SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2005

OR

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

For the transition period from to

Commission file number 000-33395

Centene Corporation

(Exact name of registrant as specified in its charter)

Delaware	**42-1406317**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification Number)*
7711 Carondelet Avenue, Suite 800 St. Louis, Missouri	**63105**
(Address of principal executive offices)	*(Zip Code)*

Registrant's telephone number, including area code:
(314) 725-4477

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days:
☒ Yes ☐ No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act).
☒ Yes ☐ No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
☐ Yes ☒ No

As of October 14, 2005, the registrant had 42,672,834 shares of common stock outstanding.

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CENTENE CORPORATION

QUARTERLY REPORT ON FORM 10-Q

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PART I

FINANCIAL INFORMATION

ITEM 1. ***Financial Statements***

CENTENE CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

	September 30, 2005	December 31, 2004
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 121,424	$ 84,105
Premium and related receivables, net of allowances of $156 and $462, respectively	43,235	31,475
Short-term investments, at fair value (amortized cost $58,760 and $94,442, respectively)	58,642	94,283
Other current assets	20,500	14,429
Total current assets	243,801	224,292
Long-term investments, at fair value (amortized cost $132,394 and $117,177, respectively)	130,347	116,787
Restricted deposits, at fair value (amortized cost $22,614 and $22,295, respectively)	22,344	22,187
Property, software and equipment	55,073	43,248
Goodwill	159,579	101,631
Other intangible assets	21,217	14,439
Other assets	7,250	5,350
Total assets	$ 639,611	$ 527,934
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Medical claims liabilities	$ 148,889	$ 165,980
Accounts payable and accrued expenses	47,302	31,737
Unearned revenue	12,437	3,956
Current portion of long-term debt and notes payable	486	486
Total current liabilities	209,114	202,159
Long-term debt	87,650	46,973
Other liabilities	9,614	7,490
Total liabilities	306,378	256,622
Stockholders' equity:		
Common stock, $.001 par value; authorized 100,000,000 shares; issued and outstanding 42,646,184 and 41,316,122 shares, respectively	43	41
Additional paid-in capital	186,659	165,391
Accumulated other comprehensive income:		
Unrealized loss on investments, net of tax	(1,522)	(407)
Retained earnings	148,053	106,287
Total stockholders' equity	333,233	271,312
Total liabilities and stockholders' equity	$ 639,611	$ 527,934

See notes to consolidated financial statements.

CENTENE CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EARNINGS
(In thousands, except share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
	(Unaudited)		(Unaudited)	
Revenues:				
Premiums	$ 395,667	$ 251,536	$ 1,075,027	$ 705,556
Services	4,975	2,207	7,619	7,320
Total revenues	400,642	253,743	1,082,646	712,876
Expenses:				
Medical costs	331,050	202,974	881,021	570,720
Cost of services	2,002	2,111	3,573	6,149
General and administrative expenses	52,450	32,187	139,274	88,915
Total operating expenses	385,502	237,272	1,023,868	665,784
Earnings from operations	15,140	16,471	58,778	47,092
Other income (expense):				
Investment and other income	2,818	1,683	7,461	4,529
Interest expense	(1,190)	(126)	(2,386)	(317)
Earnings before income taxes	16,768	18,028	63,853	51,304
Income tax expense	4,662	6,677	22,087	19,002
Net earnings	$ 12,106	$ 11,351	$ 41,766	$ 32,302
Earnings per share:				
Basic earnings per common share	$ 0.28	$ 0.28	$ 0.99	$ 0.79
Diluted earnings per common share	$ 0.27	$ 0.26	$ 0.93	$ 0.74
Weighted average number of shares outstanding:				
Basic	42,582,129	40,972,858	42,120,149	40,693,804
Diluted	45,278,328	43,640,180	45,078,852	43,364,120

See notes to consolidated financial statements.

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CENTENE CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Nine Months Ended September 30,	
	2005	2004
	(Unaudited)	
Cash flows from operating activities:		
Net earnings	$ 41,766	$ 32,302
Adjustments to reconcile net earnings to net cash provided by operating activities —		
Depreciation and amortization	9,658	7,219
Deferred income taxes	(3,567)	(303)
Tax benefits related to stock options	4,511	1,858
Stock compensation expense	3,557	44
Loss (gain) on sale of investments	58	(212)
Changes in assets and liabilities —		
Premium and related receivables	(9,396)	(2,431)
Other current assets	(1,990)	(4,803)
Other assets	(1,380)	(1,773)
Medical claims liabilities	(17,091)	19,825
Unearned revenue	5,892	(3)
Accounts payable and accrued expenses	11,798	5,184
Other operating activities	1,096	568
Net cash provided by operating activities	44,912	57,475
Cash flows from investing activities:		
Purchase of property, software and equipment	(16,837)	(9,487)
Purchase of investments	(108,630)	(207,385)
Sales and maturities of investments	129,095	188,918
Acquisitions, net of cash acquired	(55,410)	(7,005)
Net cash used in investing activities	(51,782)	(34,959)
Cash flows from financing activities:		
Reduction of long-term debt and notes payable	(4,323)	(507)
Proceeds from borrowings	45,000	—
Proceeds from stock options and employee stock purchase plan	3,925	2,332
Other financing activities	(413)	—
Net cash provided by financing activities	44,189	1,825
Net increase in cash and cash equivalents	37,319	24,341
Cash and cash equivalents, beginning of period	84,105	64,346
Cash and cash equivalents, end of period	$ 121,424	$ 88,687
Interest paid	$ 2,184	$ 324
Income taxes paid	$ 19,658	$ 18,844
Supplemental schedule of non-cash investing and financing activities:		
Common stock issued for acquisitions	$ 8,991	$ —

See notes to consolidated financial statements.

CENTENE CORPORATION AND SUBSIDIARIES

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

1. Organization

Centene Corporation (Centene or the Company) provides multi-line managed care programs and related services to individuals receiving benefits under government subsidized programs including Medicaid, Supplemental Security Income (SSI) and the State Children's Health Insurance Program (SCHIP). Centene's Medicaid Managed Care segment operates health plans under its own state licenses in seven states and contracts with other managed care organizations to provide risk and non-risk management services. Centene's Specialty Services segment contracts with Centene owned companies, as well as other healthcare organizations and state programs, to provide specialty services including behavioral health, disease management, nurse triage and treatment compliance.

2. Basis of Presentation

The unaudited interim financial statements herein have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). The accompanying interim financial statements have been prepared under the presumption that users of the interim financial information have either read or have access to the audited financial statements for the latest fiscal year ended December 31, 2004. Accordingly, footnote disclosures, which would substantially duplicate the disclosures contained in the December 31, 2004 audited financial statements, have been omitted from these interim financial statements where appropriate. In the opinion of management, these financial statements reflect all adjustments, consisting only of normal recurring adjustments, which are necessary for a fair presentation of the results of the interim periods presented.

Certain 2004 amounts in the consolidated financial statements have been reclassified to conform to the 2005 presentation. These reclassifications have no effect on net earnings or stockholders' equity as previously reported.

The Company accounts for stock-based compensation under APB Opinion No. 25, "Accounting for Stock Issued to Employees." The Company has adopted the disclosure-only provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," and SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure." The following table illustrates the effect on net earnings and earnings per share if a fair value based method had been applied to all awards.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Net earnings	$ 12,106	$ 11,351	$ 41,766	$ 32,302
Stock-based employee compensation expense included in net earnings, net of tax	777	8	2,206	27
Stock-based employee compensation expense determined under fair value based method, net of tax	(2,003)	(909)	(6,035)	(2,358)
Pro forma net earnings	$ 10,880	$ 10,450	$ 37,937	$ 29,971
Basic earnings per common share:				
As reported	$ 0.28	$ 0.28	$ 0.99	$ 0.79
Pro forma	$ 0.26	$ 0.26	$ 0.90	$ 0.74
Diluted earnings per common share:				
As reported	$ 0.27	$ 0.26	$ 0.93	$ 0.74
Pro forma	$ 0.24	$ 0.24	$ 0.85	$ 0.69

3. Recent Accounting Pronouncements

In December 2004 SFAS 123 (revised 2004), "Share Based Payment," (SFAS 123R) was issued. In March 2005 the SEC issued Staff Accounting Bulletin No. 107 (SAB 107). SAB 107 expresses views of the SEC staff regarding the interaction between SFAS 123R and certain SEC rules. SFAS 123R focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. SFAS 123R requires public entities to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. The grant-date fair value of employee share options and similar instruments will be estimated using option-pricing models adjusted for the unique characteristics of those instruments. That cost will be recognized over the period during which an employee is required to provide service in exchange for the award. In April 2005 the SEC delayed the implementation of SFAS 123R for public companies until the first annual period beginning after June 15, 2005. SFAS 123R is required to be adopted by the Company by January 1, 2006.

The Company currently utilizes a closed form option-pricing model to measure the fair value of stock-based compensation for employees. SFAS 123R permits the use of this model or other models such as a lattice model. The Company has not yet determined which model it will use to measure the fair value of share-based grants to employees upon the adoption of SFAS 123R. The effect of expensing stock options in accordance with the original SFAS 123 is presented above under Note 2, Basis of Presentation. SFAS 123R also requires that the benefits associated with the tax deductions in excess of recognized compensation cost be reported as a financing cash flow, rather than as an operating cash flow as required under current literature. This presentation may reduce net operating cash flows and increase net financing cash flows in periods after the effective date. The amount of this excess tax deduction benefit was $4,511 and $1,858 in the nine months ended September 30, 2005 and 2004, respectively.

In October 2005 the Compensation Committee approved the immediate and full acceleration of vesting of 260,000 "out-of-the-money" stock options to certain of the Company's employees. These employees did not include any of the Company's executive officers or other employees at Vice President level or above. Each stock option issued as a part of these grants has an exercise price greater than the closing price per share on the date of the Compensation Committee's action. The purpose of the acceleration is to enable the Company to avoid recognizing compensation expense associated with these options in future periods in its consolidated statements of earnings, as a result of SFAS 123R. The pre-tax charge to be avoided totals approximately $3,000 which would have been recognized over the years 2006, 2007, 2008 and 2009. This amount will be reflected in the pro forma disclosures of the 2005 consolidated year-end financial statements. The options that have been accelerated have an exercise price in excess of the current market value of the Company's common stock, and, accordingly, the Compensation Committee determined that the expense savings outweighs the objective of incentive compensation and retention.

In May 2005 SFAS No. 154, "Accounting Changes and Error Corrections – replacement of APB Opinion No. 20 and FASB Statement No. 3," (SFAS No. 154) was issued. SFAS No. 154 changes the accounting for and reporting of a change in accounting principle by requiring retrospective application to prior periods' financial statements of changes in accounting principle unless impracticable. SFAS No. 154 is effective for accounting changes made in fiscal years beginning after December 15, 2005. The Company does not expect the adoption of SFAS No. 154 to have a material impact on its results of operations, financial position or cash flows.

4. Acquisitions

AirLogix

Effective July 22, 2005, the Company acquired AirLogix, Inc., a disease management provider. The Company paid approximately $36,200 in cash and related transaction costs. If certain performance criteria are achieved, additional consideration of up to $5,000 may be paid. The results of operations for AirLogix are included in the consolidated financial statements since July 22, 2005.

The preliminary purchase price allocation resulted in estimated identified intangible assets of $5,000 and associated deferred tax liabilities of $1,900, and goodwill of approximately $31,200. The estimated identifiable intangible assets have an estimated useful life of five years. The acquired goodwill is not deductible for income tax purposes. Pro forma disclosures related to the acquisition have been excluded as immaterial.

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SummaCare

Effective May 1, 2005, the Company acquired certain Medicaid-related assets from SummaCare, Inc. for a purchase price of approximately $30,300. The purchase price and related transaction costs consisted of approximately $21,300 in cash and 318,735 shares of common stock. The cost to acquire the Medicaid-related assets has been preliminarily allocated to the assets acquired and liabilities assumed according to estimated fair values. The results of operations for SummaCare are included in the consolidated financial statements since May 1, 2005.

The preliminary purchase price allocation resulted in identified intangible assets of $1,900, representing purchased contract rights and a non-compete agreement, and goodwill of $28,400. The contract rights and non-compete agreement are being amortized over periods ranging from five to ten years. The acquired goodwill is deductible for income tax purposes. Pro forma disclosures related to the acquisition have been excluded as immaterial.

FirstGuard

The Company purchased FirstGuard Inc. and FirstGuard Health Plan, Inc. (collectively, FirstGuard) from Swope Community Enterprises (Swope) effective December 1, 2004. Centene paid approximately $96,020 in cash and transaction costs. In accordance with terms in the agreement, the purchase price may be adjusted on certain conditions up to sixteen months after the acquisition date. The results of operations for FirstGuard are included in the consolidated financial statements since December 1, 2004.

The purchase price and costs associated with the acquisition exceeded the preliminary estimated fair value of the net tangible assets acquired by approximately $91,885. The Company has preliminarily allocated the excess purchase price over the fair value of the net tangible assets acquired to identifiable intangible assets of $10,000 and associated deferred tax liabilities of $3,800 and goodwill of $85,685. The identifiable intangible assets have an estimated useful life of ten years. The acquired goodwill is not deductible for income tax purposes.

5. Earnings Per Share

The following table sets forth the calculation of basic and diluted net earnings per common share:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	**2004**	**2005**	**2004**
Net earnings	$ 12,106	$ 11,351	$ 41,766	$ 32,302
Shares used in computing per share amounts:				
Weighted average number of common shares outstanding	42,582,129	40,972,858	42,120,149	40,693,804
Common stock equivalents (as determined by applying the treasury stock method)	2,696,199	2,667,322	2,958,703	2,670,316
Weighted average number of common shares and potential dilutive common shares outstanding	45,278,328	43,640,180	45,078,852	43,364,120
Basic earnings per common share	$ 0.28	$ 0.28	$ 0.99	$ 0.79
Diluted earnings per common share	$ 0.27	$ 0.26	$ 0.93	$ 0.74

The calculation of diluted earnings per common share for the three months and nine months ended September 30, 2005 excludes the impact of 197,500 and 265,155 shares, respectively, related to stock options, unvested restricted stock and restricted stock units which are anti-dilutive. There were no anti-dilutive shares for the periods presented in 2004.

6. Contingencies

Aurora Health Care, Inc. (Aurora) provides medical professional services under a contract with the Company's Wisconsin health plan subsidiary. In May 2003, Aurora filed a lawsuit in the Milwaukee County Circuit Court claiming the Company had failed to adequately reimburse Aurora for services rendered during the period from 1998 to the present.

On September 1, 2005, the Company entered into a settlement and release agreement (Agreement) with Aurora which provides for complete and final settlement of the lawsuit. Under the terms of the Agreement, the Company paid $9,500 to Aurora, $5,000 of which was previously reserved and $4,500 was recorded as a pre-tax charge in the quarter ended September 30, 2005. Both parties agreed on the rates for ambulatory services through December 31, 2005 when the current contract expires. Subsequent to entering into the Agreement, the Company and Aurora agreed to a new, five year contract that will become effective as of January 1, 2006.

7. Comprehensive Earnings

Differences between net earnings and total comprehensive earnings resulted from changes in unrealized gains and losses on investments available for sale and follow:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Net earnings	$ 12,106	$ 11,351	$ 41,766	$ 32,302
Reclassification adjustment, net of tax	25	224	92	(354)
Change in unrealized gain (loss) on investments, net of tax	(738)	1,257	(1,207)	(374)
Total comprehensive earnings	$ 11,393	$ 12,832	$ 40,651	$ 31,574

8. Revolving Line of Credit

In September 2005, the Company executed an amendment to the five-year Revolving Credit Agreement dated September 14, 2004 with various financial institutions, for which LaSalle Bank National Association serves as administrative agent and co-lead arranger. The amendment increased the total amount available under the credit agreement to $200,000 from $100,000 including a sub-facility for letters of credit in an aggregate amount up to $50,000. In addition, under the amendment the lending institutions released the Company's prior grant of a security interest in the outstanding common stock and membership interests of each of the Company's subsidiaries. The credit agreement is now an unsecured facility. Borrowings under the agreement bear interest based upon LIBOR rates, the Federal Funds Rate or the Prime Rate. The agreement contains non-financial and financial covenants, including requirements of minimum fixed charge coverage ratios, minimum debt-to-EBITDA ratios and minimum tangible net worth. The agreement will expire in September 2010 or on an earlier date in the instance of a default as defined in the agreement. As of September 30, 2005, the Company was in compliance with all covenants. At September 30, 2005, the outstanding borrowings totaled $75,000 bearing interest at a weighted average composite of 5.2% and outstanding letters of credit totaled $15,000.

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9. Segment Information

Factors used in determining the reportable business segments include the nature of operating activities, existence of separate senior management teams, and the type of information presented to the Company's chief operating decision makers to evaluate all results of operations.

Centene operates in two segments: Medicaid Managed Care and Specialty Services. The Medicaid Managed Care segment consists of Centene's health plans including all of the functions needed to operate them. The Specialty Services segment consists of Centene's specialty companies including behavioral health, disease management, nurse triage and treatment compliance functions.

Segment information for the three months ended September 30, 2005, follows:

	Medicaid Managed Care	Specialty Services	Eliminations	Consolidated Total
Revenue from external customers	$ 373,589	$ 27,053	$ —	$ 400,642
Revenue from internal customers	18,488	9,475	(27,963)	—
Total revenue	$ 392,077	$ 36,528	$ (27,963)	$ 400,642
Earnings from operations	$ 15,542	$ (402)	$ —	$ 15,140

Segment information for the three months ended September 30, 2004, follows:

	Medicaid Managed Care	Specialty Services	Eliminations	Consolidated Total
Revenue from external customers	$ 251,944	$ 1,799	$ —	$ 253,743
Revenue from internal customers	15,307	5,358	(20,665)	—
Total revenue	$ 267,251	$ 7,157	$ (20,665)	$ 253,743
Earnings from operations	$ 17,162	$ (691)	$ —	$ 16,471

Segment information for the nine months ended September 30, 2005, follows:

	Medicaid Managed Care	Specialty Services	Eliminations	Consolidated Total
Revenue from external customers	$ 1,052,102	$ 30,544	$ —	$ 1,082,646
Revenue from internal customers	53,306	26,108	(79,414)	—
Total revenue	$ 1,105,408	$ 56,652	$ (79,414)	$ 1,082,646
Earnings from operations	$ 60,194	$ (1,416)	$ —	$ 58,778

Segment information for the nine months ended September 30, 2004, follows:

	Medicaid Managed Care	Specialty Services	Eliminations	Consolidated Total
Revenue from external customers	$ 706,790	$ 6,086	$ —	$ 712,876
Revenue from internal customers	44,864	15,135	(59,999)	—
Total revenue	$ 751,654	$ 21,221	$ (59,999)	$ 712,876
Earnings from operations	$ 47,973	$ (881)	$ —	$ 47,092

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

The following discussion of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the related notes included elsewhere in this filing, and in our annual report on Form 10-K for the year ended December 31, 2004. The discussion contains forward-looking statements that involve known and unknown risks and uncertainties, including those set forth below under "Factors that May Affect Future Results and the Trading Price of Our Common Stock."

OVERVIEW

We are a multi-line managed care organization that provides Medicaid and Medicaid-related programs and related services to organizations and individuals through government subsidized programs, including Medicaid, Supplemental Security Income (SSI) and the State Children's Health Insurance Program (SCHIP). We operate health plans in seven states. We also provide specialty services through contracts with our health plans, as well as other healthcare organizations and state programs. These specialty services include behavioral health, disease management, nurse triage and treatment compliance.

RECENT ACQUISITIONS AND NEW BUSINESS IMPLEMENTATION

Effective July 22, 2005, we acquired AirLogix, Inc., a disease management provider, for a purchase price of approximately $36.2 million. The results of operations of this entity are included in our consolidated financial statements since July 22, 2005. The preliminary purchase price allocation resulted in estimated identifiable intangible assets of $5.0 million and goodwill of $31.2 million. The estimated identifiable intangible assets are being amortized over an estimated life of five years.

During the third quarter of 2005 we were awarded Medicaid contracts in Georgia by the Georgia Department of Community Health. Our subsidiary, Peach State Health Plan, Inc., will manage care for a portion of the Medicaid and SCHIP recipients in the Atlanta, Central and Southwest regions. Membership operations for the Atlanta and Central regions will commence April 1, 2006. Membership operations for the Southwest region will commence December 1, 2006.

Effective July 1, 2005, we began performing under our contract with the State of Arizona to facilitate the delivery of mental health and substance abuse services to behavioral health recipients in Arizona. We are now serving approximately 94,000 members in Arizona.

Effective May 1, 2005, we acquired certain Medicaid-related assets of SummaCare, Inc. for a purchase price of approximately $30.3 million. The results of operations of this entity are included in our consolidated financial statements beginning May 1, 2005. The purchase price allocation resulted in estimated identifiable intangible assets of $1.9 million, representing purchased contract rights and a non-compete agreement, and goodwill of $28.4 million. The contract rights and non-compete agreement are being amortized over periods ranging from five to ten years.

Effective December 1, 2004, we acquired FirstGuard, Inc. and FirstGuard Health Plan, Inc. (FirstGuard) for a purchase price of $96.0 million. The results of operations of this entity are included in our consolidated financial statements beginning December 1, 2004. The preliminary purchase price allocation resulted in estimated identifiable intangible assets of $10.0 million and goodwill of $85.7 million. The estimated identifiable intangible assets are being amortized over an estimated life of ten years.

Effective January 1, 2004, we commenced operations in Ohio through the acquisition of the Medicaid-related assets of Family Health Plan, Inc. (FHP) for a purchase price of $6.9 million. The results of operations of this entity are included in our consolidated financial statements beginning January 1, 2004. The purchase price allocation resulted in identifiable intangible assets of $1.8 million, representing purchased contract rights, provider network and a non-compete agreement, and goodwill of $5.1 million. The contract rights, provider network and non-compete agreement are being amortized over periods ranging from five to ten years.

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REVENUE AND EXPENSE DISCUSSION AND KEY METRICS

Revenues and Revenue Recognition

We generate revenues in our Medicaid Managed Care segment 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 premium payments during the month we provide services and recognize premium revenue during the period in which we are obligated to provide services to our members. Revenues are recorded based on membership and eligibility data provided by the states, which may be adjusted by the states for updates to this data. In addition, revenue is adjusted for rebates due to the states in the event profits exceeds established levels. These adjustments are immaterial in relation to total revenue recorded and are reflected in the period known.

Our Specialty Services companies generate revenues from a variety of sources. Our behavioral health company generates revenue via capitation payments from our health plans, state contracts, and fees for school programs in Arizona. Our disease management programs receive fees from healthcare organizations for disease management services. Our treatment compliance program receives fee income from the manufacturers of pharmaceuticals. Our nurse triage line receives fees from health plans, physicians and other organizations for providing continuous access to nurse advisors.

Premiums collected in advance are recorded as unearned revenue. Premiums due to us are recorded as premium and related receivables and are recorded net of an allowance based on historical trends and our management's judgment on the collectibility of these accounts. As we generally receive premiums during the month in which services are provided, the allowance is typically not significant in comparison to total premium revenue and does not have a material impact on the presentation of our financial condition or results of operations.

One of the primary drivers of our increasing revenue has been membership growth in our Medicaid Managed Care segment. We have increased our membership through internal growth as well as acquisitions. From September 30, 2004 to September 30, 2005, we increased our membership by 32.1%, of which 3.8% was due to organic growth and 28.3% was growth from acquisitions. The following table sets forth our membership by state in our Medicaid Managed Care segment:

	September 30,	
	2005	2004
Indiana	176,300	150,000
Kansas	107,600	—
Missouri	37,300	—
New Jersey	50,900	53,200
Ohio	58,100	23,500
Texas	243,600	250,200
Wisconsin	173,900	164,700
Total	847,700	641,600

The following table sets forth our membership by line of business in our Medicaid Managed Care segment:

	September 30,	
	2005	2004
Medicaid	657,500	479,500
SCHIP	176,900	152,100
SSI	13,300 (a)	10,000 (b)
Total	847,700	641,600

(a) 6,800 at-risk, 6,500 ASO
(b) 4,500 at-risk, 5,500 ASO

During the last 12 months, we entered the Kansas and Missouri markets through our acquisition of FirstGuard. We serve Medicaid and SCHIP membership in these two states. We increased our membership in Ohio through our acquisition of the

Medicaid-related assets of SummaCare, Inc. Our membership increased in Indiana and Wisconsin from additions to our provider networks, increases in counties served and growth in the overall number of Medicaid beneficiaries. Our membership decreased in Texas due to more stringent requirements for the SCHIP program.

Another primary driver of our increasing revenue has been growth in our Specialty Services segment. This segment provides behavioral health services to approximately 131,000 members through direct contracts with states and 652,000 members through contracts with our health plans.

Operating Expenses

Our operating expenses include medical costs, cost of services, and general and administrative expenses.

Our medical costs include payments to physicians, hospitals, and other providers for healthcare and specialty services claims. Medical costs also include estimates of medical expenses incurred but not yet reported, or IBNR, and estimates of the cost to process unpaid claims. 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 provider billing patterns, membership, products and inpatient hospital trends. These estimates are adjusted as more information becomes available. We utilize the services of independent actuaries who are contracted to review our estimates quarterly. While we believe that our process for estimating IBNR is actuarially sound, we cannot assure you that healthcare claim costs will not materially differ from our estimates.

Our results of operations depend on our ability to manage expenses related to health benefits and to accurately predict costs incurred. Our health benefits ratio represents medical costs as a percentage of premium revenues and reflects the direct relationship between the premium received and the medical services provided. The table below depicts our health benefits ratios by member category and in total:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Medicaid and SCHIP	83.0%	80.4%	81.5%	80.5%
SSI	96.2	92.8	92.6	96.6
Medicaid Managed Care Total	83.3	80.7	81.7	80.9
Specialty Services	89.7	—	91.0	—
Total	83.7	80.7	82.0	80.9

Our total health benefits ratio increased in 2005 from 2004. This increase was due to the settlement of a lawsuit with Aurora Health Care, Inc., which increased our health benefits ratio by 1.2% for the three months ended September 30, 2005, and by 0.5% for the nine months ended September 30, 2005. Our ratio also increased due to the behavioral health contract in Arizona which necessitates a higher health benefits ratio, increasing it by 0.4% for the three months ended September 30, 2005 and 0.3% for the nine months ended September 30, 2005. Expansion into new markets, previously unmanaged by us, and increased SSI membership also contributed to the increase.

Our cost of services expenses include all direct costs to support the local functions responsible for generation of our services revenues. These expenses primarily consist of the labor and supplies related to the provision of services, cost of materials purchased and teacher salaries.

Our general and administrative expenses primarily reflect wages and benefits and other administrative costs related to the centralized functions that support all of our business units. The major centralized functions are claims processing, information systems and finance. Premium taxes are classified as general and administrative expenses. Our general and administrative expense ratio represents general and administrative expenses as a percentage of total revenues and reflects the relationship between revenues earned and the costs necessary to drive those revenues. The following table sets forth the general and administrative expense ratios by business segment and in total:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Medicaid Managed Care	10.6%	10.5%	10.6%	10.4%
Specialty Services	30.2	56.0	38.9	51.8
Total	13.1	12.7	12.9	12.5

Our total general and administrative expense ratio increased due to implementation costs related to our new contracts in Arizona and Georgia, higher spending on information systems process improvements and increased contributions to our charitable foundation.

The Specialty Services ratio may vary depending on the various contracts and nature of the service provided and will have a higher general and administrative expense ratio than the Medicaid Managed Care segment. The results for the three and nine months ended September 30, 2005 reflect the operations of our behavioral health company in Arizona, effective July 1, 2005.

Other Income (Expense)

Other income (expense) consists of investment and other income and interest expense.

- Investment income is derived from our cash, cash equivalents and investments. Information about our investments is included below under “Liquidity and Capital Resources.”
- Interest expense reflects interest on the borrowings under our credit facility, fees in conjunction with our credit facility and mortgage interest.

RESULTS OF OPERATIONS

Nine Months Ended September 30, 2005 Compared to Nine Months Ended September 30, 2004

Summarized comparative financial data are as follows ($ in millions except per share data):

	Nine Months Ended September 30,		
	2005	2004	% Change 2004-2005
Premium revenue	$ 1,075.0	$ 705.6	52.4%
Services revenue	7.6	7.3	4.1%
Total revenues	1,082.6	712.9	51.9%
Medical costs	881.0	570.7	54.4%
Cost of services	3.6	6.2	(41.9)%
General and administrative expenses	139.2	88.9	56.6%
Earnings from operations	58.8	47.1	24.8%
Investment and other income, net	5.1	4.2	20.5%
Earnings before income taxes	63.9	51.3	24.5%
Income tax expense	22.1	19.0	16.2%
Net earnings	$ 41.8	$ 32.3	29.3%
Diluted earnings per common share	$ 0.93	$ 0.74	25.7%

Revenues

Premium revenue for the nine months ended September 30, 2005 increased 52.4% from the comparable period in 2004. This increase was due to the expansion of operations with our behavioral health contract in the state of Arizona, effective July 1, 2005; the acquisition of the Medicaid-related assets of SummaCare, Inc., effective May 1, 2005; the acquisition of FirstGuard, effective December 1, 2004; organic growth in our existing markets; and the addition of EPO members in Texas, effective September 1, 2004. In addition, we received premium rate increases of 3.2% on a composite basis across all our markets.

Services revenue for the nine months ended September 30, 2005 increased 4.1% from the comparable period in 2004. This increase was due to the acquisition of AirLogix, effective July 22, 2005, partially offset by the closing of clinic facilities in Texas and California as our behavioral health company transitioned from an employer of providers to a managed behavioral healthcare organization.

Operating Expenses

Medical costs increased 54.4% due to the growth in our membership as discussed above. Our health benefits ratio in 2005 was 82.0% compared to 80.9% in 2004. This increase was due to the settlement of a lawsuit with Aurora Health Care, Inc. as previously discussed, the behavioral health contract in Arizona which necessitates a higher health benefits ratio, expansion into new markets and increased SSI membership.

Cost of services decreased 41.9% due to a decline in service revenue from our behavioral health company as discussed above partially offset by the increase in expenses related to AirLogix, effective July 22, 2005.

General and administrative expenses increased 56.6% primarily due to expenses for additional facilities and staff to support our growth, especially in Arizona, Georgia, Kansas and Missouri, as previously described. For example, we incurred approximately $5.1 million during the period in implementation costs related to our new contracts in Arizona and Georgia.

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Other Income

Investment and other income increased 20.5% for the nine months ended September 30, 2005 from the comparable period in 2004. The increase was due to higher average investment balances and an increase in market interest rates partially offset by higher interest expense from increased borrowings under our credit facility and mortgages.

Income Tax Expense

Our effective tax rate in 2005 was 34.6%, compared to 37.0% in 2004. The decrease was primarily due to lower state income tax expense resulting from the resolution of state income tax examinations and the recognition of deferred tax benefits related to a change in law during the quarter.

Three Months Ended September 30, 2005 Compared to Three Months Ended September 30, 2004

Summarized comparative financial data are as follows ($ in millions except per share data):

	Three Months Ended September 30,		
	2005	**2004**	**% Change 2004-2005**
Premium revenue	$ 395.6	$ 251.5	57.3%
Services revenue	5.0	2.2	125.4%
Total revenues	400.6	253.7	57.9%
Medical costs	331.1	203.0	63.1%
Cost of services	2.0	2.1	(5.2)%
General and administrative expenses	52.4	32.2	63.0%
Earnings from operations	15.1	16.4	(8.1)%
Investment and other income, net	1.6	1.6	4.6%
Earnings before income taxes	16.7	18.0	(7.0)%
Income tax expense	4.6	6.7	(30.2)%
Net earnings	$ 12.1	$ 11.3	6.7%
Diluted earnings per common share	$ 0.27	$ 0.26	3.8%

Revenues

Premium revenue for the three months ended September 30, 2005 increased 57.3% from the comparable period in 2004. This increase was due to the expansion of operations with our behavioral health contract in Arizona, effective July 1, 2005; the acquisition of the Medicaid-related assets of SummaCare, Inc., effective May 1, 2005; the acquisition of FirstGuard, effective December 1, 2004; organic growth in our existing markets; and the addition of EPO members in Texas, effective September 1, 2004. In addition, we received premium rate increases of 1.2% on a composite basis across all our markets.

Services revenue for the three months ended September 30, 2005 increased 125.4% from the comparable period in 2004. This increase was due to the acquisition of AirLogix, effective July 22, 2005 partially offset by the closing of clinic facilities in Texas and California as our behavioral health company transitioned from an employer of providers to a managed behavioral healthcare organization.

Operating Expenses

Medical costs increased 63.1% due to the growth in our membership as discussed above. Our health benefits ratio in 2005 was 83.7% compared to 80.7% in 2004. This increase was due to the settlement of a lawsuit with Aurora Health Care, Inc., as previously discussed, the behavioral health contract in Arizona which necessitates a higher health benefits ratio, expansion into new markets and increased SSI membership.

Cost of services decreased 5.2% due to a decline in service revenue from our behavioral health company as discussed above partially offset by the increase in expenses related to AirLogix, effective July 22, 2005.

General and administrative expenses increased 63.0% primarily due to expenses for additional facilities and staff to support our growth especially in Arizona, Georgia, Kansas and Missouri. For example, we incurred approximately $2.6 million during the period in implementation costs related to our new contracts in Arizona and Georgia.

Other Income

Investment and other income increased 4.6% for the three months ended September 30, 2005 from the comparable period in 2004. The increase was due to higher average investment balances and an increase in market interest rates partially offset by higher interest expense from increased borrowings under our credit facility and mortgages.

Income Tax Expense

Our effective tax rate in 2005 was 27.8% compared to 37.0% in 2004. The decrease was primarily due to lower state income tax expense resulting from the resolution of state income examinations and the recognition of deferred tax benefits related to a change in law during the quarter.

LIQUIDITY AND CAPITAL RESOURCES

Our operating activities provided cash of $44.9 million in the nine months ended September 30, 2005 and provided cash of $57.5 million in the comparable period in 2004. The decrease was primarily due to a decrease in medical claims liabilities combined with an increase in premium and related receivables offset by an increase in net income. The decrease in medical claims liabilities resulted from the payment made to Aurora Health Care, Inc. under the settlement agreement signed in September 2005; a decrease in pended claims, claims on hold awaiting further clarification; and a decrease in average claims inventory due to operational improvements made during the period. The increase in receivables resulted primarily from the timing of delivery receivable collections.

Our investing activities used cash of $51.8 million in the nine months ended September 30, 2005 compared to $35.0 million in the comparable period in 2004. The largest component of investing activities related to the acquisitions of AirLogix and certain Medicaid-related assets from SummaCare, Inc. Approximately $34.1 million was paid, net of cash acquired, for AirLogix. Of the total purchase price of approximately $30.3 million paid to SummaCare, $21.3 million was paid in cash and the remaining $9.0 million was paid through the issuance of our common stock. Our investment policies are designed to provide liquidity, preserve capital and maximize total return on invested assets within our investment guidelines. Net cash provided by and used in investing activities will fluctuate from year to year due to the timing of investment purchases, sales and maturities. As of September 30, 2005, our investment portfolio consisted primarily of fixed-income securities with an average duration of 1.8 years. Cash is invested in investment vehicles such as municipal bonds, corporate bonds, insurance contracts, commercial paper and instruments of the U.S. Treasury. The states in which we operate prescribe the types of instruments in which our regulated subsidiaries may invest their cash.

Our financing activities provided cash of $44.2 million in the nine months ended September 30, 2005 compared to $1.8 million in the comparable period in 2004. The increase in cash was primarily related to proceeds of $45.0 million from borrowings on our revolving credit facility.

We spent $16.8 million and $9.5 million in the nine months ended September 30, 2005 and 2004, respectively, on capital assets. We anticipate spending an additional $9.5 million on capital expenditures in 2005 related to office and market expansions and system upgrades.

At September 30, 2005, we had working capital, defined as current assets less current liabilities, of $34.7 million as compared to $22.1 million at December 31, 2004. Our investment policies are 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 short-term capital requirements as needed.

Cash, cash equivalents and short-term investments were $180.1 million at September 30, 2005 and $178.4 million at December 31, 2004. Long-term investments were $152.7 million at September 30, 2005 and $139.0 million at December 31, 2004, including restricted deposits of $22.3 million and $22.2 million, respectively. At September 30, 2005, cash and investments held by our unregulated entities totaled $27.7 million while cash and investments held by our regulated entities totaled $305.1 million.

On September 9, 2005, we executed an amendment to our Revolving Credit Agreement dated September 14, 2004, with several lending institutions, for which LaSalle Bank National Association serves as administrative agent and co-lead arranger. The amendment increased the total amount available under the credit agreement to $200 million from $100 million, including a sub-facility for letters of credit in an aggregate amount up to $50 million. In addition, under the amendment the lending institutions released our prior grant of a security interest in the outstanding common stock and membership interests of each of our subsidiaries. The credit agreement is now an unsecured facility. Borrowings under the agreement bear interest based upon LIBOR rates, the Federal Funds Rate or the Prime Rate. Under our current capital structure, borrowings under the agreement bear interest at LIBOR plus 1.25%. This rate may change under differing capital structures over the life of the agreement. The agreement contains non-financial and financial covenants, including requirements of minimum fixed charge coverage ratios, minimum debt-to-EBITDA ratios and minimum tangible net worth. The agreement will expire on September 9, 2010 or on an earlier date in the instance of a default as defined in the agreement. As of September 30, 2005, we had $75.0 million in borrowings outstanding under the agreement, $15.0 million in letters of credit outstanding and were in compliance with all covenants.

We have filed a shelf registration statement on Form S-3 with the Securities and Exchange Commission, or the SEC, covering the issuance of up to $300 million of securities including common stock and debt securities. No securities have been issued under the shelf registration. We may publicly offer securities from time-to-time at prices and terms to be determined at the time of the offering.

There were no other material changes outside the ordinary course of our business in lease obligations or other contractual obligations in the nine months ended September 30, 2005. Based on our operating plan, we expect that our available funding will be sufficient to finance our operations and capital expenditures for at least 12 months from the date of this filing.

REGULATORY CAPITAL AND DIVIDEND RESTRICTIONS

As managed care organizations, our subsidiaries are subject to state regulations that, among other things, 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. Generally, the amount of dividend distributions that may be paid by a regulated subsidiary without prior approval by state regulatory authorities is limited based on the entity’s level of statutory net income and statutory capital and surplus.

Our subsidiaries are required to maintain minimum capital requirements prescribed by various regulatory authorities in each of the states in which we operate. As of September 30, 2005, our subsidiaries had aggregate statutory capital and surplus of $176.4 million, compared with the required minimum aggregate statutory capital and surplus requirements of $82.6 million.

The National Association of Insurance Commissioners has adopted rules which set minimum risk-based capital requirements for insurance companies, managed care organizations and other entities bearing risk for healthcare coverage. As of September 30, 2005, our Indiana, Ohio, Texas and Wisconsin health plans were in compliance with risk-based capital requirements. If adopted by Kansas, Missouri or New Jersey, risk-based capital may increase the minimum capital required for these subsidiaries. We continue to monitor the requirements in Kansas, Missouri and New Jersey and do not expect that they will have a material impact on our results of operations, financial position or cash flows.

RECENT ACCOUNTING PRONOUNCEMENTS

In December 2004 SFAS 123 (revised 2004), “Share Based Payment,” (SFAS 123R) was issued. In March 2005 the SEC issued Staff Accounting Bulletin No. 107 (SAB 107). SAB 107 expresses views of the SEC staff regarding the interaction between SFAS 123R and certain SEC rules. SFAS 123R focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. SFAS 123R requires public entities to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. The grant-date fair value of employee share options and similar instruments will be estimated using option-pricing models adjusted for the unique characteristics of those instruments. That cost will be recognized over the period during which an employee is required to provide service in exchange for the award. In April 2005 the SEC delayed the implementation of SFAS 123R for public companies until the first annual period beginning after June 15, 2005. We are required to adopt SFAS 123R by January 1, 2006.

We currently utilize a closed form option-pricing model to measure the fair value of stock-based compensation for employees. SFAS 123R permits the use of this model or other models such as a lattice model. We have not yet determined which model we will use to measure the fair value of share-based grants to employees upon the adoption of SFAS 123R. The effect of expensing stock options in accordance with the original SFAS 123 is presented in Note 2 of our Notes to Consolidated Financial Statements included elsewhere in this Form 10-Q. SFAS 123R also requires that the benefits associated with the tax deductions in excess of recognized compensation cost be reported as a financing cash flow, rather than as an operating cash flow as required under current literature. This presentation may reduce net operating cash flows and increase net financing cash flows in periods after the effective date. The amount of this excess tax deduction benefit was $4.5 million and $1.9 million in the nine months ended September 30, 2005 and 2004, respectively.

In October 2005 the Compensation Committee approved the immediate and full acceleration of vesting of 260,000 “out-of-the-money” stock options to certain of our employees. These employees did not include any of our executive officers or other employees at Vice President level or above. Each stock option issued as a part of these grants has an exercise price greater than the closing price per share on the date of the Compensation Committee’s action. The purpose of the acceleration is to enable us to avoid recognizing compensation expense associated with these options in future periods in our consolidated statements of earnings, as a result of SFAS 123R. The pre-tax charge to be avoided totals approximately $3.0 million which would have been recognized over the years 2006, 2007, 2008 and 2009. This amount will be reflected in the pro forma disclosures of the 2005 consolidated year-end financial statements. The options that have been accelerated have an exercise price in excess of the current market value of our common stock, and, accordingly, the Compensation Committee determined that the expense savings outweighs the objective of incentive compensation and retention.

In May 2005 SFAS No. 154, “Accounting Changes and Error Corrections – replacement of APB Opinion No. 20 and FASB Statement No. 3,” (SFAS No. 154) was issued. SFAS No. 154 changes the accounting for and reporting of a change in accounting principle by requiring retrospective application to prior periods’ financial statements of changes in accounting principle unless impracticable. SFAS No. 154 is effective for accounting changes made in fiscal years beginning after December 15, 2005. We do not expect the adoption of SFAS No. 154 to have a material impact on our results of operations, financial position or cash flows.

FORWARD-LOOKING STATEMENTS

This filing 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, investments and the adequacy of our available cash resources. These statements may be found in the section of this filing entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” Readers 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 healthcare 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 payers, 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 affect us. Due to these factors and risks, we cannot give assurances with respect to our future premium levels or our ability to control our future medical costs.

FACTORS THAT MAY AFFECT FUTURE RESULTS AND THE TRADING PRICE OF OUR COMMON STOCK

Risks Related to Being a Regulated Entity

Reduction in Medicaid, SCHIP and SSI Funding Could Substantially Reduce Our Profitability.

Most of our revenues come from Medicaid, SCHIP and SSI 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, SCHIP and SSI funding and premium rates may be affected by continued government efforts to contain medical costs and may further be affected by state and federal budgetary constraints. For example, in August 2004, the Centers for Medicare & Medicaid Services, or CMS, proposed a rule that would have required states to estimate improper payments made under their Medicaid and SCHIP programs, report such overpayments to Congress, and, if necessary, take actions to reduce erroneous payments. In October 2005, CMS announced an interim rule under which a CMS contractor will randomly select states for review once every three years to estimate each state's rate of erroneous payments, the federal share of which the states will be required to return to CMS. In February 2005, the Bush administration called for changes in Medicaid that would cut payments for prescription drugs and give states new power to reduce or reconfigure benefits. The Bush administration has also proposed to reduce total federal funding for the Medicaid program, with a reduction of $10 billion in the budget over the next five years. It is unclear whether states (such as Texas) will receive supplemental Federal funds sufficient to reflect the unanticipated arrival of large numbers of beneficiaries from Gulf Coast areas evacuated as a result of hurricanes Katrina and Rita. Changes to Medicaid, SCHIP and SSI 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, SCHIP and SSI. In recent years, the majority of states have implemented measures to restrict Medicaid, SCHIP and SSI costs and eligibility. We believe that reductions in Medicaid, SCHIP and SSI payments could substantially reduce our profitability. Further, our contracts with the states are subject to cancellation by the state 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 managed care programs and selected services to individuals receiving benefits under federal assistance programs, including Medicaid, SSI and SCHIP. We provide those healthcare services under contracts with regulatory entities in the areas in which we operate. The contracts expire on various dates between December 31, 2005 and August 31, 2007. 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 one or 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 are 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 the Financial Interests of 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 the financial interests of health plan providers and members rather than stockholders. Changes in existing laws and rules, the enactment of new laws and rules or 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 premium 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.

For example, Congress has considered various forms of patient protection legislation commonly known as the Patients' Bill of Rights and such legislation is frequently proposed in Congress. We cannot predict the impact of this legislation, if adopted, on our business.

Regulations May Decrease the Profitability of Our Health Plans.

Our Texas plan is required to pay a rebate to the state in the event profits exceed established levels. Similarly, our New Jersey plan is required to pay a rebate to the state in the event its health benefits ratio is less than 80%. These regulatory requirements, changes in these requirements or the adoption of similar requirements by our other regulators may limit our ability to increase our overall profits as a percentage of revenues. The states of Indiana, New Jersey and Texas have implemented prompt-payment laws and are enforcing penalty provisions for failure to pay claims in a timely manner. Failure to meet these requirements can result in financial fines and penalties. In addition, states may attempt to reduce their contract premium rates if regulators perceive our health benefits ratio as too low. Any of these regulatory actions could harm our operating results.

In recent years, CMS has reduced the rates at which states are permitted to reimburse non-state government-owned or operated hospitals for inpatient and outpatient hospital services. The upper limit is currently 100% of Medicare payments for comparable services. Any further reductions in this limit could decrease the profitability of our health plans.

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 these and other laws or regulations governing our operations or the operations of our providers 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. If we were to become subject to these penalties or exclusions as the result of our actions or omissions or our inability to monitor the compliance of our providers, it would negatively affect our ability to operate our business. For example, failure to pay our providers promptly could result in the imposition of fines and other penalties. In some states, we may be subject to regulation by more than one governmental authority, which may impose overlapping or inconsistent regulations.

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. Further, HIPAA imposes civil and, in some instances, criminal penalties for failure to comply with specific standards relating to the privacy, security and electronic transmission of most individually identifiable health information. It is possible that Congress may enact additional legislation in the future to increase penalties and to create a private right of action under HIPAA, which could entitle patients to seek monetary damages for violations of the privacy rules.

We Will Incur Significant Increased Costs as a Result of Compliance With New Government Regulations and Our Management Will Be Required to Devote Substantial Time to Compliance.

The issuance of future judicial or regulatory guidance regarding the interpretation of regulations, the states' ability to promulgate stricter rules, and continuing uncertainty regarding many aspects of the regulations' implementation may make compliance with this regulatory landscape difficult. For example, our existing programs and systems may not enable us to comply in all respects with recent security regulations. In order to comply with new regulatory requirements, we were required to employ additional or different programs and systems. Further, compliance with new regulations could require additional 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 from the states our costs of complying with these new regulations. The new regulations and the related compliance costs could have a material adverse effect on our business.

In addition, the Sarbanes-Oxley Act, as well as rules subsequently implemented by the SEC and the New York Stock Exchange, or the NYSE, have imposed various requirements on public companies, including requiring changes in corporate governance practices. Our management and other personnel will need to devote a substantial amount of time to these new compliance initiatives. Moreover, these rules and regulations will increase our legal and financial compliance costs and will make some activities more time-consuming and costly.

The Sarbanes-Oxley Act requires, among other things, that we maintain effective internal control over financial reporting. In particular, we must perform system and process evaluation and testing of our internal controls over financial reporting to allow management to report on the effectiveness of our internal controls over our financial reporting as required by Section 404 of the Sarbanes-Oxley Act. Our testing, or the subsequent testing by our independent registered public accounting firm, may reveal deficiencies in our internal controls over financial reporting that are deemed to be material weaknesses. Our compliance with Section 404 requires that we incur substantial accounting expense and expend significant management efforts. Moreover, if we are not able to comply with the requirements of Section 404 in a timely manner, or if we or our independent registered public accounting firm identifies deficiencies in our internal control over financial reporting that are deemed to be material weaknesses, the market price of our stock could decline and we could be subject to sanctions or investigations by the NYSE, SEC or other regulatory authorities, which would require additional financial and management resources.

Changes in Healthcare Law and Benefits 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. For example, these changes could reduce the number of persons enrolled or eligible for Medicaid, reduce the reimbursement or payment levels for medical services or reduce benefits included in Medicaid coverage. More generally, we are unable to predict whether new laws or proposals will favor or hinder the growth of managed healthcare. Legislation or regulations that require us to change our current manner of operation, benefits provided or our contract arrangements may seriously harm our operations and financial results.

If a State Fails to Renew a Required Federal Waiver for Mandated Medicaid Enrollment into Managed Care or Such Application is Denied, Our Membership in That State Will Likely Decrease.

States may administer Medicaid managed care programs pursuant to demonstration programs or required waivers of federal Medicaid standards. Waivers and demonstration programs are generally approved for two-year periods and can be renewed on an ongoing basis if the state applies. We have no control over this renewal process. If a state does not renew such a waiver or demonstration program or the Federal government denies a state's application for renewal, membership in our health plans in the state could decrease and our business could suffer.

Changes in Federal Funding Mechanisms May Reduce Our Profitability.

The Bush Administration has proposed a major long-term change in the way Medicaid and SCHIP are funded. The proposal, if adopted, would allow states to elect to receive, instead of federal matching funds, combined Medicaid-SCHIP "allotments" for acute and long-term healthcare for low-income, uninsured persons. Participating states would be given flexibility in designing their own health insurance programs, subject to federally-mandated minimum coverage requirements. It is uncertain whether this proposal will be enacted. Accordingly, it is unknown whether or how many states might elect to participate or how their participation may affect the net amount of funding available for Medicaid and SCHIP programs. If such a proposal is adopted and decreases the number of persons enrolled in Medicaid or SCHIP in the states in which we operate or reduces the volume of healthcare services provided, our growth, operations and financial performance could be adversely affected.

In April 2004, the Bush Administration adopted a new policy that seeks to reduce states' use of intergovernmental transfers for the states' share of Medicaid program funding. By restricting the use of intergovernmental transfers as part of states' Medicaid contributions, this policy, if continued, may restrict some states' funding for Medicaid, which could adversely affect our growth, operations and financial performance.

In February 2005, the Bush Administration called for changes in Medicaid that would cut payments for prescription drugs and give states new power to reduce or reconfigure benefits. The Administration has also proposed to reduce Federal Medicaid spending by $10 billion over the next five years. It is unclear whether, and if so, when, states (such as Texas) will receive supplemental Federal funds sufficient to reflect the unanticipated arrival of large numbers of beneficiaries from Gulf Coast areas evacuated as a result of

hurricanes Katrina and Rita. Any reduction or reconfiguration of state funding could adversely affect our growth, operations and financial performance.

Recent legislative changes in the Medicare program may also affect our business. For example, the Medicare Prescription Drug, Improvement and Modernization Act of 2003, enacted in December 2003, will, upon taking effect in 2006, revise cost-sharing requirements for some beneficiaries and require states to reimburse the federal Medicare program for costs of prescription drug coverage provided to beneficiaries who are enrolled simultaneously in both the Medicaid and Medicare programs. These changes may reduce the availability of funding for some states' Medicaid programs, which could adversely affect our growth, operations and financial performance.

If State Regulatory Agencies Require a Statutory Capital Level Higher than the State Regulations, We May Be Required to Make Additional Capital Contributions.

Our operations are conducted through our wholly owned subsidiaries, which include HMOs and managed care organizations, or MCOs. HMOs and MCOs are subject to state regulations that, among other things, require the maintenance of minimum levels of statutory capital, as defined by each state. Additionally, state regulatory agencies may require, at their discretion, individual HMO's to maintain statutory capital levels higher than the state regulations. If this were to occur to one of our subsidiaries, we may be required to make additional capital contributions to the affected subsidiary. Any additional capital contribution made to one of the affected subsidiaries could have a material adverse effect on our liquidity and our ability to grow.

If We Are Unable to Participate in SCHIP Programs, Our Growth Rate May be Limited.

SCHIP is a 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

Failure to Accurately Predict Our Medical Expenses Could Negatively Affect Our Reported Results.

Our medical expenses include estimates of IBNR medical expenses. 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 estimate IBNR accurately may also affect our ability to take timely corrective actions, further harming our results.

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 members. If premiums do not increase when expenses related to medical services rise, our earnings will be affected negatively. In addition, our actual medical services costs may exceed our estimates, which would cause our health benefits 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 health benefits ratio has fluctuated. For example, over the last six years, our health benefits ratio has ranged from 80.7% to 88.9%. Because of the narrow margins of our health plan business, relatively small changes in our health benefits 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.

Difficulties in Executing Our Acquisition Strategy Could Adversely Affect Our Business.

Historically, the acquisition of Medicaid businesses, 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. 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 (a) selling, along with their Medicaid assets, other assets in which we do not have an interest or (b) 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 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, and we could be required to renegotiate provider contracts of the acquired business. 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, our credit facility may prohibit some acquisitions without the consent of our bank lender.

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;
- provider networks that 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.

Accordingly, we may be unable to identify, consummate and integrate future acquisitions successfully 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.

If Competing Managed Care Programs are Unwilling to Purchase Specialty Services From Us, We May Not be Able to Successfully Implement Our Strategy of Diversifying Our Business Lines.

We are seeking to diversify our business lines into areas that complement our Medicaid business in order to grow our revenue stream and balance our dependence on Medicaid risk reimbursement. In 2005, for example, we acquired Airlogix, Inc., a disease management company. In order to diversify our business, we must succeed in selling the services of our specialty subsidiaries not only to our managed care plans, but to programs operated by third-parties. Some of these third-party programs may compete with us in some markets, and they therefore may be unwilling to purchase specialty services from us. In any event, the offering of these services will require marketing activities that differ significantly from the manner in which we seek to increase revenues from our Medicaid programs. Our inability to market specialty services to other programs may impair our ability to execute our business strategy.

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. 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 a Majority of Our Premium Revenues From Operations in a Small Number of States, and Our Operating Results Would be Materially Affected by a Decrease in Premium Revenues or Profitability in Any One of Those States.

Operations in Arizona, Indiana, Kansas, Missouri, New Jersey, Ohio, Texas and Wisconsin have accounted for most of our premium revenues to date. 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 could decrease materially. 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.

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 businesses. 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 we are 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.

From time to time providers assert or threaten to assert claims seeking to terminate noncancelable agreements due to alleged actions or inactions by us. Even if these allegations represent attempts to avoid or renegotiate contractual terms that have become economically disadvantageous to the providers, it is possible that in the future a provider may pursue such a claim successfully. In addition, we are aware that other managed care organizations have been subject to class action suits by physicians with respect to claim payment procedures, and we may be subject to similar claims. Regardless of whether any claims brought against us are successful or have merit, they will 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.

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.

Changes in Stock Option Accounting Rules May Have a Significant Adverse Affect on Our Operating Results.

We have a history of using broad based employee stock option programs to hire, incentivize and retain our workforce in a competitive marketplace. Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," allows companies the choice of either using a fair value method of accounting for options that would result in expense recognition for all options granted, or using an intrinsic value method, as prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," or APB 25, with a pro forma disclosure of the impact on net income (loss) of using the fair value option expense recognition method. We have previously elected to apply APB 25, and, accordingly, we generally have not recognized any expense with respect to employee stock options as long as such options are granted at exercise prices equal to the fair value of our common stock on the date of grant.

In December 2004, the Financial Accounting Standards Board issued SFAS 123R which would require all companies to measure compensation cost for all share-based payments, including employee stock options, at fair value. In April 2005 the SEC delayed the implementation until the first annual period beginning after June 15, 2005. We are required to adopt SFAS 123R by January 1, 2006. The effect of expensing stock options in accordance with the original SFAS 123 is presented in Note 2 of our Notes to Consolidated Financial Statements included elsewhere in this Form 10-Q. SFAS 123R also requires that the benefits associated with the tax deductions in excess of recognized compensation cost be reported as a financing cash flow, rather than as an operating cash flow as required under current literature. This presentation may reduce net operating cash flows and increase net financing cash flows in periods after the effective date. The amount of this excess tax deduction benefit was $4.5 million and $1.9 million in the nine months ended September 30, 2005 and 2004, respectively.

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 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 business strategy and forging our business relationships, our business and operating results could be harmed. 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 and specialty services industry with the breadth of skills and experience required to operate and successfully expand 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.

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.

Loss of Providers Due to Increased Insurance Costs Could Adversely Affect Our Business.

Our providers routinely purchase insurance to help protect themselves against medical malpractice claims. In recent years, the costs of maintaining commercially reasonable levels of such insurance have increased dramatically, and these costs are expected to increase to even greater levels in the future. As a result of the level of these costs, providers may decide to leave the practice of medicine or to limit their practice to certain areas, which may not address the needs of Medicaid participants. We rely on retaining a sufficient number of providers in order to maintain a certain level of service. If a significant number of our providers exit our provider networks or the practice of medicine generally, we may be unable to replace them in a timely manner, if at all, and our business could be adversely affected.

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. We cannot predict the impact of changes in the United States economic environment or other economic or political events, including acts of terrorism or related military action, on federal or state funding of healthcare programs or on the size of the population eligible for the programs we operate. If federal funding decreases or remains unchanged while our membership increases, our results of operations will 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 Our Medicaid Managed Care Business 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 Medicaid Managed Care segment 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.

Our information systems and applications require continual maintenance, upgrading and enhancement to meet our operational needs and regulatory requirements. 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.

We Rely on the Accuracy of Eligibility Lists Provided by State Governments. Inaccuracies in Those Lists Would Negatively Affect Our Results of Operations.

Premium payments to us are based upon eligibility lists produced by state governments. From time-to-time, states require us to reimburse them for premiums paid to us based on an eligibility list that a state later discovers contains individuals who are not in fact eligible for a government sponsored program or are eligible for a different premium category or a different program. Alternatively, a state could fail to pay us for members for whom we are entitled to payment. Our results of operations would be adversely affected as a result of such reimbursement to the state if we had made related payments to providers and were unable to recoup such payments from the providers.

We May Not be Able to Obtain or Maintain Adequate Insurance.

We maintain liability insurance, subject to limits and deductibles, for claims that could result from providing or failing to provide managed care and related services. These claims could be substantial. We believe that our present insurance coverage and reserves are adequate to cover currently estimated exposures. We cannot assure you that we will be able to obtain adequate insurance coverage in the future at acceptable costs or that we will not incur significant liabilities in excess of policy limits.

ITEM 3. ***Quantitative and Qualitative Disclosures About Market Risk.***

INVESTMENTS

As of September 30, 2005, we had short-term investments of $58.6 million and long-term investments of $152.7 million, including restricted deposits of $22.3 million. The short-term investments consist of highly liquid securities with maturities between three and twelve months. The long-term investments consist of municipal, corporate and U.S. agency bonds, life insurance contracts and U.S. Treasury investments and have maturities greater than one year. Restricted deposits consist of investments required by various state statutes to be deposited or pledged to state agencies. Due to the nature of the states' requirements, these investments are classified as long-term regardless of the contractual maturity date. Our investments are subject to interest rate risk and will decrease in value if market rates increase. Assuming a hypothetical and immediate 1% increase in market interest rates at September 30, 2005, the fair value of our fixed income investments would decrease by approximately $3.5 million. Declines in interest rates over time will reduce our investment income.

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. Due to the uncertainty surrounding the regulatory requirements, we cannot be sure that the systems and programs that we have implemented will comply adequately with the security regulations that are ultimately adopted. Implementation of additional systems and programs may be required. 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.

ITEM 4. ***Controls and Procedures.***

Evaluation of Disclosure Controls and Procedures

As of September 30, 2005, an evaluation was carried out under the supervision and with the participation of the Company's management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934). Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective to ensure that information required to be disclosed by the company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in applicable rules and forms.

Changes in Internal Control Over Financial Reporting During the Quarter Ended September 30, 2005

There were no significant changes in our internal controls over financial reporting that occurred during the Company's quarter ended September 30, 2005 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II

OTHER INFORMATION

ITEM 1. ***Legal Proceedings.***

Aurora Health Care, Inc. (Aurora) provides medical professional services under a contract with our Wisconsin health plan subsidiary. In May 2003, Aurora filed a lawsuit in the Milwaukee County Circuit Court claiming we had failed to adequately reimburse Aurora for services rendered during the period from 1998 to the present.

On September 1, 2005, we entered into a settlement and release agreement (Agreement) with Aurora which provides for complete and final settlement of the lawsuit. Under the terms of the Agreement, we paid $9.5 million to Aurora, $5 million of which was previously reserved and $4.5 million was recorded as a pre-tax charge in the quarter ended September 30, 2005. Both parties agreed on the rates for ambulatory services through December 31, 2005 when the current contract expires. Subsequent to entering into the agreement, both parties agreed to a new, five year contract that will become effective as of January 1, 2006.

ITEM 2. ***Unregistered Sales of Equity Securities and Use of Proceeds.***

None.

ITEM 3. ***Defaults Upon Senior Securities.***

None.

ITEM 4. ***Submission of Matters to a Vote of Security Holders.***

We held a Special Meeting of Stockholders on July 22, 2005. At the meeting, our stockholders approved amendments to our 2003 Stock Incentive Plan (the Plan) to the effect that the number of shares of common stock available under the Plan was increased from 3,750,000 to 5,100,000 among other changes. The results were 30,880,605 votes for, 4,052,675 votes against, and 52,268 abstentions.

ITEM 5. ***Other Information.***

None.

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ITEM 6. ***Exhibits***

Exhibits.

EXHIBIT NUMBER	DESCRIPTION
10.1	Contract Between the Georgia Department of Community Health and Peach State Contract for provision of Services to Georgia Healthy Families, incorporated herein by reference to Exhibit 10.1 of Form 8-K filed July 22, 2005.
10.2	2003 Stock Incentive Plan, as amended, incorporated herein by reference to Exhibit 10.1 of Form 8-K filed July 28, 2005.
10.3	Form of Restricted Stock Unit Agreement, incorporated herein by reference to Exhibit 10.2 of Form 8-K filed July 28, 2005.
10.4	Form of Nonstatutory Stock Option Agreement (Non-employees), incorporated herein by reference to Exhibit 10.3 of Form 8-K filed July 28, 2005.
10.5	Form of Nonstatutory Stock Option Agreement (Employees), incorporated herein by reference to Exhibit 10.4 of Form 8-K filed July 28, 2005.
10.6	Form of Incentive Stock Option Agreement, incorporated herein by reference to Exhibit 10.5 of Form 8-K filed July 28, 2005.
10.7	Form of Stock Appreciation Right Agreement, incorporated herein by reference to Exhibit 10.6 of Form 8-K filed July 28, 2005.
10.8	Form of Restricted Stock Agreement.
10.9	Amendment #1 to the Contract No. 0653 Between Georgia Department of Community Health and Peach State.
10.10	Settlement and Release Agreement with Aurora Health Care, Inc.
10.11	Amendment No. 2 to Credit Agreement dated as of September 14, 2004 among Centene Corporation, the various financial party hereto and LaSalle Bank National Association.
10.12	Summary of Compensatory Arrangements with Executive Officers.

12.1 Computation of ratio of earnings to fixed charges.

31.1 Certification of Chairman and Chief Executive Officer pursuant to Rule 13(a)-14(a) under the Securities Exchange Act of 1934, as amended.

31.2 Certification of Senior Vice President, Chief Financial Officer, Secretary and Treasurer pursuant to Rule 13(a)-14(a) under the Securities Exchange Act of 1934, as amended.

32.1 Certification of Chairman and Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of Senior Vice President, Chief Financial Officer, Secretary and Treasurer pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized as of October 25, 2005.

CENTENE CORPORATION

By: /s/ Michael F. Neidorff
Michael F. Neidorff
Chairman and Chief Executive Officer
(principal executive officer)

By: /s/ Karey L. Witty
Karey L. Witty
Senior Vice President, Chief Financial Officer,
Secretary and Treasurer
(principal financial and accounting officer)

Exhibit 10.8

CENTENE CORPORATION

Restricted Stock Agreement Granted Under
Amended and Restated 2003 Stock Incentive Plan

THIS AGREEMENT is entered into by Centene Corporation, a Delaware corporation (hereinafter the "Company"), and the undersigned [director] of the Company (hereinafter the "Participant").

WHEREAS, the Company desires to align the long-term interests of its directors with those of the Company by providing the ownership interest granted herein;

NOW, THEREFORE, in consideration of the foregoing and the mutual agreements herein contained, the parties hereto hereby agree as follows:

1. Issuance of Shares.

The Company is issuing to the Participant as of the date hereof, subject to the terms and conditions set forth in this Agreement and in the Company's Amended and Restated 2003 Stock Incentive Plan (the "Plan"), ______ shares (the "Shares") of common stock, $.001 par value, of the Company ("Common Stock"). The Participant agrees that the Shares shall be subject to the purchase option set forth in Section 2 of this Agreement and the restrictions on transfer set forth in Section 4 of this Agreement.

2. Purchase Option.

The Company shall have the right and option (the "Purchase Option") to purchase some or all of the Shares from the Participant for a sum of $.001 per Share (the "Option Price"), subject to the following:

(a) The Company may not exercise the Purchase Option until such time, if any, as the Participant ceases to be a director of the Company for a reason other than the Participant's death or "permanent and total disability" (as defined in the first sentence of Section 22(e)(3), or any successor provision, of the Internal Revenue Code of 1986, as amended from time to time).

(b) The Company may not exercise the Purchase Option upon or after the earliest to occur of (i) the date of the first annual meeting of stockholders of the Company (or any special meeting held in lieu of such annual meeting) to occur after the date of this Agreement, (ii) the occurrence of a Change in Control (as defined below) and (iii) the death of the Participant.

For purposes of clarity (and without limiting the foregoing), if the Participant continues to serve as a director of the Company until the date of the first annual meeting of stockholders of the Company (or any special meeting held in lieu of such annual meeting) to occur after the date of this Agreement, the Company shall never be entitled to exercise the Purchase Option with respect to any of the Shares.

A "Change in Control" shall be deemed to have occurred if any of the events set forth in any one of the following clauses shall occur: (i) any Person (as defined in section 3(a)(9) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and as such term is modified in sections 13(d) and 14(d) of the Exchange Act), excluding a group of persons including the Participant, is or becomes the "beneficial owner" (as defined in Rule 13(d)(3) under the Exchange Act), directly or indirectly, of securities of the Company representing forty percent or more of the combined voting power of the Company's then-outstanding securities; (ii) individuals who, as of the date of this Agreement, constitute the Board of Directors of the Company (the "Incumbent Board"), cease for any reason to constitute a

majority thereof (*provided, however,* that an individual becoming a director subsequent to the date of this Agreement whose election, or nomination for election by the Company's stockholders, was approved by at least a majority of the directors then comprising the Incumbent Board shall be included within the definition of Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of either an actual election contest (or such terms used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act) or other actual or threatened solicitation of proxies or consents by or on behalf of a person other than the Board of Directors of the Company); or (iii) the stockholders of the Company consummate a merger or consolidation of the Company with any other corporation, other than a merger or consolidation that would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least fifty percent of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation.

3. Exercise of Purchase Option and Closing.

(a) The Company may exercise the Purchase Option by delivering or mailing to the Participant (or his estate), within 90 days after the date on which the Participant ceases to be a director of the Company, a written notice of exercise of the Purchase Option. Such notice shall specify the number of Shares to be purchased. If and to the extent the Purchase Option is not so exercised by the giving of such a notice within such 90-day period, the Purchase Option shall automatically expire and terminate effective upon the expiration of such 90-day period.

(b) Within 10 days after delivery to the Participant of the Company's notice of the exercise of the Purchase Option pursuant to subsection (a) above, the Participant (or his estate) shall, pursuant to the provisions of the Joint Escrow Instructions referred to in Section 5 below, tender to the Company at its principal offices the certificate or certificates representing the Shares which the Company has elected to purchase in accordance with the terms of this Agreement, duly endorsed in blank or with duly endorsed stock powers attached thereto, all in form suitable for the transfer of such Shares to the Company. Promptly following its receipt of such certificate or certificates, the Company shall pay to the Participant the aggregate Option Price for such Shares (provided that any delay in making such payment shall not invalidate the Company's exercise of the Purchase Option with respect to such Shares).

(c) After the time at which any Shares are required to be delivered to the Company for transfer to the Company pursuant to subsection (b) above, the Company shall not pay any dividend to the Participant on account of such Shares or permit the Participant to exercise any of the privileges or rights of a stockholder with respect to such Shares, but shall, in so far as permitted by law, treat the Company as the owner of such Shares.

(d) The Option Price is payable in cash (by check).

(e) The Company shall not purchase any fraction of a Share upon exercise of the Purchase Option, and any fraction of a Share resulting from a computation made pursuant to Section 2 of this Agreement shall be rounded to the nearest whole Share (with any one-half Share being rounded upward).

(f) The Company may assign its Purchase Option to one or more persons or entities.

4. Restrictions on Transfer.

(a) The Participant shall not sell, assign, transfer, pledge, hypothecate or otherwise dispose of, by operation of law or otherwise (collectively "transfer") any Shares, or any interest therein,

that are subject to the Purchase Option, except that the Participant may transfer such Shares (i) to or for the benefit of any spouse, children, parents, uncles, aunts, siblings, grandchildren and any other relatives approved by the Board of Directors (collectively, "Approved Relatives") or to a trust established solely for the benefit of the Participant and/or Approved Relatives, provided that such Shares shall remain subject to this Agreement (including without limitation the restrictions on transfer set forth in this Section 4, the Purchase Option and the right of first refusal set forth in Section 5) and such permitted transferee shall, as a condition to such transfer, deliver to the Company a written instrument confirming that such transferee shall be bound by all of the terms and conditions of this Agreement or (ii) as part of the sale of all or substantially all of the shares of capital stock of the Company (including pursuant to a merger or consolidation), provided that, in accordance with the Plan, the securities or other property received by the Participant in connection with such transaction shall remain subject to this Agreement.

(b) The Participant shall not transfer any Shares, or any interest therein, that are no longer subject to the Purchase Option, except in accordance with Section 5 below.

5. Escrow.

The Participant shall, upon the execution of this Agreement, execute Joint Escrow Instructions in the form attached to this Agreement as Exhibit A. The Joint Escrow Instructions shall be delivered to the Secretary of the Company, as escrow agent thereunder. The Participant shall deliver to such escrow agent a stock assignment duly endorsed in blank, in the form attached to this Agreement as Exhibit B, and hereby instructs the Company to deliver to such escrow agent, on behalf of the Participant, the certificate(s) evidencing the Shares issued hereunder. Such materials shall be held by such escrow agent pursuant to the terms of such Joint Escrow Instructions.

6. Restrictive Legends.

All certificates representing Shares shall have affixed thereto legends in substantially the following form, in addition to any other legends that may be required under federal or state securities laws:

> "The shares of stock represented by this certificate are subject to restrictions on transfer and an option to purchase set forth in a certain Restricted Stock Agreement between the corporation and the registered owner of these shares (or his predecessor in interest), and such Agreement is available for inspection without charge at the office of the Secretary of the corporation."

7. Provisions of the Plan.

(a) This Agreement is subject to the provisions of the Plan, a copy of which is furnished to the Participant with this Agreement.

(b) As provided in the Plan, upon the occurrence of a Reorganization Event (as defined in the Plan), the repurchase and other rights of the Company hereunder shall inure to the benefit of the Company's successor and shall apply to the cash, securities or other property which the Shares were converted into or exchanged for pursuant to such Reorganization Event in the same manner and to the same extent as they applied to the Shares under this Agreement. If, in connection with a Reorganization Event, a portion of the cash, securities and/or other property received upon the conversion or exchange of the Shares is to be placed into escrow to secure indemnification or similar obligations, the mix between the vested and unvested portion of such cash, securities and/or other property that is placed

into escrow shall be the same as the mix between the vested and unvested portion of such cash, securities and/or other property that is not subject to escrow.

8. Withholding Taxes; Section 83(b) Election.

(a) The Participant acknowledges and agrees that the Company has the right to deduct from payments of any kind otherwise due to the Participant any federal, state or local taxes of any kind required by law to be withheld with respect to the purchase of the Shares by the Participant or the lapse of the Purchase Option.

(b) The Participant has reviewed with the Participant's own tax advisors the federal, state, local and foreign tax consequences of this investment and the transactions contemplated by this Agreement. The Participant is relying solely on such advisors and not on any statements or representations of the Company or any of its agents. The Participant understands that the Participant (and not the Company) shall be responsible for the Participant's own tax liability that may arise as a result of this investment or the transactions contemplated by this Agreement. The Participant understands that it may be beneficial in many circumstances to elect to be taxed at the time the Shares are purchased rather than when and as the Company's Purchase Option expires by filing an election under Section 83(b) of the Internal Revenue Code of 1986 with the I.R.S. within 30 days from the date of purchase.

THE PARTICIPANT ACKNOWLEDGES THAT IT IS THE PARTICIPANT'S SOLE RESPONSIBILITY AND NOT THE COMPANY'S TO FILE TIMELY THE ELECTION UNDER SECTION 83(b), EVEN IF THE PARTICIPANT REQUESTS THE COMPANY OR ITS REPRESENTATIVES TO MAKE THIS FILING ON THE PARTICIPANT'S BEHALF.

9. Miscellaneous.

(a) Severability. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, and each other provision of this Agreement shall be severable and enforceable to the extent permitted by law.

(b) Waiver. Any provision for the benefit of the Company contained in this Agreement may be waived, either generally or in any particular instance, by the Board of Directors of the Company.

(c) Binding Effect. This Agreement shall be binding upon and inure to the benefit of the Company and the Participant and their respective heirs, executors, administrators, legal representatives, successors and assigns, subject to the restrictions on transfer set forth in Section 4 of this Agreement.

(d) Notice. All notices required or permitted hereunder shall be in writing and deemed effectively given upon personal delivery or five days after deposit in the United States Post Office, by registered or certified mail, postage prepaid, addressed to the other party hereto at the address shown beneath his or its respective signature to this Agreement, or at such other address or addresses as either party shall designate to the other in accordance with this Section 9(d).

(e) Pronouns. Whenever the context may require, any pronouns used in this Agreement shall include the corresponding masculine, feminine or neuter forms, and the singular form of nouns and pronouns shall include the plural, and vice versa.

(f) Entire Agreement. This Agreement and the Plan constitute the entire agreement between the parties, and supersedes all prior agreements and understandings, relating to the subject matter of this Agreement.

(g) Amendment. This Agreement may be amended or modified only by a written instrument executed by both the Company and the Participant.

(h) Governing Law. This Agreement shall be construed, interpreted and enforced in accordance with the internal laws of the State of Delaware without regard to any applicable conflicts of laws.

(i) Participant's Acknowledgments. The Participant acknowledges that he or she: (i) has read this Agreement; (ii) has been represented in the preparation, negotiation, and execution of this Agreement by legal counsel of the Participant's own choice or has voluntarily declined to seek such counsel; (iii) understands the terms and consequences of this Agreement; (iv) is fully aware of the legal and binding effect of this Agreement; and (v) understands that the law firm of Wilmer Cutler Pickering Hale and Dorr LLP, is acting as counsel to the Company in connection with the transactions contemplated by the Agreement, and is not acting as counsel for the Participant.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

CENTENE CORPORATION

____

By:
Its:

____

[Name of Participant]

Address: ________________________

____

AMENDMENT #1 TO CONTRACT NO. 0653 BETWEEN GEORGIA DEPARTMENT OF COMMUNITY HEALTH AND PEACH STATE

This Amendment is between the Georgia Department of Community Health (hereinafter referred to as "DCH" or the "Department") and Peach State (hereinafter referred to as "Contractor") and is made effective the 16th day of August, 2005 (hereinafter referred to as the "Effective Date"). Other than the changes, modifications and additions specifically articulated in this Amendment #1 to Contract # 0653, the original Contract shall remain in effect and binding on and against DCH and Contractor. Unless expressly modified or added in this Amendment #1, the terms and conditions of the original Contract are expressly incorporated into this Amendment #1 as if completely restated herein.

WHEREAS, DCH and Contractor executed a contract for the provision of services to Georgia Healthy Families; and,

WHEREAS, pursuant to **Section 32.0,** ***Amendments in Writing***, DCH and Contractor desire to amend the above-referenced Contract by adding additional funding as set forth below.

NOW THEREFORE, for and in consideration of the mutual promises of the Parties, the terms, provisions and conditions of this Amendment and other good and valuable consideration, the sufficiency of which is hereby acknowledged, DCH and Contractor hereby agree as follows:

I. To delete the current **Attachment H** in its entirety and insert in lieu thereof the **Attachment H** of this Amendment No. 1.

II. DCH and Contractor agree that they have assumed an obligation to perform the covenants, agreements, duties and obligations of the Contract, as modified and amended herein, and agree to abide by all the provisions, terms and conditions contained in the Contract as modified and amended.

III. This Amendment shall be binding and inure to the benefit of the parties hereto, their heirs, representatives, successors and assigns. Whenever the provisions of this Amendment and the Contract are in conflict, the provisions of this Amendment shall take precedence and control.

IV. It is understood by the Parties hereto that, if any part, term, or provision of this Amendment or this entire Amendment is held to be illegal or in conflict with any law of this State, then DCH, at its sole option, may enforce the remaining unaffected portions or provisions of this Amendment or of the Contract and the rights and obligations of the parties shall be construed and enforced as if the Contract or Amendment did not contain the particular part, term or provision held to be invalid.

V. This Amendment shall become effective as stated herein and shall remain effective for so long as the Contract is in effect.

VI. This Amendment shall be construed in accordance with the laws of the State of Georgia.

VII. All other terms and conditions contained in the Contract and any amendment thereto, not amended by this Amendment, shall remain in full force and effect.

VIII. The Contractor and the Department agree that in the event of a disagreement regarding, arising out of, or related to contract language interpretation, the Department's interpretation of the contract language in dispute shall control and govern. The Department's interpretation of the contract language in dispute shall not be subject to appeal under any circumstance.

IX. In the event that the Department has entered into or enters into agreements with other Contractors for additional work related to the services rendered hereunder, the Contractor agrees to cooperate fully with such other Contractors. The Contractor shall not commit any act that will interfere with the performance of work by any other Contractor.

Additionally, if the Department eventually awards this Contract to another Contractor, the Contractor agrees that it will not engage in any behavior or inaction that prevents or hinders the work related to the services contracted for in this contract. In fact, the Contractor agrees to submit a written turn-over plan and/or transition plan to the Department within thirty (30) days of receiving the Department's intent to terminate letter. The Parties agree that the Contractor has not successfully met this obligation until the Department accepts its turn-over plan and/or transition plan.

The Contractor's failure to cooperate and comply with this provision, shall be sufficient grounds for the Department to halt all payments due or owing to the Contractor until it becomes comply with this or any other contract provision. The Department's determination on the matter shall be conclusive and not subject to appeal.

SIGNATURES ON THE FOLLOWING PAGE

IN WITNESS WHEREOF, DCH and Contractor, through their authorized officers and agents, have caused this Amendment to be executed on their behalf as of the date indicated.

GEORGIA DEPARTMENT OF COMMUNITY HEALTH

/s/ Tim Burgess
Tim Burgess, Commissioner

CONTRACTOR

BY: /s/ Daniel R. Paquin
* SIGNATURE

Daniel R. Paquin
Please Print/Type Name Here

AFFIX CORPORATE SEAL HERE
(Corporations without a seal, attach a Certificate of Corporate Resolution)

ATTEST: /s/ Brenda Williams
** SIGNATURE

Vice President
TITLE

* Must be President, Vice President, CEO or Other Authorized Officer
** Must be Corporate Secretary

DOAS STATE PURCHASING REPRESENTATIVE, SIGNED AS TO FORM:

By: /s/ Ann Maize Date: 8/18/05
Printed Name and Title **Ann Maize, Contracting Officer**

ATTACHMENT H

Amended August 16, 2005

Attachment H is a table displaying the contracted rates by rate cell for each contracted region. These rates will be the basis for calculating capitation payments in each contracted Region.

Contracted Rates by Region

CMO NAME		Peach State		
Rate Category		**Atlanta**	**Central**	**Southwest**
LIM/RSM/Refugee				
	0 - 2 Months Male & Female	$ 1,104.24	$ 1,103.50	$ 1,110.28
	3 - 11 Months Male & Female	$ 177.85	$ 207.41	$ 227.72
	1 - 5 Years Male & Female	$ 106.42	$ 115.05	$ 129.47
	6 - 13 Years Male & Female	$ 101.41	$ 105.43	$ 117.05
	14 - 20 Years Female	$ 166.58	$ 163.17	$ 186.23
	14 - 20 Years Male	$ 116.04	$ 100.47	$ 119.13
	21 - 44 Years Female	$ 227.50	$ 257.47	$ 280.71
	21 - 44 Years Male	$ 255.65	$ 280.71	$ 273.03
	45+ Years Female	$ 388.74	$ 467.06	$ 498.66
	45+ Years Male	$ 515.63	$ 556.30	$ 566.88
PeachCare				
	0 - 2 Months Male & Female	$ 181.55	$ 187.38	$ 190.06
	3 - 11 Months Male & Female	$ 181.55	$ 187.38	$ 199.92
	1 - 5 Years Male & Female	$ 109.87	$ 124.44	$ 138.65
	6 - 13 Years Male & Female	$ 131.20	$ 135.94	$ 152.27
	14 - 20 Years Female	$ 156.06	$ 163.26	$ 181.89
	14 - 20 Years Male	$ 144.31	$ 139.60	$ 149.64
Female Services				
	Breast and Cervical Cancer	$ 1,756.82	$ 1,606.62	$ 1.637.93
Maternity and Delivery Services		**Unit Cost**	**Unit Cost**	**Unit Cost**
Kick Payment		$ 5,796.83	$ 5,759.46	$ 5,709.09

Exhibit 10.10

STATE OF WISCONSIN CIRCUIT COURT MILWAUKEE COUNTY

AURORA HEALTH CARE, INC.
a Wisconsin nonprofit corporation
3000 West Montana
Milwaukee, Wisconsin 53215,

Plaintiff,

v.

Case No: 03-CV-004712
Case Code: 30303

MANAGED HEALTH SERVICES
INSURANCE CORPORATION
c/o Robert J. Johannes, MIBEF Corporate
Services, Inc. Registered Agent
100 East Wisconsin Avenue
Suite 3300
Milwaukee, Wisconsin 53202,

Defendant.

CONFIDENTIAL SETTLEMENT AND RELEASE AGREEMENT

This Settlement and Release Agreement ("Agreement") is made this 31st day of August, 2005, between Aurora Health Care, Inc. of 3000 West Montana, Milwaukee, WI 53215 ("Aurora") and Managed Health Services Insurance Corporation, 1205 S. 70th Street, Suite 500, West Allis, WI 53214-3167 ("MHS").

I. PURPOSE

This agreement is made as a compromise between the parties for the complete and final settlement of their claims, differences, and causes of action with respect to the dispute described below.

II. STATEMENT OF DISPUTE

The litigation captioned *Aurora Health Care, Inc. v. Managed Health Services Insurance Corporation*, Circuit Court Case No. 03-CV-004712; Appeal Case No. 2005AP001202 ("the Action") has been fully and finally resolved between the parties through this Agreement. Both MHS and Aurora stipulate and agree that the Action will be dismissed with prejudice and without costs within two business days after receipt of the wire transfer Payment described in Section 3 below (hereinafter, the "Effective Date").

III. TERMS OF SETTLEMENT

In consideration of the mutual covenants set forth, the parties agree as follows:

A. MHS agrees to pay to Aurora $9,500,000, to be paid as a lump sum on or before September 2, 2005 (the “Payment”). The Payment shall be made payable to Aurora Health Care, Inc.

B. The Hospital Services Agreement (“HSA”) between the parties continues to operate by its terms except as amended herein. MHS agrees to amend the HSA with Aurora and its affiliated organizations to reduce the required Notice of Termination period from 120 days to 90 days.

C. The Payment encompasses and resolves all Aurora ambulatory surgery reimbursement claims under the HSA presently submitted to, and marked for payment by MHS, through August 31, 2005 (the “Submitted Date”). For ambulatory surgery submissions thereafter, Aurora agrees to accept MHS’s ambulatory surgery reimbursement as modified by the lists attached hereto and made a part hereof as Exhibits A and B, at the ambulatory surgery rate through the remainder of the current Hospital Services Agreement that expires on December 31, 2005 for (1) any procedure listed in Exhibit A; and (2) for any procedure listed in Exhibit B and billed with a 360 revenue code.

D. Aurora agrees to withdraw its Notice of Termination dated August 24, 2005 on the Effective Date.

E. MHS and Aurora agree to engage in good faith negotiations to arrive at a new, long term Hospital Services Agreement that will become effective January 1, 2006. Nothing in this Agreement required the parties to reach agreement or continue any contractual relationship.

F. Upon execution of a new Hospital Services Agreement, MHS and Aurora both agree to issue a joint press release that will address the resolution of this litigation as well as the positive nature of any agreed ongoing relationship between MHS and Aurora.

G. Both MHS and Aurora, on the Effective Date shall authorize their respective counsel to execute and cause to be filed a stipulation and order dismissing the action with prejudice and without costs or attorneys' fees to any party. Both parties also agree to withdraw their respective pending appeals.

IV. EFFECT OF AGREEMENT

A. MHS and Aurora hereby release and discharge each other, and each other's parent, subsidiaries and other affiliated entities, successors, assigns, officers, directors, shareholders, members, employees, attorneys, and agents, from any and all claims, obligations, and liabilities which either party ever had, or now has against each other, known or unknown, arising in any way out of the Action as stated by the parties in their respective Complaint; Amended Complaint; and Second Amended Complaint for Declaratory Relief; and responses thereto, including all claims for payment under the Hospital Services Agreement for ambulatory surgery reimbursement through the Submitted Date.

B. This agreement shall be binding on and inure to the benefit of MHS, Aurora, and their respective legal representatives, successors, and assigns.

C. This Agreement contains the full and complete agreement of the parties, and all other prior negotiations and agreements pertaining to such subject matter are merged into this Agreement. Both MHS and Aurora hereby expressly disclaim reliance upon any facts, promises, undertakings or representations made by any other party or person, or such party or person's agents, representatives or attorneys, prior to the date of execution of this Agreement. No oral representations or understandings concerning the subject matter herein shall operate to amend, supercede, or replace any of the provisions of this Agreement. Each party to this Agreement has

had the benefit of counsel of its own choice, has been afforded the opportunity to review this Agreement with its chosen counsel, and executes this Agreement of its own free will for the purposes and considerations expressed herein.

Dated this 31st day of August, 2005.

AURORA HEALTH CARE, INC.

By: /s/ Donald Nestor
Title: EVP & CFO

MANAGED HEALTH SERVICES
INSURANCE CORPORATION

By: /s/ James D. Donovan
Title: Director

Exhibit 10.11

AMENDMENT NO. 2
(dated and effective September 9, 2005)
to
CREDIT AGREEMENT
(that was dated as of September 14, 2004)
by and among
LASALLE BANK NATIONAL ASSOCIATION,
as Administrative Agent and Co-Lead Arranger,
WACHOVIA CAPITAL MARKETS, LLC, as Co-Lead Arranger,
WACHOVIA BANK, NATIONAL ASSOCIATION, as Co-Syndication Agent,
NATIONAL CITY BANK OF THE MIDWEST, as Co-Syndication Agent,
the LENDERS, and
CENTENE CORPORATION,
as Company

In consideration of their mutual agreements herein and for other sufficient consideration, the receipt of which is hereby acknowledged, CENTENE CORPORATION, a Delaware corporation (*Company*), LASALLE BANK NATIONAL ASSOCIATION (*Administrative Agent*), and the Lenders agree as follows:

1. Definitions; Section References. The term *Original Loan Agreement* means the Credit Agreement dated as of September 14, 2004 among Company, Administrative Agent, and the Lenders party thereto, as amended by that certain Amendment No. 1 thereto dated as of July 18, 2005. The term *this Amendment* means this Amendment No. 2. The term *Loan Agreement* means the Original Loan Agreement as amended by this Amendment. Capitalized terms used and not otherwise defined herein have the meanings defined in the Loan Agreement. Section and Exhibit references are to sections of, and exhibits to, respectively, the Original Loan Agreement unless otherwise specified.

2. Conditions to Effectiveness of this Amendment. This Amendment is effective as of September 9, 2005, but only if, on or before 2:00 p.m. Chicago time on September 9, 2005, (i) this Amendment has been duly executed by Company, Administrative Agent, and each Lender, and (ii) except as otherwise indicated on Exhibit A to this Amendment, all of the documents listed on Exhibit A to this Amendment have been delivered and, as applicable, executed, sealed, attested, acknowledged, certified, or authenticated, each in form and substance satisfactory to Administrative Agent, and all of the requirements described in Exhibit A to this Amendment shall have been met.

3. Amendments to Original Loan Agreement. The Original Loan Agreement is hereby amended as follows:

3.1. Agent Fee Letter. The definition of “Agent Fee Letter” in Section 1 is deleted in its entirety and replaced with the following:

Agent Fee Letter means the fee letter dated as of August 9, 2005 between the Company and the Administrative Agent.

3.2. Applicable Margin. The definition of "Applicable Margin" in Section 1 is amended by deleting the table therein in its entirety and replacing it with the following:

Level	Total Debt to EBITDA Ratio	LIBOR Margin	Base Rate Margin	Non-Use Fee Rate	L/C Fee Rate
I	Greater than or equal to 1.5:1	1.75%	0.25%	0.350%	1.75%
II	Greater than or equal to 1.0:1 but less than 1.5:1	1.50%	0.00%	0.300%	1.50%
III	Greater than or equal to 0.5:1 but less than 1.0:1	1.25%	0.00%	0.250%	1.25%
IV	Less than 0.5:1	1.00%	0.00%	0.225%	1.00%

3.3. Collateral Documents. The definition of "Collateral Documents" in Section 1 is deleted in its entirety and replaced with the following:

Collateral Documents means, collectively, any agreement or instrument pursuant to which the Company, any Subsidiary or any other Person grants or purports to grant Collateral to the Administrative Agent for the benefit of the Lenders or otherwise relates to such Collateral or guaranties the payment and/or performance of the Obligations.

3.4. Guaranty. The definition of "Guaranty" in Section 1 is deleted in its entirety.

3.5. Loan Party. The definition of "Loan Party" in Section 1 is deleted in its entirety and replaced with the following:

Loan Party means the Company and each of its Subsidiaries (direct or indirect, whether now existing or hereafter created) separately, excluding any Dormant Subsidiary so long as it qualifies as a Dormant Subsidiary hereunder, but specifically including Centene Management Company LLC, a Wisconsin limited liability company, Centene Company of Texas, L.P., a Texas limited partnership, Managed Health Services Insurance Corp., a Wisconsin corporation, Superior HealthPlan, Inc., a Texas corporation, Coordinated Care Corporation Indiana, Inc., an Indiana corporation, Managed Health Services Illinois, Inc., an Illinois corporation, MHS Consulting Corporation, a Wisconsin corporation, Bankers Reserve Life Insurance Company of Wisconsin, a Wisconsin insurance company, University Health Plans, Inc., a New Jersey corporation, CenCorp Consulting Company, Inc., a Delaware corporation, Centene Finance Corporation, a Delaware corporation, Buckeye Community Health Plan, Inc., an Ohio corporation, Centene Holdings LLC, a Delaware limited liability company, CCTX Holdings, LLC, a Delaware limited liability company, AirLogix, Inc., a Delaware corporation, FirstGuard, Inc., a Delaware corporation, FirstGuard Health Plan, Inc., a Missouri corporation, and Peach State Health Plan, Inc., a Georgia corporation. The words "Loan Parties" refer to the Company and its now existing or hereafter created Subsidiaries (whether direct or indirect), excluding any Dormant Subsidiary so long as it qualifies as a Dormant Subsidiary hereunder, but specifically including each of the Persons specifically mentioned

in the prior sentence, collectively. The Company agrees that any Subsidiary which is a Dormant Subsidiary will automatically become a Loan Party hereunder without any further action if at any time such Subsidiary ceases to be a Dormant Subsidiary.

3.6. Pledge Agreement. The definition of "Pledge Agreement" in Section 1 is deleted in its entirety.

3.7. Required Lenders. The definition of "Required Lenders" in Section 1 is deleted in its entirety and replaced with the following:

Required Lenders means, at any time, Lenders who have Pro Rata Shares which equal or exceed 51% as determined pursuant to clause (b) of the definition of "Pro Rata Share".

3.8. Revolving Commitment. The definition of "Revolving Commitment" in Section 1 is amended by replacing the figure "$100,000,000.00" with the figure "$200,000,000.00".

3.9. Termination Date. The definition of "Termination Date" in Section 1 is amended by replacing the date "September 14, 2009" with the date "September 9, 2010".

3.10. Increase in Revolving Commitment. Section 2.1.2 is amended by replacing the words "up to an aggregate amount not exceeding $75,000,000 (resulting in a maximum Revolving Commitment of $175,000,000)" in the first sentence with the words "up to an aggregate amount not exceeding $75,000,000 (resulting in a maximum Revolving Commitment of $275,000,000)".

3.11. L/C Commitment. Section 2.1.3 is amended by replacing the words "the aggregate Stated Amount of all Letters of Credit shall not at any time exceed $20,000,000" in clause (a) with the words "the aggregate Stated Amount of all Letters of Credit shall not at any time exceed $50,000,000".

3.12. Application of Certain Payments. Section 7.2 is amended by deleting the words "all amounts collected or received by the Administrative Agent or any Lender as proceeds from the sale of, or other realization upon, all or any part of the Collateral shall be applied in the following order" and replacing them with the words "all amounts collected or received by the Administrative Agent or any Lender, including amounts collected or received as proceeds from the sale of, or other realization upon, all or any part of the Collateral, shall be applied in the following order".

3.13. Financial Condition. Section 9.4 is amended by replacing the dates "December 31, 2003" and "June 30, 2004" with the dates "December 31, 2004" and "June 30, 2005", respectively.

3.14. No Material Adverse Change. Section 9.5 is amended by replacing the date "December 31, 2003" with the date "December 31, 2004".

3.15. Equity Ownership. Section 9.8 is amended by deleting the words "other than those in favor of the Administrative Agent".

3.16. Collateral Documents. Section 9.30 is deleted in its entirety and replaced with the following:

9.30 Collateral Documents. Each Collateral Document (if any) is effective to grant to Administrative Agent an enforceable Lien in the Collateral described therein (if any). Upon appropriate filing (as to all Collateral (if any) in which a Lien may be perfected under the UCC by filing) or Administrative Agent's taking possession or control (as to all Collateral (if any) in which a Lien may be perfected under the UCC by possession or control by the secured party), Administrative Agent will have (for the benefit of the Lenders) a fully perfected first priority Lien in the Collateral described in each Collateral Document, if any.

3.17. Negative Pledges. Section 9.31 is amended by inserting the words "(if any)" at the end thereof.

3.18. Insurance. Section 10.3(c) is amended by inserting the following preamble at the beginning thereof: "The following paragraph applies in the event that any Loan Party grants Administrative Agent or any Lender a Lien on any Collateral at any time:"

3.19. Further Assurances. Section 10.11 is deleted in its entirety and replaced with the following:

10.11 Further Assurances. Take, and cause each other Loan Party to take, such actions as are necessary or as the Administrative Agent or the Required Lenders may reasonably request from time to time to carry out the terms and conditions of this Agreement and the other Loan Documents.

3.20. Debt. Section 11.1 is amended by deleting clauses (c), (d), and (g) in their entirety and replacing them with the following, respectively:

(c) Debt of Loan Parties other than the Company (and which is non-recourse to the Company) secured by Liens on real property permitted by Section 11.2(d), and extensions, renewals and refinancings thereof; provided that the aggregate amount of all such Debt at any time outstanding shall not exceed $30,000,000;

(d) (i) Debt which is unsecured provided that (x) the incurrence of such Debt would not cause, either immediately or in the foreseeable future, a violation of the covenant contained in Section 11.14.2 and (y) the documents governing such Debt do not contain covenants (including quantitative covenants and financial covenants) which are more restrictive than the covenants contained in this Agreement or which the Loan Parties could violate without violating the covenants contained in this Agreement, and (ii) Subordinated Debt which is unsecured;

(g) Debt under Capital Leases for capital assets whose aggregate cost if purchased would not exceed $30,000,000;

3.21. Acquisitions. Section 11.5 is amended by deleting clause (G) in its entirety and replacing it with the following: "(G) reserved." and by deleting the last sentence of Section 11.5 which begins with the words "The condition contained in clause (G)" in its entirety.

3.22. Fixed Charge Coverage Ratio. Section 11.14.1 is amended by replacing the words "less than 1.50 to 1.00" with the words "less than 1.75 to 1.00".

3.23. Minimum Net Worth. Section 11.14.3 is deleted in its entirety and replaced with the following:

11.14.3 Minimum Net Worth. Not permit the Net Worth of the Company and its Subsidiaries to be less than $255,000,000 as of September 9, 2005, or as of the end of each Fiscal Quarter to be less than an amount equal to the sum of $255,000,000 plus the sum of (a) an amount equal to 50% of Consolidated Net Income (without deduction for losses) on a cumulative basis from and after July 1, 2005, (b) an amount equal to 50% of the net proceeds (defined as gross proceeds less reasonable brokers' and underwriters' fees and commissions and other reasonable expenses of the issuance) of the issuance by Company or any other Loan Party of any Capital Securities on a cumulative basis from the Closing Date through the date of measurement, and (c) an amount equal to 50% of any increase in the Net Worth of the Company and its Subsidiaries associated with an Acquisition permitted by Section 11.5 on a cumulative basis from the Closing Date through the date of measurement.

3.24. Capital Structure; Equity Securities. Section 11.17 is deleted in its entirety and replaced with the following:

11.17 Capital Structure; Equity Securities. Not, and not permit any other Loan Party to, (i) make any change in its capital structure which has or could have a Material Adverse Effect; or (ii) create any new class of stock, issue any stock, or create or issue any other equity or non-equity securities except for stock or other equity or non-equity securities which at the time of issuance would not, and which at any time thereafter could not, obligate Company or any other Loan Party to violate Section 11.4.

3.25. New Subsidiaries. Section 11.18 is amended by deleting the text of clauses (i) and (iii) in their entirety and replacing it with "reserved".

3.26. Pledge Agreement. Section 12.1.5 is amended by deleting the text thereof in its entirety and replacing it with "Reserved."

3.27. Guaranty. Section 12.1.6 is amended by deleting the text thereof in its entirety and replacing it with "Reserved."

3.28. Waiver; Amendments. Section 15.1 is amended by deleting the text of clause (d) in its entirety and replacing it with the following: "release all or any material Collateral granted under the Collateral Documents, change the definition of Required Lenders, any provision of this Section 15.1, or reduce the aggregate Pro Rata Share required to effect an amendment, modification, waiver or consent, without, in each case, the written consent of all Lenders."

3.29. Annex A. Annex A is deleted in its entirety and replaced with Annex A attached hereto.

3.30. Annex B. Annex B is deleted in its entirety and replaced with Annex B attached hereto.

3.31. Exhibit B. Exhibit B is deleted in its entirety and replaced with Exhibit B attached hereto.

3.32. Schedules. Schedules 9.23 and 11.1 are amended as described in Exhibit C attached hereto.

4. Representations and Warranties. Company hereby represents and warrants to Administrative Agent and each Lender that (i) this Amendment and each and every other document and instrument delivered by Company in connection with this Amendment (each, an Amendment Document and, collectively, the *Amendment Documents*) has been duly authorized by its Board of Directors, (ii) no consents are necessary from any third Person for its execution, delivery or performance of the Amendment Documents to which it is a party which have not been obtained and a copy thereof delivered to Administrative Agent, (iii) each of the Amendment Documents to which it is a party constitutes its legal, valid and binding obligation enforceable against it in accordance with its terms, except to the extent that the enforceability thereof against it may be limited by bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium or similar laws affecting the enforceability of creditors' rights generally or by equitable principles of general application (whether considered in an action at law or in equity), (iv) all of the representations and warranties contained in the Loan Agreement, as amended hereby, are true and correct with the same force and effect as if made on and as of the effective date of this Amendment, except that with respect to the representations and warranties made regarding financial data, such representations and warranties are hereby made with respect to the most recent financial statements and other financial data (in the form required by the Original Loan Agreement) delivered by it to Administrative Agent, and (v) there exists no Unmatured Event of Default or Event of Default under the Original Loan Agreement.

5. Effect of Amendment. The execution, delivery and effectiveness of this Amendment shall not operate as a waiver of any right, power or remedy of Administrative Agent or the Lenders under the Original Loan Agreement or any of the other Loan Documents, nor constitute a waiver of any provision of the Original Loan Agreement or any of the other Loan Documents or any Unmatured Event of Default or Event of Default, nor act as a release or subordination of the Liens of Administrative Agent under the Loan Documents, except as expressly provided herein. Each reference in the Original Loan Agreement to *the Agreement*, *hereunder*, *hereof*, *herein*, or words of like import, shall be read as referring to the Original Loan Agreement as amended hereby. Each reference in the other Loan Documents to the *Loan Agreement* shall be read as referring to the Original Loan Agreement, as amended hereby.

6. Release of Collateral and Guaranty. Upon the effectiveness of this Amendment, Administrative Agent releases its Lien on all Capital Securities, dividends, and proceeds thereof previously pledged to Administrative Agent by Company or any other Loan Party and releases the Guaranty.

7. Reaffirmation. Company hereby acknowledges and confirms that (i) except as expressly amended hereby, the Original Loan Agreement and other Loan Documents remain in full force and effect, (ii) the Loan Agreement, as amended hereby, is in full force and effect, (iii) it has no defenses to its obligations under the Loan Agreement or any of the other Loan Documents to which it is a party, (iv) the Liens of Administrative Agent under the Loan Documents continue in full force and effect and have the same priority as before this Amendment except as expressly provided herein, and (v) it has no claim against Administrative Agent or any Lender arising from or in connection with the Loan Agreement or the other Loan Documents.

8. Counterparts. This Amendment may be executed by the parties hereto on any number of separate counterparts, each of which shall be deemed an original, but all of which counterparts taken together shall constitute one and the same instrument. It shall not be necessary in making proof of this Amendment to produce or account for more than one counterpart signed by the party to be charged.

9. Counterpart Facsimile Execution. This Amendment, or a signature page thereto intended to be attached to a copy of this Amendment, signed and transmitted by facsimile machine or telecopier shall be deemed and treated as an original document. The signature of any Person thereon, for purposes hereof, is

to be considered as an original signature, and the document transmitted is to be considered to have the same binding effect as an original signature on an original document. At the request of any party hereto, any facsimile or telecopy document is to be re-executed in original form by the Persons who executed the facsimile or telecopy document. No party hereto may raise the use of a facsimile machine or telecopier or the fact that any signature was transmitted through the use of a facsimile or telecopier machine as a defense to the enforcement of this Amendment.

10. Governing Law. This Amendment and the rights and obligations of the parties hereunder shall be governed by and construed and interpreted in accordance with the internal laws of the State of Illinois applicable to contracts made and to be performed wholly within such state, without regard to choice or conflict of laws provisions.

11. Section Titles. The section titles in this Amendment are for convenience of reference only and shall not be construed so as to modify any provisions of this Amendment.

12. Incorporation By Reference. Administrative Agent, the Lenders, and Company hereby agree that all of the terms of the Loan Documents are incorporated in and made a part of this Amendment by this reference.

13. New Titles. Wachovia Capital Markets, LLC is hereby given the title of "Co-Lead Arranger" under the Loan Agreement and the Loan Documents, Wachovia Bank, National Association is hereby given the title of "Co-Syndication Agent" under the Loan Agreement and the Loan Documents, and National City Bank of the Midwest is hereby given the title of "Co-Syndication Agent" under the Loan Agreement and the Loan Documents. Nothing contained in the foregoing sentence shall give Wachovia Capital Markets, LLC, Wachovia Bank, National Association or National City Bank of the Midwest any additional rights or obligations under the Loan Agreement or the Loan Documents.

14. Statutory Notice - Oral Commitments. Nothing contained in such notice shall be deemed to limit or modify the terms of the Loan Documents or this Amendment:

> **ORAL AGREEMENTS OR COMMITMENTS TO LOAN MONEY, EXTEND CREDIT OR TO FORBEAR FROM ENFORCING REPAYMENT OF A DEBT INCLUDING PROMISES TO EXTEND OR RENEW SUCH DEBT ARE NOT ENFORCEABLE. TO PROTECT YOU (COMPANY) AND US (CREDITOR) FROM MISUNDERSTANDING OR DISAPPOINTMENT, ANY AGREEMENTS WE REACH COVERING SUCH MATTERS ARE CONTAINED IN THIS WRITING, WHICH IS THE COMPLETE AND EXCLUSIVE STATEMENT OF THE AGREEMENT BETWEEN US, EXCEPT AS WE MAY LATER AGREE IN WRITING TO MODIFY IT.**

COMPANY ACKNOWLEDGES THAT THERE ARE NO OTHER AGREEMENTS BETWEEN ADMINISTRATIVE AGENT OR ANY LENDER AND COMPANY, ORAL OR WRITTEN, CONCERNING THE SUBJECT MATTER OF THE LOAN DOCUMENTS, AND THAT ALL PRIOR AGREEMENTS CONCERNING THE SAME SUBJECT MATTER, INCLUDING ANY PROPOSAL, TERM SHEET OR LETTER, ARE MERGED INTO THE LOAN DOCUMENTS AND THEREBY EXTINGUISHED.

{remainder of page intentionally left blank}

IN WITNESS WHEREOF, the parties have caused this Amendment to be executed by appropriate duly authorized officers as of the date first above written.

Company:

CENTENE CORPORATION

By: /s/ Karey L.Witty

Name: Karey L.Witty
Title: Senior Vice President and CFO

Administrative Agent:

LASALLE BANK NATIONAL ASSOCIATION

By: /s/ Sam L. Dendrinas

Name: Sam L. Dendrinas
Title: First Vice President

[Borrower and Administrative Agent signature page to Amendment No. 2]

Lenders:

LASALLE BANK NATIONAL ASSOCIATION

By: /s/ Sam L. Dendrinas

Name: Sam L. Dendrinas
Title: First Vice President

WACHOVIA BANK, NATIONAL ASSOCIATION

By: /s/ Jeanette A. Griffin

Name: Jeanette A. Griffin
Title: Director

NATIONAL CITY BANK OF THE MIDWEST

By: /s/ William J. Tunis

Name: William J. Tunis
Title: Vice President

SUNTRUST BANK

By: /s/ Greg <Illegible>

Name: Greg <Illegible>
Title: Vice President

REGIONS BANK

By: /s/ Anne D. Silvestri

Name: Anne D. Silvestri
Title: Vice President

[Lender signature page to Amendment No. 2]

ANNEX A

LENDERS AND PRO RATA SHARES

Lender	**Revolving Commitment Amount**	**Pro Rata Share**
LaSalle Bank National Association	$ 65,000,000.00	32.50000%
Wachovia Bank, National Association	$ 50,000,000.00	25.00000%
National City Bank of the Midwest	$ 35,000,000.00	17.50000%
SunTrust Bank	$ 25,000,000.00	12.50000%
Regions Bank	$ 25,000,000.00	12.50000%
TOTALS	**$ 200,000,000.00**	**100.00000%**

ANNEX B

ADDRESSES FOR NOTICES

CENTENE CORPORATION

7711 Carondelet Avenue, Suite 800
Clayton, Missouri 63105
Attention: Karey L. Witty, Chief Financial Officer
Telephone: 314-725-4477
Facsimile: 314-725-5180

LASALLE BANK NATIONAL ASSOCIATION, as Administrative Agent, Co-Lead Arranger, Issuing Lender and a Lender

Notices of Borrowing, Conversion, Continuation and Letter of Credit Issuance

135 South LaSalle Street, Suite 1425
Chicago, Illinois 60603
Attention: Maria M. Coronada, Team Leader, Syndication Analyst
Telephone: (312) 904-7517
Facsimile: (312) 904-4448

All Other Notices

135 South LaSalle Street
Chicago, Illinois 60603
Attention: Ann O'Shaughnessy
Telephone: (312) 904-6769
Facsimile: (312) 904-4364

WACHOVIA BANK, NATIONAL ASSOCIATION, as Co-Syndication Agent and a Lender
(and WACHOVIA CAPITAL MARKETS, LLC, as Co-Lead Arranger)

301 South College Street
Charlotte, North Carolina 28288
Attention: James Hill
Telephone: (704) 383-6234
Facsimile: (704) 383-7992

With a copy to:

1 S. Broad Street, PA4152
Philadelphia, Pennsylvania 19107
Jeanette Griffin
Telephone: (267) 321-6615
Facsimile: (267) 321-6702

NATIONAL CITY BANK OF THE MIDWEST, as Co-Syndication Agent and a Lender

10401 Clayton Road
St. Louis, Missouri 63131
Attention: William J. Tunis
Telephone: (314) 587-7869
Facsimile: (314) 991-4532

SUNTRUST BANK, as a Lender

201 4th Avenue, North
Nashville, Tennessee 37219
Attention: William Priester
Telephone: (615) 748-5969
Facsimile: (615) 748-5269

REGIONS BANK, as a Lender

8182 Maryland Avenue
St. Louis, Missouri 63105
Attention: Anne Silvestri
Telephone: (314) 615-2372
Facsimile: (314) 615-2355

Exhibit A
Documents and Requirements

1. Revolving Notes:
   a. LaSalle Bank National Association ($65,000,000)
   b. Wachovia Bank, National Association ($50,000,000)
   c. National City Bank of the Midwest ($35,000,000)
   d. SunTrust Bank ($25,000,000)
   e. Regions Bank ($25,000,000)
2. Closing Certificate
3. Master Assignment and Acceptance Agreement
4. Current insurance certificates for Company and each Loan Party evidencing that Company and each Loan Party has in force insurance meeting the applicable requirements of the Credit Agreement
5. Secretary's Certificate of Company (certifying resolutions, Certificate of Incorporation, By-laws and Incumbency)
6. Organizational chart, certified by Company as true, correct, and complete
7. Good Standing Certificates for the following entities from the following jurisdictions:
   a. Company (Delaware and Missouri)
   b. Centene Management Company LLC (Wisconsin)
   c. Centene Company of Texas, L.P. (Texas)
   d. Managed Health Services Insurance Corp. (Wisconsin)[1]
   e. Superior HealthPlan, Inc. (Texas)
   f. Coordinated Care Corporation Indiana, Inc. (Indiana)
   g. Managed Health Services Illinois, Inc. (Illinois)
   h. MHS Consulting Corporation (Wisconsin)
   i. Bankers Reserve Life Insurance Company of Wisconsin (Wisconsin)
   j. University Health Plans, Inc. (New Jersey)
   k. CenCorp Consulting Company, Inc. (Delaware)
   l. Centene Finance Corporation (Delaware)
   m. Buckeye Community Health Plan, Inc. (Ohio)
   n. Centene Holdings LLC (Delaware)
   o. CCTX Holdings, LLC (Delaware)
   p. AirLogix, Inc. (Delaware)
   q. FirstGuard, Inc. (Delaware)
   r. FirstGuard Health Plan, Inc. (Missouri)
   s. Peach State Health Plan, Inc. (Georgia)
8. Legal Opinion of Company's counsel

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[1] Item is not a condition to the effectiveness of the Amendment. Company agrees to deliver this item on or before September 19, 2005.

9. Such other documents, reports and information as Administrative Agent or Administrative Agent’s counsel deems reasonable and necessary
10. Agent Fee Letter
11. Payment of Administrative Agent’s fees, costs and expenses (including payment of Lewis, Rice & Fingersh invoice)

Exhibit B
Compliance Certificate

FORM OF COMPLIANCE CERTIFICATE

To: LaSalle Bank National Association, as Administrative Agent

Please refer to the Credit Agreement dated as of September 14, 2004 (as amended, restated, supplemented or otherwise modified from time to time, the "Credit Agreement") among Centene Corporation (the "Company"), various financial institutions and LaSalle Bank National Association, as Administrative Agent. Terms used but not otherwise defined herein are used herein as defined in the Credit Agreement.

I. Reports. A copy of the **[annual audited/quarterly]** report of the Company as at __________, ______ (the "Computation Date"), which report fairly presents in all material respects the financial condition and results of operations **[(subject to the absence of footnotes and to normal year-end adjustments)]** of the Company as of the Computation Date and has been prepared in accordance with GAAP consistently applied **[is enclosed herewith] [may be found at the Company's website at www.centene.com]**.

II. Financial Tests. The Company hereby certifies and warrants to Administrative Agent, Issuing Lender and each Lender that the following is a true and correct computation as at the Computation Date of the following ratios and/or financial restrictions contained in the Credit Agreement and each of the enclosed are true and correct as at the Computation Date:

A. Section 11.14.1 - Minimum Fixed Charge Coverage Ratio

1. EBITDA
   a. Consolidated Net Income $________
   b. cash Interest Expense $________
   c. income tax expense $________
   d. depreciation expense $________
   e. amortization expense $________
   f. pro forma EBITDA from Acquisitions (without duplication of above) $________
   g. EBITDA (sum of a, b, c, d, e, and f) $________
2. income taxes paid $________
3. unfinanced Capital Expenditures $________
4. cash dividends paid $________
5. sum of (2), (3), and (4) $________

	6.	remainder of (1)(g) minus (5)	$	________
	7.	cash Interest Expense	$	________
	8.	required payments of principal of Funded Debt (excluding Revolving Loans)	$	________
	9.	sum of (7) and (8)	$	________
	10.	ratio of (6) to (9)		____ to 1
	11.	minimum required		1.75 to 1
B.	**Section 11.14.2 - Maximum Total Debt to EBITDA Ratio**			
	1.	Total Debt	$	________
	2.	EBITDA (from (A)(1)(g) above)	$	________
	3.	ratio of (1) to (2)		____ to 1
	4.	maximum allowed		2.00 to 1
C	**Section 11.14.3 - Minimum Net Worth**			
	1.	Net Worth	$	________
	2.	minimum required Net Worth		
	a.	base amount	$	255,000,000
	b.	50% of cumulative Consolidated Net Income since 7/1/05	$	________
	c.	50% of net proceeds from issuance of Capital Securities	$	________
	d.	50% of net proceeds from increases in Net Worth attributable to Acquisitions	$	________
	e.	minimum required Net Worth (sum of a, b, c, and d)	$	________

The Company further certifies to you that no Event of Default or Unmatured Event of Default has occurred and is continuing.

The Company has caused this Certificate to be executed and delivered by its duly authorized officer on__________, ______.

CENTENE CORPORATION

By: ______________________________

Title: ______________________________

MASTER ASSIGNMENT AND ACCEPTANCE AGREEMENT

This Master Assignment and Acceptance Agreement (this "Agreement") is dated as of September 9, 2005, and is by and among Centene Corporation ("Borrower"), LaSalle Bank National Association, as Administrative Agent and a Lender ("LaSalle"), National City Bank of the Midwest ("National City"), Wachovia Bank, National Association ("Wachovia"), JP Morgan Chase Bank, N.A. ("JP Morgan"), Oak Brook Bank ("Oak Brook"), SunTrust Bank ("SunTrust"), and Regions Bank ("Regions").

RECITALS:

A. LaSalle, National City, Wachovia, JP Morgan, and Oak Brook are collectively referred to herein as the "Prior Lenders". LaSalle, National City, Wachovia, SunTrust, and Regions are collectively referred to herein as the "New Lenders.

B. Reference is made to the Credit Agreement dated as of September 14, 2004 by and among Borrower, LaSalle, as Administrative Agent, and the Prior Lenders, as amended by that certain Amendment No. 1 thereto dated as of July 18, 2005 (the "Prior Loan Agreement"). The Commitments and Pro Rata Shares of the Prior Lenders under the Prior Loan Agreement are listed on Exhibit A attached hereto.

C. Reference is made to that certain Amendment No. 2 to Credit Agreement of even date herewith among Borrower, LaSalle, as Administrative Agent, and the New Lenders (the "Amendment"). The Prior Loan Agreement, as amended by the Amendment, is referred to herein as the "New Loan Agreement".

D. Capitalized terms used herein but not defined herein shall have the meanings set forth in the Prior Loan Agreement.

AGREEMENT:

1. This Agreement shall be effective on the date first written above upon the execution of this Agreement by each of the parties listed on the signature pages hereto and upon the occurrence of the fundings contemplated herein, which shall be effective simultaneously with the effectiveness of the Amendment.

2. SunTrust and Regions each hereby join the New Loan Agreement as a Lender. In connection with this Agreement, and simultaneously with its effectiveness, (i) SunTrust and Regions will each become a Lender for all purposes under the New Loan Agreement and the other Loan Documents, (ii) LaSalle, National City, and Wachovia will each continue to be a Lender for all purposes under the New Loan Agreement and the other Loan Documents, and (iii) JP Morgan and Oak Brook will each cease to be a Lender under the New Loan Agreement and the other Loan Documents.

3. Upon the full and complete execution of this Agreement, the Administrative Agent shall arrange, and the Prior Lenders and New Lenders shall fully cooperate, in making or receiving, as directed by the Administrative Agent (pursuant to separate written instructions provided by Administrative Agent), wire transfers and fund transfers as necessary for each of the New Lenders to have the Commitments and Pro Rata Shares under the New Loan Agreement as described in Exhibit B attached hereto and for JP Morgan and Oak Brook to have their Pro Rata Shares of the Obligations paid in full as of the date hereof.

4. Each New Lender agrees that, to the extent it has purchased and assumed or is found to have purchased and assumed from any Prior Lender any interest in any Loan, the Prior Loan Agreement and the Loan Documents, that it has purchased and assumed such interest without recourse and without representation or warranty except as expressly set forth in this Agreement, and any such assignment by any Prior Lender to any New Lender shall be without recourse and without representation or warranty except as expressly set forth in this Agreement.

5. After giving effect to the transactions described herein, the Lenders (including, without limitation, each New Lender) and their respective Commitments and Pro Rata Shares under (and as defined in) the New Loan Agreement will be as listed on Exhibit B attached hereto.

6. The Prior Lenders represent and warrant to the New Lenders that, immediately prior to the effectiveness of this Agreement, they are the legal and beneficial owner of the Loans and the interests being assigned hereby, and that such Loans and interest are free and clear of any adverse claim. The Prior Lenders and Administrative Agent (i) make no representation or warranty and assume no responsibility with respect to any statements, warranties or representations made in or in connection with the Loan Documents or the execution, legality, validity, enforceability, genuineness, sufficiency or value of the Loan Documents or any other instrument or document furnished pursuant thereto; and (ii) make no representation or warranty and assume no responsibility with respect to the financial condition of Borrower, any Loan Party or any guarantor of the Obligations, or the performance or observance by Borrower or any Loan Party of any of its obligations under the Loan Documents or any other instrument or document furnished pursuant thereto.

7. Each New Lender (i) confirms, covenants and agrees that it has received a copy of the New Loan Agreement (including the Amendment) and the Loan Documents, together with copies of the financial statements referred to therein and such other documents and information, financial or otherwise, as it has deemed appropriate to make its own credit analysis and decision to enter into this Agreement and the New Loan Agreement and become a Lender, and confirms and covenants that it has entered into this Agreement and the New Loan Agreement based on its own credit analysis and decision and without reliance upon any information provided by, or statement made by, Administrative Agent or any other Lender or Prior Lender; (ii) agrees that it will, independently and without reliance upon the Administrative Agent, any Prior Lender or any other Lender, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the New Loan Agreement; (iii) appoints and authorizes the Administrative Agent to take such action as agent on its behalf and to exercise such powers and discretion under the New Loan Agreement as are delegated to the Administrative Agent by the terms thereof, together with such powers and discretion as are reasonably incidental thereto; (iv) agrees that it will perform in accordance with their terms all of the obligations that by the terms of the New Loan Agreement and the other Loan Documents are required to be performed by it as a Lender; and (v) promptly provide to Administrative Agent any U.S. Internal Revenue Service or other forms required under the New Loan Agreement.

8. This Agreement, and the rights and obligations of the parties hereunder shall be governed by and construed and interpreted in accordance with the internal Laws of the State of Illinois applicable to contracts made and to be performed wholly within such state, without regard to choice or conflicts of law principles. This Agreement may be executed in one or more counterparts and on separate counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. Signatures to this Agreement may be given by facsimile or other electronic transmission, and such signatures shall be fully binding on the party sending the same.

{remainder of page intentionally left blank; signature pages immediately follows}

IN WITNESS WHEREOF, the each of the parties hereto have caused this Agreement to be executed by their officers thereunto duly authorized as of the date specified thereon.

CENTENE CORPORATION, a Delaware corporation, as Borrower

By: /s/ Karey L. Wiity

Name: Karey L. Witty
Title: Senior Vice President and CFO

LASALLE BANK NATIONAL ASSOCIATION, as Administrative Agent, Prior Lender, and New Lender

By: /s/ Sam L. Dendrinas

Name: Sam L. Dendrinas
Title: First Vice President

NATIONAL CITY BANK OF THE MIDWEST, as Prior Lender and New Lender

By: /s/ William J. Tunis

Name: William J. Tunis
Title: Vice President

WACHOVIA BANK, NATIONAL ASSOCIATION, as Prior Lender and New Lender

By: /s/ Jeanette A. Griffin

Name: Jeanette A. Griffin
Title: Director

JP MORGAN CHASE BANK, N.A., as Prior Lender

By: /s/ Thomas T. Hou

Name: Thomas T. Hou
Title: Vice President

OAK BROOK BANK, as Prior Lender

By: /s/ George C. Clam

Name: George C. Clam
Title: Vice Chairman

SUNTRUST BANK, as New Lender

By: /s/ Greg <Illegible>

Name: Greg <Illegible>
Title: Vice President

REGIONS BANK, as New Lender

By: /s/ Anne D. Silvestri

Name: Anne D. Silvestri
Title: Vice President

{end of signatures}

EXHIBIT A

PRIOR LENDERS

Existing Lenders' Commitments and Pro-Rata Shares
(prior to effectiveness of this Agreement)

LENDER	REVOLVING COMMITMENT AMOUNT	PRO-RATA SHARES
LaSalle Bank National Association	$ 40,000,000.00	40.00000%
National City Bank of the Midwest	$ 25,000,000.00	25.00000%
Wachovia Bank, National Association	$ 15,000,000.00	15.00000%
JP Morgan Chase Bank, N.A.	$ 15,000,000.00	15.00000%
Oak Brook Bank	$ 5,000,000.00	5.00000%
AGGREGATES	**$ 100,000,000.00**	**100.00000%**

EXHIBIT B

Lenders' Commitments and Pro-Rata Shares
(upon effectiveness of this Agreement)

LENDER	REVOLVING COMMITMENT AMOUNT	PRO-RATA SHARES
LaSalle Bank National Association	$ 65,000,000.00	32.50000%
Wachovia Bank, National Association	$ 50,000,000.00	25.00000%
National City Bank of the Midwest	$ 35,000,000.00	17.50000%
SunTrust Bank	$ 25,000,000.00	12.50000%
Regions Bank	$ 25,000,000.00	12.50000%
AGGREGATES	**$ 200,000,000.00**	**100.00000%**

AMENDED AND RESTATED NOTE

THIS DOES NOT CONSTITUTE A NOVATION

September 9, 2005

$35,000,000.00 Chicago, Illinois

The undersigned, for value received, promises to pay to the order of National City Bank of the Midwest (the "Lender") at the principal office of LaSalle Bank National Association (the "Administrative Agent") in Chicago, Illinois the aggregate unpaid amount of all Loans made to the undersigned by the Lender pursuant to the Credit Agreement referred to below (as shown in the records of the Lender), such principal amount to be payable on the dates set forth in the Credit Agreement.

The undersigned further promises to pay interest on the unpaid principal amount of each Loan from the date of such Loan until such Loan is paid in full, payable at the rate(s) and at the time(s) set forth in the Credit Agreement. Payments of both principal and interest are to be made in lawful money of the United States of America.

This Amended and Restated Note (this "Note") evidences indebtedness incurred under, and is subject to the terms and provisions of, the Credit Agreement, dated as of September 14, 2004 (as amended, restated, supplemented or otherwise modified from time to time, the "Credit Agreement"; terms not otherwise defined herein are used herein as defined in the Credit Agreement), among the undersigned, certain financial institutions (including the Lender) and the Administrative Agent, to which Credit Agreement reference is hereby made for a statement of the terms and provisions under which this Note may or must be paid prior to its due date or its due date accelerated.

This Note is made under and governed by the laws of the State of Illinois applicable to contracts made and to be performed entirely within such State.

This Note is an amendment and restatement, but not a novation or refinancing, of that certain Note executed by the undersigned and payable to the order of Lender in the original principal amount of $25,000,000 dated September 14, 2004. This Note does not evidence or effect a release or relinquishment of the priority of the Liens of Lender or Administrative Agent in any of the Collateral.

CENTENE CORPORATION

By: /s/ Karey L. Witty

Title: Senior Vice President and CFO

AMENDED AND RESTATED NOTE

THIS DOES NOT CONSTITUTE A NOVATION

September 9, 2005
$50,000,000.00 Chicago, Illinois

The undersigned, for value received, promises to pay to the order of Wachovia Bank, National Association (the "Lender") at the principal office of LaSalle Bank National Association (the "Administrative Agent") in Chicago, Illinois the aggregate unpaid amount of all Loans made to the undersigned by the Lender pursuant to the Credit Agreement referred to below (as shown in the records of the Lender), such principal amount to be payable on the dates set forth in the Credit Agreement.

The undersigned further promises to pay interest on the unpaid principal amount of each Loan from the date of such Loan until such Loan is paid in full, payable at the rate(s) and at the time(s) set forth in the Credit Agreement. Payments of both principal and interest are to be made in lawful money of the United States of America.

This Amended and Restated Note (this "Note") evidences indebtedness incurred under, and is subject to the terms and provisions of, the Credit Agreement, dated as of September 14, 2004 (as amended, restated, supplemented or otherwise modified from time to time, the "Credit Agreement"; terms not otherwise defined herein are used herein as defined in the Credit Agreement), among the undersigned, certain financial institutions (including the Lender) and the Administrative Agent, to which Credit Agreement reference is hereby made for a statement of the terms and provisions under which this Note may or must be paid prior to its due date or its due date accelerated.

This Note is made under and governed by the laws of the State of Illinois applicable to contracts made and to be performed entirely within such State.

This Note is an amendment and restatement, but not a novation or refinancing, of that certain Note executed by the undersigned and payable to the order of Lender in the original principal amount of $15,000,000 dated September 14, 2004. This Note does not evidence or effect a release or relinquishment of the priority of the Liens of Lender or Administrative Agent in any of the Collateral.

CENTENE CORPORATION

By: /s/ Karey L. Witty

Title: Senior Vice President and CFO

NOTE

September 9, 2005
$25,000,000.00 Chicago, Illinois

The undersigned, for value received, promises to pay to the order of Regions Bank (the "Lender") at the principal office of LaSalle Bank National Association (the "Administrative Agent") in Chicago, Illinois the aggregate unpaid amount of all Loans made to the undersigned by the Lender pursuant to the Credit Agreement referred to below (as shown in the records of the Lender), such principal amount to be payable on the dates set forth in the Credit Agreement.

The undersigned further promises to pay interest on the unpaid principal amount of each Loan from the date of such Loan until such Loan is paid in full, payable at the rate(s) and at the time(s) set forth in the Credit Agreement. Payments of both principal and interest are to be made in lawful money of the United States of America.

This Note evidences indebtedness incurred under, and is subject to the terms and provisions of, the Credit Agreement, dated as of September 14, 2004 (as amended, restated, supplemented or otherwise modified from time to time, the "Credit Agreement"; terms not otherwise defined herein are used herein as defined in the Credit Agreement), among the undersigned, certain financial institutions (including the Lender) and the Administrative Agent, to which Credit Agreement reference is hereby made for a statement of the terms and provisions under which this Note may or must be paid prior to its due date or its due date accelerated.

This Note is made under and governed by the laws of the State of Illinois applicable to contracts made and to be performed entirely within such State.

CENTENE CORPORATION

By: /s/ Karey L. Witty

Title: Senior Vice President and CFO

NOTE

September 9, 2005
$25,000,000.00 Chicago, Illinois

The undersigned, for value received, promises to pay to the order of SunTrust Bank (the "Lender") at the principal office of LaSalle Bank National Association (the "Administrative Agent") in Chicago, Illinois the aggregate unpaid amount of all Loans made to the undersigned by the Lender pursuant to the Credit Agreement referred to below (as shown in the records of the Lender), such principal amount to be payable on the dates set forth in the Credit Agreement.

The undersigned further promises to pay interest on the unpaid principal amount of each Loan from the date of such Loan until such Loan is paid in full, payable at the rate(s) and at the time(s) set forth in the Credit Agreement. Payments of both principal and interest are to be made in lawful money of the United States of America.

This Note evidences indebtedness incurred under, and is subject to the terms and provisions of, the Credit Agreement, dated as of September 14, 2004 (as amended, restated, supplemented or otherwise modified from time to time, the "Credit Agreement"; terms not otherwise defined herein are used herein as defined in the Credit Agreement), among the undersigned, certain financial institutions (including the Lender) and the Administrative Agent, to which Credit Agreement reference is hereby made for a statement of the terms and provisions under which this Note may or must be paid prior to its due date or its due date accelerated.

This Note is made under and governed by the laws of the State of Illinois applicable to contracts made and to be performed entirely within such State.

CENTENE CORPORATION

By: /s/ Karey L. Witty

Title: Senior Vice President and CFO

AMENDED AND RESTATED NOTE

THIS DOES NOT CONSTITUTE A NOVATION

September 9, 2005
Chicago, Illinois

$65,000,000.00

The undersigned, for value received, promises to pay to the order of LaSalle Bank National Association (the "Lender") at the principal office of LaSalle Bank National Association (the "Administrative Agent") in Chicago, Illinois the aggregate unpaid amount of all Loans made to the undersigned by the Lender pursuant to the Credit Agreement referred to below (as shown in the records of the Lender), such principal amount to be payable on the dates set forth in the Credit Agreement.

The undersigned further promises to pay interest on the unpaid principal amount of each Loan from the date of such Loan until such Loan is paid in full, payable at the rate(s) and at the time(s) set forth in the Credit Agreement. Payments of both principal and interest are to be made in lawful money of the United States of America.

This Amended and Restated Note (this "Note") evidences indebtedness incurred under, and is subject to the terms and provisions of, the Credit Agreement, dated as of September 14, 2004 (as amended, restated, supplemented or otherwise modified from time to time, the "Credit Agreement"; terms not otherwise defined herein are used herein as defined in the Credit Agreement), among the undersigned, certain financial institutions (including the Lender) and the Administrative Agent, to which Credit Agreement reference is hereby made for a statement of the terms and provisions under which this Note may or must be paid prior to its due date or its due date accelerated.

This Note is made under and governed by the laws of the State of Illinois applicable to contracts made and to be performed entirely within such State.

This Note is an amendment and restatement, but not a novation or refinancing, of that certain Note executed by the undersigned and payable to the order of Lender in the original principal amount of $40,000,000 dated December 2, 2004. This Note does not evidence or effect a release or relinquishment of the priority of the Liens of Lender or Administrative Agent in any of the Collateral.

CENTENE CORPORATION

By: /s/ Karey L. Witty

Title: Senior Vice President and CFO

CLOSING CERTIFICATE

This Closing Certificate (this "Certificate") is delivered in connection with that certain Amendment No. 2 dated as of September 9, 2005 (the "Amendment") to Credit Agreement dated September 14, 2004 by and among CENTENE CORPORATION, a Delaware corporation ("Borrower"), LASALLE BANK NATIONAL ASSOCIATION, as administrative agent for itself and the other Lenders ("Administrative Agent") and the Lenders (as amended, restated, extended, renewed, replaced, or otherwise modified from time to time, the "Credit Agreement"). Capitalized terms used and not otherwise defined herein have the meanings given them in the Credit Agreement.

The undersigned hereby certifies to Administrative Agent and the Lenders that as of the date of this Certificate, after giving effect to the execution of the Amendment and the effectiveness of the Amendment:

(a) the representations and warranties of each Loan Party set forth in the Credit Agreement and the other Loan Documents are true and correct in all respects;

(b) no Event of Default or Unmatured Event of Default has occurred and is continuing;

(c) all of the conditions to the making of the Loans described in the Credit Agreement have been and remain satisfied, and the conditions to the effectiveness of the Amendment have been and remain satisfied;

(d) the Amendment has been duly authorized by Borrower's board of directors;

(e) since December 31, 2004 there has been no change in the financial condition or business operations of Borrower or any Loan Party which could reasonably be expected to result in a Material Adverse Effect;

(f) no consents are necessary from any third parties for Borrower's execution, delivery or performance of the Credit Agreement which have not been obtained;

(g) the Amendment, the Credit Agreement and all of the other Loan Documents constitute the legal, valid and binding obligation of Borrower, enforceable against Borrower in accordance with their terms except as enforcement thereof may be limited by bankruptcy, insolvency or other laws related to creditors' rights generally or by the application of equity principles; and

(h) there are no proceedings or any kind, pending or, to the knowledge of Borrower, threatened against Borrower or any Loan Party which could reasonably be expected to result in a Material Adverse Effect.

Dated as of September 9, 2005.

CENTENE CORPORATION

By: /s/ Karey L. Witty

Name: Karey L. Witty
Title: Senior Vice President and CFO

Exhibit 10.12

Summary of Compensatory Arrangements with Executive Officers

In December 2004, the compensation committee of the board of directors approved a schedule of the following fiscal year 2005 base salaries for each of our named executive officers:

Name and Principal Position	Base Salary
Michael F. Neidorff *Chairman and Chief Executive Officer*	$850,000
Joseph P. Drozda, Jr., M.D. *Executive Vice President, Operations*	$380,000
William N. Scheffel *Senior Vice President, Specialty Companies*	$285,000
Lisa M. Wilson *Senior Vice President, Investor Relations*	$400,000
Karey L. Witty *Senior Vice President, Chief Financial Officer, Secretary and Treasurer*	$300,000

In July 2005, the compensation committee approved an increase in the base salary of Mr. Scheffel to $360,000 and an increase in the base salary of Mr. Witty to $340,000.

Exhibit 12.1

Centene Corporation
Computation of ratio of earnings to fixed charges
($ in thousands)

	For the Nine Months Ended,	Year ended December 31,				
	09/30/05	2004	2003	2002	2001	2000
Earnings:						
Pre-tax earnings from continuing operations	$ 63,853	$ 70,287	$ 51,893	$ 41,136	$ 22,026	$ 7,185
Addback:						
Fixed charges	4,191	2,489	1,232	915	1,058	1,067
Total earnings	$ 68,044	$ 72,776	$ 53,125	$ 42,051	$ 23,084	$ 8,252
Fixed Charges:						
Interest expense	$ 2,386	$ 680	$ 194	$ 45	$ 362	$ 611
Interest component of rental payments (1)	1,805	1,809	1,038	870	696	456
Total fixed charges	$ 4,191	$ 2,489	$ 1,232	$ 915	$ 1,058	$ 1,067
Ratio of earnings to fixed charges	16.24	29.24	43.12	45.96	21.82	7.73

(1) Estimated at 33% of rental expense as a reasonable approximation of the interest factor.

EXHIBIT 31.1

CERTIFICATION

I, Michael F. Neidorff, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Centene Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: October 25, 2005

/s/ Michael F. Neidorff

Michael F. Neidorff
Chairman and Chief Executive Officer
(principal executive officer)

EXHIBIT 31.2

CERTIFICATION

I, Karey L. Witty, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Centene Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
2. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: October 25, 2005

/s/ Karey L. Witty

Karey L. Witty
Senior Vice President, Chief Financial Officer, Secretary and Treasurer
(principal financial and accounting officer)

EXHIBIT 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report on Form 10-Q of Centene Corporation (the “Company”) for the period ended September 30, 2005, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned, Michael F. Neidorff, Chairman, and Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, that:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities and Exchange Act of 1934; and
(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Michael F. Neidorff
Michael F. Neidorff
Chairman and Chief Executive Officer
(principal executive officer)

Dated: October 25, 2005

EXHIBIT 32.2

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report on Form 10-Q of Centene Corporation (the "Company") for the period ended September 30, 2005, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Karey L. Witty, Senior Vice President, Chief Financial Officer, Secretary and Treasurer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, that:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities and Exchange Act of 1934; and
(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Karey L. Witty
Karey L. Witty
Senior Vice President, Chief Financial Officer,
Secretary and Treasurer
(principal financial and accounting officer)

Dated: October 25, 2005