

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**FORM 8-K**

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

Date of report (Date of earliest event reported): October 27, 2003

**CENTENE CORPORATION**

(Exact name of registrant as specified in its charter)

Delaware

000-33395

04-1406317

(State or other jurisdiction  
of incorporated or organization)

(Commission File Number)

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

7711 Carondelet Avenue, Suite 800, St. Louis, Missouri 63105

(Address of principle executive office and zip code)

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

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**ITEM 7. FINANCIAL STATEMENTS, PRO FORMA FINANCIAL INFORMATION AND EXHIBITS.**

(c) Exhibits.

| <b>Exhibit<br/>Number</b> | <b>Description</b>  |
|---------------------------|---|
| 99.1                      | Press release of Centene Corporation issued October 27, 2003 as to financial results for the quarter ended September 30, 2003 |

**ITEM 12. DISCLOSURE OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION**

On October 27, 2003, we issued a press release announcing our financial results for the quarter ended September 30, 2003. The full text of the press release is included as Exhibit 99.1 to this report. The information contained in the website cited in the press release is not a part of this report.

The information in this Form 8-K and the exhibit attached hereto shall not be deemed to be "filed" for purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liabilities of that section. Nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except as expressly set forth by specific reference in such a filing.

**SIGNATURE**

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

Date: October 27, 2003

CENTENE CORPORATION

By: /s/ MICHAEL F. NEIDORFF

Michael F. Neidorff  
President and Chief Executive Officer

## NEWS RELEASE



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**CENTENE CORPORATION REPORTS SEVENTEENTH CONSECUTIVE QUARTER  
OF INCREASED PROFITABILITY**

ST. LOUIS, MISSOURI (October 27, 2003) — Centene Corporation (NYSE: CNC) today announced its financial results for the quarter ended September 30, 2003.

**Third Quarter Highlights**

- Revenues of \$198.4 million, a 70% increase over the third quarter of 2002.
- Earnings from operations of \$12.6 million, a 57% increase over the third quarter of 2002.
- Centene completed a follow-on offering on August 13, 2003, issuing 3,450,000 shares of common stock from which the Company received net proceeds of \$81.4 million.
- Earnings per diluted share of \$0.44.
- Organic membership growth of 28% over the third quarter of 2002.
- Days in claims payable of 52.5, within the Company's target range of 50-55.
- Health benefits ratio of 82.0%, within the Company's target range of 82.0% to 83.5%.
- Effective August 1, 2003, the Company's Texas subsidiary, Superior HealthPlan, acquired the Medicaid-related contract rights of HMO Blue Texas in the San Antonio, Texas market.
- In September 2003, the Company signed a definitive agreement to acquire the Medicaid-related assets of Family Health Plan, Inc., a wholly owned subsidiary of Mercy Health Partners. This transaction includes the right to serve up to 24,000 of Family Health Plan's Medicaid members in Toledo, Ohio, a new market and state for the Company.

Michael F. Neidorff, Centene's president and chief executive officer, said, "We are pleased with the ongoing predictable performance of our Company including strong organic growth in our existing markets. We continue to demonstrate the clear capability to acquire and integrate companies that achieve our goals and save states money. Our objective is to build a balanced multi-line company, in both the Medicaid Managed Care and Specialty Services arenas. To that end, we are in the process of adding our fifth state, Ohio, where we believe there is a significant opportunity to grow organically while providing better health outcomes for our Medicaid members."

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Additionally, our recent service area expansion and increased investment in New Jersey confirms our commitment to this market. We continue to add the requisite management to be able to successfully grow organically and through acquisitions.”

The following table depicts membership in Centene’s managed care organizations by state at September 30, 2003 and 2002:

|              | 2003           | 2002           |
|--------------|----------------|----------------|
| Wisconsin    | 150,200        | 126,800        |
| Texas        | 152,100        | 67,800         |
| Indiana      | 112,100        | 101,500        |
| New Jersey   | 52,700         | —              |
| <b>TOTAL</b> | <b>467,100</b> | <b>296,100</b> |

The following table depicts membership in Centene’s managed care organizations by member category at September 30, 2003 and 2002:

|                          | 2003           | 2002           |
|--------------------------|----------------|----------------|
| Medicaid (excluding SSI) | 389,200        | 264,100        |
| SCHIP                    | 68,600         | 29,400         |
| SSI                      | 9,300(a)       | 2,600          |
| <b>TOTAL</b>             | <b>467,100</b> | <b>296,100</b> |

(a) 4,300 at-risk; 5,000 ASO

## Statement of Earnings Highlights

- For the third quarter of 2003, revenues increased 70% to \$198.4 million from \$116.4 million in the third quarter of 2002.
- The health benefits ratio, which reflects medical costs as a percent of premium revenues, was 82.0% for the third quarter of 2003, with the Medicaid category at 81.3% as compared to 82.2% for the same period in 2002. The Medicaid portion of this ratio was affected by a distribution from an escrow account for costs incurred prior to the Company's acquisition of UHP.
- General and administrative expenses as a percent of revenues on the Company's Medicaid business segment has consistently decreased and was 10.1% for the third quarter of 2003 as compared to 10.9% for the third quarter of 2002 and 10.3% for the second quarter of 2003. Including the effects of the Company's specialty business segment, which the Company entered into during the first quarter of 2003 and which has a higher level of general and administrative expenses, the combined general and administrative expense ratio was 11.3% for the third quarter of 2003.
- Earnings from operations increased to \$12.6 million in the third quarter of 2003 from \$8.0 million in the comparable period of 2002. Net earnings were \$8.7 million, or \$0.44 per diluted share, compared to \$9.3 million, or \$0.52 per diluted share, for the third quarter of 2002. The Company's 2002 operating results included a one-time dividend of \$5.1 million from a captive insurance company in which the Company maintained an investment. Excluding this one-time gain, net income in the third quarter of 2002 was \$6.1 million, or \$0.34 per share.
- For the nine months ended September 30, 2003, revenues increased 76% to \$562.1 million from \$319.8 million for the same period in the prior year. The health benefits ratio was 82.9%, with the Medicaid component at 82.0%, and compares to 82.2% for the same period in 2002. General and administrative expenses as a percent of revenues for the Medicaid segment decreased to 10.3% from 10.9% and were slightly higher on a combined basis at 11.2%, reflecting the addition of the Company's specialty segment.

Earnings from operations increased 51% to \$33.1 million from \$22.0 million in 2002. Net earnings improved to \$23.6 million, or \$1.28 per diluted share.

- The following table sets forth fully diluted earnings per share for the first, second and third quarters of 2003 as reported (GAAP) and on a pro-forma basis (non-GAAP). Pro forma (non-GAAP) net earnings per diluted share assumes that as of January 1, 2003: 1) the Company's follow-on public offering was completed, 2) the net proceeds were invested in short-term instruments bearing interest of 2.0% and 3) the Company's tax rate was 38%.

|   | Q3 2003    | Q2 2003    | Q1 2003    |
|---|------------|------------|------------|
| Net earnings, as reported (GAAP)                      | \$ 8,704   | \$ 7,708   | \$ 7,161   |
| Pro forma interest income, net of related tax effects | 121        | 252        | 252        |
| Pro forma (non-GAAP) net earnings                     | \$ 8,825   | \$ 7,960   | \$ 7,413   |
| Earnings per common share:                            |            |            |            |
| Diluted, as reported (GAAP)                           | \$ 0.44    | \$ 0.43    | \$ 0.40    |
| Diluted, pro forma (non-GAAP)                         | \$ 0.41    | \$ 0.37    | \$ 0.35    |
| Shares used in computing per share amounts:           |            |            |            |
| As reported (GAAP)                                    | 19,842,145 | 17,803,016 | 17,757,266 |
| Pro forma effect (non-GAAP)                           | 1,612,500  | 3,450,000  | 3,450,000  |
| Pro forma (non-GAAP)                                  | 21,454,645 | 21,253,016 | 21,207,266 |

#### Balance Sheet Highlights

At September 30, 2003, the Company had cash and investments of \$258.3 million, a portion of which is restricted due to state regulatory requirements. Medical claims liabilities totaled \$91.7 million, representing 52.5 days in claims payable versus 52.0 days from the previous quarter.

#### Outlook

Karey L. Witty, Centene's chief financial officer, commented, "Our fourth quarter 2003 revenue guidance is in the range of \$204 million to \$206 million, and we anticipate net earnings of \$0.43 to \$0.44 per diluted share, based on 21.5 million shares outstanding." A review of the complete results for the third quarter and management's outlook for the fourth quarter, together with preliminary views on 2004, will take place during the Company's scheduled third quarter earnings call.

**Conference Call**

As previously announced, the Company will host a conference call tomorrow, October 28, 2003, at 8:15 a.m. (Eastern Time) to review the financial results for the third quarter ended September 30, 2003, and to discuss its business outlook. Michael F. Neidorff and Karey L. Witty will host the conference call. Investors are invited to participate in the conference call by dialing 800-273-1254 in the U.S. and Canada, 706-679-8592 from abroad, or via a live Internet broadcast on the Company's website at [www.centene.com](http://www.centene.com), under the Investor Relations section. A replay will be available for on demand listening shortly after the completion of the call until 11:59 p.m. (Eastern Time) on November 4, 2003 at the aforementioned URL, or by dialing 800-642-1687 in the U.S. and Canada, or 706-645-9291 from abroad, and entering access code 3204094.

**Financial Presentation**

The Company is providing certain non-GAAP financial measures in this release as the Company believes that these figures are helpful in allowing individuals to more accurately assess the ongoing nature of the Company's operations and measure the Company's performance more consistently.

The pro forma (non-GAAP) information presented above in the sixth paragraph under "Statement of Earnings Highlights" assumes that the Company's follow-on public offering was completed as of January 1, 2003. This assumption has been made in the non-GAAP financial measures as management believes that this assumption generally provides a more consistent measure of the Company's performance.



The Company uses the presented non-GAAP financial measures internally to focus management on period-to-period changes in the Company's core business. Therefore, the Company believes that this information is meaningful in addition to the information contained in the GAAP presentation of financial information. The presentation of this additional non-GAAP financial information is not intended to be considered in isolation or as a substitute for the financial information prepared and presented in accordance with GAAP.

#### **About Centene Corporation**

Centene Corporation provides managed care programs and related services to individuals receiving benefits under Medicaid, including Supplemental Security Income (SSI), and the State Children's Health Insurance Program (SCHIP). The Company operates health plans in Wisconsin, Texas, Indiana and New Jersey. In addition, the Company contracts with other healthcare organizations to provide specialty services including behavioral health, nurse triage and pharmacy compliance. Information regarding Centene is available via the Internet at [www.centene.com](http://www.centene.com).

*The information provided above in the first paragraph following the bullet listing under "Third Quarter Highlights" and in the paragraph under "Outlook" contain forward-looking statements that relate to future events and future financial performance of Centene. These forward-looking statements represent the Company's estimates as of October 27, 2003. Subsequent events and developments may cause the Company's estimates to change. The Company disclaims any obligation to update this forward-looking financial information in the future. 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 Centene's or its 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. Actual results may differ from projections or estimates due to a variety of important factors, including Centene's ability to*

*accurately predict and effectively manage health benefits and other operating expenses, competition, changes in healthcare practices, changes in federal or state laws or regulations, inflation, provider contract changes, new technologies, reduction in provider payments by governmental payors, major epidemics, disasters and numerous other factors affecting the delivery and cost of healthcare. The expiration, cancellation or suspension of Centene's Medicaid managed care contracts by state governments would also negatively affect Centene.*

[Tables Follow]

**CENTENE CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS  
(IN THOUSANDS, EXCEPT SHARE DATA)**

|   | SEPTEMBER 30,<br>2003 | DECEMBER 31,<br>2002 |
|---|-----------------------|----------------------|
|   | (Unaudited)           |                      |
| <b>ASSETS</b>   |                       |                      |
| Current assets:   |                       |                      |
| Cash and cash equivalents   | \$ 62,906             | \$ 59,656            |
| Premium and related receivables, net of allowances of \$720 and \$219, respectively   | 22,076                | 16,773               |
| Short-term investments, at fair value (amortized cost \$10,660 and \$9,687, respectively)   | 10,659                | 9,571                |
| Deferred income taxes   | 2,049                 | 2,846                |
| Other current assets  | 5,283                 | 4,243                |
| Total current assets  | 102,973               | 93,089               |
| Long-term investments, at fair value (amortized cost \$162,533 and \$78,025, respectively)  | 164,685               | 79,666               |
| Restricted deposits, at fair value (amortized cost \$19,844 and \$15,561, respectively)   | 20,038                | 15,762               |
| Property and equipment, net   | 20,953                | 6,295                |
| Intangible assets, net  | 15,232                | 10,695               |
| Deferred income taxes   | 586                   | 472                  |
| Other assets  | 3,985                 | 4,348                |
| Total assets  | \$ 328,452            | \$ 210,327           |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |                       |                      |
| Current liabilities:  |                       |                      |
| Medical claims liabilities  | \$ 91,739             | \$ 91,181            |
| Accounts payable and accrued expenses   | 13,471                | 10,748               |
| Current portion of long-term debt and notes payable   | 869                   | —                    |
| Other current liabilities   | 631                   | —                    |
| Total current liabilities   | 106,710               | 101,929              |
| Long-term debt  | 7,688                 | —                    |
| Other liabilities   | 5,504                 | 5,334                |
| Total liabilities   | 119,902               | 107,263              |
| Minority interest   | —                     | 881                  |
| Stockholders' equity:   |                       |                      |
| Common stock, \$.001 par value; 40,000,000 shares authorized; 20,060,949 and 16,243,649 shares issued and outstanding, respectively | 20                    | 16                   |
| Additional paid-in capital  | 154,775               | 72,372               |
| Accumulated other comprehensive income:   |                       |                      |
| Net unrealized gain on investments, net of tax  | 1,477                 | 1,087                |
| Retained earnings   | 52,278                | 28,708               |
| Total stockholders' equity  | 208,550               | 102,183              |
| Total liabilities and stockholders' equity  | \$ 328,452            | \$ 210,327           |

**CENTENE CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF EARNINGS**  
**(IN THOUSANDS, EXCEPT SHARE DATA)**

|   | THREE MONTHS ENDED<br>SEPTEMBER 30, |            | NINE MONTHS ENDED<br>SEPTEMBER 30, |            |
|---|-------------------------------------|------------|------------------------------------|------------|
|   | 2003                                | 2002       | 2003                               | 2002       |
|   | (Unaudited)                         |            | (Unaudited)                        |            |
| Revenues:                                   |                                     |            |                                    |            |
| Premiums                                    | \$ 195,827                          | \$ 116,289 | \$ 554,939                         | \$ 319,441 |
| Services                                    | 2,580                               | 109        | 7,134                              | 320        |
| Total revenues                              | 198,407                             | 116,398    | 562,073                            | 319,761    |
| Expenses:                                   |                                     |            |                                    |            |
| Medical costs                               | 160,672                             | 95,644     | 459,983                            | 262,697    |
| Cost of services                            | 2,681                               | 84         | 6,269                              | 252        |
| General and administrative expenses         | 22,414                              | 12,642     | 62,698                             | 34,804     |
| Total operating expenses                    | 185,767                             | 108,370    | 528,950                            | 297,753    |
| Earnings from operations                    | 12,640                              | 8,028      | 33,123                             | 22,008     |
| Other income (expense):                     |                                     |            |                                    |            |
| Investment and other income, net            | 1,245                               | 6,768      | 3,476                              | 8,659      |
| Interest expense                            | (71)                                | (16)       | (102)                              | (27)       |
| Earnings before income taxes                | 13,814                              | 14,780     | 36,497                             | 30,640     |
| Income tax expense                          | 5,110                               | 5,507      | 13,805                             | 11,833     |
| Minority interest                           | —                                   | —          | 881                                | —          |
| Net earnings                                | \$ 8,704                            | \$ 9,273   | \$ 23,573                          | \$ 18,807  |
| Earnings per common share, basic:           |                                     |            |                                    |            |
| Net earnings per common share               | \$ 0.47                             | \$ 0.58    | \$ 1.38                            | \$ 1.21    |
| Earnings per common share, diluted:         |                                     |            |                                    |            |
| Net earnings per common share               | \$ 0.44                             | \$ 0.52    | \$ 1.28                            | \$ 1.08    |
| Shares used in computing per share amounts: |                                     |            |                                    |            |
| Basic                                       | 18,430,713                          | 16,042,196 | 17,094,621                         | 15,558,080 |
| Diluted                                     | 19,842,145                          | 17,750,072 | 18,439,050                         | 17,348,018 |

**CENTENE CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(IN THOUSANDS)**

|  | NINE MONTHS ENDED<br>SEPTEMBER 30, |           |
|--|------------------------------------|-----------|
|  | 2003                               | 2002      |
|  | (Unaudited)                        |           |
| Cash flows from operating activities:  |                                    |           |
| Net earnings   | \$ 23,573                          | \$ 18,807 |
| Adjustments to reconcile net earnings to net cash provided by operating activities - |                                    |           |
| Depreciation and amortization  | 4,299                              | 1,534     |
| Stock compensation expense   | 232                                | 264       |
| Minority interest  | (881)                              | —         |
| Gain on sale of investments  | (1,188)                            | (632)     |
| Loss on disposal of equipment  | 102                                | —         |
| Changes in assets and liabilities -  |                                    |           |
| Increase in premium and related receivables  | (4,132)                            | (1,218)   |
| Increase in other current assets   | (849)                              | (663)     |
| Decrease in deferred income taxes  | 452                                | 248       |
| Decrease in other assets   | 363                                | 171       |
| Increase in medical claims liabilities   | 558                                | 5,629     |
| Decrease in accounts payable and accrued expenses                                    | (396)                              | (2,247)   |
| Increase in unearned capitation premium  | —                                  | 897       |
| Increase in other current liabilities  | 27                                 | —         |
| Increase (decrease) in other liabilities   | 164                                | (659)     |
| Net cash provided by operating activities  | 22,324                             | 22,131    |
| Cash flows from investing activities:  |                                    |           |
| Purchase of property and equipment   | (16,253)                           | (3,110)   |
| Proceeds from disposal of equipment  | 11                                 | —         |
| Purchase of investments  | (291,462)                          | (155,690) |
| Sales and maturities of investments  | 202,306                            | 96,975    |
| Contract acquisitions  | (1,451)                            | (570)     |
| Investment in subsidiary, net of cash acquired                                       | (1,767)                            | (3,193)   |
| Net cash used in investing activities  | (108,616)                          | (65,588)  |
| Cash flows from financing activities:  |                                    |           |
| Net proceeds from issuance of common stock   | 81,403                             | 10,317    |
| Extinguishment of acquired liabilities   | (1,218)                            | —         |
| Proceeds from borrowings   | 8,581                              | —         |
| Reduction of long-term debt  | (24)                               | —         |
| Cash dividends paid  | (3)                                | —         |
| Proceeds from exercise of stock options  | 803                                | 339       |
| Net cash provided by financing activities  | 89,542                             | 10,656    |
| Net increase (decrease) in cash and cash equivalents                                 | 3,250                              | (32,801)  |
| Cash and cash equivalents, beginning of period                                       | 59,656                             | 88,867    |
| Cash and cash equivalents, end of period   | \$ 62,906                          | \$ 56,066 |
| Supplemental disclosures of cash flow information:                                   |                                    |           |
| Interest paid  | \$ 85                              | \$ 11     |
| Income taxes paid  | \$ 13,479                          | \$ 11,878 |

**CENTENE CORPORATION  
SUPPLEMENTAL FINANCIAL DATA**

|                   | Q3<br>2003     | Q2<br>2003     | Q1<br>2003     | Q4<br>2002     |
|-------------------|----------------|----------------|----------------|----------------|
| <b>MEMBERSHIP</b> |                |                |                |                |
| Wisconsin         | 150,200        | 145,600        | 139,100        | 133,000        |
| Texas             | 152,100        | 131,400        | 122,700        | 118,000        |
| Indiana           | 112,100        | 109,000        | 104,800        | 105,700        |
| New Jersey        | 52,700         | 52,700         | 52,700         | 52,900         |
| <i>Total</i>      | <u>467,100</u> | <u>438,700</u> | <u>419,300</u> | <u>409,600</u> |
| Medicaid          | 389,200        | 361,700        | 344,700        | 336,100        |
| SCHIP             | 68,600         | 68,800         | 66,600         | 65,900         |
| SSI               | 9,300          | 8,200          | 8,000          | 7,600          |
| <i>Total</i>      | <u>467,100</u> | <u>438,700</u> | <u>419,300</u> | <u>409,600</u> |

|                           |           |           |           |           |
|---------------------------|-----------|-----------|-----------|-----------|
| <b>REVENUE PER MEMBER</b> | \$ 143.73 | \$ 142.26 | \$ 142.06 | \$ 134.08 |
|---------------------------|-----------|-----------|-----------|-----------|

|                                 |        |         |         |         |
|---------------------------------|--------|---------|---------|---------|
| <b>CLAIMS</b>                   |        |         |         |         |
| Period-end inventory            | 59,436 | 109,865 | 144,465 | 150,717 |
| Average inventory               | 75,615 | 85,412  | 131,382 | 73,800  |
| Period-end inventory per member | 0.13   | 0.25    | 0.34    | 0.37    |

|                                  |      |      |      |      |
|----------------------------------|------|------|------|------|
| <b>DAYS IN CLAIMS PAYABLE(a)</b> | 52.5 | 52.0 | 58.1 | 71.8 |
|----------------------------------|------|------|------|------|

(a) Days in Claims Payable is a calculation of Medical Claims Liabilities at the end of the period divided by average medical costs per calendar day for such period.

|                                       |          |       |       |       |
|---------------------------------------|----------|-------|-------|-------|
| <b>ANNUALIZED RETURN ON EQUITY(b)</b> | 21.3%(c) | 27.1% | 27.0% | 27.7% |
|---------------------------------------|----------|-------|-------|-------|

(b) Annualized Return on Equity is calculated as follows: (net income for quarter x 4) divided by ((beginning of period equity + end of period equity) divided by 2).

(c) Reflects a 3,450,000 share follow-on offering completed August 13, 2003.

**HEALTH BENEFITS RATIO BY CATEGORY:**

|                                    | THREE MONTHS ENDED<br>SEPTEMBER 30, |       | NINE MONTHS ENDED<br>SEPTEMBER 30, |       |
|------------------------------------|-------------------------------------|-------|------------------------------------|-------|
|                                    | 2003                                | 2002  | 2003                               | 2002  |
| Medicaid (excluding SSI) and SCHIP | 81.3%                               | 82.2% | 82.0%                              | 82.2% |
| SSI                                | 102.9%                              | —     | 103.5%                             | —     |
| Total                              | 82.0%                               | 82.2% | 82.9%                              | 82.2% |

**GENERAL AND ADMINISTRATIVE EXPENSE RATIO BY BUSINESS SEGMENT:**

|                       | THREE MONTHS ENDED<br>SEPTEMBER 30, |       | NINE MONTHS ENDED<br>SEPTEMBER 30, |       |
|-----------------------|-------------------------------------|-------|------------------------------------|-------|
|                       | 2003                                | 2002  | 2003                               | 2002  |
| Medicaid Managed Care | 10.1%                               | 10.9% | 10.3%                              | 10.9% |
| Specialty Services    | 32.0%                               | —     | 31.0%                              | —     |
| Total                 | 11.3%                               | 10.9% | 11.2%                              | 10.9% |

**MEDICAL CLAIMS LIABILITIES**  
(in thousands)

Four rolling quarters of the changes in medical claims liabilities are summarized as follows:

|                                    |                  |
|------------------------------------|------------------|
| <b>Balance, September 30, 2002</b> | <b>\$ 65,194</b> |
| Acquisitions                       | 16,230(d)        |
| Incurred related to:               |                  |
| Current period                     | 597,338          |
| Prior period                       | (20,585)         |
| Total incurred                     | 576,753          |
| Paid related to:                   |                  |
| Current period                     | 524,945          |
| Prior period                       | 41,493           |
| Total paid                         | 566,438          |
| <b>Balance, September 30, 2003</b> | <b>\$ 91,739</b> |

(d) Includes reserves acquired in connection with the acquisition of the outstanding capital stock of University Health Plans, Inc.

Our claims reserving process utilizes a consistent actuarial methodology to estimate our ultimate liability. Any reduction in the "Incurred related to: Prior period" claims may be offset as we actuarially determine "Incurred related to: Current period." As such, only in the absence of a consistent reserving methodology would favorable development of prior period claims liability estimates reduce medical costs. We believe we have consistently applied our claims reserving methodology in each of the periods presented.