)	(3,927)
Basic and diluted net loss per share....	(2.13)	(4.36)

</TABLE>

There were no assets attributable to the commercial line of business as of December 31, 1999.

4. Investments:

Investments available for sale by investment type consist of the following:

<TABLE>  
<CAPTION>

	December 31, 1999			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
<S>	<C>	<C>	<C>	<C>
U.S. Treasury securities and obligations of U.S. government corporations and agencies.....	\$7,798	\$--	\$ (295)	\$7,503
Commercial paper.....	931	--	--	931
State/municipal securities and other.....	300	--	(10)	290
Total.....	\$9,029	\$--	\$ (305)	\$8,724

</TABLE>

<TABLE>  
<CAPTION>

	December 31, 2000			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
<S>	<C>	<C>	<C>	<C>
U.S. Treasury securities and obligations of U.S. government corporations and agencies.....	\$14,041	\$133	\$--	\$14,174
Commercial paper.....	7,211	2	(6)	7,207
State/municipal securities and other.....	478	--	--	478
Total.....	\$21,730	\$135	\$ (6)	\$21,859

</TABLE>

<TABLE>  
<CAPTION>

	September 30, 2001			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
<S>	<C>	<C>	<C>	<C>
U.S. Treasury securities and obligations of U.S. government corporations and agencies.....	\$22,940	\$926	\$--	\$23,866
State/municipal securities and other.....	902	--	--	902

Total.....	\$23,842	\$926	\$--	\$24,768
	=====	=====	=====	=====

</TABLE>

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CENTENE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)  
(Dollars in thousands, except share data)

The contractual maturity of investments as of September 30, 2001, is as follows:

<TABLE>  
<CAPTION>

	Amortized Cost	Estimated Market Value
	-----	-----
<S>	<C>	<C>
One year or less.....	\$ 625	\$ 625
One year through five years.	2,332	2,468
Five years through ten years	20,885	21,675
	-----	-----
	\$23,842	\$24,768
	=====	=====

</TABLE>

Following is a summary of net investment income:

<TABLE>  
<CAPTION>

	Year Ended December 31,			Nine Months Ended
	1998	1999	2000	September 30,
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
Commercial paper.....	\$ 179	\$ 217	\$ 759	\$ 748
U.S. Treasury securities and obligations of U.S. government corporation and agencies.	573	243	370	902
States/municipal securities and other.....	10	13	(2)	--
Money market and other.....	813	951	1,035	1,063
	-----	-----	-----	-----
	\$1,575	\$1,424	\$2,162	\$2,713
	=====	=====	=====	=====

</TABLE>

Various state statutes require MCO's to deposit or pledge minimum amounts of investments to state agencies. Securities with a book value of \$713, \$693 and \$1,125 were deposited or pledged to state agencies by Centene's MCO subsidiaries at December 31, 1999 and 2000, and September 30, 2001, respectively.

5. Furniture, Equipment and Leasehold Improvements:

Furniture, equipment and leasehold improvements consist of the following:

<TABLE>  
<CAPTION>

	December 31,		September 30,
	1999	2000	2001
	-----	-----	-----
<S>	<C>	<C>	<C>
Furniture and office equipment.....	\$ 2,891	\$ 3,014	\$ 4,520
Computer software.....	938	1,293	1,972
Leasehold improvements.....	307	287	584
Construction in process.....	11	--	48
Land.....	--	--	10
	-----	-----	-----
	4,147	4,594	7,134
Less--Accumulated depreciation and amortization.....	(2,619)	(3,234)	(4,042)
	-----	-----	-----
Furniture, equipment and leasehold improvements, net	\$ 1,528	\$ 1,360	\$ 3,092
	=====	=====	=====

</TABLE>

6. Income Taxes:

Centene files a consolidated federal income tax return while Centene and each subsidiary file separate state income tax returns.

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CENTENE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)  
(Dollars in thousands, except share data)

The consolidated income tax expense (benefit) consists of the following:

<TABLE>  
<CAPTION>

	Year Ended December 31,			Nine Months
	-----			Ended
	1998	1999	2000	September 30,
	-----	-----	-----	-----
	<C>	<C>	<C>	<C>
<S>				
Current:				
Federal.....	\$ (869)	\$--	\$ 629	\$5,716
State.....	227	--	625	1,280
	-----	-----	-----	-----
Total current.....	(642)	--	1,254	6,996
Deferred.....	(1,067)	--	(1,797)	(676)
	-----	-----	-----	-----
Total expense (benefit).....	\$(1,709)	\$--	\$ (543)	\$6,320
	=====	====	=====	=====

</TABLE>

For the year ended December 31, 1998, the income tax benefit was \$1,542 for continuing operations and \$167 for discontinued operations.

The following is a reconciliation of the expected income tax expense (benefit) as calculated by multiplying pretax income by federal statutory rates and Centene's actual income tax benefit:

<TABLE>  
<CAPTION>

	Year Ended December 31,			Nine Months
	-----			Ended
	1998	1999	2000	September 30,
	-----	-----	-----	-----
	<C>	<C>	<C>	<C>
<S>				
Expected federal income tax expense (benefit).....	\$(2,948)	\$(3,199)	\$ 2,443	\$5,200
State income taxes, net of federal income tax expense (benefit)	150	160	412	845
Equity in (income) losses of joint ventures, net of tax.....	161	(1)	175	--
Change in valuation allowance.....	833	2,926	(3,764)	--
Other, net.....	95	114	191	275
	-----	-----	-----	-----
Income tax expense (benefit).....	\$(1,709)	\$ --	\$ (543)	\$6,320
	=====	=====	=====	=====

</TABLE>

Temporary differences that give rise to deferred tax assets and liabilities are presented below:

<TABLE>  
<CAPTION>

	December 31,		September 30,
	-----		-----
	1999	2000	2001
	-----	-----	-----
	<C>	<C>	<C>
<S>			
Medical claims liabilities and other accruals	\$ 342	\$1,539	\$2,355
Net operating loss carryforward.....	5,167	1,132	--
Allowance for doubtful accounts.....	461	690	1,013
Unearned premiums.....	266	--	--
Depreciation.....	51	246	332
Other.....	244	189	28
	-----	-----	-----
Total deferred tax assets.....	6,531	3,796	3,728
	-----	-----	-----
Prepaid asset.....	44	--	--
Other.....	9	498	1,062

Total deferred tax liabilities.....	53	498	1,062
Valuation allowance.....	(3,764)	--	--
Net deferred tax assets and liabilities...	\$ 2,714	\$3,298	\$2,666

</TABLE>

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CENTENE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)  
(Dollars in thousands, except share data)

The Company is required to record a valuation allowance when it is more likely than not that some portion or all of the deferred tax assets will not be realized. Management believes that a valuation allowance is no longer necessary for its federal net operating loss carryforward as of December 31, 2000. As a result, the income tax benefit recorded for 2000 includes the reversal of \$3,764 of deferred tax valuation allowance.

7. Note Payable and Subordinated Debt:

In September 2000, the Company entered into a \$1,500 unsecured revolving credit agreement with a bank. The agreement bears interest at a rate of prime due and payable monthly. Direct borrowings under this agreement total \$-0- at December 31, 2000 and September 30, 2001. The prime rate was 9.5% and 6.0% at December 31, 2000 and September 30, 2001. The average prime rate was 9.2% and 7.7% for the year ended December 31, 2000 and for the nine months ended September 30, 2001.

Note payable at December 31, 1999, consisted of a term note payable to a bank in the amount of \$2,350 bearing interest at a rate of prime plus 1%. The note was paid in full in September 2000.

Subordinated debt consists of the following:

<TABLE>  
<CAPTION>

	December 31,		September 30,
	1999	2000	2001
<S>	<C>	<C>	<C>
\$4,000 subordinated promissory notes dated September 1998. Interest is due and payable annually in September at a rate of 8.5% and a default rate of 10.5%. Principal on this note is due and payable in two equal installments September 2003 and September 2004.....	\$4,000	\$4,000	\$4,000

</TABLE>

During 1999 and 2000 the Company was in default due to late interest payments and, therefore, recorded interest at the 10.5% rate. In February 2001, all accrued interest was paid and the interest rate reverted back to 8.5%.

Current subordinated debt holders include stockholders, directors and past and present employees.

8. Redeemable Preferred Stock:

Series D preferred stock is redeemable for cash at the option of the holder for up to 50% of that holder's Series D preferred stock outstanding on each of September 1, 2003, and September 1, 2004, at a price equal to the sum of (1) \$5.50 per share plus (2) an amount equal to any dividends declared or accrued but unpaid on such shares. The number of shares of Series D preferred stock to be redeemed from each holder on a redemption date shall be equal to 50% of the total number of shares initially held by such holder less the number of shares of Series D preferred stock for which the holder has exercised its conversion right.

Series D preferred stock is convertible, at the option of the holder, into Series A common stock at an initial conversion rate of one common share for each preferred share and is automatically converted at an initial public offering. Series D preferred stock is entitled to an initial liquidation preference in the amount of \$5.00 per share and then participates on an as-converted basis.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)  
(Dollars in thousands, except share data)

Redeemable preferred stock is summarized as follows:

<TABLE>  
<CAPTION>

	Series D Shares	Amount
	-----	-----
<S>	<C>	<C>
Balance, December 31, 1997.....	--	\$ --
Issuance of preferred stock..	3,680,000	17,578
Preferred stock accretion....	--	122
	-----	-----
Balance, December 31, 1998.....	3,680,000	17,700
Issuance of preferred stock..	40,000	200
Purchase of stock.....	(2,000)	(6)
Preferred stock accretion....	--	492
	-----	-----
Balance, December 31, 1999.....	3,718,000	18,386
Preferred stock accretion....	--	492
	-----	-----
Balance, December 31, 2000.....	3,718,000	18,878
Purchase of stock.....	(2,000)	(16)
Preferred stock accretion....	--	369
	-----	-----
Balance, September 30, 2001.....	3,716,000	\$19,231
	=====	=====

</TABLE>

9. Stockholders' Equity:

Holder of Series A common stock are entitled to one vote for each share of Series A common stock held. The holders of Series A preferred stock are entitled, for each share of Series A preferred stock held, to the number of votes equal to the number of shares of Series A common stock into which each share of Series A preferred stock could be converted on the record date. Holders of Series B common stock and Series B and C preferred stock are not entitled to vote.

Series A and Series B preferred stock is convertible, at the option of the holder or on the date at which the Company effects an initial public offering, into Series A common stock at an initial conversion rate of one common share for each preferred share. Series C preferred stock is mandatorily convertible upon a change of ownership or at an initial public offering. In addition, each share of Series B preferred stock is convertible into one share of Series A preferred stock. Series A, Series B and Series C preferred stock are entitled to a liquidation preference in the amount of \$.44 per share.

Effective November 2001, the Company changed its state of incorporation from Wisconsin to Delaware. The new certificate of incorporation changed the authorized number of shares of Series A and B common stock to 39,000,000 and 1,000,000, respectively, and changed the par value from \$.003 to \$.001. The new certificate also changed the par value of the Series A, B, C and D preferred stock from \$.167 to \$.001. In addition, the new certificate increased the authorized preferred stock by 1,700,000 shares which will remain available for future designation and issuance. Upon an initial public offering all outstanding Series A and B common stock are convertible to one class of common stock and all outstanding shares of preferred stock are convertible into Series A or B common stock.

10. Statutory Net Worth Requirements:

Various state laws require Centene's MCO subsidiaries to maintain a minimum statutory net worth. At December 31, 1999, 2000 and September 30, 2001, Centene's MCO subsidiaries are in compliance with the various required minimum statutory net worth requirements.

11. Dividend Restrictions:

Under the laws of the states of which the Company operates, our managed care subsidiaries are required to obtain approval for dividends from the appropriate state regulatory body. No dividends were declared in 1998, 1999, 2000 or the nine months ended September 30, 2001.

12. Warrants:

Centene currently has 60,000 Series D preferred warrants outstanding. Each warrant entitles the holder to purchase one share of the Company's Series D preferred stock at an exercise price of \$5.00 per share. These warrants will expire upon the earliest of the following: 1) September 23, 2003, 2) a date of "change in control" or 3) the date on which the Company effects an initial

## CENTENE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)  
(Dollars in thousands, except share data)

There are currently 7,432 warrants outstanding to purchase shares of the Company's Series B common stock on a one-to-one basis at an exercise price of \$2.40 per share. These warrants will expire upon the earliest of the following: 1) September 7, 2002, 2) a date of "change in control" or 3) the date on which the Company effects an initial public offering.

## 13. Stock Option Plans:

As of September 30, 2001, Centene has five stock option plans (the Plans) for issuance of common stock. The Plans allow for the granting of options to purchase either Series A common stock and/or Series B common stock at the market price at the date of grant for key employees, consultants, and other individual contributors of or to Centene. Both incentive options and nonqualified stock options can be awarded under the Plans. Each option awarded under the Plans is exercisable as determined by the Board of Directors upon grant. Further, depending on the type of grant, no option will be exercisable for longer than either five (incentive options) or ten (all other options) years after date of grant. The Plans have reserved 2,000,000 shares for option grants. Options outstanding generally vest over a five year period. Vesting generally begins on the anniversary of the date of grant and quarterly or annually thereafter.

Option activity follows:

<TABLE>  
<CAPTION>

	Year Ended December 31,						Nine Months Ended	
	1998		1999		2000		September 30, 2001	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Options outstanding, beginning of period.....	478,249	\$2.54	522,249	\$2.50	955,992	\$1.91	1,410,040	\$1.68
Granted.....	82,000	2.24	583,500	1.49	531,000	1.26	82,000	8.02
Exercised.....	(1,000)	2.40	(3,395)	1.39	--	--	(11,000)	1.55
Canceled.....	(37,000)	2.40	(146,362)	2.34	(76,952)	1.69	(102,000)	1.65
Options outstanding, end of period.....	522,249	2.50	955,992	1.91	1,410,040	1.68	1,379,040	2.06
Weighted average remaining life.....	5.9 years		7.3 years		7.7 years		7.7 years	
Weighted average fair value of options granted	\$0.47		\$0.37		\$0.37		\$3.68	

The Company accounts for the Plans in accordance with the intrinsic value based method of Accounting Principles Board Opinion No. 25 as permitted by SFAS No. 123. Accordingly, compensation cost related to stock options issued to employees is calculated on the date of grant only if the current market price of the underlying stock exceeds the exercise price. Compensation expense is then recognized on a straight-line basis over the years the employees' services are received (over the vesting period), generally five years. No compensation cost related to the Plans has been charged against income during 1998, 1999 or 2000. During the period ended September 30, 2001, the Company recognized \$6 in noncash compensation expense related to the issuance of stock options to employees. Had compensation cost for the Plans been determined based on the fair value method at the grant dates as specified in SFAS No. 123, Centene's net income would have decreased \$69, \$76, \$110 and \$151 in 1998, 1999, 2000 and the nine months ended

(Dollars in thousands, except share data)

September 30, 2001, respectively. Diluted net income (loss) per common share would have been \$(6.85), \$(11.08), \$1.04 and \$1.08 in 1998, 1999, 2000 and the nine months ended September 30, 2001, respectively.

The fair value of each option grant is estimated on the date of grant using an option pricing model with the following assumptions: no dividend yield and expected volatility of 1% for all years, risk-free interest rates of 4.5%, 6.4%, 5.3% and 4.5% and expected lives of 5.9, 7.3, 7.7 and 7.7 for the years 1998, 1999 and 2000 and the nine months ended September 30, 2001, respectively.

#### 14. Retirement Plan:

Centene has a defined contribution plan (Retirement Plan) which covers substantially all employees who work at least 1,000 hours in a twelve consecutive month period and are at least twenty-one years of age. Under the Retirement Plan, eligible employees may contribute a percentage of their base salary, subject to certain limitations. Centene may elect to match a portion of the employee's contribution. In addition, Centene may make a profit sharing contribution to the Retirement Plan covering all eligible employees. Expenses under the Retirement Plan were \$112, \$144, \$203 and \$215 during the years ended December 31, 1998, 1999, and 2000 and the nine months ended September 30, 2001, respectively.

#### 15. Related-Party Transactions:

Certain members of Centene's Board of Directors performed consulting services for the Company. Consulting fees paid in 1998, 1999, 2000 and the nine months ended September 30, 2001, totaled \$7, \$5, \$36 and \$0, respectively. Legal fees of \$242, \$50, \$48 and \$82 were paid in 1998, 1999, 2000 and the nine months ended September 30, 2001, respectively, to a law firm affiliated through a stockholder of the Company.

#### 16. Commitments:

Centene and its subsidiaries lease office facilities and various equipment under noncancellable operating leases. In addition to base rental costs, Centene and its subsidiaries are responsible for property taxes and maintenance for both facility and equipment leases. Rental expense included in the accompanying consolidated financial statements is \$1,662, \$1,268, \$1,383 and \$1,592 for the years ended December 31, 1998, 1999, and 2000 and the nine months ended September 30, 2001, respectively. The significant annual noncancelable lease payments over the next five years and thereafter are as follows:

<TABLE>	<S>	<C>
2001 (October 1 - December 31, only)	\$	538
2002.....		2,166
2003.....		2,090
2004.....		2,003
2005.....		1,988
Thereafter.....		7,261
	-----	
	\$16,046	
	=====	

</TABLE>

#### 17. Contingencies:

The Company is a party to various legal actions normally associated with the managed care industry, the aggregate effect of which, in management's opinion after consultation with legal counsel, will have no material adverse impact on the financial position or results of operations of Centene.

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### CENTENE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)  
(Dollars in thousands, except share data)

Financial instruments which potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents, investments in marketable securities and accounts receivable. The Company invests its excess cash in interest bearing deposits with major banks, commercial paper, government and agency securities, and money market funds. Investments in marketable securities are managed within guidelines established by the Company's Board of Directors. The Company carries these investments at fair value.

Concentrations of credit risk with respect to accounts receivable is

limited due to the significant customers paying as services are rendered. Significant customers include the federal government and the states in which Centene operates. The Company has a risk of incurring loss if its allowance for doubtful collections is not adequate.

As discussed in Note 2 to the consolidated financial statements, the Company has reinsurance agreements with insurance companies. The Company monitors the insurance companies' financial ratings to determine compliance with standards set by state law. The Company has a credit risk associated with these reinsurance agreements to the extent the reinsurers are unable to pay valid reinsurance claims of the Company.

18. Joint Ventures:

From 1998 through 2000, Centene owned 39% of Superior, and, therefore, accounted for the investment under the equity method of accounting. Superior participates in the state of Texas medical assistance program. Superior had no enrolled membership during 1998, but became fully operational on December 1, 1999. Centene has provided surplus notes to Superior to fund its initial operations and meet the net worth requirements of the state of Texas. Surplus notes outstanding to Superior at December 31, 1999 and 2000, totaled \$2,041 and \$3,000, respectively, and are included in investment in joint venture. Interest accrues on the surplus notes at a rate of the greater of Prime + 2% or 10%, and is payable to Centene quarterly upon regulatory approval. Interest receivable is included in accrued investment income and totaled \$52 and \$352 at December 31, 1999 and 2000, respectively. Under the terms of a management agreement, a wholly owned subsidiary of Centene performs third-party administrative services for Superior. This agreement generated \$-0-, \$72 and \$4,936 of administrative service fees during 1998, 1999 and 2000, respectively.

Summary financial information for Superior as of and for the years ended December 31 follows:

<TABLE>  
<CAPTION>

	1999	2000
	-----	-----
<S>	<C>	<C>
Total assets.....	\$1,821	\$ 7,284
Stockholders' deficit.....	(536)	(1,481)
Revenues.....	346	34,102
Net loss.....	(457)	(1,303)
Company's equity in net loss	(178)	(508)

</TABLE>

On January 1, 2001, Centene purchased an additional 51% of Superior, increasing Centene's ownership to 90%, for \$290 in cash and stock and began consolidating Superior's operations from that point forward. When the change in ownership occurred, the assets and liabilities were revalued resulting in \$1,200 of goodwill. The goodwill is being amortized on a straight-line basis over five years. At September 30, 2001, all intercompany transactions between Centene and Superior have been eliminated in consolidation.

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CENTENE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)  
(Dollars in thousands, except share data)

The following unaudited pro forma summary information presents the consolidated income statement information as if the aforementioned transaction had been consummated on January 1, 2000, and does not purport to be indicative of what would have occurred had the acquisition been made at that date or of the results which may occur in the future.

<TABLE>  
<CAPTION>

	Year Ended December 31, 2000
	-----
<S>	<C>
Total revenues.....	\$250,516
Net income attributable to common stockholders	6,441
Diluted net income per common share.....	.94

</TABLE>

Centene sold its interest in another joint venture, Community Health Choice of Illinois, Inc. (Choice) to American HealthCare Providers (AHCP) on August 10, 1999. Choice was a participant in the state of Illinois medical assistance program. Choice contracted directly with healthcare providers on a fee-for-service, per diem and capitation basis. Centene maintained a 49% equity

interest in Choice and accounted for the venture using the equity method. Under the terms of a management agreement, a wholly owned subsidiary of Centene performed third-party administrative services for Choice which generated \$861, \$808, \$-0- and \$-0- of administrative service fees during 1998, 1999, 2000 and the first nine months of 2001, respectively. Centene retained the risk for claims incurred prior to May 1, 1999, and consequently established an escrow account for the estimated claims. At September 30, 2001, there is no remaining claims exposure. Centene reflected a net loss on the sale of Choice totaling \$377 in 1999, which is included in equity income from joint ventures.

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CENTENE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)  
(Dollars in thousands, except share data)

19. Earnings Per Share:

The following table sets forth the calculation of basic and diluted net income (loss) per share:

<TABLE>  
<CAPTION>

	Year Ended December 31,			Nine Months Ended September 30,	
	1998	1999	2000	2000	2001
				(Unaudited)	
	<C>	<C>	<C>	<C>	<C>
Income (loss) from continuing operations.....	\$ (4,739)	\$ (5,484)	\$ 7,728	\$ 4,506	\$ 8,975
Accretion of redeemable preferred stock.....	(122)	(492)	(492)	(369)	(369)
Income (loss) from continuing operations attributable to common stockholders.....	(4,861)	(5,976)	7,236	4,137	8,606
Loss from discontinued operations, net.....	(2,223)	(3,927)	--	--	--
Net income (loss) attributable to common stockholders.....	\$ (7,084)	\$ (9,903)	\$ 7,236	\$ 4,137	\$ 8,606
Shares used in computing per share amounts:					
Weighted average number of common shares outstanding.....	1,044,434	900,944	901,526	901,526	908,918
Dilutive effect of stock options and warrants (as determined by applying the treasury stock method) and convertible preferred stock.....	--	--	5,918,069	5,891,682	6,878,735
Weighted average number of common shares and potential dilutive common shares outstanding.....	1,044,434	900,944	6,819,595	6,793,208	7,787,653
INCOME (LOSS) PER COMMON SHARE, BASIC:					
Continuing operations.....	\$ (4.65)	\$ (6.63)	\$ 8.03	\$ 4.59	\$ 9.47
Discontinued operations.....	(2.13)	(4.36)	--	--	--
Net income (loss) per common share.....	(6.78)	(10.99)	8.03	4.59	9.47
INCOME (LOSS) PER COMMON SHARE, DILUTED:					
Continuing operations.....	\$ (4.65)	\$ (6.63)	\$ 1.06	\$ 0.61	\$ 1.11
Discontinued operations.....	(2.13)	(4.36)	--	--	--
Net income (loss) per common share.....	(6.78)	(10.99)	1.06	0.61	1.11

</TABLE>

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CENTENE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)  
(Dollars in thousands, except share data)

20. Segment Reporting:

<TABLE>  
<CAPTION>

For the Year Ended December 31, 1998		For the Year Ended December 31, 1999	
Medicaid	Commercial	Medicaid	Commercial
-----	-----	-----	-----

<S>	<C>	<C>	<C>	<C>
Total revenues.....	\$150,438	\$21,534	\$201,429	\$15,054
Segment loss from operations	(4,739)	(2,223)	(5,484)	(3,927)
Segment assets.....	45,727	--	52,207	--

Segment information has been prepared in accordance with SFAS No. 131, Disclosure about Segments of an Enterprise and Related Information. Centene has two reportable segments: Medicaid and commercial. The segments were determined based upon types of services provided by each segment. Segment performance is evaluated based upon operating income after income taxes. Accounting policies of the segments are the same as those described in the Summary of Significant Accounting Policies (Note 2).

The Medicaid segment includes operations to provide healthcare services to Medicaid eligible recipients through various federal and state supported programs.

The commercial segment includes group accident and health managed care coverage. Effective December 31, 1999, the commercial line of business was discontinued.

21. Contract Acquisitions:

In December 2000, MHSIC and Superior entered into agreements with Humana Inc. to transfer Humana's Medicaid contract with the state of Wisconsin to MHSIC and Humana's Medicaid contract with the state of Texas to Superior. Effective February 1, 2001, the state of Wisconsin approved the agreement, thereby allowing MHSIC to serve approximately 35,000 additional members in the state. Effective February 1, 2001, the state of Texas approved a management agreement between Superior and Humana Inc., thereby allowing Superior to manage approximately 30,000 additional members in Texas.

As a result of the above transactions, \$1,250 (the purchase price) was recorded as an intangible, purchased contract rights. Centene is amortizing the contract rights on a straight-line basis over five years, the period expected to be benefited.

22. Common Stock Pro Forma Information (Unaudited):

On October 4, 2001, the Board of Directors authorized the Company to file a Registration Statement with the U.S. Securities and Exchange Commission for an initial public offering of its common stock. The unaudited September 30, 2001, pro forma consolidated stockholders' equity and pro forma net income per common share information for the year ended December 31, 2000, and the nine months ended September 30, 2001, give effect to the conversion of all of the outstanding warrants and preferred stock into 5,918,343 shares of common stock upon the completion of the proposed offering. For purposes of the unaudited pro forma stockholders' equity, the transactions have been assumed to have occurred on September 30, 2001. For purposes of the unaudited pro forma net income per common share information, the transactions were assumed to have occurred as of January 1, 2000. The unaudited pro forma information presented does not purport to represent the financial position or net income per common share of the Company if such transactions had occurred on such dates or to project the Company's financial position or net income per common share as of any future date or for any future period.

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CENTENE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)  
(Dollars in thousands, except share data)

The table below provides supporting calculations for the unaudited pro forma net income per common share.

<TABLE>  
<CAPTION>

	Year Ended December 31, 2000	Nine Months Ended September 30, 2001
	-----	-----
<S>	<C>	<C>
Computation of pro forma weighted average number of common shares outstanding:		
Historical.....	901,526	908,918
Common shares issued on conversion of warrants and convertible preferred stock.....	5,918,343	5,918,343
	-----	-----
Basic.....	6,819,869	6,827,261
	=====	=====

Computation of pro forma weighted average number of common shares and potentially dilutive common shares outstanding:		
Historical.....	6,819,595	7,787,653
Common shares issued on conversion of warrants and convertible preferred stock.....	5,918,343	5,918,343
Elimination of effect of warrants and convertible preferred shares in historical amount.....	(5,918,343)	(5,918,343)
	-----	-----
Diluted.....	6,819,595	7,787,653
	=====	=====

</TABLE>

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[Graphic depicting a doctor holding a child accompanied by the following text:

"Centene Corporation, Creating a better future in government services healthcare."]

-----  
-----

3,500,000 Shares

[LOGO] Centene Logo

Common Stock

-----  
PROSPECTUS  
-----

SG COWEN

THOMAS WEISEL PARTNERS LLC

CIBC WORLD MARKETS

, 2001

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PART II

Item 13. Other Expenses of Issuance and Distribution.

The following table indicates the expenses to be incurred in connection with the offering described in this Registration Statement, other than underwriting discounts and commissions, all of which will be paid by us. All amounts are estimates, other than the SEC registration fee and the NASD fee.

<S>	<C>
SEC registration fee.....	\$ 14,375
NASD fee.....	6,250
Nasdaq National Market application and listing fee	78,875
Accounting fees and expenses.....	150,000
Legal fees and expenses.....	250,000
Printing and engraving.....	225,000
Transfer agent fees and expenses.....	5,000
Blue sky fees and expenses.....	15,000
Miscellaneous expenses.....	55,500
	-----
Total.....	\$800,000
	=====

</TABLE>

Item 14. Indemnification of Directors and Officers.

Section 102 of the Delaware General Corporation Law ("DGCL"), as amended, allows a corporation to eliminate or limit the personal liability of a director of a corporation to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except where the director breached his duty of loyalty, failed to act in good faith, engaged in intentional misconduct or knowingly violated a law, authorized the payment of a dividend or approved a stock repurchase in violation of Delaware corporate law or obtained an improper personal benefit.

Section 145 of the DGCL provides, among other things, that we may indemnify

any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding (other than an action by us or in our right) by reason of the fact that the person is or was one of our directors, officers, agents or employees or is or was serving at our request as a director, officer, agent, or employee of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by the person in connection with such action, suit or proceeding. The power to indemnify applies (a) if such person is successful on the merits or otherwise in defense of any action, suit or proceeding, or (b) if such person acted in good faith and in a manner which the person reasonably believed to be in our best interest, or not opposed to our best interest, and with respect to any criminal action or proceeding, had no reasonable cause to believe such conduct was unlawful. The power to indemnify applies to actions brought by us or in our right as well but only to the extent of defense expenses (including attorneys' fees but excluding amounts paid in settlement) actually and reasonably incurred and not to any satisfaction of judgment or settlement of the claim itself, and with the further limitation that in such actions no indemnification shall be made in the event of any adjudication of negligence or misconduct in the performance of his duties to us, unless the court believes that in light of all the circumstances indemnification should apply.

Section 174 of the DGCL provides, among other things, that a director, who willfully or negligently approves of an unlawful payment of dividends or an unlawful stock purchase or redemption, may be held liable for such actions. A director who was either absent when the unlawful actions were approved or

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dissented at the time, may avoid liability by causing his or her dissent to such actions to be entered in the books containing the minutes of the meetings of the board of directors at the time such action occurred or immediately after such absent director receives notice of the unlawful acts.

As permitted under Delaware law, our certificate of incorporation includes a provision that eliminates the personal liability of our directors for monetary damages for breach of fiduciary duty as a director, except for liability for:

- . any breach of the director's duty of loyalty to us or our stockholders;
- . acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of law;
- . unlawful payments of dividends or unlawful stock re-purchases or redemptions; or
- . any transaction from which the director derived an improper personal benefit.

Our by-laws further provide that:

- . we must indemnify our directors and officers to the fullest extent permitted by Delaware law;
- . we may indemnify our other employees and agents to the same extent that we indemnified our officers and directors, unless otherwise determined by our board of directors; and
- . we must advance expenses, as incurred, to our directors and executive officers in connection with a legal proceeding to the fullest extent permitted by Delaware law.

The indemnification provisions contained in our certificate of incorporation and by-laws are not exclusive of any other rights to which a person may be entitled by law, agreement, vote of stockholders or disinterested directors or otherwise. In addition, we maintain insurance on behalf of our directors and executive officers insuring them against any liability asserted against them in their capacities as directors or officers or arising out of such status.

Please also see section 7 of the underwriting agreement relating to the offering, filed as Exhibit 1 to this Registration Statement, for indemnification arrangements between the underwriters, the selling stockholders and us.

Item 15. Recent Sales of Unregistered Securities.

Set forth below is a description of our sales of unregistered securities since January 1, 1998. The sales made to investors were made in accordance with Section 4(2) of the Securities Act and Regulation D ("Regulation D") under the Securities Act. Sales to our employees, directors and officers were deemed to

be exempt from registration under the Securities Act in reliance on Rule 701 promulgated under Section 3(b) of the Securities Act as transactions under compensatory benefit plans and contracts relating to compensation provided under Rule 701.

#### Series D Convertible Preferred Stock

In March 1998, we sold 12,499 shares of common stock to Greylock Limited Partnership upon exercise of warrants at a price of \$2.40 per share for gross proceeds of \$29,998. The purchaser represented to us in writing that it acquired the shares for investment and agreed not to dispose of the shares except in compliance with the Securities Act. Based upon representation by the purchaser, we believe the purchaser was an "accredited investor" within the meaning of Regulation D and that the transaction was exempt under Rule 506 thereof.

#### II-2

In September 1998, we sold 3,680,000 shares of series D preferred stock at a price of \$5 per share for gross proceeds of \$18,400,000. Investors included Strategic Investment Partners, Ltd., Cahill Warnock Strategic Partners Fund, L.P., Greylock Limited Partnership, Strategic Associates, L.P., D.L. Associates, Claire W. Johnson, Marshall & Ilesley Trust Company f/b/o Richard P. Wiederhold, Raymond Brinn, Robert J. Johannes and Jerome Fritsch, all of whom were "accredited investors" within the meaning of Regulation D. Each purchaser represented to us in writing that it acquired the shares for investment and agreed not to dispose of the shares except in compliance with the Securities Act. We believe the transactions were exempt under Section 4(2) of the Securities Act and Rule 506 of Regulation D.

In February 1999, we sold 74 common shares to an employee upon exercise of warrants at a price of \$2.40 per share for gross proceeds of \$178. The sale was made pursuant to a written option agreement, appropriate restrictions on resale were imposed and the transaction was deemed exempt under Rule 701.

In May 1999, we sold 40,000 shares of shares of series D preferred stock at a price of \$5.00 per share for gross proceeds of \$200,000. We sold the shares to Michael F. Neidorff, Brian Spanel and five of our other senior employees. The sales were made pursuant to contracts in which the employees represented that they were acquiring the shares for investment and agreed to appropriate investment restrictions. Certificates for the shares bear appropriate legends restricting transfer. Purchasers received appropriate disclosure documents. The transactions were deemed exempt under Section 4(2) of the Securities Act.

#### Stock Options

Each of the options summarized below were granted to our employees or directors or to employees of our subsidiaries pursuant to our written stock plans. The aggregate exercise prices of all options granted in any twelve month period did not exceed 15% of our total assets. In each case, the option agreements impose appropriate restrictions on resale. All option grants and exercises were deemed exempt pursuant to Rule 701.

In 1998, we granted options to purchase 50,000, 25,000 and 7,000 shares of common stock to employees pursuant to our 1994, 1996 and 1998 Stock Plans, respectively.

In 1999, we granted options to purchase 2,000, 107,000, 297,500 and 177,000 shares of common stock to employees pursuant to our 1994, 1996, 1998 and 1999 Stock Plans, respectively.

In 2000, we granted options to purchase 115,000 and 416,000 shares of common stock to employees and directors pursuant to our 1999 and 2000 Stock Plans, respectively.

In 2001, we granted options to purchase 89,500 shares of common stock to employees pursuant to our 2001 Stock Plan.

Between January 1, 1998 and November 21, 2001, 16,895 options granted pursuant to our stock plans have been exercised at exercise prices ranging from \$0.803 to \$2.80.

#### Item 16. Exhibits and Financial Statement Schedules.

##### a. Exhibits

<TABLE>

<CAPTION>

Exhibit

Number

Description

<C>	<S>
1	Underwriting Agreement
3.1*	Articles of Incorporation of Centene Corporation, a Wisconsin corporation
3.2*	Certificate of Incorporation of Centene Corporation, a Delaware corporation
3.2a*	Certificate of Amendment dated November 8, 2001 to Certificate of Incorporation of Centene Corporation, a Delaware corporation
3.2b*	Certificate of Designations dated November 8, 2001 for Series A, B, C, and D Preferred Stock of Centene Corporation, a Delaware corporation
3.3*	By-laws of Centene Corporation, a Wisconsin corporation
3.4*	By-laws of Centene Corporation, a Delaware corporation

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<TABLE>	
<CAPTION>	
Exhibit	
Number	Description
<C>	<S>
4.1*	Specimen certificate for shares of common stock of Centene Corporation
4.2*	Amended and Restated Shareholders' Agreement, dated September 23, 1998
5*	Legal opinion of Armstrong Teasdale LLP
10.1*	Stock Purchase and Recapitalization Agreement by and among Community Health Centers Network, L.P., Superior HealthPlan, Inc., Centene Corporation and TACHC GP, Inc., dated September 10, 2001
10.2*	Contract for Medicaid/BadgerCare HMO Services between Managed Health Services Insurance Corp. and Wisconsin Department of Health and Family Services, January 2000 - December 2001
10.3**	Agreement between Network Health Plan of Wisconsin, Inc. and Managed Health Services Insurance Corp., dated January 1, 2001
10.4*	1999 Contract for Services between the Texas Department of Health and Superior HealthPlan, Inc. (El Paso Service Area), dated May 14, 1999
10.5*	1999 Contract for Services between the Texas Department of Health and Superior HealthPlan, Inc. (Travis Service Area), dated August 9, 1999
10.6*	1999 Contract for Services between the Texas Department of Health and Superior HealthPlan, Inc. (Bexar Service Area), dated August 9, 1999
10.7*	Contract between the Office of Medicaid Policy and Planning, the Office of the Children's Health Insurance Program and Coordinated Care Corporation Indiana, Inc., dated January 1, 2001
10.8*	1994 Stock Plan
10.9*	1996 Stock Plan
10.10*	1998 Stock Plan
10.11*	1999 Stock Plan
10.12*	2000 Stock Plan
10.13*	Form of Incentive Stock Option Agreement
10.14*	Form of Non-statutory Stock Option Agreement
10.15*	Executive Employment Agreement between Centene Corporation and Karey Witty, dated January 1, 2001
10.16*	Executive Employment Agreement between Centene Corporation and Brian G. Spanel, dated September 26, 2001
10.17*	Executive Employment Agreement between Centene Corporation and Joseph P. Drozda, M.D., dated October 30, 2000
10.18*	Executive Employment Agreement between Centene Management Corporation and Mary O'Hara, dated December 16, 1998

- 10.19\* Standard Office Lease between Centene Corporation and Clayton Investors Associates LLC, dated February 22, 1999
- 21\* List of subsidiaries
- 23 Consent of Independent Public Accountants
- 24a\* Power of Attorney
- 24b\* Power of Attorney executed by Edward L. Cahill and Howard E. Cox, Jr.
- </TABLE>

- - - - -

- \* Previously filed.
- \*\* Previously filed. Confidential treatment has been requested for a portion of this Exhibit pursuant to Rule 406 promulgated under the Securities Act.

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b. Financial Statement Schedule

Report of Independent Public Accountants and Schedule of Valuation and Qualifying Accounts

Item 17. Undertakings.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers, and controlling persons of the registrant pursuant to the provisions described in Item 14, or otherwise, the registrant has been informed that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable. In the event that a claim for indemnification by the registrant against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer, or controlling person of the registrant in the successful defense of any action, suit, or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The undersigned registrant hereby undertakes to provide to the underwriters at the closing certificates in such denominations and registered in such names as required by the underwriters to permit prompt delivery to each purchaser.

The undersigned registrant hereby undertakes that:

1. For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

2. For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

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SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this pre-effective amendment no. 2 to the registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Clayton, Missouri, on November 23, 2001.

CENTENE CORPORATION

/s/ MICHAEL F. NEIDORFF

By: \_\_\_\_\_  
Michael F. Neidorff  
President and Chief Executive  
Officer

Pursuant to the requirements of the Securities Act of 1933, this pre-effective amendment no. 2 to the registration statement has been signed as of November 23, 2001 by the following persons in the capacities indicated.

<TABLE>  
<CAPTION>

Name -----	Title -----
<C>	<S>
/s/ MICHAEL F. NEIDORFF ----- Michael F. Neidorff	President, Chief Executive Officer and Director (Chief Executive Officer)
/s/ KAREY L. WITTY ----- Karey L. Witty	Senior Vice President, Chief Financial Officer, Secretary and Treasurer (Chief Financial and Accounting Officer)
* ----- Samuel E. Bradt	Director
* ----- Walter E. Burlock, Jr.	Director
* ----- Edward L. Cahill	Director

</TABLE>

* ----- Howard E. Cox, Jr.	Director
* ----- Robert K. Ditmore	Director
* ----- Claire W. Johnson	Director
* ----- Richard P. Wiederhold	Director

\*By: /s/ MICHAEL F. NEIDORFF  
-----  
Michael F. Neidorff  
Attorney-in-fact

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EXHIBIT INDEX

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 \* Previously filed.  
 \*\* Previously filed. Confidential treatment has been requested for a portion of this Exhibit pursuant to Rule 406 promulgated under the Securities Act.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Centene Corporation:

We have audited in accordance with auditing standards generally accepted in the United States, the financial statements of Centene Corporation and subsidiaries included in this registration statement and have issued our report thereon dated November 13, 2001. Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. Schedule II is the responsibility of the Company's management and is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements and, in our opinion, fairly states in all

material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

ARTHUR ANDERSEN LLP

St. Louis, Missouri  
November 13, 2001

SCHEDULE II

CENTENE CORPORATION

SCHEDULE OF VALUATION AND QUALIFYING ACCOUNTS

<TABLE>  
<CAPTION>

Allowance for Doubtful Receivables	Balance Beginning of Period	Amounts Charged to Expense	Write-offs of Uncollectible Receivables	Balance End of Period
-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
Year ended December 31, 1998.....	\$ --	\$ 412	\$ --	\$ 412
Year ended December 31, 1999.....	412	833	--	1,245
Year ended December 31, 2000.....	1,245	1,390	(769)	1,866
Nine months ended September 30, 2001	1,866	1,165	(294)	2,737

</TABLE>

3,500,000 Shares  
CENTENE CORPORATION  
Common Stock  
UNDERWRITING AGREEMENT  
-----

December ., 2001

SG COWEN SECURITIES CORPORATION  
THOMAS WEISEL PARTNERS LLC  
CIBC WORLD MARKETS CORP.

As Representatives of the several Underwriters  
c/o SG Cowen Securities Corporation  
Financial Square  
New York, New York 10005

Ladies and Gentlemen:

1. INTRODUCTORY. Centene Corporation, a Delaware corporation (the "Company"), and Managed Health Services, Inc. (the "Firm Selling Stockholder") propose to sell, pursuant to the terms of this Agreement, to the several underwriters named in SCHEDULE A hereto (collectively the "Underwriters" and each an "Underwriter") an aggregate of 3,500,000 shares (the "Firm Stock") of common stock, \$.001 par value (the "Common Stock"), of the Company. The other selling stockholders named in SCHEDULE B hereto (the "Option Selling Stockholders" and collectively with the Firm Selling Stockholder the "Selling Stockholders") propose to sell to the Underwriters, upon the terms and conditions set forth in Section 3 hereof, up to an additional 525,000 shares of Common Stock (the "Optional Stock"). The Firm Stock and the Optional Stock are hereinafter collectively referred to as the "Stock." SG Cowen Securities Corporation ("SG Cowen"), Thomas Weisel Partners LLC ("TWP") and CIBC World Markets Corp. are acting as representatives of the several Underwriters and in such capacity are hereinafter referred to as the "Representatives."

TWP has agreed to reserve up to 175,000 shares of Firm Stock (the "Directed Stock") to be purchased by it under this Agreement for sale to the Company's directors, officers, employees, business associates and other parties related to the Company, as set forth in the Prospectus (as defined below) under the heading "Underwriting" (the "Directed Stock Program"). Any Directed Stock not orally confirmed for purchase by any such parties by the end of the business day on which this Agreement is executed will be offered to the public by the Underwriters as set forth in the Prospectus. For purposes of this Agreement, "business day" means any day on which the New York Stock Exchange, Inc. is open for trading.

2. (I) REPRESENTATIONS AND WARRANTIES OF THE COMPANY. The Company represents and warrants to, and agrees with, the several Underwriters that:

(a) A registration statement on Form S-1 (File No. 333-71258) (the "Initial Registration Statement") in respect of the Stock has been filed with the Securities and Exchange Commission (the "Commission") under the Securities Act of 1933, as amended (the "Securities Act"); the Initial Registration Statement and any post-effective amendment thereto, each in the form heretofore delivered to you and, excluding exhibits thereto, to you for each of the other Underwriters, have been declared effective by the Commission in such form; other than a registration statement, if any,

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increasing the size of the offering (a "Rule 462(b) Registration Statement"), filed pursuant to Rule 462(b) of the rules and regulations of the Commission under the Securities Act (the "Rules and Regulations"), which became effective upon filing, no other document with respect to the Initial Registration Statement has heretofore been filed with the Commission, other than the request of the Company for confidential treatment of certain terms of an agreement filed as an exhibit to the Initial Registration Statement (copies of which request, together with all related correspondence with the Commission, have been previously provided to SG Cowen on behalf of the Underwriters); and no stop order suspending the effectiveness of the Initial Registration Statement, any post-effective amendment thereto or the Rule 462(b) Registration Statement, if any, has been issued and no proceeding for that purpose has been initiated or threatened by the Commission (any preliminary prospectus included in the Initial Registration Statement or filed with the Commission pursuant to

Rule 424(a) of the Rules and Regulations, is hereinafter called a "Preliminary Prospectus"); the various parts of the Initial Registration Statement and the Rule 462(b) Registration Statement, if any, including all exhibits thereto and including the information contained in the form of final prospectus filed with the Commission pursuant to Rule 424(b) of the Rules and Regulations and deemed by virtue of Rule 430A of the Rules and Regulations to be part of the Initial Registration Statement at the time it was declared effective, each as amended at the time such part of the Initial Registration Statement became effective or such part of the Rule 462(b) Registration Statement, if any, became or hereafter becomes effective, are hereinafter collectively called the "Registration Statements;" and such final prospectus, in the form first filed pursuant to Rule 424(b) of the Rules and Regulations, is hereinafter called the "Prospectus." No document has been or will be prepared or distributed in reliance on Rule 434 of the Rules and Regulations. No order preventing or suspending the use of any Preliminary Prospectus has been issued by the Commission.

(b) The Registration Statement conforms in all material respects to the requirements of the Securities Act and the Rules and Regulations and does not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading. The Rule 462(b) Registration Statement, if any, the Prospectus, and any amendments or supplements to either of the Registration Statements or the Prospectus, will, when they become effective or are filed with the Commission (as the case may be), conform in all material respects to the requirements of the Securities Act and the Rules and Regulations and will not, as of the applicable effective date (as to the Registration Statements and any amendment thereto) or as of the applicable filing date (as to the Prospectus and any amendment or supplement thereto) contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading. The foregoing representations and warranties in this Section 2(I)(b) shall not apply to information contained in or omitted from the Registration Statements or the Prospectus or any such amendment or supplement thereto in reliance upon, and in conformity with, written information with respect to the Underwriters that has been furnished to the Company through the Representatives by or on behalf of any Underwriter specifically for inclusion therein.

(c) The Company owns or controls, directly or indirectly, only the corporations, associations or other entities listed in Exhibit 21 to Item 16a of the Initial Registration Statement (the "Subsidiaries"). The Company has been duly incorporated and is validly existing as a corporation in good standing under the laws of the State of Delaware and is duly qualified to do business and is in good standing as a foreign corporation in each jurisdiction in which its ownership or lease of property or the conduct of its business requires such qualification, and has all power and authority necessary to own or hold its properties and to conduct the business in which it is engaged, except where the failure to so qualify or have such power or authority would not have, singularly or in the aggregate, a material adverse effect on the condition (financial or otherwise), results of operations, business or prospects of the Company and the Subsidiaries taken as a whole (a "Material Adverse Effect"). Each of the Subsidiaries has been duly incorporated and is validly existing as a

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corporation in good standing under the laws of its jurisdiction of incorporation, is duly qualified to do business and is in good standing as a foreign corporation in each jurisdiction in which its ownership or lease of property or the conduct of its business requires such qualification, and has all power and authority necessary to own or hold its properties and to conduct the business in which it is engaged, except where the failure to so qualify or have such power or authority would not have, singularly or in the aggregate, a Material Adverse Effect.

(d) This Agreement has been duly authorized, executed and delivered by the Company.

(e) The shares of Firm Stock to be sold by the Company have been duly and validly authorized and, when issued and delivered against payment therefor as provided herein, will be duly and validly issued, fully paid and nonassessable and free of any preemptive or similar rights and will conform to the description thereof contained in the Prospectus.

(f) The Company has an authorized capitalization as set forth in the Prospectus, and all of the issued shares of capital stock of the Company, including the shares of Firm Stock to be sold by the Firm Selling Stockholder and all of the shares of Optional Stock, have been duly and validly authorized and issued, are fully paid and non-assessable and conform to the description thereof contained in the Prospectus.

(g) All the outstanding shares of capital stock of each of the

Subsidiaries have been duly authorized and validly issued, are fully paid and nonassessable and are owned by the Company directly or indirectly through one or more wholly owned Subsidiaries, free and clear of any claim, lien, encumbrance, security interest, restriction upon voting or transfer or any other claim of any third party, except that ten percent of the issued and outstanding shares of common stock of Superior Health Plan, Inc. are owned by Community Health Centers Network, L.P.

(h) The execution, delivery and performance of this Agreement by the Company, and the consummation of the transactions contemplated hereby, will not conflict with or result in a breach or violation of any of the terms or provisions of, or constitute a default under, any indenture, mortgage, deed of trust, loan agreement or other agreement or instrument to which the Company or any of the Subsidiaries is a party or by which the Company or any of the Subsidiaries is bound or to which any of the property or assets of the Company or any of the Subsidiaries is subject, (except for any such conflicts, breaches violations or defaults that would not, singularly or in the aggregate, have a Material Adverse Effect), nor will such actions result in any violation of the provisions of the charter or by-laws of the Company or any of the Subsidiaries or any statute or any order, rule or regulation of any court or governmental agency or body having jurisdiction over the Company or any of the Subsidiaries or any of their properties or assets.

(i) Except for the registration of the Stock under the Securities Act and such consents, approvals, authorizations, registrations or qualifications as may be required under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), applicable state securities laws, and rules and regulations of the National Association of Securities Dealers, Inc. (the "NASD") in connection with the purchase and distribution of the Stock by the Underwriters, no consent, approval, authorization or order of, or filing or registration with, any such court or governmental agency or body is required for the execution, delivery and performance of this Agreement by the Company and the consummation of the transactions contemplated hereby.

(j) Arthur Andersen LLP, who have expressed their opinions on the audited financial statements and related schedule included in the Registration Statements and the Prospectus, are independent public accountants as required by the Securities Act and the Rules and Regulations.

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(k) The consolidated financial statements, together with the related notes and schedule, included in the Prospectus and in each Registration Statement fairly present in all material respects the consolidated financial position and the consolidated results of operations and changes in financial position of the Company and the Subsidiaries at the respective dates or for the respective periods therein specified. Such statements and related notes and schedule have been prepared in accordance with generally accepted accounting principles applied on a consistent basis. The summary and selected consolidated financial and operating data included in the Registration Statement present fairly in all material respects the information shown therein and such data have been compiled on a basis consistent with the consolidated financial statements presented therein and the books and records of the Company and the Subsidiaries.

(l) Neither the Company nor any of the Subsidiaries has sustained, since the date of the latest audited consolidated financial statements included in the Prospectus, any material loss or interference with its business from fire, explosion, flood or other calamity, whether or not covered by insurance, or from any labor dispute or court or governmental action, order or decree, otherwise than as set forth or contemplated in the Prospectus; and, since such date, there has not been any change in the capital stock or long-term debt of the Company or any of the Subsidiaries or any material adverse change, or any development involving a prospective material adverse change, in or affecting the business, general affairs, management, financial position, stockholders' equity or results of operations of the Company and the Subsidiaries taken as a whole, otherwise than as set forth or contemplated in the Prospectus.

(m) Except as set forth in the Prospectus, there is no legal or governmental proceeding pending to which the Company or any of the Subsidiaries is a party or of which any property or assets of the Company or any of the Subsidiaries is the subject that, singularly or in the aggregate, if determined adversely to the Company or any of the Subsidiaries, might reasonably be expected to have a Material Adverse Effect or would prevent or adversely affect the ability of the Company to perform its obligations under this Agreement; and to the best of the Company's knowledge, no such proceedings are threatened or contemplated by governmental authorities or threatened by others.

(n) Neither the Company nor any of the Subsidiaries (i) is in violation of its charter or by-laws, (ii) is in default in any respect, and no event has occurred that, with notice or lapse of time or both, would constitute such a default, in the due performance or observance of any term, covenant or condition contained in any indenture, mortgage, deed of trust, loan agreement or other agreement or instrument to which it is a party or by which it is bound or to which any of its property or assets is subject or (iii) is in violation in any respect of any law, ordinance, governmental rule, regulation or court decree to which it or its property or assets may be subject, except, with respect to clauses (ii) and (iii), any violations or defaults that, singularly or in the aggregate, would not have a Material Adverse Effect.

(o) The Company and the Subsidiaries possess and have performed their respective obligations with respect to all permits, licenses, approvals, certificates, consents, orders and other authorizations ("Permits") issuable by, and have made all declarations and filings with, the appropriate federal, state, local, foreign and other governmental agencies and bodies, self-regulatory organizations, and courts and tribunals that are necessary or desirable for the ownership or leasing of their respective properties or the conduct of their respective businesses as described in the Prospectus, except where any failures to possess any such Permit, to perform such obligations with respect to any Permit or to make any such declaration or filing, singularly or in the aggregate, would not reasonably be expected to have a Material Adverse Effect. To the best of the Company's knowledge, no event has occurred that allows, or after notice or lapse of time would allow, revocation or termination of any such Permit or results in any other material impairment of the rights of the holder of any such Permit. Neither the Company nor any of the Subsidiaries has received any

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notice of any proceeding relating to revocation or modification of any such Permit, except where such revocations or modifications, singularly or in the aggregate, would not reasonably be expected to have a Material Adverse Effect.

(p) Neither the Company nor any of the Subsidiaries is or, after giving effect to the offering of the Stock and the application of the proceeds thereof as described in the Prospectus will become, an "investment company" within the meaning of the Investment Company Act of 1940, as amended, and the rules and regulations of the Commission thereunder.

(q) Neither the Company nor any of its officers, directors or affiliates has taken or will take, directly or indirectly, any action designed or intended to stabilize or manipulate the price of any security of the Company, or that caused or resulted in, or that might in the future reasonably be expected to cause or result in, stabilization or manipulation of the price of any security of the Company. The Company acknowledges that the Underwriters may engage in passive market making transactions in the Shares on the Nasdaq Stock Market in accordance with Regulation M under the Exchange Act.

(r) The Company and the Subsidiaries own or possess the right to use all patents, trademarks, trademark registrations, service marks, service mark registrations, trade names, copyrights, licenses, inventions, trade secrets and rights described in the Prospectus as being owned by them for the conduct of their respective businesses, and the Company is not aware of any claim to the contrary or any challenge by any other person to the rights of the Company and the Subsidiaries with respect to the foregoing. The businesses of the Company and the Subsidiaries as now conducted and as proposed to be conducted do not and will not infringe or conflict with any patents, trademarks, service marks, trade names, copyrights, trade secrets, licenses or other intellectual property or franchise right of any person, except for any such infringements or conflicts that, singularly or in the aggregate, would not reasonably be expected to have a Material Adverse Effect. Except as described in the Prospectus, no claim has been made against the Company or any Subsidiary alleging the infringement by the Company or such Subsidiary of any patent, trademark, service mark, trade name, copyright, trade secret, license in or other intellectual property right or franchise right of any person.

(s) The Company and the Subsidiaries have good and marketable title in fee simple to, or have valid rights to lease or otherwise use, all items of real or personal property that are material to the business of the Company and the Subsidiaries taken as a whole, in each case free and clear of all liens, encumbrances, claims and defects that might reasonably be expected to result in a Material Adverse Effect.

(t) No labor disturbance by the employees of the Company or any of the Subsidiaries exists or, to the best of the Company's knowledge, is imminent that might reasonably be expected to have a Material Adverse Effect. The Company is not aware that any key employee or significant group of

employees of the Company or any of the Subsidiaries plans to terminate employment with the Company or any of the Subsidiaries.

(u) No "prohibited transaction" (as defined in Section 406 of the Employee Retirement Income Security Act of 1974, as amended, including the regulations and published interpretations thereunder ("ERISA"), or Section 4975 of the Internal Revenue Code of 1986, as amended from time to time (the "Code")) or "accumulated funding deficiency" (as defined in Section 302 of ERISA) or any of the events set forth in Section 4043(b) of ERISA (other than events with respect to which the thirty-day notice requirement under Section 4043 of ERISA has been waived) has occurred with respect to any employee benefit plan that might reasonably be expected to have a Material Adverse Effect; each employee benefit plan of the Company or any Subsidiary is in compliance in all material respects with applicable law, including ERISA and the Code; neither the

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Company nor any Subsidiary has incurred or expects to incur liability under Title IV of ERISA with respect to the termination of, or withdrawal from, any "pension plan;" and each "pension plan" (as defined in ERISA) for which the Company or any Subsidiary would have any liability that is intended to be qualified under Section 401(a) of the Code is so qualified in all material respects and nothing has occurred, whether by action or by failure to act, that could cause the loss of such qualification.

(v) There has been no storage, generation, transportation, handling, treatment, disposal, discharge, emission, or other release of any kind of toxic or other wastes or other hazardous substances by, due to, or caused by the Company or any of the Subsidiaries (or, to the best of the Company's knowledge, any other entity for whose acts or omissions the Company or any of the Subsidiaries is or may be liable) upon any of the property now or previously owned or leased by the Company or any of the Subsidiaries, or upon any other property, in violation of any statute or any ordinance, rule, regulation, order, judgment, decree or permit or that would, under any statute or any ordinance, rule (including rule of common law), regulation, order, judgment, decree or permit, give rise to any liability, except for any violation or liability that would not have, singularly or in the aggregate with all such violations and liabilities, a Material Adverse Effect; there has been no disposal, discharge, emission or other release of any kind onto such property or into the environment surrounding such property of any toxic or other wastes or other hazardous substances with respect to which the Company or any of the Subsidiaries have knowledge, except for any such disposals, discharges, emissions or other releases that, singularly or in the aggregate, would not have a Material Adverse Effect.

(w) The Company and the Subsidiaries (i) have filed all necessary federal, state, local and foreign income and franchise tax returns, (ii) have paid all federal state, local and foreign taxes due and payable for which they are liable, except to the extent that such taxes are being contested in good faith and by appropriate proceedings, and (iii) do not have any tax deficiency or claims outstanding or assessed or, to the best of the Company's knowledge, proposed against them that might reasonably be expected to have a Material Adverse Effect.

(x) The Company and the Subsidiaries carry, or are covered by, insurance in such amounts and covering such risks as is adequate for the conduct of their respective businesses and the value of their respective properties and as is customary for companies engaged in similar businesses in similar industries.

(y) Each of the Company and the Subsidiaries maintains a system of internal accounting controls sufficient to provide reasonable assurances that: (i) transactions are executed in accordance with management's general or specific authorization; (ii) transactions are recorded as necessary to permit preparation of consolidated financial statements in conformity with generally accepted accounting principles and to maintain accountability for assets; (iii) access to assets is permitted only in accordance with management's general or specific authorization; and (iv) the recorded accountability for assets is compared with existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

(z) The minute books of each of the Company and the Subsidiaries have been made available to the Underwriters and counsel for the Underwriters, and such books (i) contain a complete summary of all meetings and actions of the directors and stockholders of the Company or such Subsidiary, as the case may be, since the time of its respective incorporation through the date of the latest meeting and action and (ii) accurately in all material respects reflect all transactions referred to in such minutes.

(aa) There is no franchise, lease, contract, agreement or document required by the Securities Act or by the Rules and Regulations to be described in the Prospectus or to be filed as an exhibit to

the Registration Statements that is not described or filed therein as required; and all descriptions of any franchises, leases, contracts, agreements or documents contained in the Registration Statements are accurate and complete descriptions of such documents in all material respects.

(bb) No relationship, direct or indirect, exists between or among the Company or any of the Subsidiaries, on the one hand, and any director, officer, stockholder, customer or supplier of the Company or any of the Subsidiaries, on the other hand, that is required to be described in the Prospectus and that is not so described.

(cc) No person or entity has the right to require registration of shares of Common Stock or other securities of the Company because of the filing or effectiveness of the Registration Statements or otherwise, except for persons and entities that have expressly waived such right or that have been given proper notice and have failed to exercise such right within the time or times required under the terms and conditions of such right.

(dd) Neither the Company nor any of the Subsidiaries owns any "margin securities" as that term is defined in Regulations G and U of the Board of Governors of the Federal Reserve System, and none of the proceeds of the sale of the Stock will be used, directly or indirectly, for the purpose of purchasing or carrying any margin security, for the purpose of reducing or retiring any indebtedness that was originally incurred to purchase or carry any margin security or for any other purpose that might cause any of the Stock to be considered a "purpose credit" within the meanings of Regulation G, T, U or X of such Board of Governors.

(ee) Neither the Company nor any of the Subsidiaries is a party to any contract, agreement or understanding with any person, other than this Agreement, that would give rise to a valid claim against the Company, any of the Subsidiaries or the Underwriters for a brokerage commission, finder's fee or like payment in connection with the offering and sale of the Stock.

(ff) No forward-looking statement (within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act) contained in the Prospectus has been made or reaffirmed without a reasonable basis or has been disclosed other than in good faith.

(gg) The Stock (including the Directed Stock) has been approved for listing subject to notice of issuance on the Nasdaq National Market.

(hh) Arthur Andersen LLP is delivering to the Representatives, contemporaneously with the execution and delivery of this Agreement, a letter, addressed to the Underwriters and dated the date hereof, in form and substance satisfactory to the Representatives (i) confirming that they are independent certified public accountants with respect to the Company and the Subsidiaries within the meaning of the Securities Act and the Rules and Regulations and (ii) stating the conclusions and findings of such firm with respect to the consolidated financial statements and certain financial information contained in the Prospectus.

(ii) The Company has delivered to the Representatives letter agreements of all of the executive officers and directors and certain stockholders of the Company, pursuant to which those persons have agreed to certain transfer restrictions with respect to their holdings of securities of the Company.

(jj) The Prospectus and each Preliminary Prospectus comply, and any further amendments or supplements thereto will comply, with any applicable laws or regulations of foreign jurisdictions in which the Prospectus or such Preliminary Prospectus, as amended or supplemented, if applicable, are distributed in connection with the Directed Stock Program. No authorization, approval, consent, license, order, registration or qualification of or with any government, governmental instrumentality

or court, other than such as have been obtained, is necessary under the securities laws and regulations of foreign jurisdictions in which the Directed Stock is offered outside the United States.

(II) REPRESENTATIONS AND WARRANTIES AND AGREEMENTS OF THE SELLING STOCKHOLDERS. Each Selling Stockholder severally represents and warrants to, and agrees with, the several Underwriters that:

(a) Such Selling Stockholder has, and immediately prior to each Closing Date (as defined in Section 3 hereof) will have, good and valid

title to the shares of Stock to be sold by such Selling Stockholder hereunder on such Closing Date, free and clear of all liens, encumbrances, equities or claims; and upon delivery of such shares and payment therefor pursuant hereto, good and valid title to such shares, free and clear of all liens, encumbrances, equities or claims, will pass to the several Underwriters.

(b) Such Selling Stockholder has duly and irrevocably executed and delivered a power of attorney, in substantially the form heretofore delivered by the Representatives (the "Power of Attorney"), appointing Michael F. Neidorff and Karey L. Witty and each of them, as attorneys-in-fact (the "Attorneys-in-Fact") with authority to execute and deliver this Agreement on behalf of such Selling Stockholder, to authorize the delivery of the shares of Stock to be sold by such Selling Stockholder hereunder, and otherwise to act on behalf of such Selling Stockholder in connection with the transactions contemplated by this Agreement.

(c) Such Selling Stockholder has duly and irrevocably executed and delivered a custody agreement, in substantially the form heretofore delivered by the Representatives (the "Custody Agreement"), with Centene Corporation, as custodian (the "Custodian"), pursuant to which certificates in negotiable form for the shares of Stock to be sold by such Selling Stockholder have been placed in custody for delivery under this Agreement.

(d) Such Selling Stockholder has full right, power and authority to enter into this Agreement, the Power of Attorney and the Custody Agreement; the execution, delivery and performance of this Agreement, the Power of Attorney and the Custody Agreement by such Selling Stockholder and the consummation by such Selling Stockholder of the transactions contemplated hereby and thereby will not conflict with or result in a breach or violation of any of the terms or provisions of, or constitute a default under, any indenture, mortgage, deed of trust, loan agreement or other agreement or instrument to which such Selling Stockholder is a party or by which such Selling Stockholder is bound or to which any of the property or assets of such Selling Stockholder is subject, nor will such actions result in any violation of any provision of the provisions of the charter or by-laws of such Selling Stockholder (if such Selling Stockholder is a corporation), the deed of trust of such Selling Stockholder (if such Selling Stockholder is a trust), or any statute or any order, rule or regulation of any court or governmental agency or body having jurisdiction over such Selling Stockholder or the property or assets of such Selling Stockholder; and, except for the registration of the Stock under the Securities Act and such consents, approvals, authorizations, registrations or qualifications as may be required under the Exchange Act, applicable state securities laws, and rules and regulations of the NASD in connection with the purchase and distribution of the Stock by the Underwriters, no consent, approval, authorization or order of, or filing or registration with, any such court or governmental agency or body is required for the execution, delivery and performance of this Agreement, the Power of Attorney or the Custody Agreement by such Selling Stockholder and the consummation by such Selling Stockholder of the transactions contemplated hereby and thereby.

(e) The Registration Statements do not, and the Prospectus and any further amendments or supplements to the Registration Statements or the Prospectus will not, as of the applicable effective date (as to the Registration Statements and any amendment thereto) and as of the applicable filing date (as to the Prospectus and any amendment or supplement thereto) contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make

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the statements therein not misleading. The preceding sentence applies only to the extent that any information contained in or omitted from the Registration Statements or Prospectus was in reliance upon and in conformity with written information furnished to the Company by such Selling Stockholder specifically for inclusion therein.

3. PURCHASE SALE AND DELIVERY OF OFFERED STOCK. On the basis of the representations, warranties and agreements herein contained, but subject to the terms and conditions herein set forth, the Company and the Firm Selling Stockholder agree, severally and not jointly, to sell to each Underwriter and each Underwriter agrees, severally and not jointly, to purchase from the Company and the Firm Selling Stockholder the number of shares of Firm Stock (rounded up or down, as determined by SG Cowen in its discretion, in order to avoid fractions) obtained by multiplying 3,250,000 shares of Firm Stock in the case of the Company and 250,000 shares of Firm Stock in the case of the Firm Selling Stockholder, in each case by a fraction the numerator of which is the number of shares set forth opposite the name of such Underwriter in SCHEDULE A hereto and the denominator of which is 3,500,000 (subject to adjustment by SG Cowen to eliminate fractions). The purchase price to be paid by the Underwriters to the Company and the Firm Selling Stockholders for the Firm Stock will be \$\_\_\_\_ per share (the "Purchase Price").

The Company and the Firm Selling Stockholder will deliver their respective shares of Firm Stock to the Representatives for the respective accounts of the several Underwriters (in the form of definitive certificates, issued in such names and in such denominations as the Representatives may direct by notice in writing to the Company given at or prior to 12 Noon, Eastern standard time, on the second full business day preceding the First Closing Date, as defined below) against payment of the aggregate Purchase Price therefor by wire transfer to accounts at a bank or banks specified by the Company and the Firm Selling Stockholder and reasonably acceptable to SG Cowen, all at the offices of Armstrong Teasdale LLP, Saint Louis, Missouri. Time shall be of the essence, and delivery at the time and place specified pursuant to this Agreement is a further condition of the obligations of each Underwriter hereunder. The time and date of the delivery and closing shall be 10 A.M., Eastern standard time, on December 6, 2001, in accordance with Rule 15c6-1 under the Exchange Act. The time and date of such payment and delivery are herein referred to as the "First Closing Date." The First Closing Date and the location of delivery of, and the form of payment for, the Firm Stock may be varied by agreement between the Company and SG Cowen.

The Company and the Firm Selling Stockholder shall make the certificates for the Firm Stock available to the Representatives for examination on behalf of the Underwriters in New York, New York, at least twenty-four hours prior to the First Closing Date.

For the purpose of covering any over-allotments in connection with the distribution and sale of the Firm Stock as contemplated by the Prospectus, the Underwriters may purchase all or less than all of the Optional Stock. The price per share to be paid for the Optional Stock shall be the Purchase Price. Each of the Option Selling Stockholders agrees, severally and not jointly, to sell to the Underwriters the number of shares of Optional Stock obtained by multiplying the number of shares of Optional Stock specified in such notice by a fraction, the numerator of which is the number of shares set forth opposite the name of such Option Selling Stockholder under "Number of Shares of Optional Stock to be Sold" in SCHEDULE B hereto and the denominator of which is 525,000 (subject to adjustment by SG Cowen to eliminate fractions). Such shares of Optional Stock shall be purchased from such Option Selling Stockholder for the account of each Underwriter in the same proportion as the number of shares of Firm Stock set forth opposite the name of such Underwriter in SCHEDULE A hereto bears to 3,500,000 (subject to adjustment by SG Cowen to eliminate fractions). The option granted hereby may be exercised as to all or any part of the Optional Stock at any time, and from time to time, not more than thirty days subsequent to the date of this Agreement. No Optional Stock shall be sold and delivered unless the Firm Stock previously has been, or simultaneously is, sold and delivered. The right to purchase the Optional Stock or any portion thereof may be surrendered and terminated at any time upon notice by SG Cowen to the Company and the Option Selling Stockholders.

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The option granted hereby may be exercised by written notice being given to the Company by SG Cowen setting forth the number of shares of the Optional Stock to be purchased by the Underwriters and the date and time for delivery of and payment for the Optional Stock. Each date and time for delivery of and payment for the Optional Stock (which may be the First Closing Date, but not earlier) is herein called an "Option Closing Date" and shall in no event be earlier than two business days nor later than five business days after written notice is given. The Option Closing Dates and the First Closing Date are herein called the "Closing Dates."

On each Option Closing Date, the Option Selling Stockholders will deliver Optional Stock to the Underwriters (in the form of definitive certificates, issued in such names and in such denominations as the Representatives may direct by notice in writing to the Company given at or prior to 12 Noon, Eastern standard time, on the second full business day preceding such Option Closing Date) against payment of the aggregate Purchase Price therefor in federal (same-day) funds by certified or official bank check or checks or wire transfer to an account at a bank specified by the Option Selling Stockholders and reasonably acceptable to SG Cowen, all at the offices of Armstrong Teasdale LLP, Saint Louis, Missouri. Time shall be of the essence, and delivery at the time and place specified pursuant to this Agreement is a further condition of the obligations of each Underwriter hereunder. The Option Selling Stockholders shall make the certificates for the Optional Stock available to the Representatives for examination on behalf of the Underwriters in New York, New York, not later than 10 A.M., Eastern standard time, on the business day preceding an Option Closing Date. Any Option Closing Date and the location of delivery of, and the form of payment for, the Optional Stock may be varied by agreement among the Company, the Option Selling Stockholders and SG Cowen.

The several Underwriters propose to offer the Firm Stock for sale upon the terms and conditions set forth in the Prospectus.

4. (I) FURTHER AGREEMENTS OF THE COMPANY. The Company agrees with the several Underwriters that:

(a) The Company will: prepare the Rule 462(b) Registration Statement, if necessary, in a form approved by the Representatives and file the Rule 462(b) Registration Statement with the Commission on the date hereof; prepare the Prospectus in a form approved by the Representatives and file the Prospectus pursuant to Rule 424(b) of the Rules and Regulations not later than the second business day following the execution and delivery of this Agreement; make no further amendment or any supplement to either Registration Statement or to the Prospectus to which the Representatives shall reasonably object by notice to the Company after a reasonable period to review; advise the Representatives, promptly after it receives notice thereof, of the time when any amendment to either Registration Statement has been filed or becomes effective or any supplement to the Prospectus or any amended Prospectus has been filed and to furnish the Representatives with copies thereof; advise the Representatives, promptly after it receives notice thereof, of the issuance by the Commission of any stop order or of any order preventing or suspending the use of any Preliminary Prospectus or the Prospectus, of the suspension of the qualification of the Stock for offering or sale in any jurisdiction, of the initiation or threatening of any proceeding for any such purpose, or of any request by the Commission for the amending or supplementing of the Registration Statements or the Prospectus or for additional information; and, in the event of the issuance of any stop order or of any order preventing or suspending the use of any Preliminary Prospectus or the Prospectus or suspending any such qualification, use its best efforts to obtain the withdrawal of such order promptly.

(b) If at any time prior to the expiration of nine months after the effective date of the Initial Registration Statement when a prospectus relating to the Stock is required to be delivered any event occurs as a result of which the Prospectus as then amended or supplemented would include any untrue statement of a material fact, or omit to state any material fact necessary to make the

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statements therein, in light of the circumstances under which they were made, not misleading, or if it is necessary at any time to amend the Prospectus to comply with the Securities Act, the Company will promptly notify the Representatives thereof and upon their request will prepare an amended or supplemented Prospectus that will correct such statement or omission or otherwise effect such compliance. The Company will furnish without charge to each Underwriter and to any dealer in securities as many copies as the Representatives may from time to time reasonably request of such amended or supplemented Prospectus; and in case any Underwriter is required to deliver a prospectus relating to the Stock nine months or more after the effective date of the Initial Registration Statement, the Company upon the request of the Representatives and at the expense of such Underwriter will prepare promptly an amended or supplemented Prospectus as may be necessary to permit compliance with the requirements of Section 10(a)(3) of the Securities Act.

(c) The Company has furnished, or will furnish promptly upon any filing after the date hereof, to each of the Representatives and to counsel for the Underwriters a signed copy of each of the Registration Statements as originally filed with the Commission, and each amendment thereto filed with the Commission, including signed copies of all consents and photocopies of exhibits filed therewith.

(d) The Company will deliver promptly to the Representatives in New York, New York, such number of the following documents as the Representatives shall reasonably request: (i) conformed copies of the Registration Statements as originally filed with the Commission and each amendment thereto (in each case excluding exhibits); (ii) each Preliminary Prospectus; (iii) the Prospectus (not later than 10 A.M., Eastern standard time, of the business day following the execution and delivery of this Agreement) and (iv) any amended or supplemented Prospectus (not later than 10 A.M., Eastern standard time, on the business day following the date of such amendment or supplement).

(e) The Company will make generally available to its stockholders as soon as practicable, but in any event not later than eighteen months after the effective date of the Registration Statement (as defined in Rule 158(c) of the Rules and Regulations), an earnings statement of the Company and the Subsidiaries (which need not be audited) complying with Section 11(a) of the Securities Act and with the Rules and Regulations (including, at the option of the Company, Rule 158).

(f) The Company will promptly take from time to time such actions as the Representatives may reasonably request to qualify the Stock for offering and sale under the securities or Blue Sky laws of such jurisdictions as the Representatives may designate and to continue such qualifications in effect for so long as required for the distribution of the Stock; provided that neither the Company nor any Subsidiary shall be obligated to qualify as a foreign corporation in any jurisdiction in which

it is not so qualified or to file a general consent to service of process in any jurisdiction.

(g) During the period of five years from the date hereof, the Company will deliver to the Representatives and, upon request, to each of the other Underwriters (i) as soon as they are available, copies of all reports or other communications furnished to stockholders and (ii) as soon as they are available, copies of any reports and financial statements furnished or filed with the Commission pursuant to the Exchange Act or any national securities exchange or automatic quotation system on which the Common Stock is listed or quoted.

(h) The Company will not directly or indirectly offer, sell, assign, transfer, pledge, contract to sell or otherwise dispose of any shares of Common Stock or securities convertible into or exercisable or exchangeable for Common Stock for a period of 180 days from the date of the Prospectus without the prior written consent of SG Cowen, other than: (i) the sale of the Firm Stock to be sold by the Company hereunder, (ii) the issuance of shares of Common Stock pursuant to existing stock option plans or outstanding options or warrants, all to the extent described in the Prospectus, (iii) the issuance of shares of Common Stock to Community Health Centers Network, L.P. in the event that it exercises its right to cause the Company to acquire its equity interest in Superior HealthPlan, Inc. in exchange for such shares of Common Stock, all as contemplated by the Stock Purchase and Recapitalization Agreement dated September 10, 2001 by and among Community Health Centers Network, L.P., Superior HealthPlan, Inc., the Company and TACHC GP, Inc. (as such agreement is in effect on the date hereof), or (iv) the issuance of shares of Common Stock in connection with one or more acquisitions by the Company of assets, capital stock or business of unaffiliated persons or entities (whether by mergers, exchanges of stock or otherwise), or with the entering into of one or more collaboration agreements with unaffiliated entities, provided that, in the case of this clause (iv), (A) the aggregate number of shares so issued pursuant to all such acquisitions and agreements shall not exceed 500,000 and (B) each person or entity receiving any shares of Common Stock pursuant to any such acquisition or agreement shall enter into a letter agreement with terms (including a lock-up period continuing for 180 days from the date of the Prospectus) substantially equivalent to the letter agreements delivered to the Representatives pursuant to Section 2(I) (ii) hereof.

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(i) The Company will supply the Representatives with copies of all correspondence to and from, and all documents issued to and by, the Commission in connection with the registration of the Stock under the Securities Act.

(j) Prior to each of the Closing Dates, the Company will furnish to the Representatives, as soon as they have been prepared, copies of any unaudited interim consolidated financial statements of the Company for any periods subsequent to the periods covered by the consolidated financial statements appearing in the Registration Statement and the Prospectus.

(k) Prior to each of the Closing Dates, the Company will not issue any press release or other communication directly or indirectly or hold any press conference with respect to the Company, its condition, financial or otherwise, or earnings, business affairs or business prospects (except for routine oral marketing communications in the ordinary course of business and consistent with the past practices of the Company and of which the Representatives are notified), without the prior written consent of the Representatives, unless in the judgment of the Company and its counsel, and after notification to the Representatives, such press release or communication is required by law.

(l) In connection with the offering of the Stock, until SG Cowen shall have notified the Company of the completion of the resale of the Stock, the Company will not, and will cause its affiliated purchasers (as defined in Regulation M under the Exchange Act) not to, either alone or with one or more other persons, (i) bid for or purchase, for any account in which it or any of its affiliated purchasers has a beneficial interest, any Common Stock, (ii) attempt to induce any person to purchase any Common Stock, or (iii) make bids for or purchase Common Stock for the purpose of creating actual, or apparent, active trading in the Common Stock or of raising the price of the Common Stock.

(m) The Company will not take any action prior to any Option Closing Date that would require the Prospectus to be amended or supplemented pursuant to Section 4(I) (b) hereof.

(n) The Company will apply its net proceeds of the sale of Firm Stock as set forth in the Prospectus under the heading "Use of Proceeds."

(o) The Company will comply with all applicable securities and other applicable laws, rules and regulations in each jurisdiction in which the Directed Stock is offered in connection with the Directed Stock Program.

(II) FURTHER AGREEMENTS OF THE SELLING STOCKHOLDERS. Each Selling Stockholder, severally and not jointly, agrees with the several Underwriters that:

(a) Such Selling Stockholder will not directly or indirectly offer, sell, assign, transfer, pledge, contract to sell or otherwise dispose of any shares of Common Stock or securities convertible into or exercisable or exchangeable for Common Stock other than such Selling Stockholder's sale of Stock hereunder for a period of 180 days from the date of the Prospectus, without the prior written consent of SG Cowen.

(b) The shares of Stock represented by the certificates held in custody under the Custody Agreement are for the benefit of and coupled with and subject to the interests of the Underwriters and the other Selling Stockholders, and the arrangement for such custody and the appointment of the Attorneys-in-Fact are irrevocable. The obligations of such Selling Stockholder hereunder shall not be terminated by operation of law, whether by the death or incapacity, liquidation or distribution of

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such Selling Stockholder, or any other event, that if such Selling Stockholder should die or become incapacitated or is liquidated or dissolved or any other event occurs, before the delivery of the Stock hereunder, certificates for the Stock to be sold by such Selling Stockholder shall be delivered on behalf of such Selling Stockholder in accordance with the terms and conditions of this Agreement and the Custody Agreement, and action taken by the Attorneys-in-Fact or any of them under the Power of Attorney shall be as valid as if such death, incapacity, liquidation or dissolution or other event had not occurred, whether or not the Custodian, the Attorneys-in-Fact or any of them shall have notice of such death, incapacity, liquidation or dissolution or other event.

(c) Such Selling Stockholder has delivered to SG Cowen a properly completed and executed United States Treasury Department Form W-8 (if such Selling Stockholder is a non-United States person) or Form W-9 (if such Selling Stockholder is a United States person) or such other applicable form or statement specified by Treasury Department regulations in lieu thereof.

5. PAYMENT OF EXPENSES. The Company agrees with the Underwriters to pay: (a) the costs incident to the authorization, issuance, sale, preparation and delivery of the Stock and any taxes payable in that connection; (b) the costs incident to the registration of the Stock under the Securities Act; (c) the costs incident to the preparation, printing and distribution of the Registration Statement, each Preliminary Prospectus and the Prospectus and any amendments, supplements or exhibits thereto; (d) the costs of reproducing and distributing the Powers of Attorney, the Custody Agreements and this Agreement by mail, telex or other means of communications; (e) the fees and expenses (including related reasonable fees and expenses of counsel for the Underwriters) incurred in connection with filings made with the NASD; (f) any applicable listing or other fees; (g) the fees and expenses of qualifying the Stock under the securities laws of the several jurisdictions as provided in Section 4(I)(f) hereof and of preparing, printing and distributing Blue Sky Memoranda and Legal Investment Surveys (including related fees and expenses of counsel to the Underwriters); (h) all fees and expenses of the registrar and transfer agent of the Common Stock; (i) all reasonable fees and disbursements of counsel incurred by TWP or any of the other Underwriters in connection with the Directed Stock Program and stamp duties, similar taxes or duties or other taxes, if any, incurred by TWP or the other Underwriters in connection with the Directed Stock Program; and (j) all other costs and expenses incident to the performance of the obligations of the Company and the Selling Stockholders under this Agreement, including the fees and expenses of the counsel and accountants of the Company. Except as otherwise provided in this Section 5 or Section 9 hereof, the Underwriters shall pay their own costs and expenses, including the fees and expenses of their counsel, any transfer taxes on the Stock that they sell and the expenses of any advertising made by the Underwriters of the offering of the Stock.

6. CONDITIONS OF UNDERWRITERS' OBLIGATIONS. The respective obligations of the several Underwriters hereunder on any Closing Date are subject to the accuracy, when made and on such Closing Date, of the representations and warranties of the Company and the Selling Stockholders contained herein, to the accuracy of the statements of the Company and the Selling Stockholders made in any certificates pursuant to the provisions hereof, to the performance by the Company and the Selling Stockholders of their obligations hereunder, and to each of the following additional terms and conditions:

(a) No stop order suspending the effectiveness of either of the Registration Statements shall have been issued and no proceedings for that purpose shall have been initiated or threatened by the Commission, and any

request for additional information on the part of the Commission (to be included in the Registration Statements or the Prospectus or otherwise) shall have been complied with to the reasonable satisfaction of the Representatives. The Rule 462(b) Registration Statement, if any, and the Prospectus shall have been timely filed with the Commission in accordance with Section 4(I)(a) hereof.

(b) None of the Underwriters shall have discovered and disclosed to the Company on or prior to such Closing Date that the Registration Statement or the Prospectus or any amendment or

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supplement thereto contains an untrue statement of a fact that, in the opinion of counsel for the Underwriters, is material or omits to state any fact that, in the opinion of such counsel, is material and is either required to be stated therein or necessary to make the statements therein not misleading.

(c) All corporate proceedings and other legal matters incident to the authorization, form and validity of each of this Agreement, the Custody Agreements, the Powers of Attorney, the Stock, the Registration Statement and the Prospectus and all other legal matters relating to this Agreement and the transactions contemplated hereby shall be reasonably satisfactory in all material respects to counsel for the Underwriters, and the Company and the Selling Stockholders shall have furnished to such counsel all documents and information that they may reasonably request to enable them to pass upon such matters.

(d) Armstrong Teasdale LLP shall have furnished to the Representatives such counsel's written opinion, as counsel to the Company, addressed to the Underwriters and dated such Closing Date, in form and substance reasonably satisfactory to the Representatives, to the effect set forth in APPENDIX I hereto.

(e) Armstrong Teasdale LLP shall have furnished to the Representatives such counsel's written opinion, as counsel to the Selling Stockholders, addressed to the Underwriters and dated such Closing Date, in form and substance reasonably satisfactory to the Representatives, to the effect set forth in APPENDIX II hereto.

(f) [Insert names of special regulatory counsel to the Company] shall have furnished to the Representatives such counsels' written opinions, as special regulatory counsel to the Company with respect to federal, Indiana, Texas and Wisconsin law, each addressed to the Underwriters and dated such Closing Date, in form and substance reasonably satisfactory to the Representatives, to the effect set forth in APPENDIX III hereto.

(g) Hale and Dorr LLP shall have furnished to the Representatives such counsel's written opinion, as counsel for the Underwriters, addressed to the Underwriters and dated such Closing Date, with respect to such matters as the Underwriters may reasonably require, and the Company and the Selling Stockholders shall have furnished to such counsel such documents as they reasonably request for enabling them to pass upon such matters.

(h) Arthur Andersen LLP shall have furnished to the Representatives a letter, addressed to the Underwriters and dated such Closing Date, confirming, as of such Closing Date (or, with respect to matters involving changes or developments since the respective dates as of which specified financial information is given in the Prospectus, as of a date not more than three business days prior to such Closing Date), the conclusions and findings of such firm with respect to the financial information and other matters covered by its letter delivered to the Representatives concurrently with the execution of this Agreement pursuant to Section 2(I)(hh) hereof.

(i) The Company shall have furnished to the Representatives a certificate, dated such Closing Date, of its President and Chief Executive Officer and its Senior Vice President, Chief Financial Officer, Treasurer and Secretary stating that (i) such officers have carefully examined the Registration Statements and the Prospectus and, in their opinion, the Registration Statements as of their respective effective dates and the Prospectus, as of each such effective date, did not include any untrue statement of a material fact and did not omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading, (ii) since the effective date of the Initial Registration Statement no event has occurred that should have been set forth in a supplement or amendment to the Registration Statements or the Prospectus, (iii) to the best of their knowledge after reasonable investigation, as of such Closing Date, the representations and warranties of the Company in this Agreement are true and correct and the Company has complied with all agreements

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and satisfied all conditions on its part to be performed or satisfied hereunder at or prior to such Closing Date, and (iv) subsequent to the date of the most recent financial statements in the Prospectus, there has been no material adverse change in the financial position or results of operation of the Company and the Subsidiaries, or any change, or any development including a prospective change, in or affecting the condition (financial or otherwise), results of operations, business or prospects of the Company and the Subsidiaries taken as a whole, except as set forth in the Prospectus.

(j) Each Selling Stockholder (or the Custodian or one or both Attorneys-in-Fact on behalf of the Selling Stockholders) shall have furnished to the Representatives a certificate, dated such Closing Date, signed by, or on behalf of, such Selling Stockholder stating that the representations, warranties and agreements of such Selling Stockholder contained herein are true and correct as of such Closing Date and that such Selling Stockholder has complied with all agreements contained herein to be performed by such Selling Stockholder at or prior to such Closing Date.

(k) Since the date of the latest audited financial statements included in the Prospectus, (i) neither the Company nor any of the Subsidiaries shall have sustained any loss or interference with its business from fire, explosion, flood or other calamity, whether or not covered by insurance, or from any labor dispute or court or governmental action, order or decree, otherwise than as set forth or contemplated in the Prospectus, and (ii) there shall not have been any change in the capital stock or long-term debt of the Company or any of the Subsidiaries or any change, or any development involving a prospective change, in or affecting the business, general affairs, management, financial position, stockholders' equity or results of operations of the Company and the Subsidiaries, otherwise than as set forth or contemplated in the Prospectus, the effect of which, in any such case described in clause (i) or (ii), is, in the judgment of the Representatives, so material and adverse as to make it impracticable or inadvisable to proceed with the sale or delivery of the Stock on the terms and in the manner contemplated in the Prospectus.

(l) No action shall have been taken, and no statute, rule, regulation or order shall have been enacted, adopted or issued, by any governmental agency or body that would, as of such Closing Date, prevent the issuance or sale of the Stock; and no injunction, restraining order or order of any other nature by any federal or state court of competent jurisdiction shall have been issued as of such Closing Date that would prevent the issuance or sale of the Stock.

(m) Subsequent to the execution and delivery of this Agreement, there shall not have occurred any of the following: (i) trading in securities generally on the New York Stock Exchange or the American Stock Exchange or in the over-the-counter market, or trading in any securities of the Company on any exchange or in the over-the-counter market, shall have been suspended or minimum prices shall have been established on any such exchange or such market by the Commission, by such exchange or by any other regulatory body or governmental authority having jurisdiction; (ii) a banking moratorium shall have been declared by federal or state authorities; (iii) the United States shall have become engaged in hostilities, there shall have been an escalation in hostilities involving the United States or there shall have been a declaration of a national emergency or war by the United States; or (iv) there shall have occurred a calamity or crisis, or a material adverse change in general economic, political or financial conditions (or the effect of international conditions on the financial markets in the United States shall be such), that shall make it, in the judgment of the Representatives, impracticable or inadvisable to proceed with the sale or delivery of the Stock on the terms and in the manner contemplated in the Prospectus.

(n) The Nasdaq National Market, Inc. shall have approved the Stock for listing, subject only to official notice of issuance and evidence of satisfactory distribution.

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(o) The Company shall have furnished the transfer agent and registrar of the Common Stock with written instructions, reasonably acceptable in form and substance to SG Cowen and counsel for the Underwriters, to enforce the terms of the agreements delivered pursuant to Section 2(I)(ii).

All opinions, letters, evidence and certificates mentioned in this Section 6 or elsewhere in this Agreement shall be deemed to be in compliance with the provisions hereof only if they are in form and substance reasonably satisfactory to counsel for the Underwriters.

## 7. INDEMNIFICATION AND CONTRIBUTION.

(a) The Company and each of the Subsidiaries, jointly and severally,

shall indemnify and hold harmless each Underwriter, the officers, employees, representatives and agents of each Underwriter, and each person, if any, who controls any Underwriter within the meaning of the Securities Act (collectively the "Underwriter Indemnified Parties," and each an "Underwriter Indemnified Party") against any loss, claim, damage or liability, joint or several, or any action in respect thereof, to which that Underwriter Indemnified Party may become subject, under the Securities Act or otherwise, insofar as such loss, claim, damage, liability or action arises out of or is based upon (i) any untrue statement or alleged untrue statement of a material fact contained in the Preliminary Prospectus, either of the Registration Statements or the Prospectus or in any amendment or supplement thereto, (ii) the omission or alleged omission to state in any Preliminary Prospectus, either of the Registration Statements or the Prospectus or in any amendment or supplement thereto a material fact required to be stated therein or necessary to make the statements therein not misleading or (iii) any act or failure to act, or any alleged act or failure to act, by any Underwriter in connection with, or relating in any manner to, the Stock or the offering contemplated hereby, and that is included as part of or referred to in any loss, claim, damage, liability or action arising out of or based upon matters covered by clause (i) or (ii) above (provided that the Company and the Subsidiaries shall not be liable in the case of any matter covered by this clause (iii) to the extent that it is determined in a final judgment by a court of competent jurisdiction that such loss, claim, damage, liability or action resulted directly from any such act or failure to act undertaken or omitted to be taken by such Underwriter through its gross negligence or willful misconduct) and shall reimburse each Underwriter Indemnified Party promptly upon demand for any legal or other expenses reasonably incurred by that Underwriter Indemnified Party in connection with investigating or preparing to defend or defending against or appearing as a third-party witness in connection with any such loss, claim, damage, liability or action as such expenses are incurred; provided, however, that the Company and the Subsidiaries shall not be liable in any such case to the extent that any such loss, claim, damage, liability or action arises out of or is based upon (i) an untrue statement or alleged untrue statement in or omission or alleged omission from the Preliminary Prospectus, either of the Registration Statements or the Prospectus or any amendment or supplement thereto in reliance upon and in conformity with written information furnished to the Company through the Representatives by or on behalf of any Underwriter specifically for use therein, which information the parties hereto agree is limited to the Underwriter's Information (as defined in Section 15 hereof); provided further, however, that the foregoing indemnification agreement with respect to the Preliminary Prospectus shall not inure to the benefit of any Underwriter from which the person asserting any such loss, claim, damage or liability purchased Stock, or any officers, employees, representatives, agents or controlling persons of such Underwriter, if (i) a copy of the Prospectus (as then amended or supplemented) was required by law to be delivered to such person at or prior to the written confirmation of the sale of Stock to such person, (ii) a copy of the Prospectus (as then amended or supplemented) was not sent or given to such person by or on behalf of such Underwriter and such failure was not due to non-compliance by the Company with Section 4(I)(d) hereof, and (iii) the Prospectus (as so amended or supplemented) would have cured the defect giving rise to such loss, claim, damage or liability. This indemnity agreement is not exclusive and will be in addition to any liability that the Company and the Subsidiaries might otherwise have and shall not limit any

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rights or remedies that may otherwise be available at law or in equity to an Underwriter Indemnified Party.

(b) The Selling Stockholders, jointly and severally, shall indemnify and hold harmless each Underwriter Indemnified Party, against any loss, claim, damage or liability, joint or several, or any action in respect thereof, to which that Underwriter Indemnified may become subject, under the Securities Act or otherwise, insofar as such loss, claim, damage, liability or action arises out of or is based upon (i) any untrue statement or alleged untrue statement of a material fact contained in the Preliminary Prospectus, either of the Registration Statements or the Prospectus or in any amendment or supplement thereto or (ii) the omission or alleged omission to state in any Preliminary Prospectus, either of the Registration Statements or the Prospectus or in any amendment or supplement thereto a material fact required to be stated therein or necessary to make the statements therein not misleading but in each case only to the extent that the untrue statement or alleged untrue statement or omission or alleged omission was made in reliance upon and in conformity with written information furnished to the Company by or on behalf of the Selling Stockholders specifically for inclusion therein, and shall reimburse each Underwriter Indemnified Party promptly upon demand for any legal or other expenses reasonably incurred by that Underwriter Indemnified Party in connection with investigating or preparing to defend or defending against or appearing as a third-party witness in connection with any such loss, claim, damage, liability or action as such expenses are incurred. This

indemnity agreement is not exclusive and will be in addition to any liability that the Selling Stockholders might otherwise have and shall not limit any rights or remedies that may otherwise be available at law or in equity to an Underwriter Indemnified Party.

(c) Each Underwriter, severally and not jointly, shall indemnify and hold harmless the Company, the officers, employees, representatives, agents and directors of the Company, and each person, if any, who controls the Company within the meaning of the Securities Act (collectively the "Company Indemnified Parties," and each a "Company Indemnified Party") and the Selling Stockholders, the respective representatives and agents of the Selling Stockholders, and each person, if any, who controls any Selling Stockholder within the meaning of the Securities Act (collectively the "Selling Stockholder Indemnified Parties," and each a "Selling Stockholder Indemnified Party"), against any loss, claim, damage or liability, joint or several, or any action in respect thereof, to which the Company Indemnified Parties or the Selling Stockholder Indemnified Parties may become subject, under the Securities Act or otherwise, insofar as such loss, claim, damage, liability or action arises out of or is based upon (i) any untrue statement or alleged untrue statement of a material fact contained in the Preliminary Prospectus, either of the Registration Statements or the Prospectus or in any amendment or supplement thereto or (ii) the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, but in each case only to the extent that the untrue statement or alleged untrue statement or omission or alleged omission was made in reliance upon and in conformity with the Underwriters' Information, and shall reimburse each Company Indemnified Party and each Selling Stockholder Indemnified Party for any legal or other expenses reasonably incurred by such party in connection with investigating or preparing to defend or defending against or appearing as a third-party witness in connection with any such loss, claim, damage, liability or action as such expenses are incurred. This indemnity agreement is not exclusive and will be in addition to any liability that the Underwriters might otherwise have and shall not limit any rights or remedies that may otherwise be available at law or in equity to a Company Indemnified Parties or Selling Stockholder Indemnified Party.

(d) Promptly after receipt by an indemnified party under this Section 7 of notice of any claim or the commencement of any action, the indemnified party shall, if a claim in respect thereof is to be made against the indemnifying party under this Section 7, notify the indemnifying party in writing of the claim or the commencement of that action; provided that the failure to notify the indemnifying

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party shall not relieve the indemnifying party from any liability that it may have under this Section 7 except to the extent it has been materially prejudiced by such failure and provided further that the failure to notify the indemnifying party shall not relieve the indemnifying party from any liability that it may have to an indemnified party otherwise than under this Section 7. If any such claim or action shall be brought against an indemnified party and the indemnified party shall notify the indemnifying party thereof, the indemnifying party shall be entitled to participate therein and, to the extent that it wishes, jointly with any other similarly notified indemnifying party, to assume the defense thereof with counsel reasonably satisfactory to the indemnified party. After notice from the indemnifying party to the indemnified party of its election to assume the defense of such claim or action, the indemnifying party shall not be liable to the indemnified party under this Section 7 for any legal or other expenses subsequently incurred by the indemnified party in connection with the defense thereof other than reasonable costs of investigation; provided, however, that any indemnified party shall have the right to employ separate counsel in any such action and to participate in the defense thereof but the fees and expenses of such counsel shall be at the expense of such indemnified party unless (i) the employment thereof has been specifically authorized by the indemnifying party in writing, (ii) such indemnified party shall have been advised by such counsel that there may be one or more legal defenses available to it that are different from or additional to those available to the indemnifying party and in the reasonable judgment of such counsel it is advisable for such indemnified party to employ separate counsel or (iii) the indemnifying party has failed to assume the defense of such action and employ counsel reasonably satisfactory to the indemnified party, in which case, if such indemnified party notifies the indemnifying party in writing that it elects to employ separate counsel at the expense of the indemnifying party, the indemnifying party shall not have the right to assume the defense of such action on behalf of such indemnified party, it being understood, however, that the indemnifying party shall not, in connection with any one such action or separate but substantially similar or related actions in the same jurisdiction arising out of the same general allegations or circumstances, be liable for the reasonable fees and expenses of more than one separate firm of attorneys at any time for all such indemnified parties, which firm shall be designated in writing by SG Cowen, if the indemnified parties under this Section 7 include any

Underwriter Indemnified Party, or by the Company, if the indemnified parties under this Section 7 consist solely of Company Indemnified Parties. Each indemnified party, as a condition of the indemnity agreements contained in Sections 7(a), (b) and (c) hereof, shall use all reasonable efforts to cooperate with the indemnifying party in the defense of any such action or claim. Subject to the provisions of Section 7(e) hereof, no indemnifying party shall be liable for any settlement of any such action effected without its written consent (which consent shall not be unreasonably withheld), but if settled with its written consent or if there be a final judgment for the plaintiff in any such action, the indemnifying party agrees to indemnify and hold harmless any indemnified party from and against any loss or liability by reason of such settlement or judgment.

Notwithstanding anything contained herein to the contrary, if indemnity may be sought pursuant to this Section 7(d), then in addition to such separate firm for the indemnified parties, the indemnifying party shall be liable for the reasonable fees and expenses of not more than one separate firm (in addition to any local counsel) for TWP, the officers, employees, representatives and agents of TWP, and each person, if any, who controls TWP within the meaning of the Securities Act (collectively the "TWP Indemnified Parties," and each a "TWP Indemnified Party") for the defense of any losses, claims, damages and liabilities arising out of the Directed Stock Program.

(e) If at any time an indemnified party shall have requested that an indemnifying party reimburse the indemnified party for fees and expenses of counsel, such indemnifying party agrees that it shall be liable for any settlement of the nature contemplated by this Section 7 effected without its written consent if (i) such settlement is entered into more than 45 days after receipt by such indemnifying party of the request for reimbursement, (ii) such indemnifying party shall have received notice of the terms of such settlement at least thirty days prior to such settlement being

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entered into and (iii) such indemnifying party shall not have reimbursed such indemnified party in accordance with such request prior to the date of such settlement.

(f) The liability of each Selling Stockholder under the indemnity provisions of this Section 7 shall be limited to an amount equal to the initial public offering price of the Shares sold by such Selling Stockholder, less the underwriting discounts and commissions, as set forth on the front cover page of the Prospectus. The Company and the Selling Stockholders may agree, as among themselves and without limiting the rights of the Underwriters under this Agreement, as to the respective amounts of such liability for which they each shall be responsible.

(g) The Company agrees to indemnify and hold harmless each of the TWP Indemnified Parties from and against any and all losses, claims, damages and liabilities (including any legal or other expenses reasonably incurred in connection with defending or investigating any such action or claim) (i) caused by any untrue statement or alleged untrue statement of a material fact contained in any prospectus wrapper material prepared by or with the consent of the Company for distribution in foreign jurisdictions in connection with the Directed Stock Program attached to the Prospectus or any Preliminary Prospectus, or caused by any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statement therein, when considered in conjunction with the Prospectus or any applicable Preliminary Prospectus, not misleading; (ii) caused by the failure of any participant in the Directed Stock Program to pay for and accept delivery of the shares which, immediately following the effectiveness of the Registration Statement, were subject to a properly confirmed agreement to purchase; or (iii) related to, arising out of, or in connection with the Directed Stock Program, provided that, the Company shall not be responsible under this Section 7(g) for any losses, claim, damages or liabilities (or expenses relating thereto) that are finally judicially determined to have resulted from the bad faith or gross negligence of TWP Indemnified Parties.

(h) If the indemnification provided for in this Section 7 is unavailable or insufficient to hold harmless an indemnified party under Section 7(a), (b) or (c) hereof, then each indemnifying party shall, in lieu of indemnifying such indemnified party, contribute to the amount paid or payable by such indemnified party as a result of such loss, claim, damage or liability, or action in respect thereof, (i) in such proportion as shall be appropriate to reflect the relative benefits received by the Company and the Selling Stockholders on the one hand and the Underwriters on the other from the offering of the Stock or if the allocation provided by clause (i) above is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) above but also the relative fault of the Company and the Selling Stockholders on the one hand and the Underwriters on the other with respect

to the statements or omissions that resulted in such loss, claim, damage or liability, or action in respect thereof, as well as any other relevant equitable considerations. The relative benefits received by the Company and the Selling Stockholders on the one hand and the Underwriters on the other with respect to such offering shall be deemed to be in the same proportion as the total net proceeds from the offering of the Stock purchased under this Agreement (before deducting expenses) received by the Company and the Selling Stockholders bear to the total underwriting discounts and commissions received by the Underwriters with respect to the Stock purchased under this Agreement, in each case as set forth in the table on the cover page of the Prospectus. The relative fault shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company and the Selling Stockholders on the one hand or the Underwriters on the other (it being understood and agreed that the information supplied by the Underwriters consists solely of the Underwriters' Information), the intent of the parties and their relative knowledge, access to information and opportunity to correct or prevent such untrue statement or omission. The Company, the Selling Stockholders and the Underwriters agree that it would not be just and equitable if contributions pursuant to this Section 7(h) were to be

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determined by pro rata allocation (even if the Underwriters were treated as one entity for such purpose) or by any other method of allocation that does not take into account the equitable considerations referred to herein. The amount paid or payable by an indemnified party as a result of the loss, claim, damage or liability, or action in respect thereof, referred to above in this Section 7(h) shall be deemed to include, for purposes of this Section 7(h), any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this Section 7(h), no Underwriter shall be required to contribute any amount in excess of the amount by which the total price at which the Stock underwritten by it and distributed to the public were offered to the public less the amount of any damages that such Underwriter has otherwise paid or become liable to pay by reason of any untrue or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The Underwriters' obligations to contribute as provided in this Section 7(h) are several in proportion to their respective underwriting obligations and not joint.

8. TERMINATION. The obligations of the Underwriters hereunder may be terminated by SG Cowen, in its absolute discretion, by notice given to and received by the Company and the Selling Stockholders prior to delivery of and payment for the Firm Stock if, prior to that time, any of the events described in Section 6(k), (l) or (m) hereof have occurred or if the Underwriters shall decline to purchase the Stock for any reason permitted under this Agreement.

9. REIMBURSEMENT OF UNDERWRITERS' EXPENSES. If (a) this Agreement shall have been terminated pursuant to Section 8 hereof, (b) the Company or the Firm Selling Stockholder shall fail to tender any of the Firm Stock for delivery to the Underwriters for any reason permitted under this Agreement, or (c) the Underwriters shall decline to purchase the Firm Stock for any reason permitted under this Agreement, the Company shall reimburse the Underwriters for the reasonable fees and expenses of their counsel and for such other out-of-pocket expenses as shall have been reasonably incurred by them in connection with this Agreement and the proposed purchase of the Stock, and upon demand the Company shall pay the full amount thereof to SG Cowen. Notwithstanding the foregoing, if this Agreement is terminated pursuant to Section 10 hereof by reason of the default of one or more Underwriters, neither the Company nor any Selling Stockholder shall be obligated to reimburse any Underwriter on account of those expenses.

10. SUBSTITUTION OF UNDERWRITERS. If any Underwriter or Underwriters shall default in its or their obligations to purchase shares of Stock hereunder and the aggregate number of shares that such defaulting Underwriter or Underwriters agreed but failed to purchase does not exceed ten percent of the total number of shares underwritten, the other Underwriters shall be obligated severally, in proportion to their respective commitments hereunder, to purchase the shares that such defaulting Underwriter or Underwriters agreed but failed to purchase. If any Underwriter or Underwriters shall so default and the aggregate number of shares with respect to which such default or defaults occur is more than ten percent of the total number of shares underwritten and arrangements satisfactory to the Representatives and the Company for the purchase of such shares by other persons are not made within 48 hours after such default, this Agreement shall terminate.

If the remaining Underwriters or substituted Underwriters are required hereby or agree to take up all or part of the shares of Stock of a defaulting

Underwriter or Underwriters as provided in this Section 10, (i) the Company and the Selling Stockholders shall have the right to postpone the Closing Dates for a period of not more than five full business days in order that the Company and the Selling Stockholders may effect whatever changes may thereby be made necessary in the Registration Statement or the Prospectus, or in any other documents or arrangements, and the Company agrees promptly to file any amendments to the Registration Statement or supplements to the Prospectus that may thereby be made necessary, and (ii) the respective numbers of shares to be purchased by the remaining Underwriters or

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substituted Underwriters shall be taken as the basis of their underwriting obligation for all purposes of this Agreement. Nothing herein contained shall relieve any defaulting Underwriter of its liability to the Company, the Selling Stockholders or the other Underwriters for damages occasioned by its default hereunder. Any termination of this Agreement pursuant to this Section 10 shall be without liability on the part of any non-defaulting Underwriter, the Selling Stockholders or the Company, except expenses to be paid or reimbursed pursuant to Sections 5 and 9 hereof and except the provisions of Section 7 hereof shall not terminate and shall remain in effect.

11. SUCCESSORS; PERSONS ENTITLED TO BENEFIT OF AGREEMENT. This Agreement shall inure to the benefit of and be binding upon the several Underwriters, the Company and the Selling Stockholders and their respective successors. Nothing expressed or mentioned in this Agreement is intended or shall be construed to give any person other than the persons mentioned in the preceding sentence any legal or equitable right, remedy or claim under or in respect of this Agreement, or any provisions herein contained, this Agreement and all conditions and provisions hereof being intended to be and being for the sole and exclusive benefit of such persons and for the benefit of no other person; except that (a) the representations, warranties, covenants, agreements and indemnities of the Company and the Selling Stockholders contained in this Agreement shall also be for the benefit of the Underwriter Indemnified Parties and the TWP Indemnified Parties and (b) the indemnities of the several Underwriters shall also be for the benefit of the Company Indemnified Parties and the Selling Stockholder Indemnified Parties.

12. SURVIVAL OF INDEMNITIES, REPRESENTATIONS, WARRANTIES, ETC. The respective indemnities, covenants, agreements, representations, warranties and other statements of the Company, the Selling Stockholders and the several Underwriters, as set forth in this Agreement or made by them respectively, pursuant to this Agreement, shall remain in full force and effect, regardless of any investigation made by or on behalf of any Underwriter, any Selling Stockholder, the Company or any person controlling any of them and shall survive delivery of and payment for the Stock.

13. NOTICES. All statements, requests, notices and agreements hereunder shall be in writing, and:

- (a) if to the Underwriters, shall be delivered or sent by mail, telex or facsimile transmission to SG Cowen Securities Corporation, 1221 Avenue of the Americas, New York, New York 10020, Attention: Head of Equity Capital Markets (fax: 212.482.8154), with a copy to the Legal Department (fax: 212.278.7995); provided, however, that (i) any statement, request, notice or agreement to TWP in connection with the Directed Stock Program shall be delivered or sent by mail, telex or facsimile transmission to Thomas Weisel Partners LLC, One Montgomery Street, Suite 3700, San Francisco, California 94104, Attention: David A. Baylor, Esq. (fax: 415.364.2694), and (ii) any other notice to an Underwriter pursuant to Section 7 hereof shall be delivered or sent by mail, telex or facsimile transmission to such Underwriter at its address set forth in its acceptance telex to the Representatives, which address will be supplied to any other party hereto by SG Cowen upon request;
- (b) if to the Company shall be delivered or sent by mail, telex or facsimile transmission to Centene Corporation, 7711 Carondelet Avenue, Suite 800, Saint Louis, Missouri 63105, Attention: President, Chief Executive Officer and President (fax: 314.725.5180);
- (c) if to any Selling Stockholders, shall be delivered or sent by mail, telex or facsimile transmission to such Selling Stockholder at the address set forth in SCHEDULE B hereto.

Any such statement, request, notice or agreement shall take effect at the time of receipt thereof.

14. GOVERNING LAW. This Agreement shall be governed by and construed in accordance with the laws of the State of New York.

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15. UNDERWRITERS' INFORMATION. The parties hereto acknowledge and agree that, for all purposes of this Agreement, the Underwriters' Information consists solely of the statements concerning the Underwriters contained in the eighth, ninth and twelfth paragraphs under the heading "Underwriting."

16. AUTHORITY OF THE REPRESENTATIVES. In connection with this Agreement, you will act for and on behalf of the several Underwriters, and any action taken under this Agreement by the Representatives, will be binding on all the Underwriters; and any action taken under this Agreement by either of the Attorneys-in-Fact will be binding on all the Selling Stockholders.

17. PARTIAL UNENFORCEABILITY. The invalidity or unenforceability of any Section, paragraph or provision of this Agreement shall not affect the validity or enforceability of any other Section, paragraph or provision hereof. If any Section, paragraph or provision of this Agreement is for any reason determined to be invalid or unenforceable, there shall be deemed to be made such minor changes (and only such minor changes) as are necessary to make it valid and enforceable.

18. GENERAL. This Agreement constitutes the entire agreement of the parties to this Agreement and supersedes all prior written or oral and all contemporaneous oral agreements, understandings and negotiations with respect to the subject matter hereof. In this Agreement, the masculine, feminine and neuter genders and the singular and the plural include one another. The Section headings in this Agreement are for the convenience of the parties only and will not affect the construction or interpretation of this Agreement. The term "including" as used in this Agreement shall not be construed so as to exclude any other thing not referred to or described. This Agreement may be amended or modified, and the observance of any term of this Agreement may be waived, only by a writing signed by the Company, the Selling Stockholders and the Representatives.

19. COUNTERPARTS. This Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

In executing and delivering this Agreement on behalf of the Selling Stockholders, the Attorney-in-Fact named below represents that he has been duly appointed as Attorney-in-Fact by each of the Selling Stockholders pursuant to a validly existing and binding Power of Attorney that authorizes him to take such actions.

\* \* \*

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If the foregoing is in accordance with your understanding of the agreement between the Company, the Selling Stockholders and the several Underwriters, kindly indicate your acceptance in the space provided for that purpose below.

Very truly yours,

CENTENE CORPORATION

By:

-----  
President and Chief Executive Officer

SELLING STOCKHOLDERS LISTED IN SCHEDULE B  
HERETO

By: Michael F. Neidorff, as Attorney-in-Fact

-----  
Acting on behalf of the Selling  
Stockholders listed in SCHEDULE B hereto

Accepted as of the date first above written:

SG COWEN SECURITIES CORPORATION  
THOMAS WEISEL PARTNERS LLC  
CIBC WORLD MARKETS CORP.

Acting on their own behalf and as  
Representatives of the several Underwriters  
referred to in the foregoing Agreement

By: SG COWEN SECURITIES CORPORATION

By: \_\_\_\_\_  
Authorized Signatory

SCHEDULE A

<TABLE>  
<CAPTION>

NAME -----	NUMBER OF SHARES OF FIRM STOCK TO BE PURCHASED -----
<S>	<C>
SG Cowen Securities Corporation .....	
Thomas Weisel Partners LLC .....	
CIBC World Markets Corp. ....	
Total .....	3,500,000 =====

</TABLE>

SCHEDULE B

<TABLE>  
<CAPTION>

SELLING STOCKHOLDERS -----	NUMBER OF SHARES OF FIRM STOCK TO BE SOLD -----	NUMBER OF SHARES OF OPTIONAL STOCK TO BE SOLD -----
<S>	<C>	<C>
Raymond C. Brinn [insert address] [insert address] .....	-	50,680
Jerome M. Fritsch [insert address] [insert address] .....	-	94,906
Thomas M. Gazzana [insert address] [insert address] .....	-	119,630
William P. Jollie [insert address] [insert address] .....	-	184,138
Elaine E. Laverenz [insert address] [insert address] .....	-	690
Managed Health Services, Inc. [insert address] [insert address] .....	250,000	-
Marshall & Ilsley Trust Company for Michael, Best & Friedrich Retirement Plan, F/B/O Tracey L. Klein [insert address] [insert address] .....	-	10,353
Richard S. Nemitz [insert address] [insert address] .....	-	1,841
Leon K. Rusch [insert address] [insert address] .....	-	50,680

Kathleen A. Tordik

[insert address]

[insert address] .....

-	10,784
-----	-----
250,000	525,000
=====	=====

Total .....

</TABLE>

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APPENDIX I

(i) The Company and the Subsidiaries each have been duly incorporated and are validly existing as corporations in good standing under the laws of their respective jurisdictions of incorporation, are duly qualified to do business and are in good standing as foreign corporations in each jurisdiction in which their respective ownership or lease of property or the conduct of their respective businesses requires such qualification, and have all power and authority necessary to own or hold their respective properties and to conduct the businesses in which they are engaged, except where the failure to so qualify or have such power or authority would not have, singularly or in the aggregate, a Material Adverse Effect.

(ii) The Company has an authorized capitalization as set forth in the Prospectus, and all of the issued shares of capital stock of the Company, including the Stock being delivered on the date of such opinion, have been duly and validly authorized and issued, are fully paid and non-assessable, and conform to the description thereof contained in the Prospectus.

(iii) All the outstanding shares of capital stock of each of the Subsidiaries have been duly authorized and validly issued, are fully paid and nonassessable and are owned by the Company directly or indirectly through one or more wholly owned Subsidiaries, free and clear of any claim, lien, encumbrance, security interest, restriction upon voting or transfer or any other claim of any third party, except that ten percent of the issued and outstanding shares of common stock of Superior Health Plan, Inc. are owned by Community Health Centers Network, L.P.

(iv) There are no preemptive or other rights to subscribe for or to purchase, nor any restriction upon the voting or transfer of, any shares of the Stock pursuant to the Company's charter or by-laws or any agreement or other instrument known to such counsel.

(v) This Agreement has been duly authorized, executed and delivered by the Company.

(vi) The execution, delivery and performance of this Agreement by the Company and the consummation of the transactions contemplated hereby will not, to such counsel's knowledge, conflict with or result in a breach or violation of any of the terms or provisions of, or constitute a default under any indenture, mortgage, deed of trust, loan agreement or other agreement or instrument known to such counsel after reasonable investigation to which the Company or any of the Subsidiaries is a party or by which the Company or any of the Subsidiaries is bound or to which any of the properties or assets of the Company or any of the Subsidiaries is subject, nor will such actions result in any violation of the charter or by-laws of the Company or of any of the Subsidiaries, any applicable law, or, to such counsel's knowledge, any judgment, order or decree of any court or governmental agency or body having jurisdiction over the Company or any of the Subsidiaries or any of their properties or assets.

(vii) Except for the registration of the Stock under the Securities Act and such consents, approvals, authorizations, registrations or qualifications as may be required under the Exchange Act, applicable state securities laws, and rules and regulations of the NASD in connection with the purchase and distribution of the Stock by the Underwriters, no consent, approval, authorization or order of, or filing or registration with, any such court or governmental agency or body is required for the execution, delivery and performance of this Agreement by the Company and the consummation of the transactions contemplated hereby.

(viii) The statements in the Prospectus under the heading "Description of Capital Stock" and "Shares Eligible for Future Sale," to the extent that such statements constitute summaries of the legal matters, documents or proceedings referred to therein, have been reviewed by such counsel and fairly summarize the matters described therein in all material respects.

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(ix) To the best of such counsel's knowledge, there are no statutes, legal or governmental proceedings, contracts or other documents of a character required to be described in the Registration Statement or Prospectus or to be filed as exhibits to the Registration Statement that are not described or filed as required.

(x) To the best of such counsel's knowledge, neither the Company nor any of the Subsidiaries (a) is in violation of its charter or by-laws, (b) is in default in any respect, and no event has occurred that, with notice or lapse of time or both, would constitute a default, in the due performance or observance of any material term, covenant or condition contained in any agreement or instrument to which it is a party or by which it is bound or to which any of its properties or assets is subject, or (c) is in violation of any law, ordinance, governmental rule, regulation or court decree to which it or its property or assets is subject or has failed to obtain any Permit necessary to the ownership of its property or to the conduct of its business except, in the case of clauses (b) and (c), for those violations, defaults or failures that, singularly or in the aggregate, would not have a Material Adverse Effect.

(xi) To the best of such counsel's knowledge, there are no legal or governmental proceedings pending to which the Company or any of the Subsidiaries is a party or of which any property or asset of the Company or any of the Subsidiaries is the subject that, singularly or in the aggregate, if determined adversely to the Company or any of the Subsidiaries, might reasonably be expected to have a Material Adverse Effect or would prevent or adversely affect the ability of the Company to perform its obligations under this Agreement; and, to the best of such counsel's knowledge, no such proceedings are threatened or contemplated by governmental authorities or threatened by others.

(xii) The Registration Statement was declared effective under the Securities Act as of the date and time specified in such opinion, the Rule 462(b) Registration Statement, if any, was filed with the Commission on the date specified therein, the Prospectus was filed with the Commission pursuant to the subparagraph of Rule 424(b) of the Rules and Regulations specified in such opinion on the date specified therein and no stop order suspending the effectiveness of the Registration Statement has been issued and, to the best of such counsel's knowledge, no proceeding for that purpose is pending or threatened by the Commission.

(xiii) The Registration Statements, as of their respective effective dates, and the Prospectus, as of its date, and any further amendments or supplements thereto, as of their respective dates, made by the Company prior to the date of such opinion (other than the financial statements and other financial and statistical data contained therein, as to which such counsel need express no opinion) complied as to form in all material respects with the requirements of the Securities Act and the Rules and Regulations.

(xiv) To the best of such counsel's knowledge, no person or entity has the right to require registration of shares of Common Stock or other securities of the Company because of the filing or effectiveness of the Registration Statements or otherwise in connection with the offering or sale of the Stock, except for (a) persons and entities who have expressly waived such right or who have been given proper notice and have failed to exercise such right within the time or times required under the terms and conditions of such right and (b) the Selling Stockholders with respect to shares of Stock registered under the Registration Statements.

(xv) Neither the Company nor any of the Subsidiaries is an "investment company" within the meaning of the Investment Company Act and the rules and regulations of the Commission thereunder.

Such counsel shall also have furnished to the Representatives a written statement (either in such opinion or in a separate letter that is addressed to the Underwriters and dated the date of such opinion), in form and substance satisfactory to the Representatives, to the effect that (a) such counsel has acted as counsel to the Company in connection with the preparation of the Registration Statements and (b) based on such counsel's examination of the Registration Statements and such counsel's investigations made in

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connection with the preparation of the Registration Statements and conferences with certain officers and employees of the Company and with the independent accountants of the Company, such counsel has no reason to believe that the Registration Statements, as of their respective effective dates, contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary in order to make the statements therein not misleading, or that the Prospectus, as of its date or the date of such written statement, contained or contains any untrue statement of a material fact or omitted or omits to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading; it being understood that such counsel need express no opinion as to the financial statements or other financial or statistical data contained in the Registration Statements or the Prospectus.

The foregoing opinion and written statement may be qualified by a statement to the effect that such counsel has not independently verified the accuracy, completeness or fairness of the statements contained in the Registration

Statements or the Prospectus and takes no responsibility therefor except to the extent set forth in the opinions described in clauses (viii) and (ix) above.

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#### APPENDIX II

On each Closing Date, an opinion to the following effect shall be delivered with respect to each Selling Stockholder from whom or which shares of Stock are to be sold by such Selling Stockholder under this Agreement on such Closing Date:

(i) Upon payment for such shares of Stock in accordance with the terms hereof, the Underwriters will acquire good and valid title to such shares, free and clear of all liens, encumbrances, equities or claims.

(ii) This Agreement has been duly executed and delivered by or on behalf of such Selling Stockholder.

(iii) A Power-of-Attorney and a Custody Agreement have been duly executed and delivered by such Selling Stockholder and constitute valid and binding agreements of such Selling Stockholder.

(iv) Such Selling Stockholder has full right, power and authority to enter into this Agreement and such Selling Stockholder's Power of Attorney and Custody Agreement; the execution, delivery and performance of this Agreement and such Selling Stockholder's Power of Attorney and Custody Agreement by such Selling Stockholder and the consummation by such Selling Stockholder of the transactions contemplated hereby and thereby will not conflict with or result in a breach or violation of any of the terms or provisions of, or constitute a default under, any statute, any indenture, mortgage, deed of trust, loan agreement or other agreement or instrument known to such counsel to which such Selling Stockholder is a party or by which such Selling Stockholder is bound or to which any of the property or assets of such Selling Stockholder is subject, nor will such actions result in any violation of the provisions of the charter or by-laws of such Selling Stockholder (if such Selling Stockholder is a corporation), the deed of trust of such Selling Stockholder (if such Selling Stockholder is a trust) or any statute or any order, rule or regulation known to such counsel of any court or governmental agency or body having jurisdiction over such Selling Stockholder or the property or assets of such Selling Stockholder; and, except for the registration of the Stock under the Securities Act and such consents, approvals, authorizations, registrations or qualifications as may be required under the Exchange Act, applicable state securities laws and the rules and regulations of the NASD in connection with the purchase and distribution of the Stock by the Underwriters, no consent, approval, authorization or order of, or filing or registration with, any such court or governmental agency or body is required for the execution and delivery of this Agreement or such Selling Stockholder's Power of Attorney or Custody Agreement by such Selling Stockholder or the consummation by such Selling Stockholder of the transactions contemplated hereby and thereby.

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#### APPENDIX III

(i) The statements in the Prospectus under the captions "Risk Factors-Risks Related to Being a Regulated Entity," "Business-Medicaid Managed Care Market" and "Business-Regulation," to the extent that such statements constitute summaries of the legal matters, documents or proceedings referred to therein, have been reviewed by such counsel and fairly summarize the matters described therein in all material respects, it being understood that such counsel need express no opinion as to the financial or statistical data contained under such captions.

(ii) To the best of such counsel's knowledge, there are no legal or governmental proceedings pending or threatened to which the Company or any of the Subsidiaries is a party that relate to the compliance by the Company or any of the Subsidiaries with statutes, regulations or licenses governing the provision of healthcare products and services, and such counsel is not aware of any material violations of any of such statutes, regulations or licenses by the Company or any of the Subsidiaries.

Such opinions may be limited to matters of federal law and of the laws of (a) the State of Indiana, in the case of [insert name of Indiana regulatory counsel], (b) the State of Texas, in the case of [insert name of Texas regulatory counsel], and (c) the State of Wisconsin, in the case of [insert name of Wisconsin regulatory counsel].

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the use of our reports (and to all references to our firm) included in or made a part of this registration statement.

/s/ Arthur Andersen LLP

St. Louis, Missouri

November 21, 2001